# 2018 Annual Report Letter

### 2018: Back to "Normal" Business

Last year marked our return to a business no longer affected by the long-lagged consequences of the Great Recession and its aftermath. The remnants of those days were put to rest by year-end 2017, and our progress was unimpeded in 2018.

### A Year of Financial Accomplishments

This made it even more gratifying to report new financial records on Old Republic's 95th anniversary as an independent, shareholder-owned business:

- 2018 net income before all types of investment gains or losses reached a record $556.4 million, or $1.86 per average diluted share. This contrasted with 2017 results of $318.0 million and $1.11, respectively. The two major factors accounting for this difference were 1) abnormal charges and litigation costs incurred in 2017 (approximately $116.9 million, or $0.39 per share after tax), and 2) the benefit of 40% lower federal income tax rates in 2018 that added approximately $78.2 million, or $0.26 per diluted share to these 2018 results.

  2018 net income ($370.5 million, or $1.24 per diluted share)—which is the measure of total profitability according to the tenets of Generally Accepted Accounting Principles (GAAP)—was affected by the same factors. The aforementioned federal income tax rate change added approximately $45.0 million, or $0.15 per diluted share to 2018's net income. Moreover, the measure of net income also reflected a net-of-tax charge (calculated at the lower income tax rate) of $231.9 million, or $0.77 per share related to unrealized market value losses in our equity (common stock) investment portfolio. The charge stemmed from a new rule issued by the Financial Accounting Standards Board (FASB) which redefined net income to include periodic unrealized (i.e. paper) gains or losses on equity (but not fixed maturity) investments. As this letter was written, those unrealized market value losses have been more than fully eliminated in the first quarter of 2019. That means they will appear as investment gains in this year's first quarter income statement even though no actual transactions will have occurred to create them.

- Total shareholders' equity rose 8.7% to $5.1 billion. There were four main reasons for this: 1) earnings retained in the business, 2) the completed conversion of previously outstanding debt into ORI common shares, 3) the offsetting effect of 2018's cash dividend, and 4) changes in the value of fixed maturity securities carried at fair value. In 2017, shareholders' equity rose by 6.1%.

- Last year's total book value return—which represents the combination of the annual change in book value per share, plus the cash dividend—grew by just 1.6%. For 2017, this was 13.5%, as year-end shareholders' equity benefited from positive changes in unrealized gains.

- Market value-wise, the combination of our annual cash dividend and the change in year-end market value per share resulted in a 4.8% total market return. The comparable return of 16.9% for 2017 benefitted from a special year-end cash dividend and the increased market valuation of our stock.

### How We Measure Our Progress

Our view has always been that the mere inclusion of realized investment gains or losses in net income can mask the fundamental operating results of an insurance business. That's because their realization is, more often than not, highly discretionary. It's usually affected by such randomly occurring factors as the timing of individual securities sales, tax-planning considerations, and modifications of investment management judgments on the direction of securities markets or the prospects of individual investees or industry sectors.

That's why Old Republic's management and Board of Directors use income excluding all investment gains or losses. We believe this gives us a better ability to analyze, evaluate, and establish accountability for the results and benefits that arise from the basic underwriting and related services operations of our business.

We believe that applying the new FASB rule in context of the continuous spiral of stock market valuations will likely produce greater period-to-period fluctuations in reported net income. In our opinion, this will make it harder to analyze the basic drivers of an insurance enterprise. It also may create confusion and misleading inferences about such calculations as price/earnings ratios, which are widely used as quick checks of performance.

In any event, the new rule will have no impact on important operating and enterprise risk management considerations, such as the regulatory milieu in which Old Republic's business is managed, and the economic reality of reported current income tax expense, operating cash flows, liquidity, cash dividend policy, and capital allocation processes.

The following table includes certain actual and pro forma information to show what reported results were, and would have been if the new FASB rule had existed on January 1, 2013. In addition, we've shown the consolidated composite underwriting ratio. That highlights the basic symmetry between underwriting and services income and pretax income, excluding all investment gains or losses.

In our judgment, the information underscores the necessity of reviewing reported results by separating the *fait accompli* of economic realities from the transient vagaries in securities markets.

| | ($ in millions) | | | | | |
|---|---|---|---|---|---|---|
| | Actual | Pro Forma | | | | |
| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
| **CONSOLIDATED EARNINGS** | | | | | | |
| a) Consolidated composite underwriting ratio | 94.7% | 96.7% | 94.6% | 96.0% | 99.4% | 95.0% |
| b) Pretax income excluding all investment gains or (losses) | | | | | | |
| 1) Before and after the new rule | $673.7 | $513.8 | $613.1 | $540.4 | $337.1 | $524.8 |
| c) Pretax investment gains or (losses): | | | | | | |
| 1) Before the new rule (realized only from actual transactions) | 58.2 | 211.6 | 72.8 | 91.3 | 272.3 | 148.1 |
| 2) After the new rule (realized as well as unrealized from market-driven value changes) | (235.6) | 356.0 | 402.6 | (32.5) | 185.3 | 232.7 |
| d) Pretax income including all investment gains or (losses) | | | | | | |
| 1) Before the new rule (includes realized gains or (losses) only) | 731.9 | 725.4 | 686.0 | 631.8 | 609.4 | 672.9 |
| 2) After the new rule (includes both realized and unrealized gains or (losses)) | 438.1 | 869.8 | 1,015.8 | 508.0 | 522.4 | 757.5 |
| e) Net income excluding all investment gains or (losses): | | | | | | |
| 1) Before and after the new rule | 556.4 | 318.0 | 419.6 | 362.7 | 232.8 | 351.5 |
| f) Net income: | | | | | | |
| 1) Before the new rule (includes net of tax realized gains or losses only) | 602.4 | 560.5 | 466.9 | 422.1 | 409.7 | 447.8 |
| 2) After the new rule (includes net of tax realized and unrealized gains or (losses)) | 370.5 | 654.4 | 681.3 | 341.6 | 353.2 | 502.8 |

*The table on the next page shows an array of numbers purposefully arranged in 11 sections. We believe the information in sections A to G and at J highlights the most meaningful, realistic indicators of our segmented and consolidated financial performance.*

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

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|
| **A. Net premiums, fees, and other income:** | | | | | | |
| General insurance | **$3,277.1** | $3,110.8 | $2,936.3 | $2,894.7 | $2,735.6 | $2,513.7 |
| Title insurance | **2,336.1** | 2,287.2 | 2,206.6 | 2,045.3 | 1,759.2 | 1,996.1 |
| Corporate and other | **14.6** | 18.8 | 20.1 | 19.4 | 60.7 | 59.3 |
| Other income | **121.6** | 102.2 | 107.3 | 106.7 | 101.6 | 90.1 |
| Subtotal | **5,749.5** | 5,519.1 | 5,270.5 | 5,066.2 | 4,657.3 | 4,659.3 |
| RFIG run-off business | **75.9** | 122.9 | 170.0 | 219.9 | 255.4 | 316.5 |
| Consolidated | **$5,825.5** | $5,642.0 | $5,440.5 | $5,286.1 | $4,912.7 | $4,975.8 |
| **B. Underwriting and related services income (loss):** | | | | | | |
| General insurance | **$91.2** | $84.3 | $65.5 | $70.8 | $(23.9) | $69.5 |
| Title insurance | **185.1** | 206.7 | 181.7 | 140.3 | 77.5 | 105.1 |
| Corporate and other | **(21.9)** | (28.4) | (17.5) | (21.8) | (19.2) | (20.2) |
| Subtotal | **254.3** | 262.6 | 229.7 | 189.4 | 34.4 | 154.5 |
| RFIG run-off business | **29.7** | (95.2) | 46.6 | 4.3 | (17.1) | 73.1 |
| Consolidated | **$284.0** | $167.3 | $276.3 | $193.7 | $17.2 | $227.7 |
| **C. Consolidated underwriting ratio:** | | | | | | |
| Claim ratio | **43.1%** | 44.7% | 44.0% | 47.5% | 52.3% | 45.8% |
| Expense ratio | **51.6** | 52.0 | 50.6 | 48.5 | 47.1 | 49.2 |
| Composite ratio | **94.7%** | 96.7% | 94.6% | 96.0% | 99.4% | 95.0% |
| **D. Net investment income:** | | | | | | |
| General insurance | **$341.0** | $318.9 | $312.1 | $312.1 | $278.8 | $249.6 |
| Title insurance | **38.8** | 37.3 | 36.2 | 34.0 | 29.9 | 26.6 |
| Corporate and other | **31.7** | 31.4 | 15.4 | 17.2 | 9.2 | 5.6 |
| Subtotal | **411.7** | 387.7 | 363.8 | 363.5 | 317.9 | 281.8 |
| RFIG run-off business | **20.1** | 21.7 | 23.2 | 25.1 | 27.5 | 36.8 |
| Consolidated | **$431.8** | $409.4 | $387.0 | $388.6 | $345.5 | $318.7 |
| **E. Interest and other charges:** | | | | | | |
| General insurance | **$68.3** | $62.9 | $57.6 | $46.6 | $33.5 | $30.9 |
| Title insurance | **4.6** | 6.9 | 7.6 | 7.5 | 7.8 | 7.4 |
| Corporate and other (a) | **(30.6)** | (6.9) | (15.0) | (12.2) | (15.7) | (16.7) |
| Subtotal | **42.2** | 63.0 | 50.2 | 41.9 | 25.6 | 21.6 |
| RFIG run-off business | **-** | - | - | - | - | - |
| Consolidated | **$42.2** | $63.0 | $50.2 | $41.9 | $25.6 | $21.6 |
| **F. Segmented and consolidated pretax income (loss) excluding all investment gains (losses):** | | | | | | |
| General insurance | **$363.9** | $340.3 | $319.9 | $336.4 | $221.3 | $288.3 |
| Title insurance | **219.3** | 237.1 | 210.2 | 166.8 | 99.5 | 124.3 |
| Corporate and other | **40.4** | 9.9 | 13.0 | 7.6 | 5.7 | 2.1 |
| Subtotal | **623.8** | 587.3 | 543.3 | 511.0 | 326.7 | 414.7 |
| RFIG run-off business | **49.9** | (73.5) | 69.8 | 29.4 | 10.3 | 110.0 |
| Consolidated | **673.7** | 513.8 | 613.1 | 540.4 | 337.1 | 524.8 |
| **Income taxes (credits) on above** | **117.2** | 195.7 | 193.5 | 177.7 | 104.3 | 173.2 |
| **G. Net income (loss) excluding investment gains (losses)** | **556.4** | 318.0 | 419.6 | 362.7 | 232.7 | 351.6 |
| **H. Consolidated pretax investment gains (losses):** | | | | | | |
| Realized from actual transactions | **58.2** | 211.6 | 72.8 | 91.3 | 272.3 | 148.1 |
| Unrealized from changes in fair value of equity securities | **(293.8)** | - | - | - | - | - |
| Total | **(235.6)** | 211.6 | 72.8 | 91.3 | 272.3 | 148.1 |
| Income tax (credit) on above | **(49.6)** | (30.8) | 25.5 | 31.9 | 95.3 | 51.8 |
| Net of tax investment gains (losses) | **(185.9)** | 242.4 | 47.3 | 59.3 | 177.0 | 96.2 |
| **I. Net income (loss)** | **$370.5** | $560.5 | $466.9 | $422.1 | $409.7 | $447.8 |
| **J. Consolidated operating cash flow (deficit)** | **$760.5** | $452.8 | $637.3 | $688.2 | $(181.2) | $686.7 |
| **K. Net income (loss) per diluted share:** | | | | | | |
| Net income (loss) excluding investment gains (losses) | **$1.86** | $1.11 | $1.46 | $1.28 | $0.84 | $1.25 |
| Realized investments gains (losses) | **0.15** | 0.81 | 0.16 | 0.20 | 0.60 | 0.32 |
| Unrealized investment gains (losses) | **(0.77)** | - | - | - | - | - |
| Net income (loss) | **$1.24** | $1.92 | $1.62 | $1.48 | $1.44 | $1.57 |
| **Cash dividends per share (b)** | **$0.78** | $1.76 | $0.75 | $0.74 | $0.73 | $0.72 |
| **Ending book value per share** | **$17.23** | $17.72 | $17.16 | $14.98 | $15.15 | $14.64 |
| **Closing stock market price per share** | **$20.57** | $21.38 | $19.00 | $18.63 | $14.63 | $17.27 |

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

**New High in Operating Earnings**

Excluding the results of our RFIG Run-Off segment, pretax operating income from ORI's actively managed business reached a record $623.8 million. This was 6.2% higher than $587.3 million in 2017. Including the Run-Off—that immediately prior to the Great Recession accounted for nearly 42% of our bottom line (versus 7.4% last year)—Old Republic's 2018 pretax operating earnings of $673.7 million were the second-highest ever achieved. These comparisons reflect the substantial recalibration of our capital resources and the refocused segmentation of our business since the onset of that recession.

As the preceding table shows, last year's operating earnings reflected greater contributions from these areas:

- The basic underwriting and related services functions
- Investment income
- The lower interest costs from reducing outstanding debt in last year's first quarter

***Underwriting and related services income*** reflected 70% better performance in 2018. Nearly all of this came from favorable year-over-year comparisons for the RFIG Run-Off business. In 2017, the latter had sustained significant claim costs from the final resolution of long-standing commercial litigation. As expected, this business regained its footing in 2018 and produced normalized results.

Underwriting/service performance of our General and Title insurance segments met expectations. Results were favorably affected by low single-digit top-line growth and underwriting ratios devoid of prior years' unfavorable claim reserve developments. The following table shows the segmented trends in underwriting/service profit margins for the past several years:

**Underwriting and Related Services Margin as % of Premiums, Fees, and Other Operating Revenues**

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|
| **Underwriting/Services Margins:** | | | | | | |
| General insurance | 2.8% | 2.7% | 2.2% | 2.4% | (0.8)% | 2.8% |
| Title insurance | 7.9 | 9.0 | 8.2 | 6.9 | 4.4 | 5.3 |
| Total actively managed business | 4.4 | 4.8 | 4.4 | 3.7 | 0.7 | 3.3 |
| RFIG Run-Off business | 39.1 | N/M | 27.4 | 2.0 | (6.7) | 23.1 |
| Consolidated total with run-off business | 4.9% | 3.0% | 5.1% | 3.7% | 0.4% | 4.6% |

***General Insurance*** underwriting/service profitability rebounded. This occurred as earned premiums edged up 5.3% and claim ratios remained essentially unchanged. With few exceptions, earned premiums grew for most types of coverages and markets served. The cumulative effects of recent years' and ongoing premium rate increases in several insurance products, along with new business production, were the main contributors. Higher premiums stemmed principally from commercial automobile (trucking), national accounts, and executive indemnity.

As the next table indicates, claim ratios have seen a fairly consistent downtrend during the past five years. The improvement has come from slightly lower estimates of current accident years' claim provisions, and from the lessening impacts of developments in prior years' reserve estimates.

**Effect on reported claim ratios of prior years' reserve developments on calendar year reported claim ratios**

| Calendar Years | Reported Claim Ratio | Effect of Prior Periods' (Favorable)/ Unfavorable Claim Reserves Development | Claim Ratio Excluding Prior Periods' Claim Reserves Development |
|---|---|---|---|
| 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 |
| 2018 | 72.2% | –% | 72.2% |

Annual claim provisions, and the trends they display, may not be particularly meaningful indicators of future outcomes for our liability-oriented mix of business. However, in the absence of significant economic and insurance industry dislocations in the foreseeable future, we currently anticipate that annually reported claim ratios should gradually fall within targeted averages in the high 60% to low 70% range. Assuming the current mix of coverages, the overall business should reflect an expense ratio ranging between 23% and 25%. In these circumstances, the composite underwriting ratio should fall within a range of 90% to 95%.

We're comfortable with the progress in this segment and with its longer-term potential. As a result, we expect to see this level of performance:

- Grow the top line faster than the rise in the nation's gross domestic product
- Achieve growth organically by staying focused on what we do well and not attempting to be all things to all people
- Achieve better composite underwriting ratios than the property and liability insurance industry at large, as we have in 41 of the past 50 years

***Our Title Insurance*** business' top line rose 2.1% last year compared to 3.6% in 2017. Profitability declined, principally due to higher claim costs that reflected lower benefits from favorable developments of prior years' reserves.

We attribute little meaning to the lower top-line growth rate of the past two years vis-à-vis the greater upside attained in the early part of this decade. Current revenue levels simply reflect a relatively mild slowdown in housing demand, associated with the dampening impact of higher mortgage rates.

Our longer view is that mortgage carrying costs should stay within the constraints of people's income allocation to shelter, and accommodate advances in housing costs driven by supply and demand. We also view our Title business' longer-term prospects in a very positive light. Our cultural bent to do things right in any market environment, and stay attuned to the always-present possibilities of increasing market share, have served us well over time. We think this can continue unaltered as we peek into the future.

The title insurance business model is based on mitigating and preventing losses rather than assuming risks. Underwriting risk is controlled at the front end of a transaction. This happens through extensive searches of historical real estate transfers, and the efforts of professionals trained in real estate law. Expenses incurred to achieve these objectives are booked when a title insurance policy and related services are first provided. As a result, upfront costs are much higher in title compared with other types of insurance, but claim costs are lower.

The following tables show the composite underwriting ratios posted in the past several years, and the effect of prior years' claim reserve developments on individual calendar years' reported claim ratios:

**Underwriting ratios:**

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|
| Claim ratio | 2.1% | 0.9% | 3.8% | 4.9% | 5.2% | 6.7% |
| Expense ratio | 90.0 | 90.0 | 87.9 | 88.3 | 90.4 | 88.0 |
| Composite underwriting ratio | 92.1% | 90.9% | 91.7% | 93.2% | 95.6% | 94.7% |

Effect on reported claim ratios of prior years' reserve developments on calendar year reported claim ratios

| Calendar Years | Reported Claim Ratio | Effect of Prior Periods' (Favorable)/ Unfavorable Claim Reserves Development | Claim Ratio Excluding Prior Periods' Claim Reserves Development |
|---|---|---|---|
| 2014 | 5.2% | (0.8)% | 6.0% |
| 2015 | 4.9 | (0.6) | 5.5 |
| 2016 | 3.8 | (1.1) | 4.9 |
| 2017 | 0.9 | (3.3) | 4.2 |
| 2018 | 2.1% | (2.0)% | 4.1% |

These indicators show how we have successfully managed the underwriting of Old Republic's Title Insurance segment. We believe there is a very good chance of replicating this performance in reasonably stable economic environments.

***The RFIG Run-Off*** segment reversed course once again in 2018. The turnaround was positive, as the business returned to expected normalcy. We estimate that ***mortgage guaranty (MI)*** business currently in force will be nearly exhausted by 2022–2023. Until then, this largest part of the Run-Off segment is expected to generate profitable, though naturally declining operating results.

The key assumption underlying this is that the U.S. economy will remain on an even keel throughout those years. In this scenario, capital committed to the operation should continue to rise and ultimately be redirected for other enterprise risk management objectives. In this we are favored with several economically sound options, including these three possibilities. First, using our very good operating infrastructure to accommodate the servicing needs of unrelated organizations. Second, reinsuring the remaining business in-force to a highly qualified, U.S.-regulated MI company. Third, selling the business for a good cash price to a legitimate, well-pedigreed, U.S.-regulated insurance interest—which could be depended upon to honor our obligations to all MI business stakeholders.

We expect the much smaller ***consumer credit indemnity (CCI)*** part of this Run-Off segment to follow the MI course. Business in force will become similarly exhausted, but at a faster clip, since underlying CCI insured loans are of a shorter duration.

***Investment income grew 5.5% in 2018.*** At year-end 2018, approximately 74% of the fair-valued investment portfolio of $12.9 billion was allocated to fixed-maturity and short-term investments. The remaining 26% was in equities. On a cost basis—which doesn't account for unrealized gains or losses—the allocation was 76% and 24%, respectively.

The total investment portfolio has three sources:

- Funds obtained from our debt holders, which are directed to our insurance subsidiaries' capital and reinvested in bonds and stocks
- The shareholders' paid-in capital and retained earnings balances, which are largely committed to our insurance subsidiaries in support of their underwriting exposures
- The cumulative cash flows produced by our insurance subsidiaries' underwriting/services operations that, after meeting operating liquidity needs, are similarly invested

Viewed in these terms, we estimate approximately 49% of the total bond, stock, and cash equivalent investments was attributable to the combination of tangible shareholders' equity and outstanding debt. The remaining 51% came from underwriting/services operations. This simplified mathematical analysis allows annual investment income to be assigned to each of the three sources, and to a practical understanding of the nature of operating income. On this basis, the next table shows that, on average, approximately 77% of consolidated pretax operating earnings was generated by the basic

underwriting/services functions of the business. The other 23% came from the investment of debt and shareholders' capital:

| | ($ in millions) | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
| **Attributed sources of consolidated pretax operating income:** | | | | | | |
| Underwriting/services income | $284.0 | $167.3 | $276.3 | $193.7 | $17.2 | $227.7 |
| Attributed net investment income to underwriting/services | 220.2 | 229.3 | 216.7 | 229.3 | 203.8 | 200.8 |
| Total | 504.2 | 396.6 | 493.0 | 423.0 | 221.0 | 428.5 |
| Attributed net investment income to shareholders' equity and outstanding debt | 211.6 | 180.1 | 170.3 | 159.3 | 141.7 | 117.9 |
| Less: Other expenses (largely interest on debt) | (42.2) | (63.0) | (50.2) | (41.9) | (25.6) | (21.6) |
| Total | 169.4 | 117.1 | 120.1 | 117.4 | 116.1 | 96.3 |
| Consolidated pretax operating income | $673.7 | $513.8 | $613.1 | $540.4 | $337.1 | $524.8 |

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

| | ($ in millions) | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
| **Net investment income from:** | | | | | | |
| Interest | $309.0 | $298.6 | $298.7 | $297.3 | $296.8 | $299.8 |
| Dividends | 124.0 | 110.9 | 88.2 | 91.0 | 49.3 | 21.2 |
| Other (mostly net investment expense) | (1.2) | (0.1) | 0.1 | 0.3 | (0.7) | (2.3) |
| Net investment income | $431.8 | $409.4 | $387.0 | $388.6 | $345.5 | $318.7 |
| Year-over-year % change | 5.5% | 5.8% | (0.4)% | 12.5% | 8.4% | (5.3)% |
| **Percentage of net investment income from:** | | | | | | |
| Interest | 71.4% | 72.9% | 77.2% | 76.5% | 85.9% | 94.1% |
| Dividends | 28.7% | 27.1% | 22.8% | 23.4% | 14.3% | 6.7% |
| **Net investment income as a percentage of:** | | | | | | |
| Underwriting/services income | 152.0% | 244.7% | 140.1% | 200.6% | * | 140.0% |
| Consolidated pretax operating income | 64.1% | 79.7% | 63.1% | 71.9% | 102.5% | 60.7% |

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

The size of our fixed-maturity security portfolio has not changed significantly over the past six years. It's been relatively fixed as a basic anchor for our insurance subsidiaries' obligations to policyholders and their beneficiaries. The maturities are stratified and conservatively matched to the expected timing of payments for those obligations in future years.

Since 2013, most of our investable funds have been directed toward purchasing high-quality common shares of U.S. companies. We favor the securities of issuers with long-term records of reasonable earnings growth and steadily increasing dividends. This is the major reason why dividends from equity securities have been the source of investment income growth in recent years.

The equities portfolio (limited to fewer than 100 issues at year-end 2018) is structured to contribute a measure of capital appreciation over time. Since 2013, realized gains in the investment portfolio have averaged about $142.3 million per year, and represented 27.2% of their combination with net investment income. During the same period, net unrealized investment losses have averaged approximately $104.0 million per year.

Realized investment gains provide a welcome addition to overall results. However, our investment management process has been—and remains focused on—assembling a quality portfolio that produces reliably consistent and growing streams of current income. We perform regular stress tests of the equities portfolio. The purpose is to gain reasonable assurance that periodic downdrafts in market prices, as typically occur in economic depression or recessionary conditions, would not seriously undermine our financial strength and the long-term continuity and prospects of our business.

We keep enterprise-wide risk management objectives in mind when structuring the overall securities portfolio. Our principal aim is twofold: 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. It also is entirely responsive to liquidity needs as insurance underwriting and other obligations come due.

**Evaluating 2018's Performance in View of Our Long-Term Business Strategy**

As we've said for decades, the nature of Old Republic's business requires that it be managed for the long run. Effectively managing over multiyear cycles means we operate the business with little regard to quarterly or even annual reporting periods. We believe that the best way to evaluate our operating results and financial condition is by looking at underwriting and overall operating performance over five- and preferably 10-year intervals. These periods may include one or two economic and/or underwriting cycles, which allows for the following:

- Cycles to run all or most of their course
- Premium rate changes to emerge in financial results in the process of insurance policy issuance, expiration, and renewal
- Reserved claim costs to be quantified with greater finality and effect as settlements are made over time

In its most basic terms, our long-term strategy is to create value for all the Company's important stakeholders. We do this through the continual enhancement of our competitive position and prospects for earnings and capital growth.

At year-end 2012, with the RFIG segment firmly established in run-off mode, we changed our strategic course. We anchored ORI's future to our three other segments: the two largest—General and Title insurance—and the smallest—Life and Accident insurance. This table shows the current distribution of capital resources and our long-term objective for them:

| | Actual December 31, 2018 allocation | Current long-term objective |
|---|---|---|
| General insurance | 76.5% | 82.5% |
| Title insurance | 13.8 | 15.0 |
| Life and accident insurance | 0.7 | 1.0 |
| Other | 0.9 | 1.5 |
| Subtotal | 91.9 | 100.0 |
| RFIG run-off business | 8.1 | – |
| Total | 100.0% | 100.0% |

The linchpin of this strategy is the conservative, long-term management of Old Republic's balance sheet. That's because maintaining a strong financial position offers these benefits:

- Supports our operating subsidiaries' ongoing risk taking and resulting obligations to policyholders and buyers of related services
- Enables our insurance subsidiaries to address and remain resilient in the face of recurring market challenges to pricing integrity and underwriting standard, and to say "no" to existing or new business with poor prospects of sustainable profitability
- Allows us to minimize debt leverage to better ensure control of our destiny

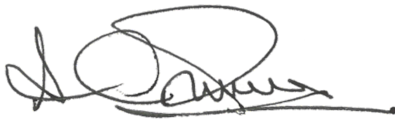
- Enables the retention of enough liquidity to address unforeseen contingencies, and provides for the reliably consistent distribution of a portion of our earnings through regular and possibly growing cash dividends to all of our shareholders

Early in this new year, our continued ability to meet these strategic objectives is very positive:

- The balance sheet is solid
- We have a strong, high-quality, permanent capital base
- Our people's significant intellectual capital continues to be fully dedicated to our mission
- We have strong business retention rates from a loyal and growing customer base

The production of multiyear operating plans is challenged by the dynamics of a highly competitive insurance marketplace. Over the decades, our management approach has been to encourage all of our people to remain alert to those dynamics while keeping their gaze fixed on the insurance underwriting lessons of the past to address current realities and what this portends. As can be seen on the next two pages, the results of this approach speak for themselves.

Respectfully submitted on behalf of the Board of Directors,



Aldo C. Zucaro
Chairman and Chief Executive Officer
Chicago, Illinois
March 29, 2019

Old Republic's clear **Purpose** is included in our mission statement:

*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, shareholders, and other important stakeholders place in us.*

Our ***Lodestar*** embodies the Company's mission by binding organization, purpose, and long-term strategy into a coordinated whole.

# Old Republic International Corporation

**By the Numbers: Blending Purpose, Governance and Strategy to Create Long-Term Financial Value**

The next chart shows how we've succeeded in blending purpose, governance, and strategy in the interest of all stakeholders. The information is shown for the 51 years ending in 2018. The 1968 starting year was chosen because it gave rise to the Company's ultimate transformation from Old Republic Life Insurance Company to Old Republic International Corporation in 1969.

We measure ORI's total book and market returns against three benchmarks: 1) the year-over-year and compounded annual changes in the nominal Gross Domestic Product (GDP), 2) the annual and compounded returns of the S&P 500 Index, and 3) the annual and compounded returns of the S&P Insurance Index. A retrospective review and analysis of the data yields two significant observations about the 10-year comparisons:

- Old Republic's stock performance fell short in 1979–1988. We believe this was due to accelerated diversification activity as we acquired various companies in exchange for our common stock, and formed new joint underwriting ventures. Together, these transactions caused temporary dilutions of book value and earnings per share in those years. However, most of these ultimately became solid contributors to our consolidated performance.
- In some regards, we also believe our performance fell a bit short in 2009–2018 because of the adverse impact of the Great Recession on Old Republic's investment in the financial indemnity segment. This business has been in run-off operating mode since 2012.

In the five 10-year periods reflected in the following table and its related 51 years table, Old Republic's total book value annual and compounded return exceeded the annual and compounded returns of those three benchmarks in eight of 13 comparisons (61%). In addition, our total market annual and compounded return exceeded the returns for the three benchmarks in 10 of 13 comparisons (77%). Collectively, Old Republic outperformed the benchmarks 69% of the time.

This table provides a summary of those 10-year comparisons.

| | Old Republic | | Selected benchmarks | | |
|---|---|---|---|---|---|
| Period | Total book return | Total market return | GDP Index | S&P 500 total market return | S&P Insurance total market return |
| Ten years: | | | | | |
| 1969–1978 | 17.5% | 10.7% | 9.6% | 3.2% | |
| 1979–1988 | 16.0 | 13.0 | 8.3 | 16.3 | |
| 1989–1998 | 13.5 | 20.2 | 5.6 | 19.2 | 16.3%* |
| 1999–2008 | 9.4 | 3.5 | 5.0 | –1.4 | –4.2 |
| 2009–2018 | 6.0% | 11.8% | 3.4% | 13.1% | 11.0% |
| 2018 only | 1.6% | 4.8% | 5.5% | –4.4% | –11.2% |
| 51 years 1968–2018 | 12.5% | 12.2% | 6.4% | 9.8% | 7.0** |

*9 years only, with 1989 as the base year, as this Index was not available before 1990 / **29 years only

## OLD REPUBLIC INTERNATIONAL CORPORATION
## Total Returns Compared to Nominal GDP and Selected S&P Indices' Returns

| | Old Republic International Corporation (1) | | | | | Nominal Gross Domestic Product (GDP)(2) | S&P 500 Index (3) | S&P Insurance Index (3) |
|---|---|---|---|---|---|---|---|---|
| Year | Year End Book Value | Year End Market Price | Annual Cash Dividend Declared | Total Book Value Annual & Compounded Return | Total Market Annual & Compounded Return | Total Annual & Compounded Return | Total Annual & Compounded Return | Total Annual & Compounded Return |
| 1967 | $0.243 | $0.338 | | | | | | |
| 1968 | 0.280 | 0.472 | $0.007 | 18.2% | 41.8% | 9.4% | 11.0% | |
| 1969 | 0.312 | 0.336 | 0.010 | 15.1% | -26.6% | 8.2% | -8.4% | |
| 1970 | 0.360 | 0.528 | 0.012 | 19.2% | 60.7% | 5.5% | 3.9% | |
| 1971 | 0.472 | 0.840 | 0.014 | 34.9% | 61.7% | 8.5% | 14.3% | |
| 1972 | 0.480 | 1.240 | 0.016 | 5.1% | 49.5% | 9.8% | 19.0% | |
| 1973 | 0.472 | 0.456 | 0.018 | 2.2% | -61.7% | 11.4% | -14.7% | |
| 1974 | 0.376 | 0.408 | 0.020 | -16.1% | -6.1% | 8.4% | -26.5% | |
| 1975 | 0.288 | 0.440 | 0.020 | -18.1% | 12.7% | 9.0% | 37.2% | |
| 1976 | 0.560 | 0.624 | 0.011 | 98.3% | 44.4% | 11.2% | 23.9% | |
| 1977 | 0.792 | 0.792 | 0.022 | 45.3% | 30.4% | 11.1% | -7.2% | |
| 1978 | 0.976 | 0.976 | 0.033 | 27.4% | 27.4% | 13.0% | 6.6% | |
| **10 Year Compound Annual Growth Rate** | | | | **17.5%** | **10.7%** | **9.6%** | **3.2%** | |
| 1979 | 1.080 | 1.112 | 0.052 | 16.0% | 19.3% | 11.7% | 18.6% | |
| 1980 | 1.224 | 0.888 | 0.054 | 18.3% | -15.3% | 8.8% | 32.5% | |
| 1981 | 1.392 | 1.144 | 0.054 | 18.1% | 34.9% | 12.2% | -4.9% | |
| 1982 | 1.648 | 1.456 | 0.056 | 22.4% | 32.2% | 4.3% | 21.5% | |
| 1983 | 1.888 | 2.353 | 0.058 | 18.1% | 65.6% | 8.7% | 22.6% | |
| 1984 | 2.208 | 2.039 | 0.059 | 20.1% | -11.0% | 11.1% | 6.3% | |
| 1985 | 2.304 | 3.014 | 0.062 | 7.1% | 51.3% | 7.5% | 31.7% | |
| 1986 | 2.528 | 2.316 | 0.065 | 12.5% | -21.5% | 5.5% | 18.7% | |
| 1987 | 2.952 | 1.861 | 0.068 | 19.5% | -17.2% | 6.0% | 5.3% | |
| 1988 | 3.152 | 2.345 | 0.071 | 9.2% | 30.0% | 7.9% | 16.6% | |
| **10 Year Compound Annual Growth Rate** | | | | **16.0%** | **13.0%** | **8.3%** | **16.3%** | |
| 1989 | 3.544 | 2.604 | 0.076 | 14.8% | 14.2% | 7.7% | 31.7% | |
| 1990 | 3.920 | 2.465 | 0.081 | 12.9% | -2.3% | 5.7% | -3.2% | -13.5% |
| 1991 | 4.456 | 4.207 | 0.086 | 15.9% | 75.0% | 3.3% | 30.4% | 29.3% |
| 1992 | 5.072 | 5.896 | 0.094 | 15.3% | 42.7% | 5.9% | 7.6% | 18.4% |
| 1993 | 5.744 | 5.363 | 0.102 | 15.3% | -7.4% | 5.2% | 10.1% | 5.2% |
| 1994 | 6.112 | 5.037 | 0.111 | 8.3% | -4.0% | 6.3% | 1.3% | -0.3% |
| 1995 | 7.248 | 8.415 | 0.121 | 20.6% | 70.1% | 4.8% | 37.5% | 41.0% |
| 1996 | 7.768 | 9.511 | 0.148 | 9.2% | 15.1% | 5.7% | 22.9% | 23.5% |
| 1997 | 8.312 | 13.222 | 0.178 | 9.3% | 41.2% | 6.2% | 33.3% | 46.4% |
| 1998 | 9.216 | 12.000 | 0.206 | 13.4% | -7.8% | 5.7% | 28.5% | 9.7% |
| **10 Year Compound Annual Growth Rate** | | | | **13.5%** | **20.2%** | **5.6%** | **19.2%** | **16.3%** |
| 1999 | 9.590 | 7.267 | 0.262 | 6.9% | -37.5% | 6.3% | 21.0% | 7.4% |
| 2000 | 11.000 | 17.066 | 0.294 | 17.8% | 142.1% | 6.5% | -9.1% | 34.9% |
| 2001 | 12.480 | 14.938 | 0.314 | 16.3% | -10.6% | 3.2% | -11.9% | -12.4% |
| 2002 | 13.960 | 14.934 | 0.336 | 14.6% | 2.0% | 3.4% | -22.1% | -20.7% |
| 2003 | 15.650 | 20.288 | 0.890 * | 18.5% | 42.4% | 4.8% | 28.7% | 21.0% |
| 2004 | 16.940 | 20.240 | 0.403 | 10.8% | 1.9% | 6.6% | 10.9% | 7.2% |
| 2005 | 17.530 | 21.008 | 1.312 * | 11.2% | 10.5% | 6.7% | 4.9% | 14.1% |
| 2006 | 18.910 | 23.280 | 0.590 | 11.2% | 13.9% | 6.0% | 15.8% | 10.9% |
| 2007 | 19.710 | 15.410 | 0.630 | 7.6% | -31.5% | 4.6% | 5.6% | -6.3% |
| 2008 | 15.910 | 11.920 | 0.670 | -15.9% | -18.0% | 1.8% | -37.0% | -58.1% |
| **10 Year Compound Growth Rate** | | | | **9.4%** | **3.5%** | **5.0%** | **-1.4%** | **-4.2%** |
| 2009 | 16.490 | 10.040 | 0.680 | 7.9% | -10.1% | -1.8% | 26.4% | 13.9% |
| 2010 | 16.160 | 13.630 | 0.690 | 2.2% | 43.4% | 3.8% | 15.1% | 15.8% |
| 2011 | 14.760 | 8.920 | 0.700 | -4.3% | -27.2% | 3.7% | 2.1% | -8.3% |
| 2012 | 14.030 | 10.650 | 0.710 | -0.1% | 23.4% | 4.2% | 16.0% | 19.1% |
| 2013 | 14.640 | 17.270 | 0.720 | 9.5% | 70.7% | 3.6% | 32.4% | 46.7% |
| 2014 | 15.150 | 14.630 | 0.730 | 8.5% | -11.2% | 4.4% | 13.7% | 8.3% |
| 2015 | 14.980 | 18.630 | 0.740 | 3.8% | 33.4% | 4.0% | 1.4% | 2.3% |
| 2016 | 17.160 | 19.000 | 0.750 | 19.6% | 6.2% | 2.7% | 12.0% | 17.6% |
| 2017 | 17.720 | 21.380 | 1.760 * | 13.5% | 16.9% | 4.2% | 21.8% | 16.2% |
| 2018 | $17.230 | $20.570 | $0.780 | 1.6% | 4.8% | 5.5% | -4.4% | -11.2% |
| **10 Year Compound Annual Growth Rate** | | | | **6.0%** | **11.8%** | **3.4%** | **13.1%** | **11.0%** |
| **51 Year Compound Annual Growth Rate** | | | | **12.5%** | **12.2%** | **6.4%** | **9.8%** | **7.0%** |

Note: (*) Includes special year-end cash dividends of $1.000, $0.800, and $0.534 per share at December 31, 2017, 2005, and 2003, respectively.

Sources: (1) Old Republic Database

(2) Nominal Gross Domestic Product from Federal Reserve Bank St. Louis, with 2018 estimate.

(3) Standard & Poor's Indices from S&P Global Market Intelligence LLC. Data for years 1989 and prior is not available for the S&P Insurance Index. Accordingly, the compound growth rate for 1989–1998 is for 9 years only, while the rate for 1989–2018 is for 29 years only.