2017 Annual Report Letter

New Operating and Capital Heights

The vestiges of the Great Recession were laid to rest in 2017. We took a final accounting of the litigation and other contentious matters that beset our run-off financial indemnity business for nearly a decade. None of this came without cost. But it eliminated lingering concerns and cleared the path for us to steward our entire business to greater outcomes.

Progress became more palpable last year as we saw significantly higher indicators of financial success:

- ***Pretax operating income from our actively managed business*** (setting aside the negative results in our run-off segment) reached a record $587.3 million. This was 8.1% higher than in 2016.

- ***Net income from all sources*** reached a new high of $560.5 million. This included realized investment gains and the one-time benefit of the prospective decline in corporate federal income tax rates. The last record was $551.4 million set in 2005. It's worth noting that some 33% of the 2005 number came from what was then an actively managed, high-performing RFIG (Republic Financial Indemnity Group) business, whose contribution is no longer material.

- ***Total return on book value per share*** rose 13.6%. This came from three sources: 1) the regular cash dividend of $0.76 (+4.5%), 2) a special cash dividend of $1.00 (+5.8%), and 3) a net 3.3% accretion from net income and other credits retained in the shareholders' account. For the past five years, total book return has averaged 11.0%. The regular cash dividend for 2017 reflected the 36th consecutive annual increase within the past 76 years of uninterrupted payments.

- ***Total market return per share*** gained 16.6%. We take less credit for this, given the vicissitudes of securities markets. For the last five years, this market gauge of our share value has averaged 22.6% per annum. That compares with 16.2% for the Standard & Poor's 500 Index. For the past 10 years, ORI's return averaged 12.3% versus the S&P's 10.4%. Whether seen from total book or market return perspectives, both long-term stockholders and other stakeholders who've stayed the course with us have benefitted nicely during one of the most troubled economic periods in American history.

As this letter is written, we've just completed the conversion of $550 million of convertible senior notes into ORI common stock. The notes were issued during the depths of the Great Recession in 2008. Our noteholders received a good total return on their investment. Now the Company can benefit further from the greater permanency of its capital base—a win-win outcome for debt and equity stakeholders. Our people's commitment to ORI's cause, and the enhanced capitalization structure, presage the continued advancement of our profitability and long-term mission.

The next table captures the key components of our recent financial performance:

Sources of Consolidated Income (Loss) ($ in millions, except share data)

	2017	2016	2015	2014	2013	2012
Premiums, fees, and other revenues:						
General insurance	**$3,110.8**	$2,936.3	$2,894.7	$2,735.6	$2,513.7	$2,324.4
Title insurance	**2,287.2**	2,206.6	2,045.3	1,759.2	1,996.1	1,677.4
Corporate and other	**18.8**	20.1	19.4	60.7	59.6	58.9
Other revenues	**102.2**	107.3	106.7	101.6	90.1	114.5
Subtotal	**5,519.1**	5,270.5	5,066.2	4,657.3	4,659.3	4,175.1
RFIG run-off business	**122.9**	170.0	219.9	255.4	316.5	410.5
Consolidated	**$5,642.0**	$5,440.5	$5,286.1	$4,912.7	$4,975.8	$4,585.6
Underwriting and related services income (loss):						
General insurance	**$84.3**	$65.5	$70.8	$(23.9)	$69.5	$30.0
Title insurance	**206.7**	181.7	140.3	77.5	105.1	54.1
Corporate and other (a)	**(28.4)**	(17.5)	(21.8)	(19.2)	(20.2)	(18.3)
Subtotal	**262.6**	229.7	189.4	34.4	154.5	65.9
RFIG run-off business	**(95.2)**	46.6	4.3	(17.1)	73.1	(542.7)
Consolidated	**$167.3**	$276.3	$193.7	$17.2	$227.7	$(476.8)
Consolidated underwriting ratios:						
Claim ratio	**44.7%**	44.0%	47.5%	52.3%	45.8%	61.9%
Expense ratio	**52.0**	50.6	48.5	47.1	49.2	48.5
Composite ratio	**96.7%**	94.6%	96.0%	99.4%	95.0%	110.4%
Net investment income:						
General insurance	**$318.9**	$312.1	$312.1	$278.8	$249.6	$264.9
Title insurance	**37.3**	36.2	34.0	29.9	26.6	27.3
Corporate and other	**31.4**	15.4	17.2	9.2	5.6	7.9
Subtotal	**387.7**	363.8	363.5	317.9	281.8	300.2
RFIG run-off business	**21.7**	23.2	25.1	27.5	36.8	36.3
Consolidated	**$409.4**	$387.0	$388.6	$345.5	$318.7	$336.5
Interest and other charges:						
General insurance	**$62.9**	$57.6	$46.6	$33.5	$30.9	$33.9
Title insurance	**6.9**	7.6	7.5	7.8	7.4	7.5
Corporate and other (b)	**(6.9)**	(15.0)	(12.2)	(15.7)	(16.7)	(7.4)
Subtotal	**63.0**	50.2	41.9	25.6	21.6	34.0
RFIG run-off business	**-**	-	-	-	-	2.2
Consolidated	**$63.0**	$50.2	$41.9	$25.6	$21.6	$36.2
Pretax operating income (loss):						
General insurance	**$340.3**	$319.9	$336.4	$221.3	$288.3	$261.0
Title insurance	**237.1**	210.2	166.8	99.5	124.3	73.8
Corporate and other	**9.9**	13.0	7.6	5.7	2.1	(2.7)
Subtotal	**587.3**	543.3	511.0	326.7	414.7	332.1
RFIG run-off business	**(73.5)**	69.8	29.4	10.3	110.0	(508.6)
Consolidated	**513.8**	613.1	540.4	337.1	524.8	(176.4)
Income taxes (credits)	**195.7**	193.5	177.7	104.3	173.2	(76.6)
Net operating income (loss)	**318.0**	419.6	362.7	232.7	351.6	(99.7)
Realized investment gains (losses), net of taxes	**242.4**	47.3	59.3	177.0	96.2	31.1
Net income (loss)	**$560.5**	$466.9	$422.1	$409.7	$447.8	$(68.6)
Consolidated operating cash flow	**$452.8**	$637.3	$688.2	$(181.2)	$686.7	$532.0
Net income (loss) per share:						
Net operating income (loss)	**$1.11**	$1.46	$1.28	$0.84	$1.25	$(0.39)
Realized investments gains (losses)	**0.81**	0.16	0.20	0.60	0.32	0.12
Net income (loss)	**$1.92**	$1.62	$1.48	$1.44	$1.57	$(0.27)
Cash dividends per share (c)	**$1.76**	$0.75	$0.74	$0.73	$0.72	$0.71
Ending book value per share	**$17.72**	$17.16	$14.98	$15.15	$14.64	$14.64
Closing stock market price per share	**$21.38**	$19.00	$18.63	$14.63	$17.27	$10.65

(a) Includes general administrative expenses.
(b) Includes consolidation/elimination entries.
(c) 2017 includes a special cash dividend of $1.00 per share.

From Where We Were in 2012 to Where We Aimed and Came to Be in 2017

At the end of 2012, our RFIG segment was well into run-off operating mode. In its heyday (2005–2006) it generated nearly 41% of consolidated pretax operating income. The Great Recession and its aftermath ended that performance. For 2012 and the five preceding years, its results were written in the darkest of red inks. No one knew for sure when the ink might turn black.

So we resolved to change course. We would keep the RFIG business in run-off mode indefinitely, all the while honoring our continuing obligations. We would anchor ORI's future on our three other segments: the two largest—General and Title insurance—and the smallest—Life and Accident insurance.

We recalibrated our capital allocations and set pretax operating income objectives for the five years ending December 31, 2017. The objective was, at the very least, to return us to the prerecession, all-time profitability highs of 2005–2006. Internally, we referred to this as "Getting Back to the Top of the Mountain." We would do it all without significant income contributions from the RFIG run-off business on the one hand, and with high expectations of faster growth for the General and Title segments from their 2012 starting point.

The following table shows the objectives of our best and minimally acceptable aspirations for the actively managed and consolidated business.

($ in millions)

	Baselines				
	2005–2006 Average Results*	2012 Baseline Results*	Greatest Aspirations: Growing 2017 from 2012 Baseline*	Minimum Aspirations: Exceed Average 2005–2006 Results by 2017*	Actual 2017 Performance
Pretax Operating Income (Loss):					
General insurance	$339.0	$261.0	$555.0	$390.0	$340.3
Title insurance	59.9	73.8	182.0	182.0	237.1
Corporation and other	(0.1)	(2.7)	6.0	(0.2)	9.9
Total actively managed	398.8	332.1	743.0	571.8	587.3
RFIG run-off business	273.0	(508.6)	100.0	100.0	(73.5)
Consolidated	$671.8	($176.4)	$843.0	$671.8	$513.8

**This data was posted on the ORI website during the past five years.*

Here's our report card on what we set out to do and what we accomplished by the end of 2017.

The above table shows that we succeeded in some but not all regards. We did not meet our greatest aspirations. For the actively managed part of the business, all of the shortfall stemmed from General Insurance. While underwriting profitability has improved, it's still below where it can and needs to be. The same is true for our business as a whole. This happened as the General Insurance shortfall was accentuated by substantial 2017 charges related to final settlement costs of longstanding litigation and other abnormal expenses.

The actively managed business *did* meet our minimum aspirations, with pretax earnings of $587.3 million. This was about 47% and 77% higher than the 2005–2006 and 2012 results, respectively. For all of ORI, however, the results were 24% short of the minimum goal of $671.8 million. As the table below shows, there is a small consolation in observing that the objective would have been met if we hadn't faced the abnormal charges of $179.8 million.

	($ in millions)			
	2017 as Reported	Less: Abnormal Charges	2017 without Abnormal Charges	2005–2006 Average Results
Pretax operating income (loss):				
General insurance	$340.3	$18.0	$358.3	$339.0
Title insurance	237.1	21.2	258.3	59.9
Corporate and other	9.9	10.5	20.4	(0.1)
Total actively managed	587.3	49.8	637.0	398.8
RFIG run-off business	(73.5)	130.0	56.5	273.0
Consolidated	$513.8	$179.8	$693.6	$671.8
% differential to 2005–2006	(23.5%)		+3.2%	

Consolidated Operating Income (Almost) Rises to a New High in 2017

A new high in 2017 would have happened if the results of the RFIG run-off operation were excluded. Pretax operating income of the actively managed segments rose 8.1% in 2017 compared to 6.3% in the preceding year. Most of last year's improvement stemmed from the underwriting and related services function, which registered a 14.4% gain to $262.6 million. This would have been even higher without the abnormal charges of $49.8 million. Including the RFIG run-off, which was effected by litigation and other charges totaling $130.0 million, meant consolidated underwriting/services income declined 39.4% to $167.3 million. Here's how these results compare with underwriting margin trends for the past several years.

Underwriting Margin as % of Premiums, Fees, and Other Operating Revenues	**2017**	2016	2015	2014	2013	2012
Underwriting/Services Margins:						
General insurance	**2.7%**	2.2%	2.4%	(0.8%)	2.7%	1.3%
Title insurance	**9.1**	8.3	6.8	4.4	5.3	3.2
Total actively managed business	**4.8%**	4.4%	3.7%	0.7%	3.3%	1.6%
Consolidated business with run-off	**3.0%**	5.1%	3.7%	0.4%	4.6%	(10.4%)

The critical importance of income from underwriting and related services notwithstanding, net investment income continued to make an enormous contribution to operating profit. At year-end 2017, approximately 75% of the fair-valued cash and investment portfolio of about $13.5 billion was allocated to fixed-maturity and short-term cash equivalents. The remaining 25% was in equities. On a cost basis—which doesn't account for unrealized gains or losses—the allocation was 79.4% and 20.6%, respectively.

About 56% of the aggregate cash and investment portfolio is estimated to come from cumulative operating cash flows produced by underwriting/services operations. The remaining 44% is attributable to a combination of accumulated tangible shareholders' equity (at cost) and funded outstanding debt. In this simplified mathematical analysis, 2017 and 2016 pretax operating income was generated by the following sources:

	($ in millions)		
	2017	2016	% Change
Sources of pretax operating income:			
Underwriting/services income	**$167.3**	$276.3	(39.4%)
Attributed net investment income (56%) to underwriting/services	**229.3**	216.7	5.8
Total	**396.6**	493.0	(19.6)
Attributed net investment income (44%) to shareholders' equity and outstanding debt	**180.0**	170.3	5.8
Less: Other expenses (largely interest on debt)	**(63.0)**	(50.2)	25.5
Total	**117.1**	120.0	(2.4)
Consolidated pretax operating income	**$513.8**	$613.1	(16.2%)

The next table shows 1) the relationship between income from interest and dividends, 2) the contribution each made as a percent of investment income, and 3) the latter's proportion to each of underwriting/services and consolidated pretax income:

	($ in millions)				
	2017	2016	2015	2014	2013
Net Investment Income from:					
Interest	**$298.6**	$298.7	$297.3	$296.8	$299.8
Dividends	**110.9**	88.2	91.0	49.3	21.2
Other (mostly net investment expense)	**(0.1)**	0.1	0.3	(0.7)	(2.3)
Net investment income	**$409.4**	$387.0	$388.6	$345.5	$318.7
Year-over-year % change	**5.8%**	N/M	12.5%	8.4%	(5.3%)
Percentage of net investment income from:					
Interest	**72.9%**	77.2%	76.6%	85.9%	94.1%
Dividends	**27.1%**	22.8%	23.4%	14.3%	6.7%
Net investment income as a percentage of:					
Underwriting/services income	**244.7%**	140.1%	200.6%	*	140.0%
Consolidated pretax income	**79.7%**	63.1%	71.9%	102.5%	60.7%

**Not meaningful as 2014 underwriting/services income was negligible.*

Much slower growth in ORI's fixed-income securities portfolio, and the perniciously low yield environment, flattened investment income growth. Since 2013, we've directed most of our investable funds toward purchasing high-quality common shares of U.S. companies. We select issuers with long-term records of reasonable earnings growth and steadily increasing dividends. This is the major reason why dividends from equities have been the source of investment income growth in recent years.

The equities portfolio (limited to 94 issues at year-end 2017) is reasonably structured to contribute a measure of capital appreciation over time. Since 2012, realized investment gains have averaged about $159 million per year, and represented some 30% of its combination with net investment income. Realizing investment gains provides a welcome addition to overall results. However, our investment management process focuses on assembling a quality portfolio that delivers reliably consistent and growing streams of current income. Our evaluation of ORI's performance therefore centers on operating income that excludes investment gains or losses, since their realization can be highly discretionary in any year.

In 2018, accounting rules will require companies to include the market-driven changes of equity investment valuations as a part of net income. We can expect to see much greater fluctuations in reported net income, produced by the combination of realized and unrealized gains or losses. This will be especially so at times of significant instability or volatility in the securities markets. While adopting the new requirements, we'll remain consistent in our reporting of operating results unaffected by the markets' crosscurrents.

We keep enterprise-wide risk management objectives in mind when structuring the overall portfolio. Our principal aim is two-fold: to ensure 1) solid funding of our insurance subsidiaries' long-term obligations to assureds and other beneficiaries, and 2) the long-term stability of our subsidiaries' capital accounts. For these reasons, the portfolio contains no significant insurance risk-correlated exposures to collateralized debt obligations (CDOs), derivatives, hybrid, hedge-fund, private equity securities with limited liquidity, or other securities whose values are largely based on non-regulated financial instruments. We consider our all-weather investment portfolio to be of high quality and marketability, and entirely responsive to liquidity needs as insurance underwriting and other obligations come due.

General Insurance Profitability Rebounds

To a large extent, today's ORI is a creature of the 1970s. That's when we set our strategy to build on the Company's strong life and accident foundation. A key objective was to more aggressively develop the General Insurance sector, which we had entered in a small way in the 1950s. Since the early 1970s, the combination of organic growth, start-ups of underwriting ventures, and the purchase of select insurance companies positioned the General Insurance Group at the vanguard of ORI's business.

The group's insurers and related services companies differentiate themselves in two ways. First, they specialize by type of insurance coverages. Second, they focus their risk management and underwriting applications on public and other sectors of the North American economy. This differentiation is largely made possible by the long tenure of our people and their dedication to the provision of personal, expert service. This approach to specialized service delivery makes a big difference to buyers of assurance and related services. It also has resulted in industry-leading underwriting performance. For the past 50 years, the General Insurance Group's underwriting profit margin outperformed industry averages* in 40 years, was the same for five years, and fell below in the other five. The underwriting discipline this shows is a major competitive strength. It enables our insurance subsidiaries to provide stable coverages and services through the ups and downs of industry cycles.

Underwriting profitability for Old Republic's long-tail coverages to all customers generates positive operational cash flows. These, in turn, lead to stable, longer-tenured ownerships of investable assets. From these flows the investment income sustenance that enhances underwriting profitability. The information in the last table on page 4 reveals this elemental interplay of underwriting proficiency, the cash flows this creates, and the sustaining power of investment income to an insurance enterprise managed for the long run. The table below showcases this relationship for the most recent years.

General Insurance Group ($ in millions)	**2017**	2016	2015	2014	2013	2012
Net premiums earned	**$3,110.8**	$2,936.3	$2,894.7	$2,735.6	$2,513.7	$2,324.4
Net investment income	**318.9**	312.1	312.1	278.8	249.6	264.9
Other income	**101.8**	106.2	106.3	99.0	86.5	110.0
Net revenues	**3,531.6**	3,354.7	3,313.3	3,113.5	2,849.9	2,699.4
Benefits, claims and related settlement expense	**2,234.4**	2,143.1	2,143.5	2,132.3	1,849.4	1,696.0
Sales & general expenses	**893.8**	833.9	786.6	726.3	681.1	708.4
Interest & other charges	**62.9**	57.6	46.6	33.5	30.9	33.9
Total expenses	**3,191.3**	3,034.7	2,976.8	2,892.2	2,561.6	2,438.4
Pretax operating income (loss)	**$340.3**	$319.9	$336.4	$221.3	$288.3	$261.0
Underwriting and related services income (loss)	**$84.3**	$65.5	$70.8	($23.9)	$69.5	$30.0
Benefit and claim ratio	**71.8%**	73.0%	74.1%	77.9%	73.6%	73.0%
Expense ratio	**25.5**	24.8	23.5	22.9	23.7	25.7%
Composite underwriting ratio	**97.3%**	97.8%	97.6%	100.8%	97.3%	98.7%

Two situations are leading to steadily improving operating results. The first is a rebounding economy, which raises demand for insurance services. The second is the emerging benefit of underwriting protocols we've repaired over the past few years.

**Source: The A.M. Best Company.*

While we saw positive General Insurance earned premiums trends throughout 2017, these were unevenly distributed among various coverages and sources of business. Gains were registered most prominently in these areas: commercial automobile (trucking), risk management and national accounts, home and auto warranty, and a new underwriting facility established in early 2015. On the other hand, premium growth was constrained in two areas. We experienced lower volume in a large account contractors' book of business which was faced with a particularly competitive marketplace. There also were fewer opportunities in gas and oil energy services, and in a few other industry sectors still left behind in the economic recovery.

The ratio of claims and related settlement costs to earned premiums improved in 2017. While current accident year claim ratios continued on an expected downward slope, moderately unfavorable developments of prior years' reserves curbed the improvement to a small extent last year. The table below shows the effect of annual (favorable) and unfavorable developments of prior years' costs on individual calendar years' claim ratios.

	Reported Claim Ratio in Above Calendar Years Operating Summary	Effect of Prior Years' (Favorable)/ Unfavorable Claim Cost Developments	Claim Ratio Unaffected by Prior Years' Claims Developments
2012	73.0%	(2.2%)	75.2%
2013	73.6	(0.9)	74.5
2014	77.9	3.9	74.0
2015	74.1	1.5	72.6
2016	73.0	0.3	72.7
2017	71.8%	0.7%	71.1%

We have a good handle on the expense front. Last year's ratio of 25.5% was a bit higher than the average 24.1% for the five preceding years. In our estimation, the higher ratio does not indicate a trend. It largely reflects dynamic changes in the mix of business and the costs associated with it.

In combination, last year's incurred claims (our cost of goods sold), sales and general expenses produced a composite underwriting ratio of 97.3%. That indicated a 2.7% underwriting margin. Together with an approximate 5.5% net investment income attributed to the underwriting account, the total operating margin was about 8.3% on net premiums and fees of $3.2 billion. For 2016, it was about 11.7%.

This is our current bottom line: Underwriting and total operating margins are not yet measuring up to capabilities. But we think they can. In the absence of economic and insurance industry dislocations, we currently anticipate that a composite ratio of 95%—or even something lower—is achievable in the foreseeable future. In that event, the total operating margin would rise to the low teens.

Title Insurance Sets New Revenues and Profit Records

Our Title Insurance Group marked another notable year of service and financial performance in 2017. A generally positive mortgage interest rate environment, coupled with reasonably strong housing and commercial property markets, drove premiums and fees revenues to a new record. At $2.28 billion, this marked the third consecutive year in which we reached $2 billion-plus in revenue.

The combination of direct and independent agency operations, and well-executed residential and commercial title marketing initiatives contributed to this milestone. Its attainment is in no small measure due to what our people bring to every business day: the union of intellectual capital, commitment, strength of relationships, and drive. It all adds up to the Company's reputation for doing things right, for making a difference as we fulfill our customers' needs, and for being at the forefront of beneficial technological developments. It's all led to Old Republic Title's identity as a go-to, special place of business.

The table below shows the past several years' financial achievements for this fast-growing segment.

Title Insurance Group ($ in millions)

	2017	2016	2015	2014	2013	2012
Premiums & fees earned	**$2,287.2**	$2,206.6	$2,045.3	$1,759.2	$1,996.1	$1,677.4
Net investment income	**37.3**	36.2	34.0	29.9	26.6	27.3
Other income	**0.5**	1.2	1.3	2.4	2.8	2.3
Net revenues	**2,325.0**	2,244.1	2,080.7	1,791.6	2,025.6	1,707.1
Claims and claim expenses	**20.8**	84.3	99.2	91.9	134.0	120.8
Sales & general expenses	**2,060.1**	1,941.8	1,807.0	1,592.3	1,759.7	1,504.7
Interest & other charges	**6.9**	7.6	7.5	7.8	7.4	7.5
Total expenses	**2,087.9**	2,033.8	1,913.8	1,692.0	1,901.3	1,633.2
Pretax operating income (loss)	**$237.1**	$210.2	$166.8	$99.5	$124.3	$73.8
Underwriting and related services gain (loss)	**$206.7**	$181.7	$140.3	$77.5	$105.1	$54.1
Claim ratio	**0.9%**	3.8%	4.9%	5.2%	6.7%	7.2%
Expense ratio	**90.0**	87.9	88.3	90.4	88.0	89.6
Composite underwriting ratio	**90.9%**	91.7%	93.2%	95.6%	94.7%	96.8%

Title insurance companies operate in a very cyclical industry. Their business is based on a loss-prevention rather than a loss-assumption insurance risk-transfer mechanism. The underwriting risks, however they are configured, are largely controlled at the front end of a transaction—whether providing a guaranty of clear title for the purchase of a home, or in a commercial real estate transaction. This means it's critical that claim costs be at low levels across business cycles, since loss prevention expenses are necessarily high, front-end loaded, and harbor substantial fixed costs.

The following chart focuses on the relationship between claim costs and expenses, and their impact on long-term underwriting profitability over cycles.

Underwriting Ratios of Profitability

	2017	2016	2008–2017: From Recession to Normalcy	2007 Recession and Immediate Aftermath
Claim ratio	**0.9%**	3.8%	5.4%	7.5%
Expense ratio	**90.0**	87.9	90.4	95.0
Composite underwriting ratio	**90.9%**	91.7%	95.8%	102.5%
Indicated underwriting/services operating margin	**9.1%**	8.3%	4.2%	(2.5%)

The substantially lower claim ratios in 2017 and 2016 reflected the time-tested developments of reserves established in prior years. Excluding the beneficial effect of these favorable outcomes, reported claim ratios would have been 4.2% and 4.9% in 2017 and 2016, respectively. As the last table shows, the better underwriting results of recent years help to normalize long-term performance.

Early in 2018, we have great confidence in the long-term prospects of our Title Insurance business. The return of better economic conditions bodes well for the cyclical renaissance of housing and commercial property activity. We intend to leverage this situation to the fullest as we grow the business to its deservedly greater possibilities.

RFIG Run-off Business Retreats to a Loss

The more positive operating results of the four preceding years reversed themselves in 2017. This reflected abnormally high charges from resolving longstanding litigation and other matters from the Great Recession and its aftermath. The financial summary below shows that most of 2017's charges were incurred in the small Consumer Credit Indemnity (CCI) part of the run-off. These and similar other costs incurred over the past decade were essential to bringing a welcome end to the recent American economic saga.

RFIG Run-off Business ($ in millions)

	2017	2016	2015	2014	2013	2012
A. Mortgage Insurance (MI):						
Net premiums earned	**$109.8**	$154.1	$195.9	$227.6	$286.7	$368.0
Net investment income	**20.4**	22.0	24.2	26.9	36.4	36.2
Claim costs *	**63.3**	52.5	110.5	111.0	173.2	797.5
Pretax operating income (loss)	**$48.9**	$105.0	$89.9	$121.6	$126.3	($433.6)
Claim ratio *	**57.6%**	34.1%	56.4%	48.8%	60.4%	216.7%
Expense ratio	**16.5**	12.0	10.1	9.7	8.2	10.4
Composite underwriting ratio	**74.1%**	46.1%	66.5%	58.5%	68.6%	227.1%
B. Consumer Credit Insurance (CCI):**						
Net premiums earned	**$13.0**	$15.8	$23.9	$27.7	$29.8	$42.4
Net investment income	**1.2**	1.1	0.8	0.5	0.4	0.1
Claim costs *	**134.5**	50.0	83.0	137.2	44.5	112.8
Pretax operating income (loss)	**$(122.4)**	$(35.2)	$(60.4)	($111.2)	($16.2)	($74.9)
Claim ratio *	**N/M**	315.9%	346.9%	494.4%	149.4%	265.7%
Expense ratio	**N/M**	13.9	9.2	8.5	6.6	11.0
Composite underwriting ratio	**N/M**	329.8%	356.1%	502.9%	156.0%	276.7%
C. Total MI and CCI run-off business:						
Net premiums earned	**$122.9**	$170.0	$219.9	$255.4	$316.5	$410.5
Net investment income	**21.7**	23.2	25.1	27.5	36.8	36.3
Claim costs *	**197.8**	102.6	193.6	248.2	217.7	910.4
Pretax operating income (loss)	**$(73.5)**	$69.8	$29.4	$10.3	$110.0	($508.6)
Claim ratio *	**160.9%**	60.4%	88.0%	97.2%	68.8%	221.8%
Expense ratio	**16.6**	12.2	10.0	9.5	8.1	10.4
Composite underwriting ratio	**177.5%**	72.6%	98.0%	106.7%	76.9%	232.2%

* *RFIG run-off pretax results for 2017 included additional claim and related expense provisions of $130.0 million. These costs applied to the final settlements and probable dispositions of all known litigated and other claim costs incurred by the Company's run-off Financial Indemnity business during the Great Recession years and their aftermath. Of the total charge, $23.0 million related to mortgage guaranty claim costs and $107.0 million was attributable to additional claim provisions in the consumer credit indemnity run-off business.*

** *$121.1 million, $33.8 million, $58.6 million, $108.8 million, $14.0 million and $70.9 million of pretax operating losses for 2017, 2016, 2015, 2014, 2013 and 2012, respectively, were retained by certain general insurance companies under various quota share and stop loss reinsurance agreements. All of these amounts, however, have been reclassified and are included for segment reporting purposes, so Section B in this table incorporates 100% of the CCI run-off business results.*

Our people worked particularly hard during some eight years in run-off operating mode. They assured all assets were protected, and all values were corralled for the benefit of policyholders and their beneficiaries:

- All premiums on policies in force were accounted for and collected.
- All legitimate claims and demands on our insurance policies and contracts were honored and paid.
- All operating infrastructure was maintained with great concern for its unique, proprietary value.

This was all done in an economically efficient manner, without the help of outsiders and the frictional costs they would have imposed.

For most of the past decade, our mortgage guaranty companies operated under the value-sheltering umbrella of a regulated state of supervision. By early 2017, it was increasingly clear that a state of normalcy was returning for good. Late last December, the lead insurance regulator of our mortgage insurance subsidiaries released them from supervision.

The long- and intermediate-term forecasts we prepare regularly show that the run-off MI business is likely to remain profitable through the end of its term. The end should come by 2022–2023, when most insured risk in force is exhausted. The same holds for the CCI book of business, which now is free from any significant exposure to litigation.

We are ready to evaluate and plan a viable, economically sound future for our mortgage insurance business. There are several good options for this. We'll review each of them in a deliberate way to achieve the very best outcome for all important stakeholders.

Performance Driven In the Interests of All Stakeholders

ORI's Lodestar is the embodiment of how our business strategy and governance work together as we pursue our mission and serve all important stakeholders. The simple idea underlying it is to put the capital entrusted to us to work in an economically efficient and rewarding manner:

- Putting it together with our culture, value system, intellectual capital, and the institutional memory that binds successive generations of managers
- Putting it together in a balanced and thoughtful manner that addresses the legitimate interests and expectations of shareholders and key stakeholders who are engaged with our mission

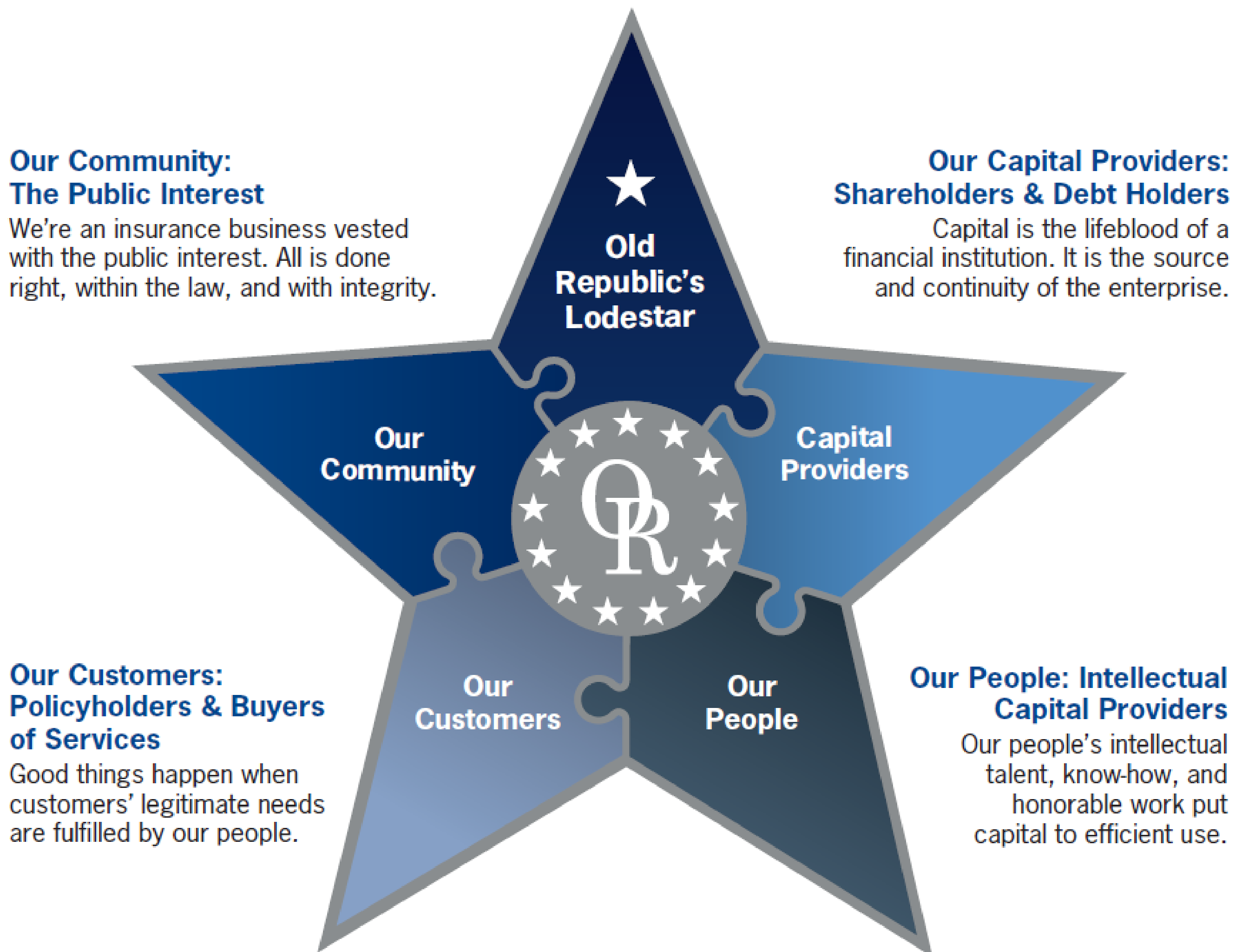
The table below shows how the capital provided by shareholders and debt holders has been deployed, and our longer-term allocation objectives. As already noted, the specific part—which includes significant intra-system capital, identified with the run-off financial indemnity book of business—will ultimately be redirected as we select the best of several options available to us.

Capital Allocation Model and Objectives*

	Current Long-Term Objectives	Actual Allocations as of December 31,					
		2017	2016	2015	2014	2013	2012
General insurance	82.5%	**76.5%**	78.0%	78.2%	78.0%	82.2%	83.7%
Title insurance	15.0%	**13.3%**	13.9%	13.7%	13.6%	13.7%	13.3%
Financial indemnity	0.0%	**7.6%**	6.5%	5.3%	4.4%	-0.3%	-1.4%
Life & accident insurance	1.0%	**0.8%**	1.1%	1.2%	1.7%	2.1%	2.4%
Other	1.5%	**1.8%**	0.5%	1.6%	2.3%	2.3%	2.0%
		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

**Percentages are inclusive of all capital instruments.*

ORI's Lodestar: Strategic Governance On Behalf of All Important Stakeholders



*Our **MISSION** is to Provide Quality Insurance Security and Related Services to Businesses, Individuals, and Public Institutions and Be a Dependable Long-Term Steward of the Trust that Policyholders and Other Important Stakeholders Place in Us.*

Putting It All Together For The Long Run

The capital allocations to the General and Title segments reflect our assessment of the nature and amount of insurance risks carried on their balance sheets. Our General Insurance operations are marked by greater capital needs, because they involve long-duration promises of indemnity. To a significant degree, the promises appear as liabilities on our balance sheet. We fund these with the long-tenured ownership of investment securities.

On the other hand, the long duration promises of indemnity made in our Title business result in much lower balance sheet liabilities. As already noted, this reflects the loss-prevention nature of the business.

Not attempting to be all things to all people sets us apart as a non-establishment, specialty insurance enterprise. It enhances our competitiveness and the value we bring to fulfilling our customers' needs. Doing it all profitably over the long run heightens the value of our franchise: to the community at large, to our existing and future customers, to our people, and to our capital providers.

For the community, we provide a reliably consistent source of risk-taking capital to meet the insurance needs of a growing population and economy. For our customers, we provide reliable risk-management services backed by the quality and strength of our individual insurance subsidiaries' capital resources. For our employees, we offer a successful environment where they can pursue their goals of professional and economic accomplishments in keeping with our mission. For debt capital extenders, we provide the integrity of a world-class, quality balance sheet.

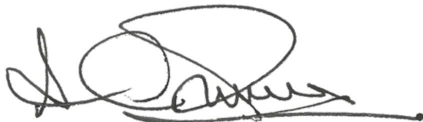
For the serious investors in our stock, we offer the opportunity to partner with us in building a business with sustainable profitability over the long run. This partnership is shown in part by the substantial investment our people make in Old Republic's stock: by direct purchases or through employee benefit plans such as our large Employees Savings and Stock Ownership Plan (ESSOP). The partnership's success is also evidenced by the long-term appreciation of shareholders' tangible capital, and a 76 year record of uninterrupted cash dividend payments.

Our future looks bright because:

- The balance sheet is solid
- We have strong, permanent equity capital
- Our people bring significant intellectual capital and a long-term commitment to our Company
- We have a strong business retention rate from a loyal customer base

We are not and have no aspiration to be among the biggest in our industry. Growth for its own sake, and for the illusory prestige accorded to bigness, is not a part of our recipe for long-term success. Instead, we work hard to harmonize the interrelated parts of our Lodestar. Our recipe can deliver a competitive total book return over cycles and, market conditions allowing, a consistently sound total market return. We can do this for all who have an important stake in ORI's good business, managed as it is for the long run.

Respectfully submitted on behalf of the Board of Directors,



Aldo C. Zucaro
Chairman and Chief Executive Officer
Chicago, Illinois
March 16, 2018