OLD REPUBLIC INTERNATIONAL CORP
Form 11-K
June 29, 2018

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 11-K

[X] Annual Report Pursuant to Section 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended December 31, 2017

Or

[ ] Transition Report Pursuant to Section 15(d) of the Securities Exchange Act of 1934

For the transition period from _______________ to _______________

Commission File Number: 001-10607

OLD REPUBLIC INTERNATIONAL CORPORATION
EMPLOYEES SAVINGS AND STOCK OWNERSHIP PLAN

OLD REPUBLIC INTERNATIONAL CORPORATION
307 NORTH MICHIGAN AVENUE
CHICAGO, ILLINOIS 60601

Total Pages: 18

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Administration Committee has duly caused this Annual Report to be signed on behalf of the undersigned, thereunto duly authorized.

OLD REPUBLIC INTERNATIONAL CORPORATION EMPLOYEES
SAVINGS AND STOCK OWNERSHIP PLAN, Registrant

By: /s/ Karl W. Mueller
Karl W. Mueller, Member of the Administration Committee

Date: June 28, 2018

Old Republic International Corporation
Employees Savings and Stock Ownership Plan

Report on Audits of Financial Statements
and Supplemental Schedule

For the Years Ended December 31, 2017 and 2016

OLD REPUBLIC INTERNATIONAL CORPORATION
EMPLOYEES SAVINGS AND STOCK OWNERSHIP PLAN

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE

Note
Supplemental schedules required by the Employee Retirement Income Security Act of 1974, as amended that have not been included herein are not applicable.

Report of Independent Registered Public Accounting Firm

To the Participants and Plan Administrator of the
Old Republic International Corporation Employee Savings and Stock Ownership Plan

Opinion on the Financial Statements

We have audited the accompanying statements of net assets available for benefits of the Old Republic International Corporation Employee Savings and Stock Ownership Plan (the Plan) as of December 31, 2017 and 2016, and the related statements of changes in net assets available for benefits for the years then ended, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2017 and 2016, and the changes in net assets available for benefits for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on the Plan's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Plan in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Supplemental Information

The supplemental information in the accompanying schedule of assets (held at end of year) as of December 31, 2017, has been subjected to audit procedures performed in conjunction with the audit of the Plan's financial statements. The supplemental information is the responsibility of the Plan's management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole.

/s/ Mayer Hoffman McCann P.C.

We have served as the Plan's auditor since 2007.

Minneapolis, Minnesota
June 27, 2018

OLD REPUBLIC INTERNATIONAL CORPORATION
EMPLOYEES SAVINGS AND STOCK OWNERSHIP PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

December 31, 2017 and 2016

	2017 Participant Directed Account	Non-Participant Directed Account	Unallocated Account	Combined Account
ASSETS:				
Investments, at fair value:				
Old Republic International Corporation common shares	$ 11,349,607	$ 209,286,505	$ 60,148,012	$ 280,784,124
Mutual funds	457,497,609	105,894	—	457,603,503
Short-term investments	—	—	2,212,228	2,212,228
Total investments	468,847,216	209,392,399	62,360,240	740,599,855
Receivables:				
Contributions from employers	—	—	7,206,790	7,206,790
Funds in course of settlement	—	—	—	—
Accrued interest and dividends	—	—	2,319	2,319
Total receivables	—	—	7,209,109	7,209,109
TOTAL ASSETS	468,847,216	209,392,399	69,569,349	747,808,964
LIABILITIES:				
Notes payable	—	—	41,038,664	41,038,664
Unpaid anti-discrimination	300,000	—	—	300,000

refunds				
Amount due to plan sponsor	—	—	—	—
Unpaid administrative expenses	—	26,800	1,132	27,932
TOTAL LIABILITIES	300,000	26,800	41,039,796	41,366,596
NET ASSETS AVAILABLE FOR BENEFITS	$ 468,547,216	$ 209,365,599	$ 28,529,553	$ 706,442,368

OLD REPUBLIC INTERNATIONAL CORPORATION
EMPLOYEES SAVINGS AND STOCK OWNERSHIP PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

December 31, 2017 and 2016

	2016			
	Participant Directed Account	Non-Participant Directed Account	Unallocated Account	Combined Account
ASSETS:				
Investments, at fair value:				
Old Republic International Corporation common shares	$9,529,269	$ 189,346,730	$66,661,576	$265,537,575
Mutual funds	371,344,597	97,026	—	371,441,623
Short-term investments	—	—	2,509,497	2,509,497
Total investments	380,873,866	189,443,756	69,171,073	639,488,695
Receivables:				
Contributions from employers	—	—	6,557,854	6,557,854
Funds in course of settlement	255,737	—	—	255,737
Accrued interest and dividends	—	—	654	654
Total receivables	255,737	—	6,558,508	6,814,245
TOTAL ASSETS	381,129,603	189,443,756	75,729,581	646,302,940
LIABILITIES:				
Notes payable	—	—	47,638,664	47,638,664
Unpaid anti-discrimination refunds	530,000	—	—	530,000
Amount due to plan sponsor	—	—	742,687	742,687

Unpaid administrative expenses	—	27,000	—	27,000
TOTAL LIABILITIES	530,000	27,000	48,381,351	48,938,351
NET ASSETS AVAILABLE FOR BENEFITS	$380,599,603	$189,416,756	$27,348,230	$597,364,589

The accompanying notes are an integral part of these financial statements.
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OLD REPUBLIC INTERNATIONAL CORPORATION
EMPLOYEES SAVINGS AND STOCK OWNERSHIP PLAN

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Years Ended December 31, 2017 and 2016

	2017 Participant Directed Account	Non-Participant Directed Account	Unallocated Account	Combined Account
Additions (Reductions):				
Employer contributions	$—	$—	$7,206,790	$7,206,790
Common shares released to participants (695,220 shares at $19.00 per share and 625,650 shares at $18.63 per share, respectively)	—	13,209,180	—	13,209,180
Employee contributions	47,685,785	—	—	47,685,785
Interfund transfers	11,346,302	(9,909,439)	(1,436,863)	—
Interest income	7,910	235	17,911	26,056
Dividend income	21,745,894	7,372,805	2,402,279	31,520,978
Net appreciation (depreciation) in fair value of investments	47,334,786	24,090,782	7,582,905	79,008,473
Total additions (reductions)	128,120,677	34,763,563	15,773,022	178,657,262
Deductions:				
Termination and withdrawal benefits	39,927,100	14,803,797	—	54,730,897
Common shares released to participants (695,220 shares at $19.00				

per share and 625,650 shares at $18.63 per share, respectively)	—	—	13,209,180	13,209,180
Interest expense	—	—	1,381,079	1,381,079
Anti-discrimination refunds	222,498	—	—	222,498
Administrative expenses	23,466	10,923	1,440	35,829
Total deductions	40,173,064	14,814,720	14,591,699	69,579,483
Net additions (deductions)	87,947,613	19,948,843	1,181,323	109,077,779
NET ASSETS AVAILABLE FOR BENEFITS:				
Beginning of year	380,599,603	189,416,756	27,348,230	597,364,589
End of year	$468,547,216	$209,365,599	$28,529,553	$706,442,368

OLD REPUBLIC INTERNATIONAL CORPORATION
EMPLOYEES SAVINGS AND STOCK OWNERSHIP PLAN

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the Years Ended December 31, 2017 and 2016

	2016 Participant Directed Account	Non-Participant Directed Account	Unallocated Account	Combined Account
Additions (Reductions):				
Employer contributions	$—	$—	$6,557,854	$6,557,854
Common shares released to participants (695,220 shares at $19.00 per share and 625,650 shares at $18.63 per share, respectively)	—	11,655,860	—	11,655,860
Employee contributions	42,328,541	—	—	42,328,541
Interfund transfers	9,968,607	(9,968,607)	—	—
Interest income	3,622	(44)	3,562	7,140
Dividend income	11,638,592	7,485,559	2,865,996	21,990,147
Net appreciation (depreciation) in fair value of investments	16,031,667	3,538,772	1,587,609	21,158,048
Total additions (reductions)	79,971,029	12,711,540	11,015,021	103,697,590
Deductions:				
Termination and withdrawal benefits	28,484,996	13,151,143	—	41,636,139
Common shares released to participants				

(695,220 shares at $19.00 per share and 625,650 shares at $18.63 per share, respectively)	—	—	11,655,860	11,655,860
Interest expense	—	—	1,388,107	1,388,107
Anti-discrimination refunds	540,376	—	—	540,376
Administrative expenses	22,428	11,687	1,453	35,568
Total deductions	29,047,800	13,162,830	13,045,420	55,256,050
Net additions (deductions)	50,923,229	(451,290)	(2,030,399)	48,441,540
NET ASSETS AVAILABLE FOR BENEFITS:				
Beginning of year	329,676,374	189,868,046	29,378,629	548,923,049
End of year	$380,599,603	$189,416,756	$27,348,230	$597,364,589

The accompanying notes are an integral part of these financial statements.

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OLD REPUBLIC INTERNATIONAL CORPORATION
EMPLOYEES SAVINGS AND STOCK OWNERSHIP PLAN

NOTES TO FINANCIAL STATEMENTS

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1. Description of Plan

A. Basis of Presentation

The accompanying financial statements of the Old Republic International Corporation Employees Savings and Stock Ownership Plan (the Plan) include plan assets for employees of Old Republic International Corporation and participating subsidiaries (the Corporation, the Plan Sponsor, the Company(ies) or the Employer(s)). These financial statements and accompanying notes together provide only general information about the Plan. The Plan Document must be referred to for a complete description of the Plan's provisions.

B. General

The Plan is a defined contribution plan, under the provisions of Section 401(k) of the Internal Revenue Code, covering a majority of employees of the Corporation and certain of its subsidiary companies and is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). Employees become participants in the Plan on their employment date and as soon as they elect to make contributions to the Plan. Effective as of January 1, 2008, the Plan was amended and operates, in relevant part, as a leveraged employee stock ownership plan (ESOP), and is designed to comply with Section 4975(e)(7) and the regulations there under of the Internal Revenue Code of 1986, as amended (Code) and is subject to the applicable provisions of ERISA.

In 2008, the Plan purchased Corporation common shares (ESSOP shares) using the proceeds of loans from the Corporation and participating subsidiary companies (see Note 4). Unallocated ESSOP shares purchased with the Corporation loan proceeds are pledged as collateral on the Corporation loan. The participating subsidiary company loans are guaranteed by the Corporation. ESSOP shares are held in a trust established under the Plan. The borrowings and interest costs are to be repaid over a ten year period by fully deductible Corporation contributions to the Plan, dividends from unallocated Corporation stock, and any earnings the net funds may earn.

The Corporation borrowed funds from a third-party lending institution to fund a portion of the loan proceeds. The Corporation borrowings are collateralized by the associated unallocated ESSOP shares of stock. The lender has no rights against shares once they are allocated under the Plan. Accordingly, the financial statements of the Plan as herein included, present separately the assets and liabilities and changes therein pertaining to the stock not yet allocated to participants under the column entitled “Unallocated Account.” Shares allocated are included in the financial statements herein under the columns entitled “Non-participant Directed Account” and are entitled to diversification as afforded within the Plan document.

In 2015, the Plan purchased additional Corporation common shares (ESSOP shares) using the proceeds from an additional loan from the Corporation (see Note 4). ESSOP Shares are held in a trust established under the Plan. The borrowing and interest costs are to be repaid over an eight year period by fully deductible Corporation contributions to the Plan, dividends from unallocated Corporation stock, and any earnings the net funds may earn.

On an annual basis, the Plan makes a calculation of the number of shares to be allocated (released) to the account of eligible participants. The calculation of allocated shares is made in accordance with applicable regulations under the Code and the Plan document. Shares allocated to participants will vest in accordance with the stated vesting provisions in the Plan document (see Note 1E).

C. Contributions

Deferral elected contributions from employees are made on a pretax basis up to a limit of $18,000 in 2017. Participants may elect to make additional contributions, on a post-tax basis, up to a maximum of 100% of eligible compensation, as defined in the Plan, not to exceed the limits set by Section 415 of the Code. All contributions are recorded in the period in which the Companies make payroll deductions from Plan participants. Any employee who does not contribute to the Plan does not receive a Company matching contribution. Only employee contributions up to 6% are matched. However, the maximum amount of contribution which can be matched per employee cannot exceed $9,000 (6% of $150,000) per Plan year. Contributions are also subject to other Code limitations (including the limits imposed by code Section 415).

OLD REPUBLIC INTERNATIONAL CORPORATION
EMPLOYEES SAVINGS AND STOCK OWNERSHIP PLAN

NOTES TO FINANCIAL STATEMENTS

Employees may also roll over into the Plan qualified distributions from their previous employer(s)' qualified plan(s). In addition, employees who are 50 years of age at any time during the Plan year may make additional, pretax, catch-up contributions up to $6,000 in 2017. Rollovers and catch-up contributions are not eligible for company matching.

Participants direct the investment of their contributions into mutual funds offered by the Plan. In addition, participants may also direct their contributions to buy Old Republic common stock. Participants may change the investment allocation of their contributions and earnings up to 12 times per year.

A Plan participant is eligible to receive an allocation of ESSOP shares if the following criteria are met:

- the participant completes 1,000 or more hours of service during the year and
- the participant is employed by one of the Companies on December 31 of that year, died or became fully disabled during the year, or retired during the year after attaining age 65.

The Company contributions, when aggregated with the Plan's dividends and other earnings on the unallocated ESSOP shares, are used to fund the Plan's debt service. The debt service funding triggers the release of shares to be allocated to participants' accounts, in accordance with regulations under ERISA, the Code and the Plan Document.

The Company matching contribution is based on the following formula:

	If the percentage increase in the Corporation's average operating earnings per share for the most recent five year period is				
	Less Than 6%	6.00% to 9%	9.01% to 15%	15.01% to 20%	Over 20%
Percentage of Recognized Compensation Contributed	The Resulting Employer Matching Contribution on the First 6% of Employee Savings Will Be:				
1.00%	30%	40%	65%	100%	140%
1.01 to 2.00%	28%	38%	63%	98%	138%
2.01 to 3.00%	26%	36%	61%	96%	136%
3.01 to 4.00%	24%	34%	59%	94%	134%
4.01 to 5.00%	22%	32%	57%	92%	132%
5.01 to 6.00%	20%	30%	55%	90%	130%
6.01 to 15.00%	None	None	None	None	None

The percentage increase in the Corporation's average operating earnings per share is obtained by comparing the average diluted operating earnings per share for the Corporation for the five years ending with the calculation year, to the same average for the five years ending the year prior to the calculation year. Operating earnings per share are equal to net income per share exclusive of realized capital gains or losses and extraordinary items and income taxes applicable thereto.

Additional amounts from consolidated annual net profits after taxes or accumulated earnings as the Board of Directors of the Companies may determine from time to time may be added to the contributions resulting from the above formula. The amounts of the Companies' contributions are subject to the following limitations:

- Prior to December 31, 2008, no contribution could be made if the Corporation's consolidated annual net profit before extraordinary items and taxes was less than $2,500,000. Effective as of December 31, 2008, the Plan was amended to allow the Corporation's Board of Directors to waive such minimum profit requirement.
- No contribution shall be made by any Employer for any fiscal year which exceeds the maximum amount currently deductible by that Employer under section 404 of the Code.
- No contribution shall be made by any Employer for any fiscal year which would cause its total contribution to exceed the amount of its annual net profit before taxes and its accumulated earnings.

For plan years 2017 and 2016, the Corporation's Board of Directors declared contributions of $7,206,790 and $6,557,854 respectively.

OLD REPUBLIC INTERNATIONAL CORPORATION
EMPLOYEES SAVINGS AND STOCK OWNERSHIP PLAN

NOTES TO FINANCIAL STATEMENTS

D. Employee Account

When a Plan participant makes employee contributions, the contributions are allocated to the mutual fund(s) or Old Republic common stock fund as designated by the participant. These funds constitute the participant's Employee Account which, for financial statement purposes, is included under the column entitled "Participant Directed Account." Earnings or losses inure to each Plan participant's Employee Account on a daily basis, based upon the performance of the mutual fund(s) and Old Republic common stock fund that the Plan participant selected. Participants are fully vested in their contribution funds and earnings/losses thereon. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

For contributions made to the Plan prior to 2005, participants may make in-service withdrawals from their Employee Account no more than twice during a plan year. The minimum amount of such in-service withdrawal shall be the lower of $500 or the balance of the participant's Employee Account as of the last day of the prior plan year. For contributions made to the Plan after 2004, participants may make in-service withdrawals, including contributions made during the year of the in-service withdrawal, only if they meet the hardship provisions outlined in the Internal Revenue Service Regulations. Effective January 1, 2014, participants may only withdraw Employee after-tax contributions that were not made during the current year and may not withdraw after-tax contributions allocated on or after January 1, 2014, nor any earnings thereon.

E. Company Account

Each year, the released shares triggered by the debt service funding and the earnings/losses thereon are allocated to the participant's Company Account which, for financial statement purposes, is included under the column entitled "Non-Participant Directed Account." If a Plan participant terminates service with the Companies, the amount that he/she receives from his/her Company Account depends upon his/her vested interest in such account. A Plan participant vests in his/her Company Account based on his/her "Years of Service," over a six year period, with 20% vesting after two years of service plus an additional 20% per additional vesting year.

A Plan participant earns a Year of Service for each calendar year during which he/she completes 1,000 or more hours of service for the Companies. However, a Plan participant will become 100% vested in his/her Company Account prior to six years of service if:

- the Plan participant has reached age 65, or
- termination is caused by death, or
- termination is caused by total and permanent disability which renders the employee incapable of performing satisfactory service for the Companies.

Upon meeting any of the above, the participant may elect to receive his/her benefits in the form of cash or Old Republic International Corporation common shares (Company Stock). If a participant elects a cash distribution of both his/her Company Account and Employee Account, he/she may elect to be paid:

- in one lump sum, or
- in a direct rollover to an eligible retirement plan specified by the participant, or

- in substantially equal annual or more frequent installments paid over a reasonable period of time not to exceed the life expectancy of the participant or the joint life expectancy of the participant and his/her spouse or designated beneficiary.

The amount a Plan participant receives from his/her Company Account is also affected by forfeitures and earnings/losses. If a Plan participant terminates service prior to full vesting, the non-vested portion of his/her Company Account is forfeited. Forfeited matching amounts are re-allocated to remaining participants who made employee contributions, completed 1,000 or more hours of service for the Company during the year, and are employed by the Company on December 31 or terminated service due to retirement on or after age 65, death, or total and permanent disability. Forfeited amounts from other employer discretionary contributions not included in matching contributions are reallocated to all remaining eligible Plan participants who are employed by the Companies on the last day of the year. Forfeitures are allocated based upon the ratio of the Plan participant's eligible compensation to the eligible compensation of all eligible Plan participants (eligible compensation is limited to a maximum of $150,000). Forfeitures allocated relative to the 2017 and 2016 plan years were $293,066 and $427,450, respectively.

OLD REPUBLIC INTERNATIONAL CORPORATION
EMPLOYEES SAVINGS AND STOCK OWNERSHIP PLAN

NOTES TO FINANCIAL STATEMENTS

Each participant's account is credited with an allocation of ESSOP shares released by the Trustee from the unallocated account and forfeitures of terminated participants' non-vested accounts. Only those participants, who are eligible participants as described above, will receive an allocation in accordance with the Plan document.

Participants are able to divest Company Stock acquired with employer matching and profit sharing contributions after completing three years of service. The investment options available for diversification are the same mutual funds available for investment of Employee contributions. Previously diversified funds may be re-diversified into Old Republic common stock. For financial statement purposes, diversified funds are transferred from the Non-Participant Directed Account to the Participant Directed Account, but are still considered part of the Company Account.

F. Unallocated Account

The unallocated account represents all assets and liabilities of the Plan relating to the leveraging of the Plan and not yet allocated to participants.

G. Common Shares Released to Participants

The Common Shares Released to Participants represents the fair value of the ESSOP shares allocated to participants' accounts during the year. It represents the number of shares calculated in accordance with applicable regulations under the Code. It takes into account the debt service provided by the Company contributions, and dividends received on the unallocated ESSOP shares during the year. The release fraction applied to the number of unreleased shares is the principal paid that coincides with the timing of the Company contributions, and the interest paid during the plan year (numerator) divided by the numerator plus an estimate of the remaining future principal and interest (assuming most recent interest rate at December 31) to be paid.

During 2017 and 2016, 695,220 and 625,650 ESSOP shares, respectively, were released and 2,813,284 and 3,508,504 ESSOP shares respectively, remained unallocated as of December 31, 2017 and 2016. It should be noted that there is no connection as to the number of shares being allocated and the market value of the Corporation's common shares at any given time. Hence, the market value of the stock on the actual day of allocation (release) to participants' accounts may vary from the fair value at December 31, 2017 and 2016, as presented in the financial statements.

H. Voting Rights

Each participant is entitled to exercise voting rights attributable to the shares allocated to his or her account and is notified by the Trustee prior to the time that such voting rights are to be exercised. The Trustee is not permitted to vote any allocated share for which instructions have not been given by a participant. The Trustee is required, however, to vote any unallocated shares on behalf of the collective best interest of Plan participants and beneficiaries.

2. Summary of Accounting Policies

A. Basis of Accounting

The Plan’s financial statements are prepared on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States (“GAAP”). Necessary reclassifications are made in prior periods’ financial statements whenever appropriate to conform to the most current presentation.

OLD REPUBLIC INTERNATIONAL CORPORATION
EMPLOYEES SAVINGS AND STOCK OWNERSHIP PLAN

NOTES TO FINANCIAL STATEMENTS

B. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the Plan's administrator to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results can differ from those estimates.

C. Risks and Uncertainties

Besides the investment of matching contributions into common stock of the Corporation, the Plan provides participants with various investment alternatives for their savings contributions and or diversifications. These investment alternatives are made up of various mutual funds which can be equity based, fixed income based or a combination thereof. In addition, participants may also direct their contributions to buy Old Republic common stock.

All of the above investment alternatives are exposed to various market risks including the level of interest rates, economic conditions and individual credit profiles. Due to these risks and the uncertainty related to changes in the market value of underlying investment securities, it is possible that participants' account balances and the amounts reported in the statements of net assets available for benefits and the statements of changes in net assets available for benefits could be materially affected.

D. Investment Valuation and Income Recognition

The Plan's investments are reported at fair value. Shares of mutual funds are valued at the net asset value of shares held by the Plan at the valuation date. Old Republic International Corporation common shares are traded on a national securities exchange and are valued at the last reported sales price on the last business day of the year. Short term investments are valued at cost plus accrued interest which approximates fair value.

The statements of changes in net assets available for benefits reflect the net appreciation (depreciation) in fair value of the Plan's investments, which consists of realized gains or losses and the unrealized appreciation (depreciation) on those investments. Interest income is recorded as earned and dividend income is recorded as earned on the ex-dividend date. Purchases and sales are recorded on a trade-date basis.

E. Termination and Withdrawal Benefit Payments

Termination and withdrawal benefit payments are recorded upon distribution payment.