OLD REPUBLIC INTERNATIONAL CORP
Form 10-Q
August 09, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended: June 30, 2006 or

[ ] Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 001-10607

OLD REPUBLIC INTERNATIONAL CORPORATION
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | No. 36-2678171 |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |
| 307 North Michigan Avenue, Chicago, Illinois | 60601 |
| (Address of principal executive office) | (Zip Code) |

Registrant's telephone number, including area code: 312-346-8100

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes:_X_ No:___

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one).

Large accelerated filer _X_ Accelerated filer ___ Non-accelerated filer ___

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes:___ No:_X_

| Class | Shares Outstanding June 30, 2006 |
|---|---|
| Common Stock / $1 par value | 230,026,330 |

There are 35 pages in this report

OLD REPUBLIC INTERNATIONAL CORPORATION

Report on Form 10-Q / June 30, 2006

INDEX

Old Republic International Corporation and Subsidiaries
Consolidated Balance Sheets
($ in Millions, Except Share Data)

| | (Un<br>J |
|---|---|
| Assets | |
| Investments: | |
| Available for sale: | |
| Fixed maturity securities (at fair value)(cost: $6,376.2 and $6,323.7)............ | $ |
| Equity securities (at fair value)(cost: $533.4 and $500.9)....................... | |
| Short-term investments (at fair value which approximates cost).................... | |
| Miscellaneous investments......................................................... | |

| | |
|---|---|
| Total | |
| Other investments | |
| Total investments | |
| Other Assets: | |
| Cash | |
| Securities and indebtedness of related parties | |
| Accrued investment income | |
| Federal income tax recoverable: current | |
| Accounts and notes receivable | |
| Prepaid federal income taxes | |
| Reinsurance balances and funds held | |
| Reinsurance recoverable: Paid losses | |
| Policy and claim reserves | |
| Deferred policy acquisition costs | |
| Sundry assets | |
| Total Assets | $ |

| | |
|---|---|
| Liabilities, Preferred Stock, and Common Shareholders' Equity | |
| Liabilities: | |
| Losses, claims and settlement expenses | $ |
| Unearned premiums | |
| Other policyholders' benefits and funds | |
| Total policy liabilities and accruals | |
| Commissions, expenses, fees and taxes | |
| Reinsurance balances and funds | |
| Federal income tax payable: Current | |
| Deferred | |
| Debt | |
| Sundry liabilities | |
| Commitments and contingent liabilities | |
| Total Liabilities | |
| Preferred Stock: | |
| Convertible preferred stock (1) | |
| Common Shareholders' Equity: | |
| Common stock (1) | |
| Additional paid-in capital | |
| Retained earnings | |
| Accumulated other comprehensive income (loss) | |
| Total Common Shareholders' Equity | |
| Total Liabilities, Preferred Stock, and Common Shareholders' Equity | $ |

(1) At June 30, 2006 and December 31, 2005, there were 75,000,000 shares of $0.01 par value preferred stock authorized, of which no shares were outstanding. As of the same dates, there were 500,000,000 shares of common stock, $1.00 par value, authorized, of which 230,026,330 at June 30, 2006 and 229,575,404 at December 31, 2005 were issued and outstanding. At June

30, 2006 and December 31, 2005, there were 100,000,000 shares of Class B Common Stock, $1.00 par value, authorized, of which no shares were issued.

See accompanying Notes to Consolidated Financial Statements.



Old Republic International Corporation and Subsidiaries
Consolidated Statements of Income (Unaudited)
($ in Millions, Except Share Data)

| | Quarters Ended June 30, | |
|---|---|---|
| | 2006 | 2005 |
| Revenues: | | |
| Net premiums earned | $ 781.6 | $ 761.7 |
| Title, escrow, and other fees | 66.7 | 85.9 |
| Total premiums and fees | 848.4 | 847.6 |
| Net investment income | 82.6 | 75.8 |
| Other income | 9.6 | 8.5 |
| Total operating revenues | 940.7 | 932.1 |
| Realized investment gains | 8.1 | 12.8 |
| Total revenues | 948.9 | 944.9 |
| Benefits, Claims and Expenses: | | |
| Benefits, claims, and settlement expenses | 372.2 | 367.2 |
| Dividends to policyholders | 1.7 | 2.1 |
| Underwriting, acquisition, and other expenses | 385.5 | 385.2 |
| Interest and other charges | 2.8 | 2.7 |
| Total expenses | 762.4 | 757.4 |
| Income before income taxes | 186.4 | 187.5 |
| Income Taxes: | | |
| Currently payable (recoverable) | 42.4 | (1.8) |
| Deferred | 17.3 | 17.0 |
| Total | 59.7 | 15.2 |
| Net Income | $ 126.6 | $ 172.3 |
| Net Income Per Share: | | |
| Basic | $ .55 | $ .75 |
| Diluted | $ .54 | $ .74 |

| | | |
|---|---|---|
| Average shares outstanding: Basic | 230,013,892 | 228,629,783 |
| Diluted | 232,240,816 | 231,190,413 |
| Dividends Per Common Share: | | |
| Cash | $ .150 | $ .136 |

See accompanying Notes to Consolidated Financial Statements.



Old Republic International Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income (Unaudited)
($ in Millions)

| | Quarters Ended June 30, 2006 | Quarters Ended June 30, 2005 |
|---|---|---|
| Net income as reported | $ 126.6 | $ 172.3 |
| Other comprehensive income (loss): | | |
| Foreign currency translation adjustment | 5.2 | (1.5) |
| Unrealized gains (losses) on securities: | | |
| Unrealized gains (losses) arising during period | (57.0) | 79.2 |
| Less: elimination of pretax realized gains included in income as reported | 8.1 | 12.8 |

| | | |
|---|---|---|
| Pretax unrealized gains (losses) on securities carried at market value | (65.2) | 66.4 |
| Deferred income taxes (credits) | (22.8) | 23.4 |
| Net unrealized gains (losses) on securities | (42.3) | 43.0 |
| Net adjustments | (37.1) | 41.4 |
| Comprehensive income | $ 89.5 | $ 213.7 |

See accompanying Notes to Consolidated Financial Statements.

Old Republic International Corporation and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)
($ in Millions)

| |
|---|
| Cash flows from operating activities: |
| Net income.... |
| Adjustments to reconcile net income to net cash provided by operating activities: |
| Deferred policy acquisition costs.... |
| Premiums and other receivables.... |
| Unpaid claims and related items.... |
| Other policyholders' benefits and funds.... |
| Income taxes.... |
| Prepaid federal income taxes.... |
| Reinsurance balances and funds.... |
| Realized investment gains.... |
| Accounts payable, accrued expenses and other.... |
| Total.... |
| Cash flows from investing activities: |
| Fixed maturity securities: |
| Maturities and early calls.... |
| Sales.... |
| Sales of: |
| Equity securities.... |
| Other investments.... |
| Fixed assets for company use.... |
| Cash and short-term investments of subsidiary acquired.... |
| Purchases of: |
| Fixed maturity securities.... |
| Equity securities.... |
| Other investments.... |
| Fixed assets for company use.... |
| Investment in affiliates.... |
| Net decrease (increase) in short-term investments.... |
| Other-net.... |
| Total.... |
| Cash flows from financing activities: |
| Issuance of debentures and notes.... |
| Issuance of common shares.... |
| Redemption of debentures and notes.... |
| Dividends on common shares.... |
| Other-net.... |
| Total.... |
| Increase (decrease) in cash |
| Cash, beginning of period.... |
| Cash, end of period.... |

Supplemental cash flow information:
  Cash paid during the period for: Interest ............................................

                                   Income taxes..........................................

See accompanying Notes to Consolidated Financial Statements.

---



OLD REPUBLIC INTERNATIONAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
($ in Millions, Except Share Data)

---

1. Accounting Policies and Basis of Presentation:

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles ("GAAP") as described in the Corporation's latest annual report to shareholders or otherwise disclosed herein. The financial accounting and reporting process relies on estimates and on the exercise of judgment, but in the opinion of management all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the results were recorded for the interim periods. Amounts shown in the consolidated financial statements and applicable notes are stated (except as otherwise indicated and as to share data) in millions, which amounts may not add to totals shown due to truncation. Necessary reclassifications are made in prior periods' financial statements whenever appropriate to conform to the most current presentation.

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 provides recognition criteria and a related measurement model for uncertain tax positions taken or expected to be taken in income tax returns. FIN 48 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. Tax positions that meet the more likely than not threshold are then measured using a probability weighted approach recognizing the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement. FIN 48 becomes effective for the Company in the first quarter of 2007. The Company anticipates that the impact of its adoption of FIN 48 will not have a material effect on the consolidated financial statements.

2. Common Share Data:

(a) Earnings Per Share - The following table provides a reconciliation of the income and number of shares used in basic and diluted earnings per share calculations.

| | Quarters Ended June 30, 2006 | Quarters Ended June 30, 2005 |
|---|---|---|
| Numerator: | | |
| Net Income ........................................ | $ 126.6 | $ 172.3 |
| Numerator for basic earnings per share - income available to common stockholders.......... | 126.6 | 172.3 |
| Numerator for diluted earnings per share - income available to common stockholders after assumed conversions....................... | $ 126.6 | $ 172.3 |
| Denominator: | | |
| Denominator for basic earnings per share weighted-average shares (1) .................... | 230,013,892 | 228,629,783 |
| Effect of dilutive securities - stock options...... | 2,226,924 | 2,560,630 |
| Denominator for diluted earnings per share - adjusted weighted-average shares and assumed conversions (1)......................... | 232,240,816 | 231,190,413 |
| Earnings per share: Basic............................ | $ .55 | $ .75 |
| Diluted.......................... | $ .54 | $ .74 |

(1) Common share data has been retroactively adjusted to reflect all stock dividends and splits declared through June 30, 2006.

(b) Stock Options Compensation - The Company has had stock option plans in effect for certain eligible key employees since 1992. The plan adopted in 1992 was replaced at its expiration by a plan approved by the shareholders in 2002, and the 2002 plan was replaced by the 2006 Incentive Compensation Plan approved by the shareholders in May 2006. Under the current plan, options



awarded at the date of grant together with options previously issued and then-outstanding may not exceed 9% of the Company's outstanding common stock at the end of the month immediately preceding an option grant. Under the current plan, like its predecessors, the exercise price of stock options is equal to the market price of the Company's common stock at the date of the grant, and the term of the grant is generally ten years from the date of the grant. Options granted in 2001 and prior years under the 1992 plan may be exercised to the extent of 10% of the number of shares covered thereby on and after the date of grant, and cumulatively, to the extent of an additional 10% on and after each of the first through ninth subsequent calendar years. Options granted in 2002 and thereafter may be exercised to the extent of 10% of the number of shares covered thereby as of December 31st of the year of the grant and, cumulatively, to the extent of an additional 15%, 20%, 25% and 30% on and after the second through fifth calendar years, respectively. Options granted to employees who meet certain retirement eligibility provisions become fully vested upon retirement.

In the event the closing market price of Old Republic's common stock reaches a pre-established value ("the vesting acceleration price"), options granted in 2001 and prior years may be exercised cumulatively to the extent of 10% of the number of shares covered by the grant for each year of employment by the optionee. For grants in 2002 and 2003, optionees become vested on an accelerated basis to the extent of the greater of 10% of the options granted times the number of years of employment, or the sum of the optionee's already vested grant plus 50% of the remaining unvested grant. There is no vesting acceleration for 2004 and subsequent years' grants.

Prior to January 1, 2006, the Company accounted for stock options under APB Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees" and related interpretations as permitted by Statement of Financial Accounting Standards No. 123 ("FAS 123"), "Accounting for Stock-Based Compensation" which permitted the inclusion of stock-based compensation as a pro forma disclosure in the financial statements. The measurement and recognition provisions of APB 25 were followed until April 1, 2003, at which time the Company adopted the requirements of Statement of Financial Accounting Standards No. 148 ("FAS 148"), "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FAS No. 123" on a prospective basis. Under FAS 148, stock-based compensation expense was recognized for awards granted after the beginning of the fiscal year of adoption, as such awards became vested.

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123-Revised ("FAS 123R"), "Share-Based Payment" using the modified prospective transition method. Under this transition method, compensation cost in 2006 includes the portion vesting in the period for (1) all stock option awards granted prior to, but not vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of FAS 123 and (2) all stock option awards granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of FAS 123R. FAS 123R also requires that compensation cost be recognized immediately for awards granted to the Company's retirement eligible employees after January 1, 2006. Second quarter and first half 2006 earnings include the accelerated recognition of stock option expenses of $4.1 attributable to second quarter option grants to employees who meet certain age and service criteria, typically long-term employees who are ages 57 or older. Prior to adoption of FAS 123R, the Company recognized compensation cost for such awards on a straight line basis over the nominal vesting period. Results for prior periods have not been restated. The cumulative effect of the initial adoption of FAS 123R on the Company's financial statements and earnings per share information was immaterial.

The following table presents the stock based compensation expense and income tax benefit recognized in the financial statements:

| | Quarters Ended June 30, | |
|---|---|---|
| | 2006 | 2005 |
| Stock based compensation expense.................. | $ 5.9 | $ 1.3 |
| Income tax benefit............................... | $ 2.0 | $ .4 |

8

The following table illustrates the effect on net income and earnings per share as if the Company had applied the fair value provisions of FAS 123 to all options granted under the Company's stock option plans in the second quarter and first six months of 2005.

| | Quar June |
|---|---|
| Net income, as reported | $ |
| Add: Stock-based compensation expense included in reported income, net of related tax effects | |
| Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects | |
| Pro forma basis | $ |
| Basic earnings per share: | |
| As reported | $ |
| Pro forma basis | |
| Diluted earnings per share: | |
| As reported | |
| Pro forma basis | $ |

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes-Merton Model. The following table presents the assumptions used in the Black-Scholes Model for the awards granted during the second quarter and first half of 2006. Expected volatilities are based on the historical experience of Old Republic's common stock. The expected term of stock options represents the period of time that stock options granted are expected to be outstanding. Beginning in 2006, the Company uses historical data to estimate stock option exercise and employee departure behavior; groups of employees that have similar historical behavior are considered separately for valuation purposes. The risk-free rate for periods within the contractual term of the share option is based on the U.S. Treasury rate in effect at the time of the grant.

Quarters Ended

| | June 30, 2006 | June 30, 2005 |
|---|---|---|
| Expected volatility...................... | .27 | .26 |
| Expected dividends....................... | 3.54% | 3.82% |
| Expected term (in years)................. | 8 | 10 |
| Risk-free rate........................... | 5.10% | 4.63% |

A summary of stock option activity under the plan as of June 30, 2006 and changes during the six month period then ended is presented below:

| | Number of Shares | Weighted Average Exercise Price |
|---|---|---|
| Outstanding, January 1, 2006............... | 12,266,170 | $ 15.76 |
| Granted................................ | 2,506,800 | 22.01 |
| Exercised.............................. | 422,514 | 13.57 |
| Forfeited and canceled................. | 53,146 | 18.13 |
| Outstanding, June 30, 2006................ | 14,297,311 | $ 16.91 |
| Exercisable, June 30, 2006................ | 8,062,586 | $ 14.57 |

The weighted average grant date fair value of stock options granted during the quarter and six months ended June 30, 2006 was $5.46 and $5.12 per share, respectively. As of June 30, 2006, there was $21.4 of total unrecognized compensation cost related to nonvested stock based compensation arrangements granted under the plan. That cost is expected to be recognized over a weighted average period of approximately 4 years.

9

The cash received from stock option exercises, the total intrinsic value of stock options exercised, and the actual tax benefit realized for the tax deductions from option exercises are as follows:

| | Quarters Ended June 30, 2006 | 20 |
|---|---|---|
| Cash received from stock option exercise....................... | $ 2.2 | $ |
| Intrinsic value of stock options exercised..................... | 1.2 | |
| Actual tax benefit realized for tax deductions from stock options exercised............................. | $ .4 | $ |

============ ======

3. Unrealized Appreciation/(Depreciation) of Investments:

Cumulative net unrealized losses on fixed maturity securities available for sale and equity securities included in a separate account in common shareholders' equity amounted to $39.7 at June 30, 2006. Unrealized depreciation of investments, before applicable deferred income tax credits of $21.4, at June 30, 2006 included gross unrealized gains and (losses) of $123.3 and ($184.6), respectively.

For the six months ended June 30, 2006 and 2005, net unrealized depreciation of investments, net of deferred income tax credits, amounted to $89.9 and $34.3, respectively.

4. Pension Plans:

The Corporation has three defined benefit pension plans covering a portion of its work force. The three plans are the Old Republic International Salaried Employees Restated Retirement Plan (the Old Republic Plan), the Bituminous Casualty Corporation Retirement Income Plan (the Bituminous Plan) and the Old Republic National Title Group Pension Plan (the Title Plan). The plans are defined benefit plans pursuant to which pension payments are based primarily on years of service and employee compensation near retirement. It is the Corporation's policy to fund the plans' costs as they accrue. Plan assets are comprised principally of bonds, common stocks and short-term investments.

The measurement dates used to determine pension measurements are December 31 for the Old Republic Plan and the Bituminous Plan and September 30 for the Title Plan.

The components of estimated net periodic pension cost for the plans consisted of the following:

| | Quarters Ended June 30, | |
|---|---|---|
| | 2006 | 200 |
| Service cost | $ 2.3 | $ |
| Interest cost | 3.2 | |
| Expected return on plan assets | (3.6) | ( |
| Recognized loss | .8 | |
| Net cost | $ 2.6 | $ |

The companies made a cash contribution of $.3 to their pension plans in the second quarter of 2006 and expect to make additional cash or non-cash contributions to their pension plans in the second half of 2006 of approximately $6.0.

Effective January 1, 2005, both the Old Republic Plan and the Bituminous Plan were closed to new employees hired after December 31, 2004. The Title Plan was already closed to new employees. There were no changes to the benefits for employees/beneficiaries already in the Plans.

Also effective January 1, 2005, the Old Republic International Employees Savings and Stock Ownership Plan ("ESSOP") became a 401K plan. All aspects of the ESSOP remained unchanged, except that employee contributions are now made on a pretax rather than post-tax basis.



5. Information About Segments of Business:

The Corporation conducts its operations through three major regulatory segments, namely its General Insurance (property and liability insurance), Mortgage Guaranty and Title Insurance Groups. The Company includes the results of its small life & health insurance business with those of its corporate and minor service operations. Each of the Corporation's segments underwrites and services only those insurance coverages which may be written by it pursuant to state insurance regulations and corporate charter provisions. Segment results exclude net realized investment gains or losses as these are aggregated in consolidated totals. The contributions of Old Republic's insurance industry segments to consolidated totals are shown in the following table.

| | Quarters Ende June 30, | |
|---|---|---|
| | 2006 | 20 |
| **General Insurance Group:** | | |
| Net premiums earned | $ 473.0 | $ 4 |
| Net investment income and other income | 58.5 | |
| Total revenues before realized gains | $ 531.5 | $ 5 |
| Income before taxes (credits) and realized investment gains | $ 105.2 | $ |
| Income tax expense (credits) on above (1) | $ 32.8 | $ ( |
| **Mortgage Guaranty Group:** | | |
| Net premiums earned | $ 110.2 | $ 1 |
| Net investment income and other income | 20.8 | |
| Total revenues before realized gains | $ 131.0 | $ 1 |
| Income before taxes and realized investment gains | $ 63.7 | $ |
| Income tax expense on above | $ 21.1 | $ |
| **Title Insurance Group:** | | |
| Net premiums earned | $ 180.4 | $ 1 |
| Title, escrow and other fees | 66.7 | |
| Sub-total | 247.2 | 2 |
| Net investment income and other income | 6.6 | |
| Total revenues before realized gains | $ 253.8 | $ 2 |
| Income before taxes and realized investment gains | $ 12.1 | $ |
| Income tax expense on above | $ 3.8 | $ |

| | | |
|---|---|---|
| **Consolidated Revenues:** | | |
| Total revenues of above Company segments | $ 916.4 | $ 9 |
| Other sources (2) | 30.6 | |
| Consolidated net realized investment gains | 8.1 | |
| Elimination of intersegment revenues (3) | (6.4) | |
| Consolidated revenues | $ 948.9 | $ 9 |
| **Consolidated Income Before Taxes:** | | |
| Total income before taxes and realized investment gains of above Company segments | $ 181.2 | $ 1 |
| Other sources - net (2) | (2.9) | |
| Consolidated net realized investment gains | 8.1 | |
| Consolidated income before income taxes | $ 186.4 | $ 1 |
| **Consolidated Income Tax Expense:** | | |
| Total income tax expense of above Company segments (1) | $ 57.9 | $ |
| Other sources - net (2) | (1.0) | |
| Income tax expense on consolidated net realized investment gains | 2.8 | |
| Consolidated income tax expense | $ 59.7 | $ |



| | J |
|---|---|
| **Consolidated Assets:** | |
| General | $ |
| Mortgage | |
| Title | |
| Other - net (2) | |
| Consolidated | $ |

----------

In the above tables, net premiums earned on a GAAP basis differ slightly from statutory amounts due to certain differences in calculations of unearned premium reserves under each accounting method.

(1) General Insurance tax expense was reduced by $45.9 in the second quarter and six months ended June 30, 2005 as discussed in note 7(a).

(2) Represents amounts for Old Republic's holding company parent, minor internal services subsidiaries, and a small life and health insurance operation.

(3) Represents consolidation eliminating adjustments.

6. Commitments and Contingent Liabilities:

Legal proceedings against the Company arise in the normal course of business and usually pertain to claim matters related to insurance policies and contracts issued by its insurance subsidiaries. Other legal proceedings are discussed below.

Purported class actions have been filed against the Company's principal title insurance subsidiary, Old Republic National Title Insurance Company ("ORNTIC") in state courts in Connecticut, Florida, New Jersey and Ohio. The plaintiffs allege that, pursuant to rate schedules filed by ORNTIC or by state rating bureaus with the state insurance regulators, ORNTIC was required to, but failed to give consumers reissue credits on the premiums charged for title insurance covering mortgage refinancing transactions. Substantially similar lawsuits have been filed against other unaffiliated title insurance companies in these and other states as well. The actions seek damages and declaratory and injunctive relief. ORNTIC has reached a tentative settlement in Florida for an amount not to exceed $1.2, exclusive of attorneys' fees and costs. ORNTIC intends to defend vigorously against the actions in the other states as well but, at this stage in the litigation, the Company cannot estimate the costs it may incur as the actions proceed to their conclusions.

An action was filed in the Federal District court for South Carolina against the Company's wholly-owned mortgage guaranty insurance subsidiary, Republic Mortgage Insurance Company ("RMIC"). Similar lawsuits have been filed against the other six private mortgage insurers in different Federal District Courts. The action against RMIC seeks certification of a nationwide class of consumers who were allegedly required to pay for private mortgage insurance at a cost greater than RMIC's "best available rate". The action alleges that the decision to insure their loans at a higher rate was based on the consumers' credit scores and constituted an "adverse action" within the meaning, and in violation of the Fair Credit Reporting Act, that requires notice, allegedly not given, to the consumers. The action seeks statutory and punitive damages, as well as other costs. RMIC intends to defend vigorously against the action, but at this stage in the litigation the Company cannot estimate the costs it may incur as the litigation proceeds to its conclusion. RMIC is proceeding with its defense.

7. Income Taxes:

(a) The Company obtained a favorable resolution on its claim for a Federal income tax refund pertaining to the three years ended December 31, 1990. As a result, a combined recovery of income taxes and related accumulated interest of $57.9 was recorded in the second quarter of 2005. The net of tax effect on this recovery resulted in a non-recurring addition to net income of $45.9 in the second quarter and six months ended June 30, 2005.

(b) Pursuant to special provisions of the Internal Revenue Code pertaining to mortgage guaranty insurers, a contingency reserve (established in accordance with insurance regulations designed to protect policyholders against extraordinary volumes of claims) is deductible from gross income. The tax benefits obtained from such deductions must, however, be invested in non-interest bearing U.S. Treasury Tax and Loss Bonds in an amount equal to the tax benefit derived from deducting any portion of the Company's statutory contingency reserves. Through December 31, 2005, cumulative tax and loss bonds purchased and subsequent redemptions were reflected as U.S. government securities within the investments section of the consolidated balance sheets.

Effective January 1, 2006 the Company has reclassified such bonds to conform to more common industry reporting practices and to better align these investments with the corresponding long-term deferred income tax liabilities to which they relate. As a result of this reclassification, invested asset balances have been reduced and the prepaid income tax asset has been increased, while periodic operating cash flow and cash flow from investing activities have been adjusted by correspondingly identical amounts. The reclassification has no effect on the financial position or net income of the Company, nor does it call for the receipt or disbursement of any additional cash resources. The following table shows the effect of these adjustments on pertinent financial statement performance indicators as of the balance sheet dates and for the periods shown.

| | June 30, 2006 |
|---|---|
| Cash and invested assets: | |
| Previous classification | $ 7,981.4 |
| After reclassification | 7,512.9 |
| Change | (468.4) |
| Total other assets: | |
| Previous classification | 3,671.1 |
| After reclassification | 4,139.6 |
| Change | $ 468.4 |

| | Six Months Ended June 30, | |
|---|---|---|
| | 2006 | 2005 |
| Cash flows from operating activities: | | |
| Previous classification | $ 248.2 | $ 371.2 |
| After reclassification | 325.5 | 324.7 |
| Change | 77.3 | (46.4) |
| Cash flows from investing activities: | | |
| Previous classification | (195.0) | (324.6) |
| After reclassification | (272.3) | (278.1) |
| Change | $ (77.3) | $ 46.4 |

OLD REPUBLIC INTERNATIONAL CORPORATION
MANAGEMENT ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS
Six Months Ended June 30, 2006 and 2005
($ in Millions, Except Share Data)

## OVERVIEW

This management analysis of financial position and results of operations pertains to the consolidated accounts of Old Republic International Corporation ("Old Republic" or "the Company"). The Company conducts its operations through three major regulatory segments, namely, its General (property and liability), Mortgage Guaranty, and Title insurance segments. A small life and health insurance business, accounting for approximately 2.3% of consolidated revenues for the six months ended June 30, 2006 and 2.3% of consolidated assets as of June 30, 2006, is included within the corporate and other caption of this financial report. The consolidated accounts are presented on the basis of generally accepted accounting principles ("GAAP"). This management analysis should be read in conjunction with the consolidated financial statements and the footnotes appended to them.

The insurance business is distinguished from most others in that the prices (premiums) charged for various coverages are set without certainty of the ultimate benefit and claim costs that will emerge or be incurred, often many years after issuance of a policy. This basic fact casts Old Republic's business as a long-term undertaking which is managed with a primary focus on the achievement of favorable underwriting results over time. In addition to operating income stemming from Old Republic's basic underwriting and related services functions, significant revenues are obtained from investable funds generated by those functions as well as from retained shareholders' capital. In managing investable funds the Company aims to assure stability of income from interest and dividends, protection of capital, and sufficient liquidity to meet insurance underwriting and other obligations as they become payable in the future. Securities trading and the realization of capital gains are not objectives. The investment philosophy is therefore best characterized as emphasizing value, credit quality, and relatively long-term holding periods. The Company's ability to hold both fixed maturity and equity securities for long periods of time is enabled by the scheduling of maturities in contemplation of an appropriate matching of assets and liabilities.

In light of the above factors, the Company's affairs are managed for the long run, without regard to the arbitrary strictures of quarterly or even annual reporting periods that American industry must observe. In Old Republic's view, short reporting time frames do not comport well with the long-term nature of much of its business, driven as it is by a strong focus on the fundamental underwriting and related service functions of the Company. Management believes that Old Republic's operating results and financial condition can best be evaluated by observing underwriting and overall operating performance trends over succeeding five to ten year intervals. Such time intervals are likely to encompass one or two economic and/or underwriting cycles, and provide appropriate time frames for such cycles to run their course and for reserved claim costs to be quantified with greater finality and effect.

## EXECUTIVE SUMMARY

Second quarter and first half 2006 earnings were constrained by the accelerated recognition of stock option expenses of $4.1 ($2.6 after tax or one cent per diluted share). The additional charge stems from second quarter option grants to employees who meet certain age and service criteria, typically long-term employees who are ages 57 or older. Under the recently issued Statement of Financial Accounting Standards No. 123R, "Share-Based Payment", the values attributed to such options must be expensed immediately.

On the other hand, second quarter and first half 2005 earnings were enhanced by the posting of a non-recurring recovery of income taxes and related accumulated interest of $57.9 ($45.9 net of tax, or 20 cents per diluted share). The recovery stemmed from a favorable resolution of the Company's claim for a permanent Federal income tax refund applicable to the three years ended December 31, 1990.



Consolidated Results

The major components of Old Republic's consolidated operating revenues and income were as follows for the periods being reported upon:

| | Quarters Ended June 30, | | | |
|---|---|---|---|---|
| | 2006 | 2005 | Change | 2 |
| Operating revenues: | | | | |
| General insurance........................ | $ 531.5 | $ 513.2 | 3.6% | $ |
| Mortgage guaranty........................ | 131.0 | 130.3 | .6 | |
| Title insurance.......................... | 253.8 | 268.2 | -5.3 | |
| Corporate and other...................... | 24.2 | 20.3 | | |
| Total.................................. | $ 940.7 | $ 932.1 | .9% | $ |
| Pretax operating income (loss): | | | | |
| General insurance........................ | $ 105.2 | $ 86.4 | 21.7% | $ |
| Mortgage guaranty........................ | 63.7 | 67.9 | -6.1 | |
| Title insurance.......................... | 12.1 | 22.8 | -46.8 | |
| Corporate and other...................... | (2.9) | (2.6) | | |
| Sub total............................ | 178.2 | 174.6 | 2.0 | |
| Realized investment gains (losses): | | | | |
| From sales............................... | 8.1 | 12.9 | | |
| From impairments......................... | - | (.1) | | |
| Net realized investment gains.......... | 8.1 | 12.8 | | |
| Consolidated pretax income.................. | 186.4 | 187.5 | -.6 | |
| Income taxes.......................... | 59.7 | 15.2 | 293.1 | |

| | | | | |
|---|---|---|---|---|
| Net income | $ 126.6 | $ 172.3 | -26.5% | $ |
| Consolidated underwriting ratio: | | | | |
| Benefits and claims ratio | 44.1% | 43.6% | | |
| Expense ratio | 43.8 | 44.0 | | |
| Composite ratio | 87.9% | 87.6% | | |
| Components of diluted net income per share: | | | | |
| Net operating income: | | | | |
| Before non-recurring tax benefit | $ 0.52 | $ 0.51 | 2.0% | $ |
| 2005 non-recurring tax benefit | - | 0.20 | | |
| Total | 0.52 | 0.71 | -26.8 | |
| Net realized investment gains | 0.02 | 0.03 | | |
| Net income | $ 0.54 | $ 0.74 | -27.0% | $ |

Consolidated results are provided in terms of both operating and net income to highlight the effect of realized investment gain or loss recognition on period-to-period comparisons. Recognition of such gains or losses can be highly discretionary and arbitrary due to such factors as the timing of individual securities sales, recognition of losses from write-downs of impaired securities, tax-planning considerations, and changes in investment management judgments relative to the direction of securities markets or the future prospects of individual investees or industry sectors.

General Insurance Results

The General Insurance Group's operating performance continued at high levels for the latest quarter and year-to-date periods. Key indicators of that performance follow:

| | Quarters Ended June 30, | | | |
|---|---|---|---|---|
| | 2006 | 2005 | Change | 2 |
| Net premiums earned | $ 473.0 | $ 461.3 | 2.5% | $ |
| Net investment income | 53.7 | 47.8 | 12.3 | |
| Pretax operating income | $ 105.2 | $ 86.4 | 21.7% | $ |
| Claims ratio | 65.6% | 67.5% | | |
| Expense ratio | 23.4 | 24.0 | | |
| Composite ratio | 89.0% | 91.5% | | |

Earned premium growth of 2.5 percent in this year's second quarter fell short of expectations. For the first half of the year, net premiums earned grew by 4.5 percent. For the first six months of 2006, the Company experienced double digit premium growth among its trucking, and home and extended warranty coverages while nearly all other lines reflected few or no increases. General insurance underwriting margins, however, remained at highly satisfactory levels due to the relative stability of overall claim and productions costs. Net investment income climbed at low double digit rates, benefiting from the combination of a greater invested asset base and rising yields on fixed maturity securities.



Mortgage Guaranty Results

Old Republic's Mortgage Guaranty Group posted moderately lower year-over-year pretax operating earnings in the second quarter and first half of 2006. Key indicators of this segment's performance follow:

| | Quarters Ended June 30, | | | |
|---|---|---|---|---|
| | 2006 | 2005 | Change | 2 |
| Net premiums earned | $ 110.2 | $ 108.5 | 1.5% | $ |
| Net investment income | 17.6 | 17.4 | 1.2 | |
| Pretax operating income | $ 63.7 | $ 67.9 | -6.1% | $ |
| Claims ratio | 35.6% | 31.5% | | |
| Expense ratio | 22.6 | 22.0 | | |
| Composite ratio | 58.2% | 53.5% | | |

Mortgage Guaranty premium revenue trends for this year's first half reflected the combination of slightly improved business persistency, lower overall mortgage originations, and a sharp decline in bulk insurance production. The higher composite underwriting ratio for 2006 periods was largely driven by higher claim costs. The rise in claim costs stemmed primarily from higher paid claims as well as expectations of greater claim frequency for the traditional primary business. Lower underwriting profit margins evidenced by this year's higher composite ratio were partially offset by a slight increase in net investment income.

Title Insurance Results

Old Republic's Title Insurance segment registered significant drops in profitability for the 2006 periods reported upon. Key indicators of that performance follow:

| | Quarters Ended June 30, | | | |
|---|---|---|---|---|
| | 2006 | 2005 | Change | 2 |
| Net premiums and fees earned | $ 247.2 | $ 261.7 | -5.5% | $ |
| Net investment income | 6.5 | 6.4 | 1.7 | |
| Pretax operating income | $ 12.1 | $ 22.8 | -46.8% | $ |
| Claims ratio | 5.9% | 5.9% | | |
| Expense ratio | 91.7 | 87.7 | | |
| Composite ratio | 97.6% | 93.6% | | |

Title premium and fee revenues dropped by 5.5 percent in this year's second quarter but rose by 1.5 percent in the first half. For both 2006 periods, profit margins in underwriting/service operations deteriorated significantly. Substantially all of the margin compression occurred in the segment's direct operations, most of which are concentrated in the Western United States. Revenues in that region dropped by 26.6 percent in this year's second quarter and 25.1 percent in the first half. The resulting production levels in that region have been much lower than necessary to support the related operating expense structure. As a consequence of the relatively greater expense load, the segment posted a much higher composite underwriting ratio in this year's second quarter and first half. Slight net investment income growth in this segment was insufficient to offset the substantial reduction in underwriting/service profitability in 2006 to date.

Corporate and Other Operations

Old Republic's small life and health business, and the net corporate service costs of the parent holding company and internal services subsidiaries produced combined pretax losses of $2.9 and $3.3 in the second quarter and first six months of 2006, respectively. Life and health pretax income was affected adversely by greater life insurance claim costs in both periods of 2006. Overall net corporate expenses, however, were moderately lower year-over-year.



Cash, Invested Assets and Shareholders' Equity

The following table shows the changes in consolidated cash and invested assets as well as shareholders' equity, as of the dates shown:

| | June 2006 | December 2005 | |
|---|---|---|---|
| Cash and invested assets: | | | |
| Total: As reported, with securities at market.......... | $ 7,512.9 | $ 7,394.1 | $ |
| With securities at cost........................ | 7,574.6 | 7,317.3 | |
| Per share: As reported, with securities at market...... | 32.66 | 32.21 | |
| With securities at cost................... | 32.93 | 31.87 | |
| Shareholders' equity: | | | |
| Total: As reported, with securities at market.......... | 4,130.6 | 4,024.0 | |
| With securities at cost........................ | 4,170.4 | 3,973.9 | |
| Per share: As reported, with securities at market...... | 17.96 | 17.53 | |
| With securities at cost................... | $ 18.13 | $ 17.31 | $ |

The investment portfolio reflects a current allocation of approximately 85 percent in fixed-maturity securities and 8 percent in equities. As in the past, it contains little or no exposure to real estate investments, mortgage-backed securities, derivatives, junk bonds, private placements or mortgage loans. The latest periods' changes in shareholders' equity, as reported, reflects principally additions from earnings in excess of dividend payments, offset by a decline in the value of investment securities carried at market values.

Effective January 1, 2006, the Company reclassified its long-term investments in U.S. Treasury Tax and Loss Bonds held by its mortgage guaranty insurance subsidiaries. The reclassification is intended to conform to more common industry reporting practices and to better align such assets with the corresponding long-term deferred income tax liabilities to which they relate. As a result of this reclassification, invested asset balances have been reduced and the prepaid income tax asset has been increased, while periodic operating cash flow and cash flow from investing activities have been adjusted by correspondingly identical amounts. The reclassification has no effect on the financial position or net income of the Company, nor does it call for the receipt or disbursement of any additional cash resources. The following table shows the effect of these adjustments on pertinent financial statement performance indicators as of the balance sheet dates and for the periods shown.

| | June 30, 2006 |
|---|---|
| Cash and invested assets: | |
| Previous classification | $ 7,981.4 |
| After reclassification | 7,512.9 |
| Change | (468.4) |
| Total other assets: | |
| Previous classification | 3,671.1 |
| After reclassification | 4,139.6 |
| Change | $ 468.4 |

| | Six Months Ended June 30, 2006 | Six Months Ended June 30, 2005 |
|---|---|---|
| Cash flows from operating activities: | | |
| Previous classification | $ 248.2 | $ 371.2 |
| After reclassification | 325.5 | 324.7 |
| Change | 77.3 | (46.4) |
| Cash flows from investing activities: | | |
| Previous classification | (195.0) | (324.6) |
| After reclassification | (272.3) | (278.1) |
| Change | $ (77.3) | $ 46.4 |

---

## CHANGES IN ACCOUNTING POLICIES

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123-Revised ("FAS 123R"), "Share-Based Payment" using the modified prospective transition method. The impact of the adoption of FAS123R is discussed in note 2 of the notes to consolidated financial statements.

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). A discussion regarding the provisions of FIN 48 is included in note 1 of the notes to consolidated financial statements.

## FINANCIAL POSITION

The Company's financial position at June 30, 2006 reflected increases in assets and common shareholders' equity of .9% and 2.6%, respectively, when compared to the immediately preceding year-end. Cash and invested assets represented 64.5% and 64.1% of consolidated assets as of June 30, 2006 and December 31, 2005, respectively. Consolidated operating cash flow was positive at $325.5 in the first six months of 2006 compared to $324.7 in the same period of 2005. As of June 30, 2006, the invested asset base increased 1.8% to $7,357.3 principally as a result of positive operating cash flow offset by a decline in the fair value of fixed maturity and equity investments.

During the first six months of 2006 and 2005, the Corporation committed substantially all investable funds to short to intermediate-term fixed maturity securities. At both June 30, 2006 and 2005, approximately 99% of the Company's investments consisted of marketable securities. Old Republic continues to adhere to its long-term policy of investing primarily in investment grade, marketable securities. Investable funds have not been directed to so-called "junk bonds" or types of securities categorized as derivatives. At June 30, 2006, the Company had $3.7 of fixed maturity investments in default as to principal and/or interest.

Relatively high short-term maturity investment positions continued to be maintained as of June 30, 2006. Such positions reflect a large variety of seasonal and intermediate-term factors including current operating needs, expected operating cash flows, quarter-end cash flow seasonality, and investment strategy considerations. Accordingly, the future level of short-term investments will vary and respond to the interplay of these factors and may, as a result, increase or decrease from current levels.

The Company does not own or utilize derivative financial instruments for the purpose of hedging, enhancing the overall return of its investment portfolio, or reducing the cost of its debt obligations. With regard to its equity portfolio, the Company does not own any options nor does it engage in any type of option writing. Traditional investment management tools and techniques are employed to address the yield and valuation exposures of the invested assets base. The long-term fixed maturity investment portfolio is managed so as to limit various risks inherent in the bond market. Credit risk is addressed through asset diversification and the purchase of investment grade securities. Reinvestment rate risk is reduced by concentrating on non-callable issues, and by taking asset-liability matching considerations into account. Purchases of mortgage and asset backed securities, which have variable principal prepayment options, are generally avoided. Market value risk is limited through the purchase of bonds of intermediate maturity. The combination of these investment management practices is expected to produce a more stable long-term fixed maturity investment portfolio that is not subject to extreme interest rate sensitivity and principal deterioration. The market value of the Company's long-term fixed maturity investment portfolio is sensitive, however, to fluctuations in the level of interest rates, but not materially affected by changes in anticipated cash flows caused by any prepayments. The impact of interest rate movements on the long-term fixed maturity investment portfolio generally affects net unrealized gains or losses. As a general rule, rising interest rates enhance currently available yields but typically lead to a reduction in the fair value of existing fixed maturity investments. By contrast, a decline in such rates reduces currently available yields but usually serves to increase the fair value of the existing fixed maturity investment portfolio. All such changes in fair value are reflected, net of deferred income taxes, directly in the shareholders' equity account, and as a separate component of the statement of comprehensive income. Given the Company's inability to forecast or control the movement of interest rates, Old Republic sets the maturity spectrum of its fixed maturity securities portfolio within parameters of estimated liability payouts, and focuses the overall portfolio on high quality investments. By so doing, Old Republic believes it is reasonably assured of its ability to hold securities to maturity as it may deem necessary in changing environments, and of ultimately recovering their aggregate cost.



Possible future declines in fair values for Old Republic's bond and stock portfolios would affect negatively the common shareholders' equity account at any point in time, but would not necessarily result in the recognition of realized investment losses. The Company reviews the status and market value changes of each of its investments on at least a quarterly basis during the year, and estimates of other than temporary impairments in the portfolio's value are evaluated and established at each quarterly balance sheet date. In reviewing investments for other than temporary impairment, the Company, in addition to a security's market price history, considers the totality of such factors as the issuer's operating results, financial condition and liquidity, its ability to access capital markets, credit rating trends, most current audit opinion, industry and securities markets conditions, and analyst expectations to reach its conclusions. Sudden market value declines caused by such adverse developments as newly emerged or imminent bankruptcy filings, issuer default on significant obligations, or reports of financial accounting developments that bring into question the validity of previously reported earnings or financial condition, are recognized as realized losses as soon as credible publicly available information emerges to confirm such developments. Accordingly, the recognition of losses from other than temporary value impairments is subject to a great deal of judgment as well as turns of events over which the Company can exercise little or no control. In the event the Company's estimate of other than temporary impairments is insufficient at any point in time, future periods' net income would be affected adversely by the recognition of additional realized or impairment losses, but its financial condition would not necessarily be affected adversely inasmuch as such losses, or a portion of them, could have been recognized previously as unrealized losses.

The following tables show certain information relating to the Company's fixed maturity and equity portfolios as of the dates shown:

Credit Quality Ratings of Fixed Maturity Securities (1)

| | J |
|---|---|
| Aaa...................................................................... | |
| Aa....................................................................... | |
| A........................................................................ | |
| Baa...................................................................... | |

| | |
|---|---|
| Total investment grade | |
| All other (2) | |
| Total | |

(1) Credit quality ratings used are those assigned primarily by Moody's; other ratings are assigned by Standard & Poor's and converted to equivalent Moody's ratings classifications.
(2) "All other" includes non-investment or non-rated small issues of tax-exempt bonds.

Gross Unrealized Losses Stratified by Industry Concentration for Non-Investment Grade Fixed Matur

| | Amort Cos |
|---|---|
| Fixed Maturity Securities by Industry Concentration: | |
| Retail | $ |
| Finance | |
| Service | |
| Consumer Durables | |
| Other (includes 2 industry groups) | |
| Total | $ |

(3) Represents 1.1% of the total fixed maturity securities portfolio.

Gross Unrealized Losses Stratified by Industry Concentration for Investment Grade Fixed Maturity

| | Amort Cos |
|---|---|
| Fixed Maturity Securities by Industry Concentration: | |
| Municipals | $ |
| Utilities | |
| Consumer Non-durables | |
| Industrial | |
| Other (includes 17 industry groups) | |
| Total | $ |

(4) Represents 74.5% of the total fixed maturity securities portfolio.

Gross Unrealized Losses Stratified by Industry Concentration for Equity Securities

| | Cos |
|---|---|
| Equity Securities by Industry Concentration: | |
| Insurance........................................................................... | $ |
| Health Care......................................................................... | |
| Consumer Non-durables............................................................... | |
| Banking............................................................................. | |
| Other (6 industry groups)........................................................... | |
| Total............................................................................... | $ |

(5) Represents 22.8% of the total equity securities portfolio.
(6) Represents 1.4% of the cost of the total equity securities portfolio, while gross unrealized gains represent 13.7% of the portfolio.

Gross Unrealized Losses Stratified by Maturity Ranges For All Fixed Maturity Securities

| | June 30, | |
|---|---|---|
| | Amortized Cost of Fixed Maturity Securities | |
| | All | Non-Investment Grade Only |
| Maturity Ranges: | | |
| Due in one year or less........................... | $ 486.1 | $ 2.9 |
| Due after one year through five years............. | 1,659.8 | 57.3 |
| Due after five years through ten years............ | 2,665.2 | 10.3 |
| Due after ten years............................... | 10.7 | - |
| Total......................................... | $ 4,821.9 | $ 70.6 |

Gross Unrealized Losses Stratified by Duration and Amount of Unrealized Losses

| | June 30, | |
|---|---|---|
| | Amount of Gross Unr | |
| | Less than 20% of Cost | 20% to 50% of Cost |
| Number of Months in Loss Position: | | |

| | | |
|---|---|---|
| Fixed Maturity Securities: | | |
| One to six months | $ 37.1 | $ - |
| Seven to twelve months | 81.3 | - |
| More than twelve months | 53.7 | - |
| Total | $ 172.2 | $ - |
| Equity Securities: | | |
| One to six months | $ 7.4 | $ - |
| Seven to twelve months | - | - |
| More than twelve months | - | - |
| Total | $ 7.4 | $ - |
| Number of Issues in Loss Position: | | |
| Fixed Maturity Securities: | | |
| One to six months | 460 | - |
| Seven to twelve months | 482 | - |
| More than twelve months | 307 | - |
| Total | 1,249 | - |
| Equity Securities: | | |
| One to six months | 24 | - |
| Seven to twelve months | - | - |
| More than twelve months | - | 1 |
| Total | 24 | 1 |

20

(7) At June 30, 2006 the number of issues in an unrealized loss position represent 70.1% as to fixed maturities, and 30.5% as to equity securities of the total number of such issues held by the Company.

The aging of issues with unrealized losses employs closing market price comparisons with an issue's original cost. The percentage reduction from original cost reflects the decline as of a specific point in time (June 30, 2006 in the previous table) and, accordingly, is not indicative of a security's value having been consistently below its cost at the percentages and throughout the periods shown.

Age Distribution of Fixed Maturity Securities

| | June 200 |
|---|---|
| Maturity Ranges: | |
| Due in one year or less | |
| Due after one year through five years | |
| Due after five years through ten years | |
| Due after ten years through fifteen years | |
| Due after fifteen years | |

| | |
|---|---|
| Total........................................................... | 1 |
| Average Maturity................................................ | 4. |
| Duration (8).................................................... | 3. |

(8) Duration is used as a measure of bond price sensitivity to interest rate changes. A duration of 3.9 as of June 30, 2006 implies that a 100 basis point parallel increase in interest rates from current levels would result in a possible decline in the market value of the long-term fixed maturity investment portfolio of approximately 3.9%.

Composition of Unrealized Gains (Losses)

| | June 200 |
|---|---|
| Fixed Maturity Securities: | |
| Amortized cost...................................................... | $ |
| Estimated fair value................................................ | |
| Gross unrealized gains.............................................. | |
| Gross unrealized losses............................................. | |
| Net unrealized gains (losses)....................................... | $ |
| Equity Securities: | |
| Cost................................................................ | $ |
| Estimated fair value................................................ | |
| Gross unrealized gains.............................................. | |
| Gross unrealized losses............................................. | |
| Net unrealized gains................................................ | $ |

Among other major assets, substantially all of the Company's receivables are not past due. Reinsurance recoverable balances on paid or estimated unpaid losses are deemed recoverable from solvent reinsurers or have otherwise been reduced by allowances for estimated amounts unrecoverable. Deferred policy acquisition costs are estimated by taking into account the variable costs of producing specific types of insurance policies, and evaluating their recoverability on the basis of recent trends in claims costs. The Company's deferred policy acquisition cost balances have not fluctuated substantially from period-to-period and do not represent significant percentages of assets or shareholders' equity.

The parent holding company meets its liquidity and capital needs principally through dividends paid by its subsidiaries. The insurance subsidiaries' ability to pay cash dividends to the parent company is generally restricted by law or subject to approval of the insurance regulatory authorities of the states in which they are domiciled. The Company can receive up to $474.4 in dividends from its subsidiaries in 2006 without the prior approval of regulatory authorities. The liquidity achievable through such permitted dividend payments is more than adequate to cover the parent holding company's currently expected cash outflows represented mostly by interest on outstanding debt and quarterly cash dividend payments to shareholders. In addition, Old Republic can access the commercial paper market for up to $150.0 to meet unanticipated liquidity needs. $18.8 of commercial paper was outstanding at June 30, 2006.

Old Republic's total capitalization of $4,272.7 at June 30, 2006 consisted of debt of $142.1 and common shareholders' equity of $4,130.6. Changes in the common shareholders' equity account reflect primarily the retention of earnings in excess of dividend requirements as well as changes in the value of investments carried at market values. Old Republic has paid cash dividends to



its shareholders without interruption since 1942, and has increased the annual rate in each of the past 24 years. The annual dividend rate is typically reviewed and approved by the Board of Directors in the first quarter of each year. In establishing each year's cash dividend rate the Corporation does not follow a strict formulaic approach and favors a gradual rise in the annual dividend rate that is largely reflective of long-term consolidated operating earnings trends. Accordingly, each year's dividend rate is set judgmentally in consideration of such key factors as the dividend paying capacity of the Corporation's insurance subsidiaries, the trends in average annual statutory and GAAP earnings for the six most recent calendar years, and the long-term expectations for the Corporation's consolidated business. At its February, 2006 meeting, the Board of Directors approved a new quarterly cash dividend rate of 15 cents per share effective in the second quarter of 2006, up from 14 cents per share, subject to the usual quarterly authorizations.

At its May, 2006 meeting, the Company's Board of Directors authorized the reacquisition of up to $500.0 of common shares as market conditions warrant during the two year period from that date; no stock had been acquired through June 30, 2006 pursuant to this authorization. In December 2005, the Company cancelled 3.5 million common shares previously reported as treasury stock, restoring them to unissued status; this had no effect on total shareholders' equity or the financial condition of the Company.

## RESULTS OF OPERATIONS

Revenues: Premiums & Fees

Pursuant to GAAP applicable to the insurance industry, revenues are associated with the related benefits, claims, and expenses.

Substantially all general insurance premiums are reflected in income on a pro-rata basis. Earned but unbilled premiums are generally taken into income on the billing date, while adjustments for retrospective premiums, commissions and similar charges or credits are accrued on the basis of periodic evaluations of current underwriting experience and contractual obligations. Nearly all of the Company's mortgage guaranty premiums stem from monthly installment policies. Accordingly, such premiums are generally written and earned in the month coverage is effective. With respect to minor numbers of annual or single premium policies, earned premiums are largely recognized on a pro-rata basis over the terms of the policies. Title premium and fee revenues stemming from the Company's direct operations (which include branch offices of its title insurers and wholly owned subsidiaries of the Company) represent approximately 32% of 2006 consolidated title business revenues. Such premiums are generally recognized as income at the escrow closing date which approximates the policy effective date. Fee income related to escrow and other closing services is recognized when the related services have been performed and completed. The remaining 68% of consolidated title premium and fee revenues is produced by independent title agents and underwritten title companies. Rather than making estimates that could be subject to significant variance from actual premium and fee production, the Company recognizes revenues from those sources upon receipt.

Such receipts can reflect a three to four month lag relative to the effective date of the underlying title policy, and are offset concurrently by production expenses and claim reserve provisions.

The major sources of Old Republic's earned premiums and fees for the periods shown were as follows:

| | General | Mortgage | Title | Other |
|---|---|---|---|---|
| Years Ended December 31: | | | | |
| 2003 | $ 1,379.5 | $ 400.9 | $ 1,103.8 | $ 51 |
| 2004 | 1,623.0 | 403.2 | 1,025.2 | 64 |
| 2005 | 1,805.2 | 429.5 | 1,081.8 | 70 |
| Six Months Ended June 30: | | | | |
| 2005 | 892.4 | 213.9 | 493.4 | 36 |
| 2006 | 933.0 | 219.2 | 500.7 | 39 |
| Quarters Ended June 30: | | | | |
| 2005 | 461.3 | 108.5 | 261.7 | 16 |
| 2006 | $ 473.0 | $ 110.2 | $ 247.2 | $ 17 |

Earned premiums in the General Insurance Group grew by 2.5% and 4.5% in the second quarter and first six months of 2006, respectively, as a result of additional business produced in a reasonably stable underwriting environment. Mortgage guaranty premium revenue trends for the first six months of 2006 reflect slightly improved business persistency, lower overall mortgage originations, and a sharp decline in bulk insurance production. Title Group premium and fee revenues decreased 5.5% in the second quarter of 2006, but grew by 1.5% in the first six months of 2006 due to reduced real estate transaction volume substantially occurring in the segment's direct operations, most of which are concentrated in the Western United States.



The percentage allocation of net premiums earned for major insurance coverages in the General Insurance Group was as follows:

| | Type of Coverag | | | |
|---|---|---|---|---|
| | Comm. Auto. (mostly trucking) | Workers' Comp. | Financial Indemnity | I M Pr |
| Years Ended December 31: | | | | |
| 2003 | 39.5% | 20.0% | 11.7% | |
| 2004 | 37.9 | 21.8 | 11.8 | |
| 2005 | 39.2 | 21.9 | 10.3 | |
| Six Months Ended June 30: | | | | |
| 2005 | 38.8 | 21.3 | 11.6 | |
| 2006 | 39.8 | 21.0 | 10.8 | |
| Quarters Ended June 30: | | | | |
| 2005 | 38.9 | 20.3 | 12.2 | |
| 2006 | 39.9% | 19.6% | 10.5% | |

The following tables provide information on risk exposure trends for Old Republic's Mortgage Guaranty Group.

| | New In | |
|---|---|---|
| | Traditional Primary | Bulk |
| Years Ended December 31: | | |
| 2003 | $ 37,255.8 | $ 6,80 |
| 2004 | 24,749.4 | 4,48 |
| 2005 | 20,554.5 | 9,94 |
| Six Months Ended June 30: | | |
| 2005 | 10,032.4 | 5,76 |
| 2006 | 8,353.1 | 4,23 |
| Quarters Ended June 30: | | |
| 2005 | 5,326.8 | 2,46 |
| 2006 | $ 4,460.6 | $ 98 |

| | Net | |
|---|---|---|
| | Traditional Primary | Bulk |
| As of December 31: | | |
| 2003 | $ 15,329.5 | $ 80 |
| 2004 | 15,452.2 | 83 |
| 2005 | 14,711.2 | 1,75 |
| As of June 30: | | |
| 2005 | 15,126.5 | 1,20 |
| 2006 | $ 14,502.0 | $ 1,89 |

Analysis of Traditional Primary Risk in Force:

| By Fair Isaac & Company ("FICO") Scores: | FICO less than 620 | FICO 620 to 680 |
|---|---|---|
| As of December 31: | | |
| 2003 | 8.5% | 29.2% |
| 2004 | 8.6 | 31.1 |
| 2005 | 8.3 | 31.8 |
| As of June 30: | | |
| 2005 | 8.5 | 31.6 |
| 2006 | 8.3% | 32.6% |

| By Loan to Value ("LTV") Ratio: | LTV less than 85 | LTV 85 to 90 |
|---|---|---|
| As of December 31: | | |
| 2003 | 6.4% | 37.3% |

| | | |
|---|---|---|
| 2004 | 5.7 | 36.8 |
| 2005 | 5.4 | 37.7 |
| As of June 30: | | |
| 2005 | 5.5 | 37.0 |
| 2006 | 5.2% | 37.7% |

23

By Type of Loan Documentation:

| | F Docum |
|---|---|
| As of December 31: | |
| 2003 | |
| 2004 | |
| 2005 | |
| As of June 30: | |
| 2005 | |
| 2006 | |

Premium and Persistency Trends

| | Earned Premiums | |
|---|---|---|
| | Direct | Net |
| Years Ended December 31: | | |
| 2003 | $ 467.3 | $ 400.9 |
| 2004 | 483.6 | 403.2 |
| 2005 | 508.0 | 429.5 |
| Six Months Ended June 30: | | |
| 2005 | 252.7 | 213.9 |
| 2006 | 258.8 | 219.2 |
| Quarters Ended June 30: | | |
| 2005 | 128.1 | 108.5 |
| 2006 | $ 129.8 | $ 110.2 |

----------------------

(1) Due to the relative immaturity of the bulk business, the above trends may prove to be highly volatile.

The following table shows the percentage distribution of Title Group premium and fee revenues by production sources:

| | |
|---|---|
| Years Ended December 31: | |
| 2003 | |
| 2004 | |

| | |
|---|---|
| 2005.................................................................... | |
| Six Months Ended June 30: | |
| 2005.................................................................... | |
| 2006.................................................................... | |
| Quarters Ended June 30: | |
| 2005.................................................................... | |
| 2006.................................................................... | |

Revenues: Net Investment Income

Net investment income is affected by trends in interest and dividend yields for the types of securities in which the Company's funds are invested during individual reporting periods. The following tables reflect the segmented and consolidated invested asset bases as of the indicated dates, and the investment income earned and resulting yields on such assets. Since the Company can exercise little control over market values, yields are evaluated on the basis of investment income earned in relation to the amortized cost of the underlying invested assets, though yields based on the market values of such assets are also shown in the statistics below.

| | Invested Assets at Cost | | | | |
|---|---|---|---|---|---|
| | General | Mortgage | Title | Corporate and Other | Total |
| As of December 31: | | | | | |
| 2003................. | $ 3,798.2 | $ 1,381.4 | $ 556.9 | $ 177.1 | $ 5,913 |
| 2004................. | 4,217.8 | 1,501.9 | 595.2 | 295.0 | 6,610 |
| 2005................. | 4,694.8 | 1,515.4 | 616.8 | 326.4 | 7,153 |
| As of June 30: | | | | | |
| 2005................. | 4,409.2 | 1,440.9 | 566.1 | 445.0 | 6,861 |
| 2006................. | $ 4,869.1 | $ 1,515.4 | $ 594.2 | $ 440.1 | $ 7,418 |

24

| | Net Investment Income | | | | |
|---|---|---|---|---|---|
| | General | Mortgage | Title | Corporate and Other | Total |
| Years Ended December 31: | | | | | |
| 2003................. | $ 175.0 | $ 65.7 | $ 23.5 | $ 14.9 | $ 279 |
| 2004................. | 183.4 | 67.7 | 25.5 | 14.0 | 290 |
| 2005................. | 197.0 | 70.1 | 26.0 | 16.9 | 310 |
| Six Months Ended June 30: | | | | | |
| 2005................. | 95.7 | 35.0 | 12.7 | 7.6 | 151 |
| 2006................. | 106.6 | 36.8 | 13.3 | 8.4 | 165 |
| Quarters Ended June 30: | | | | | |
| 2005................. | 47.8 | 17.4 | 6.4 | 4.1 | 75 |
| 2006................. | $ 53.7 | $ 17.6 | $ 6.5 | $ 4.6 | $ 82 |

Consolidated net investment income grew by 8.9% and 9.3% for the second quarter and first six months of 2006, respectively, when compared to the same 2005 periods. This revenue source was affected by a rising invested asset base caused by positive consolidated operating cash flows, by a concentration of investable assets in interest-bearing securities, and by changes in market yields. Yield trends reflect the relatively short maturity of Old Republic's fixed maturity securities portfolio as well as a lower yield environment during the past several years.

Revenues: Net Realized Gains

The Company's investment policies have not been designed to maximize or emphasize the realization of investment gains. Rather, these policies aim to assure a stable source of income from interest and dividends, protection of capital, and provision of sufficient liquidity to meet insurance underwriting and other obligations as they become payable in the future. Dispositions of fixed maturity securities arise mostly from scheduled maturities and early calls; for the first six months of 2006 and 2005, 83.8% and 73.5%, respectively, of all such dispositions resulted from these occurrences. Dispositions of equity securities at a realized gain or loss reflect such factors as ongoing assessments of issuers' business prospects, rotation among industry sectors, and tax planning considerations. Additionally, the amount of net realized gains and losses registered in any one accounting period are affected by the aforementioned assessments of securities' values for other than temporary impairment. As a result of the interaction of all these factors and considerations, net realized investment gains or losses can vary significantly from period-to-period, and in the Company's view are not indicative of any particular trend or result in its basic insurance underwriting business.

The following table reflects the composition of net realized gains or losses for the periods shown. As previously noted, relatively greater realized gains in equity securities in 2004 and 2005 resulted largely from sales of substantial portions of actively managed equity holdings and reinvestment of proceeds in index-style investment portfolios.

| | Realized Gains (Losses) on Disposition of: | | | Impairment Loss | |
|---|---|---|---|---|---|
| | Fixed maturity securities | Equity securities and miscell-aneous investments | Total | Fixed maturity securities | Equity securiti and misce aneous investmen |
| Years Ended December 31: | | | | | |
| 2003............... | $ 4.6 | $ 31.1 | $ 35.7 | $ - | $ (16 |
| 2004............... | 4.6 | 48.5 | 53.2 | - | (5 |
| 2005............... | 4.5 | 69.6 | 74.1 | (2.7) | (6 |
| Six Months Ended June 30: | | | | | |
| 2005............... | 3.0 | 23.0 | 26.0 | - | (5 |
| 2006............... | 1.6 | 14.0 | 15.7 | - | - |
| Quarters Ended June 30: | | | | | |
| 2005............... | 2.7 | 10.2 | 12.9 | - | ( |
| 2006............... | $ .4 | $ 7.7 | $ 8.1 | $ - | $ - |

Expenses: Benefits and Claims

In order to achieve a necessary matching of revenues and expenses, the Company records the benefits, claims and related settlement costs that have been incurred during each accounting period. Such costs are affected by the amount of paid claims and the adequacy of reserve estimates established for current and prior years' claim occurrences.

The establishment of claim reserves by the Company's insurance subsidiaries is a reasonably complex and dynamic process influenced by a large variety of factors. These factors principally include past experience applicable to the anticipated costs of various types of claims, continually evolving and changing legal theories emanating from the judicial system, recurring accounting, statistical, and actuarial studies, the professional experience and expertise of the Company's claim departments' personnel or attorneys and independent claim adjusters, ongoing changes in claim frequency or severity patterns such as those caused by natural disasters, illnesses, accidents, work-related injuries, and changes in general and industry-specific economic conditions. Consequently, the reserve-setting process relies on the opinions of a large number of persons, on the application and interpretation of historical precedent and trends, on expectations as to future developments, and on management's judgment in interpreting all such factors. At any point in time, the Company is therefore exposed to possibly higher than anticipated claim costs due to all of these factors, and to the evolution, interpretation, and expansion of tort law, as well as the effects of unexpectedly adverse jury verdicts. All reserves are thus based on a large number of assumptions and resulting estimates which are periodically reviewed and evaluated in the light of emerging claim experience and changing circumstances. The resulting changes in estimates are recorded in operations of the periods during which they are made. The Company believes that its overall reserving practices have been consistently applied over many years. For at least the past ten years, previously established aggregate reserves have produced reasonable estimates of the cumulative ultimate net costs of claims incurred. However, no representation is made that ultimate net claim and related costs will not develop in future years to be greater or lower than currently established reserve estimates.

Most of Old Republic's consolidated claim and related expense reserves stem from its general insurance business. At June 30, 2006, such reserves accounted for 89.3% and 83.0% of consolidated gross and net of reinsurance reserves, respectively, while similar reserves at December 31, 2005 accounted for 89.1% and 82.5% of the respective consolidated amounts. The following table shows a breakdown of gross and net of reinsurance claim reserve estimates for major types of insurance coverages as of those dates:

| | June 30, 2006 | |
|---|---|---|
| | Gross | Net |
| Claim and Loss Adjustment Expense Reserves: | | |
| Commercial automobile (mostly trucking)........................... | $ 943.1 | $ 756. |
| Workers' compensation............................................. | 1,853.9 | 965. |
| General liability................................................. | 1,037.1 | 437. |
| Other coverages................................................... | 601.3 | 387. |
| Unallocated loss adjustment expense reserves...................... | 147.2 | 93. |
| Total general insurance reserves | 4,582.8 | 2,640. |
| Mortgage guaranty................................................. | 219.3 | 218. |

| | | |
|---|---|---|
| Title | 273.0 | 273. |
| Life and health | 30.0 | 21. |
| Unallocated loss adjustment expense reserves - other coverages | 28.7 | 28. |
| Total claim and loss adjustment expense reserves | $ 5,134.1 | $ 3,182. |
| Asbestosis and environmental claim reserves included in the above general insurance reserves: | | |
| Amount | $ 169.8 | $ 132. |
| % of total general insurance reserves | 3.7% | 5.0 |

Old Republic's General Insurance business is composed of a large variety of lines or classes of commercial insurance; it has negligible exposure to personal lines such as homeowners or private passenger automobile insurance that exhibit wide diversification of risks, significant frequency of claim occurrences, and high degrees of statistical credibility. Most of the General Insurance Group's claim reserves stem from liability insurance coverages for commercial customers. Liability claims typically require more extended periods of investigation and at times protracted litigation before they are finally settled, and thus tend to exhibit loss development and payment patterns that stretch over relatively long periods of time.

The Company establishes point estimates for most reserves on an insurance coverage line-by-line basis for individual subsidiaries, sub-classes, or individual accounts and blocks of business that have similar attributes. Actuarially or otherwise derived ranges of reserve levels are not utilized as such in setting these reserves, and, accordingly, the reserves listed in the above table represent the Company's point estimates at each reporting date. The overall reserve level at any point in time therefore represents the compilation of a very large number of reported ("case") reserve estimates and the results of



a variety of formula calculations intended to cover claims and related costs not as yet reported or emerged ("IBNR"). Case reserves are based on continually evolving assessments of the facts available to the Company during the claim settlement process. Long-term, disability-type workers' compensation reserves are discounted to present value based on interest rates that range from 3.5% to 4.0%. Formula calculations are utilized to provide for IBNR claim costs as well as additional costs that can arise from such factors as monetary and social inflation, changes in claims administration processes, changes in reinsurance ceded and recoverability levels, and expected trends in claim costs and related ratios. Typically, such formulas take into account so-called link ratios that represent prior years' patterns of incurred or paid loss trends between succeeding years, or past experience relative to progressions of the number of claims reported over time and ultimate average costs per claim. Reserves pertaining to large individual commercial insurance accounts that exhibit sufficient statistical credibility, and that may be subject to retrospective premium rating plans or the utilization of varying levels or types of self-insured retentions are established on an account by account basis using case reserves and applicable formula-driven methods. For certain so-called long-tail categories of insurance such as excess liability or excess workers' compensation, officers and directors' liability, and commercial umbrella liability relative to which claim development patterns are particularly long, more volatile, and immature in their early stages of development, the Company judgmentally establishes the most current accident years' loss reserves on the basis of expected loss ratios. As actual claims data emerges in succeeding years, the original accident year loss ratio assumptions are validated or otherwise adjusted sequentially through the application of statistical or actuarial projection techniques such as the Bornhuetter/Ferguson method which utilizes data from the more mature experience of prior years.

Except for a small portion that emanates from ongoing primary insurance operations, a large majority of the asbestosis and environmental ("A&E") claim reserves posted by Old Republic stem mainly from its participations in assumed reinsurance treaties and insurance pools. Substantially all such participations were discontinued fifteen or more years ago and have since been in run-off status. With respect to the primary portion of gross A&E reserves, Old Republic administers the related claims through its claims personnel as well as outside attorneys, and posted reserves reflect its best estimates of ultimate claim costs. Claims administration for the assumed portion of the Company's A&E exposures is handled by the claims departments of unrelated primary or ceding reinsurance companies. While the Company performs periodic reviews of a portion of claim files so managed, the overall A&E reserves it establishes respond to the paid claim and case reserve activity reported to the Company as well as available industry statistical data such as so-called survival ratios. Such ratios represent the number of years' average paid losses for the three or five most recent calendar years that are encompassed by an insurer's A&E reserve level at any point in time. According to this simplistic appraisal of an insurer's A&E loss reserve level, Old Republic's average five year survival ratios stood at 6.8 years (gross) and 10.0 years (net of reinsurance) as of June 30, 2006 and 7.4 years (gross) and 10.4 years (net of reinsurance) as of December 31, 2005. Fluctuations in this ratio between years can be caused by the inconsistent pay out patterns associated with these types of claims. Incurred net losses for asbestosis and environmental claims have averaged 3.3% of General Insurance Group net incurred losses for the five years ended December 31, 2005.

Mortgage Guaranty claim reserves are determined on the basis of the carried risk on reported loan defaults and on an estimate of defaulted loans that have yet to be reported. The majority of defaults reported to the Company are cured by the borrower either by making the necessary number of mortgage payments to bring the loan current, by refinancing the mortgage loan, or by selling the property in an amount sufficient to cover the outstanding mortgage debt. Estimates of claim frequency, which are based on historical trends and on judgments as to current and future economic conditions, are applied according to the level of the reported default. Claim severity is estimated based on historical claim payments including the impact of loss mitigation strategies and potential salvage recoveries. Once reported, the time required to cure a default or settle a claim can be significant, often running years from the date of original default and through changing economic conditions. As a result, mortgage guaranty loss reserve estimates take into account a large number of variables including trends in claim severity, potential salvage recoveries, expected cure rates for reported loan defaults at various stages of default, and judgments relative to future employment levels, housing market activity, and mortgage loan demand and extensions.

Title Insurance and related escrow service loss and loss adjustment expense reserves are established to cover the estimated settlement costs of known as well as claims incurred but not reported, concurrently with the recognition of premium and escrow service revenues. Reserves for known claims are based on an assessment of the facts available to the Company during the settlement process. Reserves for claims incurred but not reported are established on the basis of past experience and evaluations of such variables as changes and trends in the types of policies issued, changes in real estate markets and interest rate environments, and changed levels of loan refinancings, all of which can have a bearing on the emergence, number, and ultimate cost of claims.

The Company establishes unallocated loss adjustment expense reserves for loss settlement costs that are not directly related to individual claims. Such reserves are based on prior years' cost experience and trends, and are intended to cover the unallocated costs of claim departments' administration of known and IBNR claims.

Substantially all of the Company's reserves for IBNR claims relate to its general insurance business. As of June 30, 2006 and December 31, 2005, the Company's general insurance segment carried reserves of $934.1 and $873.6, respectively, to cover claims incurred but not as yet reported as well as for the possible adverse development of known case reserves. As noted above, the aggregate of these provisions, known collectively as IBNR reserves, results from



the application of many formulas and reserve-setting approaches that are sensitive to the wide variety of already enumerated factors. Should these reserves for IBNR claims be understated by 10% for a deficiency of $93.4, or 3.5% of the Company's net general insurance reserves as of June 30, 2006 and $87.3, or 3.5% as of the prior year end balance sheet date, the impact on the Company's income statement would be to reduce pretax income by such amounts. One year developments of general insurance reserves posted as of each of the 1995 through 2004 year ends have reflected uniformly positive results. Cumulative developments ranging from 10 years to one year for the same year ends have produced both redundancies and (deficiencies) that have ranged between 7.2% and (5.8%) and have averaged .6%.

Certain events could affect adversely the Company's reserve levels and its future operating results and financial condition. With respect to Old Republic's general insurance business, such events or exposures would include but not be limited to catastrophic workers' compensation claims caused by a terrorist attack or a natural disaster such as an earthquake, legislated retroactive incurrence of previously denied or settled claims, the levying of major guaranty fund assessments by various states based on the costs of insurance company failures apportioned against remaining and financially secure insurers, the future failure of one or more significant assuming reinsurers that would void or reduce the Company's reinsurance recoverable for losses paid or in reserve, and greater than expected involuntary market assessments, such as those caused by forced participation in assigned risk and similar involuntary market plans, all of which cannot be reasonably estimated prior to their emergence.

In management's opinion, geographic concentrations of assureds' employees in the path of an earthquake or acts of terrorism represent the most significant catastrophic risks to Old Republic's General insurance segment. These risks would largely impact the workers' compensation line since primary insurers such as the Company must, by regulation, issue unlimited liability policies. While Old Republic obtains a degree of protection through its reinsurance program as to earthquake exposures, and, until December 31, 2007 through the Terrorism Risk Insurance Extension Act of 2005, there is no assurance that recoveries thereunder would be sufficient to offset the costs of a major calamity nor eliminate its possible major impact on operating results and financial condition. Old Republic has availed itself of modeling techniques to evaluate the possible magnitude of earthquake or terrorist induced claim costs for its most exposed coverage of workers' compensation. Such models, however, have not been sufficiently validated by past occurrences, and rely on a large variety and number of assumptions. As a result, they may not be predictive of possible claims from future events.

Mortgage guaranty net claim reserve levels could be affected adversely by several factors, including a deterioration of regional or national economic conditions leading to a reduction in borrowers' income and thus their ability to make mortgage payments, and a drop in housing values that could expose the Company to greater loss on resale of properties obtained through foreclosure proceedings.

Title insurance loss reserve levels could be impacted adversely by such developments as reduced loan refinancing activity, the effect of which could be to lengthen the period during which title policies remain exposed to loss emergence, or reductions in either property values or the volume of transactions which, by virtue of the speculative nature of some real estate developments, could lead to increased occurrences of fraud, defalcations or mechanics' liens.

With respect to Old Republic's small life and health insurance operations, reserve adequacy may be affected adversely by greater than anticipated medical care cost inflation as well as greater than expected frequency and severity of claims. In life insurance, as in general insurance, concentrations of insured lives coupled with a catastrophic event would represent the Company's largest exposure.

In all of the above regards, current GAAP accounting polices do not permit the Company's reserving practices to anticipate or provide for claims arising from future catastrophic events before they occur.

The percentage of net claims, benefits and related settlement expenses incurred as a percentage of premiums and related fee revenues of the Company's three major operating segments and for its consolidated results were as follows:

| | General | Mortgage |
|---|---|---|
| Years Ended December 31: | | |
| 2003 | 67.6% | 22.7% |
| 2004 | 65.9 | 35.5 |
| 2005 | 66.9 | 37.2 |
| Six Months Ended June 30: | | |
| 2005 | 67.2 | 31.9 |
| 2006 | 65.0 | 37.2 |
| Quarters Ended June 30: | | |
| 2005 | 67.5 | 31.5 |
| 2006 | 65.6% | 35.6% |

The general insurance portion of the claims ratio reflects reasonably consistent trends for all reporting periods. This major cost factor reflects largely pricing and risk selection improvements that have been applied, together with elements of reduced loss severity and frequency. The mortgage guaranty

28

claim ratios reflect higher paid losses, as well as expectations of greater claim frequency for traditional primary business. The title insurance loss ratios remain in the low single digits due to a continuation of favorable trends in claims frequency and severity for business underwritten. The consolidated benefits and claims ratio reflects the changing effects of period-to-period contributions of each segment to consolidated results, and this ratio's variances within each segment.

The percentage of net claims, benefits and related settlement expenses measured against premiums earned by General Insurance Group major coverage were as follows:

| | Type of Coverag | | | |
|---|---|---|---|---|
| | Comm. Auto. (mostly | Workers' | Financial | I M |

| | trucking) | Comp. | Indemnity | Pr |
|---|---|---|---|---|
| Years Ended December 31: | | | | |
| 2003 | 70.4% | 81.2% | 51.0% | |
| 2004 | 66.5 | 72.4 | 47.6 | |
| 2005 | 67.2 | 78.9 | 48.9 | |
| Six Months Ended June 30: | | | | |
| 2005 | 69.8 | 72.6 | 56.7 | |
| 2006 | 74.0 | 76.0 | 45.1 | |
| Quarters Ended June 30: | | | | |
| 2005 | 69.0 | 74.5 | 60.8 | |
| 2006 | 75.9% | 78.8% | 46.2% | |

Average Mortgage Guaranty paid claims, and certain delinquency ratio data as of the end of the periods shown are listed below:

| | Average Paid Claim Amount (1) | | |
|---|---|---|---|
| | Traditional Primary | Bulk (2) | Trad Pr |
| Years Ended December 31: | | | |
| 2003 | $ 22,339 | $ 29,293 | |
| 2004 | 23,920 | 19,885 | |
| 2005 | 24,255 | 20,639 | |
| Six Months Ended June 30: | | | |
| 2005 | 24,056 | 22,340 | |
| 2006 | 25,550 | 18,873 | |
| Quarters Ended June 30: | | | |
| 2005 | 23,711 | 24,103 | |
| 2006 | $ 24,940 | $ 20,234 | |

(1) Amounts are in whole dollars.
(2) Due to the relative immaturity of the bulk business, the above trends may prove to be highly volatile.

| | Traditional Primary Delinquency Ratios for Top Ten | | | | | | |
|---|---|---|---|---|---|---|---|
| | FL | TX | GA | IL | NC | CA | OH |
| As of December 31: | | | | | | | |
| 2003 | 3.5% | 4.6% | 4.9% | 4.0% | 4.7% | 2.8% | 6.9% |
| 2004 | 3.2 | 5.0 | 5.6 | 3.8 | 4.9 | 2.1 | 7.6 |
| 2005 | 3.1 | 5.7 | 5.9 | 4.2 | 4.9 | 1.8 | 8.3 |
| As of June 30: | | | | | | | |
| 2005 | 2.4 | 4.6 | 5.4 | 3.8 | 4.5 | 1.6 | 7.4 |
| 2006 | 2.2% | 4.4% | 5.5% | 4.1% | 4.3% | 2.0% | 7.5% |

(3) As determined by risk in force. These 10 states represent approximately 50% of total risk in force as of June 30, 2006.

Expenses: Underwriting, Acquisition and Other Expenses

The following table sets forth the expense ratios registered by each major business segment and in consolidation for the periods shown:

| | General | Mortgage |
|---|---|---|
| Years Ended December 31: | | |
| 2003 | 26.2% | 24.8% |
| 2004 | 24.8 | 25.6 |
| 2005 | 24.6 | 22.4 |
| Six Months Ended June 30: | | |
| 2005 | 24.2 | 22.5 |
| 2006 | 24.6 | 23.1 |
| Quarters Ended June 30: | | |
| 2005 | 24.0 | 22.0 |
| 2006 | 23.4% | 22.6% |

Expense ratios for the Company as a whole have remained basically stable for the periods reported upon. Variations in these consolidated ratios reflect a continually changing mix of coverages sold and attendant costs of producing business in the Company's three business segments. To a significant degree, expense ratios for both the general and title insurance segments are mostly reflective of variable costs, such as commissions or similar charges, that rise or decline along with corresponding changes in premium and fee income, as well as changes in general operating expenses which can contract or expand in differing proportions due to varying levels of operating efficiencies and expense management opportunities in the face of changing market conditions.

The General Insurance Group's expense ratio reflects the benefits of well-controlled production and administrative expense management in the face of a greater revenue base.

The slight increases in the 2006 Mortgage Guaranty Group ratios reflects higher stock option compensation expenses.

The increase in the Title Insurance Group's second quarter and first six months 2006 expense ratios results from decreased revenues from direct operations, most of which are concentrated in the Western United States, to a level lower than necessary to support the related operating expense structure.

Expenses: Total

The composite ratios of the above net claims, benefits and underwriting expenses that reflect the sum total of all the factors enumerated above have been as follows:

| | General | Mortgage |
|---|---|---|
| Years Ended December 31: | | |
| 2003 | 93.8% | 47.5% |

| | | |
|---|---|---|
| 2004 | 90.7 | 61.1 |
| 2005 | 91.5 | 59.6 |
| Six Months Ended June 30: | | |
| 2005 | 91.4 | 54.4 |
| 2006 | 89.6 | 60.3 |
| Quarters Ended June 30: | | |
| 2005 | 91.5 | 53.5 |
| 2006 | 89.0% | 58.2% |

Expenses: Income Taxes

The effective consolidated income tax rates were 32.1% and 31.9% in the second quarters and first six months of 2006, respectively, and 8.1% and 19.5% for similar periods of 2005, respectively. The 2005 effective tax rates were reduced and net earnings were enhanced by tax and related interest recoveries of $45.9, or 20 cents per share, in the second quarter 2005 for the favorable resolution of tax issues applicable to the three years ended December 31, 1990. Excluding the effects of these tax and related interest recoveries, the effective tax rates remained consistent with those of the corresponding current periods. The rates for each year reflect primarily the varying proportions of pretax operating income derived from partially tax-sheltered investment income (principally state and municipal tax-exempt interest) on the one hand, and the combination of fully taxable investment income, realized investment gains or losses, and underwriting and service income, on the other hand.



---

OTHER INFORMATION

---

Reference is here made to "Information About Segments of Business" appearing elsewhere herein.

Historical data pertaining to the operating results, liquidity, and other performance indicators applicable to an insurance enterprise such as Old Republic are not necessarily indicative of results to be achieved in succeeding years. In addition to the factors cited below, the long-term nature of the insurance business, seasonal and annual patterns in premium production and incidence of claims, changes in yields obtained on invested assets, changes in government policies and free markets affecting inflation rates and general economic conditions, and changes in legal precedents or the application of law affecting the settlement of disputed and other claims can have a bearing on period-to-period comparisons and future operating results.

Some of the statements made in this report, as well as oral statements or commentaries made by the Company's management in conference calls following earnings releases, can constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Of necessity, any such forward-looking statements, commentaries, or inferences involve assumptions, uncertainties, and risks that may affect the Company's future performance. With regard to Old Republic's General insurance segment, its results can be affected, in particular, by the level of market competition, which is typically a function of available capital and expected returns on such capital among competitors, the levels of interest and inflation rates, and periodic changes in claim frequency and severity patterns caused by natural disasters, weather conditions, accidents, illnesses, work-related injuries, and unanticipated external events. Mortgage Guaranty and Title insurance results can be affected by similar factors and, most particularly, by changes in national and regional housing demand and values, the availability and cost of mortgage loans, employment trends, and default rates on mortgage loans. Mortgage guaranty results, in particular, also may be affected by various risk-sharing arrangements with business producers as well as the risk management and pricing policies of government sponsored enterprises. Life and health insurance earnings can be affected by the levels of employment and consumer spending, variations in mortality and health trends, and changes in policy lapsation rates. At the parent holding company level, operating earnings or losses are generally reflective of the amount of debt outstanding and its cost, interest income on temporary holdings of short-term investments, and period-to-period variations in the costs of administering the Company's widespread operations.

Any forward-looking statements or commentaries speak only as of their dates. Old Republic undertakes no obligation to publicly update or revise any and all such comments, whether as a result of new information, future events or otherwise, and accordingly they may not be unduly relied upon.





---

Item 3 - Quantitative and Qualitative Disclosure About Market Risk

Market risk represents the potential for loss due to adverse changes in the fair value of financial instruments as a result of changes in interest rates, equity prices, foreign exchange rates and commodity prices. Old Republic's primary market risks consist of interest rate risk associated with investments in fixed maturities and equity price risk associated with investments in equity securities. The Company has no material foreign exchange or commodity risk.

Old Republic's market risk exposures at June 30, 2006, have not materially changed from those identified in the Company's 2005 Annual Report on Form 10-K.

Item 4 - Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's principal executive officer and its principal financial officer have evaluated the Company's disclosure controls and procedures as of the end of the period covered by this quarterly report. Based upon their evaluation, the principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective for the above referenced evaluation period.

Changes in Internal Control Over Financial Reporting

During the three month period ended June 30, 2006, there were no changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.





---

Item 1A - Risk Factors

There have been no material changes with respect to the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

Item 4 - Submission of Matters to a Vote of Security Holders

(a) The annual meeting of registrant's shareholders was held on May 26, 2006.

(b) Proxies for the meeting were solicited by management pursuant to Regulation 14A under the Security Exchange Act of 1934. There was no solicitation in opposition to management's nominees for directors as listed in the proxy statement and all such nominees were elected.

(c) At the meeting, the shareholders voted on the following matters:

1. The election of four Class 1 directors. There were at least 128,235,365 affirmative votes for each director and no more than 83,467,701 votes withheld for any single director.

2. The Old Republic International Corporation 2006 Incentive Compensation Plan. There were 131,969,466 shares voted for the plan, 60,662,583 shares voted against the plan, and 780,418 shares that voted to abstain. Broker non-votes totaled 18,290,598.

Item 6 - Exhibits
-----------------

(a) Exhibits

31.1 Certification by Aldo C. Zucaro, Chief Executive Officer, pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification by Karl W. Mueller, Chief Financial Officer, pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification by Aldo C. Zucaro, Chief Executive Officer, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification by Karl W. Mueller, Chief Financial Officer, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.



SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Old Republic International Corporation
-----------------------------------------------
(Registrant)

Date: August 8, 2006

---

Karl W. Mueller
Senior Vice President and
Chief Financial Officer

34

EXHIBIT INDEX

| Exhibit No. | Description |
|---|---|
| 31.1 | Certification by Aldo C. Zucaro, Chief Executive Officer, pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification by Karl W. Mueller, Chief Financial Officer, pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification by Aldo C. Zucaro, Chief Executive Officer, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification by Karl W. Mueller, Chief Financial Officer, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

35