

OLD REPUBLIC INTERNATIONAL CORP  
Form 10-Q  
August 05, 2016

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

FORM 10-Q

Quarterly report pursuant to section 13 or 15(d) of the Security Exchange Act of 1934  
for the quarterly period ended: June 30, 2016 or

Transition report pursuant to section 13 or 15(d) of the Security Exchange Act of 1934  
Commission File Number: 001-10607

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

Delaware No. 36-2678171  
(State or other jurisdiction of (IRS Employer Identification No.)  
incorporation or organization)

307 North Michigan Avenue, Chicago, Illinois 60601  
(Address of principal executive office) (Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes:  No:

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

Class	Shares Outstanding June 30, 2016
Common Stock / \$1 par value	262,445,592

There are 48 pages in this report

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OLD REPUBLIC INTERNATIONAL CORPORATION

Report on Form 10-Q / June 30, 2016

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

	(Unaudited)	
	June 30, 2016	December 31, 2015
Assets		
Investments:		
Available for sale:		
Fixed maturity securities (at fair value) (amortized cost: \$8,011.7 and \$8,149.4)	\$ 8,335.5	\$ 8,181.5
Equity securities (at fair value) (cost: \$1,925.8 and \$1,826.4)	2,333.4	1,987.8
Short-term investments (at fair value which approximates cost)	550.6	669.4
Miscellaneous investments	27.5	27.2
Total	11,247.2	10,866.1
Held to maturity:		
Fixed maturity securities (at amortized cost) (fair value: \$652.8 and \$359.7)	629.2	355.8
Other investments	3.0	3.5
Total investments	11,879.4	11,225.5
Other Assets:		
Cash	168.7	159.8
Securities and indebtedness of related parties	25.4	27.7
Accrued investment income	90.4	90.1
Accounts and notes receivable	1,519.1	1,310.2
Federal income tax recoverable: Current	34.3	26.5
Deferred	—	154.5
Prepaid federal income taxes	82.4	63.3
Reinsurance balances and funds held	128.1	129.0
Reinsurance recoverable: Paid losses	65.9	61.1
Policy and claim reserves	3,262.3	3,122.5
Deferred policy acquisition costs	262.4	255.4
Sundry assets	472.1	475.6
Total Other Assets	6,111.7	5,876.1
Total Assets	\$ 17,991.2	\$ 17,101.6
Liabilities, Preferred Stock, and Common Shareholders' Equity		
Liabilities:		
Losses, claims, and settlement expenses	\$ 9,126.6	\$ 9,120.1
Unearned premiums	1,918.2	1,748.7
Other policyholders' benefits and funds	194.4	196.4
Total policy liabilities and accruals	11,239.3	11,065.3
Commissions, expenses, fees, and taxes	435.6	452.3
Reinsurance balances and funds	642.4	496.1
Federal income tax payable: Deferred	48.6	—
Debt	982.9	952.8
Sundry liabilities	264.1	253.9
Commitments and contingent liabilities		
Total Liabilities	13,613.1	13,220.7
Preferred Stock (1)	—	—
Common Shareholders' Equity:		
Common stock (1)	262.4	261.9

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Additional paid-in capital	706.2	698.0
Retained earnings	3,064.8	2,937.5
Accumulated other comprehensive income	387.0	29.2
Unallocated ESSOP shares (at cost)	(42.5 )	(45.8 )
Total Common Shareholders' Equity	4,378.0	3,880.8
Total Liabilities, Preferred Stock and Common Shareholders' Equity	\$ 17,991.2	\$ 17,101.6

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At June 30, 2016 and December 31, 2015, there were 75,000,000 shares of \$0.01 par value preferred stock authorized, of which no shares were outstanding. As of the same dates, there were 500,000,000 shares of common (1) stock, \$1.00 par value, authorized, of which 262,445,592 and 261,968,328 were issued as of June 30, 2016 and December 31, 2015, respectively. At June 30, 2016 and December 31, 2015, there were 100,000,000 shares of Class B Common Stock, \$1.00 par value, authorized, of which no shares were issued.

See accompanying Notes to Consolidated Financial Statements.

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

	Quarters Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
<b>Revenues:</b>				
Net premiums earned	\$1,192.6	\$ 1,158.2	\$2,343.5	\$ 2,261.2
Title, escrow, and other fees	121.3	115.2	216.1	206.7
Total premiums and fees	1,313.9	1,273.5	2,559.6	2,467.9
Net investment income	94.9	93.1	191.2	184.6
Other income	26.6	26.5	53.9	52.0
Total operating revenues	1,435.5	1,393.3	2,804.9	2,704.6
<b>Realized investment gains (losses):</b>				
From sales	6.6	16.6	50.8	35.5
From impairments	—	—	—	—
Total realized investment gains (losses)	6.6	16.6	50.8	35.5
Total revenues	1,442.2	1,410.0	2,855.7	2,740.2
<b>Benefits, Claims and Expenses:</b>				
Benefits, claims and settlement expenses	587.2	604.4	1,157.0	1,169.2
Dividends to policyholders	5.5	3.6	9.8	9.0
Underwriting, acquisition, and other expenses	689.9	639.7	1,336.3	1,235.5
Interest and other charges	10.6	10.2	21.3	20.7
Total expenses	1,293.4	1,258.1	2,524.6	2,434.6
Income before income taxes (credits)	148.8	151.8	331.1	305.6
<b>Income Taxes (Credits):</b>				
Current	38.6	46.4	95.8	95.4
Deferred	9.0	3.3	11.3	4.6
Total	47.7	49.7	107.1	100.0
Net Income	\$101.0	\$ 102.0	\$224.0	\$ 205.5
<b>Net Income Per Share:</b>				
Basic	\$.39	\$.39	\$.87	\$.79
Diluted	\$.35	\$.36	\$.78	\$.72
<b>Average shares outstanding:</b>				
Basic	259,093,315	249,468,711	258,998,523	259,371,887
Diluted	296,069,028	285,987,501	295,923,028	285,852,949
<b>Dividends Per Common Share:</b>				
Cash	\$.1875	\$.1850	\$.3750	\$.3700

See accompanying Notes to Consolidated Financial Statements.

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

	Quarters Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
Net Income As Reported	\$101.0	\$102.0	\$224.0	\$205.5
Other comprehensive income (loss):				
Unrealized gains (losses) on securities:				
Unrealized gains (losses) on securities before reclassifications	276.4	(190.4 )	589.0	(116.6 )
Amounts reclassified as realized investment gains from sales in the statements of income	(6.6 )	(16.6 )	(50.8 )	(35.5 )
Pretax unrealized gains (losses) on securities	269.7	(207.1 )	538.1	(152.2 )
Deferred income taxes (credits)	94.3	(72.4 )	188.2	(53.4 )
Net unrealized gains (losses) on securities, net of tax	175.4	(134.6 )	349.9	(98.7 )
Defined benefit pension plans:				
Net pension adjustment before reclassifications	—	—	.1	.1
Amounts reclassified as underwriting, acquisition, and other expenses in the statements of income	.1	.2	.3	.5
Net adjustment related to defined benefit pension plans	.1	.2	.4	.7
Deferred income taxes (credits)	—	—	.1	.2
Net adjustment related to defined benefit pension plans, net of tax	.1	.1	.2	.4
Foreign currency translation and other adjustments	1.3	1.6	7.6	(6.1 )
Net adjustments	176.8	(132.9 )	357.8	(104.4 )
Comprehensive Income (Loss)	\$277.9	\$(30.8 )	\$581.8	\$101.1

See accompanying Notes to Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$224.0	\$205.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred policy acquisition costs	(6.7 )	(19.2 )
Premiums and other receivables	(208.6 )	(117.5 )
Unpaid claims and related items	6.5	83.5
Unearned premiums and other policyholders' liabilities	27.1	56.7
Income taxes	3.0	16.9
Prepaid federal income taxes	(19.1 )	(17.5 )
Reinsurance balances and funds	142.0	103.0
Realized investment (gains) losses	(50.8 )	(35.5 )
Accounts payable, accrued expenses and other	46.3	27.8
Total	163.8	303.7
Cash flows from investing activities:		
Fixed maturity securities:		
Available for sale:		
Maturities and early calls	484.5	323.3
Sales	157.6	115.4
Sales of:		
Equity securities	283.1	90.5
Other - net	7.5	10.1
Purchases of:		
Fixed maturity securities:		
Available for sale	(503.2 )	(524.8 )
Held to maturity	(278.4 )	(62.6 )
Equity securities	(338.0 )	(103.6 )
Other - net	(21.0 )	(20.3 )
Net decrease (increase) in short-term investments	118.6	(43.7 )
Other - net	—	—
Total	(89.2 )	(215.7 )
Cash flows from financing activities:		
Issuance of debentures and notes	32.4	—
Issuance of common shares	5.0	4.1
Redemption of debentures and notes	(3.5 )	(3.3 )
Dividends on common shares	(96.7 )	(95.7 )
Other - net	(2.8 )	(1.5 )
Total	(65.6 )	(96.5 )
Increase (decrease) in cash	8.8	(8.6 )



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Cash, beginning of period	159.8	136.7
Cash, end of period	\$168.7	\$128.1

Supplemental cash flow information:

Cash paid (received) during the period for: Interest	\$20.4	\$20.6
Income taxes	\$103.7	\$83.2

See accompanying Notes to Consolidated Financial Statements.

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

1. Accounting Policies and Basis of Presentation:

The accompanying consolidated financial statements have been prepared in conformity with the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") of accounting principles generally accepted in the United States of America ("GAAP"). These interim financial statements should be read in conjunction with these notes and those included in the Company's 2015 Annual Report on Form 10-K incorporated herein by reference.

Pertinent accounting and disclosure pronouncements issued from time to time by the FASB are adopted by the Company as they become effective. In May 2015, the FASB issued guidance requiring additional disclosures about short-duration insurance contracts. The new disclosures, which are required for annual periods beginning after December 31, 2015 and for interim periods beginning after December 31, 2016, are intended to provide additional information about insurance liabilities including the nature, amount, timing, and uncertainty of future cash flows related to those liabilities. In May 2014, the FASB issued a comprehensive revenue recognition standard which will be effective in 2018 and applies to all entities that have contracts with customers, except for those that fall within the scope of other standards, such as insurance contracts. In January 2016, the FASB issued guidance on the recognition and measurement of financial instruments which will be effective in 2018. Among other changes, the standard will require equity investments to be measured at fair value with changes in fair value recognized in the consolidated statement of income. In February 2016, the FASB issued guidance on lease accounting which will be effective in 2019 and requires balance sheet recognition of all leases with a term of greater than 12 months. In March 2016, the FASB issued guidance intended to simplify certain aspects of accounting for share-based payment award transactions which will be effective beginning in 2017. Most recently, in June 2016, the FASB issued guidance on accounting for credit losses on financial instruments which will be effective in 2020. The guidance will require immediate recognition of expected credit losses for certain financial instruments and also modifies the impairment model for available for sale debt securities. The Company is currently evaluating the foregoing guidance to determine the potential impact of its adoption on its consolidated financial statements. Certain debt amounts have been reduced due to the reclassification of immaterial debt issuance costs previously classified as deferred assets, in order to comply with a 2015 pronouncement by the FASB.

The financial accounting and reporting process relies on estimates and on the exercise of judgment. In the opinion of management all adjustments consisting only of normal recurring accruals necessary for a fair presentation of the results have been recorded for the interim periods. Amounts shown in the consolidated financial statements and applicable notes are stated (except as otherwise indicated and as to share data) in millions, which amounts may not add to totals shown due to truncation. Necessary reclassifications are made in prior periods' financial statements whenever appropriate to conform to the most current presentation.

2. Common Share Data:

Earnings Per Share - Consolidated basic earnings per share excludes the dilutive effect of common stock equivalents and is computed by dividing income available to common stockholders by the weighted-average number of common shares actually outstanding for the quarterly and year-to-date periods. Diluted earnings per share are similarly calculated with the inclusion of dilutive common stock equivalents. The following table provides a reconciliation of net income and the number of shares used in basic and diluted earnings per share calculations.

	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Numerator:				
Net income	\$ 101.0	\$ 102.0	\$ 224.0	\$ 205.5
Numerator for basic earnings per share - income available to common stockholders	101.0	102.0	224.0	205.5
Adjustment for interest expense incurred on assumed conversion of convertible notes	3.6	3.6	7.3	7.3
Numerator for diluted earnings per share - income available to common stockholders after assumed conversion of convertible notes	\$ 104.7	\$ 105.7	\$ 231.3	\$ 212.8
Denominator:				
Denominator for basic earnings per share - weighted-average shares (a)	259,093,259	259,468,711	258,998,252	258,371,887
Effect of dilutive securities - stock based compensation awards	1,297,379	1,330,655	1,257,907	1,404,422
Effect of dilutive securities - convertible senior notes	35,678,335	35,588,135	35,666,648	35,576,640
Denominator for diluted earnings per share - adjusted weighted-average shares and assumed conversion of convertible notes (a)	296,069,028	296,987,501	295,923,078	295,852,949
Earnings per share: Basic	\$.39	\$.39	\$.87	\$.79
Diluted	\$.35	\$.36	\$.78	\$.72
Anti-dilutive common stock equivalents excluded from earning per share computations:				
Stock based compensation awards	1,693,800	1,086,500	1,693,800	1,078,250
Convertible senior notes	—	—	—	—
Total	1,693,800	1,086,500	1,693,800	1,078,250

(a) In calculating earnings per share, pertinent accounting rules require that common shares owned by the Company's Employee Savings and Stock Ownership Plan that are not yet allocated to participants in the plan be excluded from the calculation. Such shares are issued and outstanding and have the same voting and other rights applicable to all other common shares.

### 3. Investments:

The Company may classify its invested assets in terms of those assets relative to which it either (1) has the positive intent and ability to hold until maturity, (2) has available for sale or (3) has the intention of trading. As of June 30, 2016 and December 31, 2015, substantially all the Company's invested assets were classified as "available for sale."

Fixed maturity securities classified as "held to maturity" are carried at amortized cost while fixed maturity securities and other preferred and common stocks (equity securities) classified as "available for sale" are included at fair value with changes in such values, net of deferred income taxes, reflected directly in shareholders' equity. Fair values for fixed maturity securities and equity securities are based on quoted market prices or estimates using values obtained from independent pricing services as applicable.

The Company reviews the status and fair value changes of each of its investments on at least a quarterly basis during the year, and estimates of other-than-temporary impairments ("OTTI") in the portfolio's value are evaluated and established at each quarterly balance sheet date. In reviewing investments for OTTI, the Company, in addition to a security's market price history, considers the totality of such factors as the issuer's operating results, financial condition and liquidity, its ability to access capital markets, credit rating trends, most current audit opinion, industry and securities markets conditions, and analyst expectations to reach its conclusions. Sudden fair value declines caused by such adverse developments as newly emerged or imminent bankruptcy filings, issuer default on significant obligations, or reports of financial accounting developments that bring into question the validity of the issuer's previously reported earnings or financial condition, are recognized as realized losses as soon as credible publicly available information emerges to confirm such developments. Absent issuer-specific circumstances that would result in a contrary conclusion, any equity security with an unrealized investment loss amounting to a 20% or greater decline consecutively during a six month period is considered OTTI. In the event the Company's estimate of OTTI is insufficient at any point in time, future periods' net income (loss) would be adversely affected by the recognition of additional realized or impairment losses, but its financial position would not necessarily be affected adversely inasmuch as such losses, or a portion of them, could have been recognized previously as unrealized losses in shareholders' equity. The Company recognized no OTTI adjustments for the quarters and six months ended June 30, 2016 and 2015.

The amortized cost and estimated fair values by type and contractual maturity of fixed maturity securities are shown in the following tables. Expected maturities will differ from contractual maturities since borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed Maturity Securities by Type:				
June 30, 2016:				
Available for sale:				
U.S. & Canadian Governments	\$ 1,357.5	\$ 48.6	\$ —	\$ 1,406.1
Corporate	6,654.2	325.3	50.1	6,929.4
	\$ 8,011.7	\$ 373.9	\$ 50.1	\$ 8,335.5
Held to maturity:				
Tax-exempt	\$ 629.2	\$ 23.6	\$ —	\$ 652.8
December 31, 2015:				
Available for sale:				
U.S. & Canadian Governments	\$ 1,269.5	\$ 18.9	\$ 3.6	\$ 1,284.9
Corporate	6,879.9	166.8	150.2	6,896.5
	\$ 8,149.4	\$ 185.8	\$ 153.8	\$ 8,181.5
Held to maturity:				
Tax-exempt	\$ 355.8	\$ 4.0	\$ .1	\$ 359.7

	Amortized Cost	Estimated Fair Value
Fixed Maturity Securities Stratified by Contractual Maturity at June 30, 2016:		
Available for sale:		
Due in one year or less	\$ 714.9	\$ 721.8
Due after one year through five years	3,872.4	4,046.0
Due after five years through ten years	3,280.9	3,414.9
Due after ten years	143.4	152.7
	\$ 8,011.7	\$ 8,335.5
Held to maturity:		
Due in one year or less	\$ —	\$ —
Due after one year through five years	14.1	14.1
Due after five years through ten years	557.8	578.9
Due after ten years	57.2	59.7
	\$ 629.2	\$ 652.8

A summary of the Company's equity securities follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Equity Securities:				
June 30, 2016	\$ 1,925.8	\$ 435.6	\$ 28.0	\$ 2,333.4
December 31, 2015	\$ 1,826.4	\$ 266.7	\$ 105.3	\$ 1,987.8

The following table reflects the Company's gross unrealized losses and fair value, aggregated by category and length of time that individual available for sale and held to maturity securities have been in an unrealized loss position. Fair value and issuer's cost comparisons follow:

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	12 Months or Less		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2016:						
Fixed Maturity Securities:						
U.S. & Canadian Governments	\$ .3	\$ —	\$ 1.3	\$ —	\$ 1.6	\$ —
Tax-exempt	11.1	—	—	—	11.1	—
Corporate	340.4	12.1	329.8	38.0	670.2	50.1
Subtotal	351.8	12.1	331.1	38.0	683.0	50.2
Equity Securities	206.0	4.1	219.1	23.8	425.1	28.0
Total	\$ 557.9	\$ 16.3	\$ 550.2	\$ 61.9	\$ 1,108.2	\$ 78.2

December 31, 2015:

Fixed Maturity Securities:						
U.S. & Canadian Governments	\$ 363.3	\$ 2.8	\$ 59.2	\$ .7	\$ 422.6	\$ 3.6
Tax-exempt	49.5	.1	—	—	49.5	.1
Corporate	2,214.5	100.0	336.4	50.2	2,550.9	150.2
Subtotal	2,627.4	103.0	395.7	50.9	3,023.1	154.0
Equity Securities	502.1	87.3	31.3	17.9	533.4	105.3
Total	\$ 3,129.5	\$ 190.4	\$ 427.0	\$ 68.9	\$ 3,556.6	\$ 259.3

At June 30, 2016, the Company held 152 fixed maturity and 11 equity securities in an unrealized loss position, representing 8.4% (as to fixed maturities) and 12.2% (as to equity securities) of the total number of such issues it held. At December 31, 2015, the Company held 709 fixed maturity and 22 equity securities in an unrealized loss position, representing 39.2% (as to fixed maturities) and 23.9% (as to equity securities) of the total number of such issues it held. Of the securities in an unrealized loss position, 61 and 79 fixed maturity securities and 4 and 1 equity securities, had been in a continuous unrealized loss position for more than 12 months as of June 30, 2016 and December 31, 2015, respectively. The unrealized losses on these securities are primarily deemed to reflect changes in the interest rate environment and changes in fair values of fixed income and equity securities issued by participants in the extractive industries in particular. As part of its assessment of other-than-temporary impairments, the Company considers its intent to continue to hold, and the likelihood that it will not be required to sell investment securities in an unrealized loss position until cost recovery, principally on the basis of its asset and liability maturity matching procedures.

Fair Value Measurements - Fair value is defined as the estimated price that is likely to be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (an exit price) at the measurement date. A fair value hierarchy is established that prioritizes the sources ("inputs") used to measure fair value into three broad levels: inputs based on quoted market prices in active markets (Level 1); observable inputs based on corroboration with available market data (Level 2); and unobservable inputs based on uncorroborated market data or a reporting entity's own assumptions (Level 3). Following is a description of the valuation methodologies and general classification used for financial instruments measured at fair value.

The Company uses quoted values and other data provided by a nationally recognized independent pricing source as inputs into its quarterly process for determining fair values of its fixed maturity and equity securities. To validate the techniques or models used by pricing sources, the Company's review process includes, but is not limited to: (i) initial and ongoing evaluation of methodologies used by outside parties to calculate fair value; and (ii) comparing other

sources including the fair value estimates to its knowledge of the current market and to independent fair value estimates provided by the investment custodian. The independent pricing source obtains market quotations and actual transaction prices for securities that have quoted prices in active markets and uses its own proprietary method for determining the fair value of securities that are not actively traded. In general, these methods involve the use of "matrix pricing" in which the independent pricing source uses observable market inputs including, but not limited to, investment yields, credit risks and spreads, benchmarking of like securities, broker-dealer quotes, reported trades and sector groupings to determine a reasonable fair value.

Level 1 securities include U.S. and Canadian Treasury notes, publicly traded common stocks, the quoted net asset value ("NAV") mutual funds, and most short-term investments in highly liquid money market instruments. Level 2 securities generally include corporate bonds, municipal bonds, and certain U.S. and Canadian government agency securities. Securities classified within Level 3 include non-publicly traded bonds and equity securities. There were no significant changes in the fair value of assets measured with the use of significant unobservable inputs as of June 30, 2016 and December 31, 2015.

The following tables show a summary of the fair value of financial assets segregated among the various input levels described above:



As of June 30, 2016:	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Available for sale:				
Fixed maturity securities:				
U.S. & Canadian Governments	\$702.5	\$703.5	\$	-\$1,406.1
Corporate	—	6,918.5	10.5	6,929.4
Equity securities	2,331.2	—	2.1	2,333.4
Short-term investments	550.6	—	—	550.6
Held to maturity:				
Fixed maturity securities:				
Tax-exempt	\$—	\$652.8	\$	-\$652.8
As of December 31, 2015:				
Available for sale:				
Fixed maturity securities:				
U.S. & Canadian Governments	\$606.6	\$678.2	\$	-\$1,284.9
Corporate	—	6,886.0	10.5	6,896.5
Equity securities	1,985.8	—	2.0	1,987.8
Short-term investments	669.4	—	—	669.4
Held to maturity:				
Fixed maturity securities:				
Tax-exempt	\$—	\$359.7	\$	-\$359.7

There were no transfers between Levels 1, 2 or 3 during the quarter ended June 30, 2016.

Investment income is reported net of allocated expenses and includes appropriate adjustments for amortization of premium and accretion of discount on fixed maturity securities acquired at other than par value. Dividends on equity securities are credited to income on the ex-dividend date. Realized investment gains and losses, which result from sales or write-downs of securities, are reflected as revenues in the income statement and are determined on the basis of amortized value at date of sale for fixed maturity securities, and cost in regard to equity securities; such bases apply to the specific securities sold. Unrealized investment gains and losses, net of any deferred income taxes, are recorded directly as a component of accumulated other comprehensive income in shareholders' equity. At June 30, 2016, the Company and its subsidiaries had no non-income producing fixed maturity securities.

The following table reflects the composition of net investment income, net realized gains or losses, and the net change in unrealized investment gains or losses for each of the periods shown.

	Quarters Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
Investment income from:				
Fixed maturity securities	\$74.3	\$74.0	\$149.4	\$147.6
Equity securities	19.7	18.5	40.7	36.3
Short-term investments	.5	.2	1.1	.4
Other sources	1.2	1.2	1.9	1.9
Gross investment income	95.9	94.0	193.2	186.3
Investment expenses (a)	1.0	.8	1.9	1.7
Net investment income	\$94.9	\$93.1	\$191.2	\$184.6
Realized gains (losses) on:				
Fixed maturity securities:				
Gains	\$4.6	\$4.7	\$7.0	\$8.1
Losses	(.5 )	(.1 )	(.7 )	(.4 )
Net	4.0	4.6	6.3	7.7
Equity securities:				
Gains	2.6	13.6	68.3	29.7
Losses	—	(1.6 )	(23.8 )	(1.6 )
Net	2.6	12.0	44.4	28.0
Other long-term investments, net	—	—	—	(.2 )
Total realized gains (losses)	6.6	16.6	50.8	35.5
Income taxes (credits)	2.3	5.8	17.8	12.4
Net realized gains (losses)	\$4.3	\$10.8	\$33.0	\$23.1
Changes in unrealized investment gains (losses) on:				
Fixed maturity securities	\$144.1	\$(134.8)	\$291.8	\$(56.0)
Less: Deferred income taxes (credits)	50.3	(47.0 )	102.0	(19.6 )
	93.7	(87.7 )	189.8	(36.3 )
Equity securities & other long-term investments	125.6	(72.3 )	246.2	(96.1 )
Less: Deferred income taxes (credits)	43.9	(25.4 )	86.1	(33.7 )
	81.6	(46.9 )	160.0	(62.4 )
Net changes in unrealized investment gains (losses)	\$175.4	\$(134.6)	\$349.9	\$(98.7)

Investment expenses consist of personnel costs and investment management and custody service fees, as well as (a) interest incurred on funds held of \$.1 and \$- for the quarters ended June 30, 2016 and 2015, and \$.2 and \$.1 for the six months ended June 30, 2016 and 2015, respectively.

#### 4. Employee Benefit Plans:

The Company has a pension plan (the Plan) covering a portion of its work force. The Plan is a defined benefit plan pursuant to which pension payments are based primarily on years of service and employee compensation near retirement. The Plan is closed to new participants and benefits were frozen as of December 31, 2013. As a result, eligible employees retain all of the vested rights as of the effective date of the freeze, while additional benefits no longer accrue. Plan assets are comprised principally of fixed maturity securities, common stocks and short-term

investments. Cash contributions of \$- and \$1.9 were made to the pension plan in the second quarter of 2016 and 2015, respectively, and \$- and \$3.7 were made during the first half of 2016 and 2015, respectively. No additional cash contributions are expected to be made in the remaining portion of calendar year 2016.

5. Information About Segments of Business:

Old Republic is engaged in the single business of insurance underwriting and related services. The Company conducts its operations through a number of regulated insurance company subsidiaries organized into three major segments, namely its General Insurance Group (property and liability insurance), Title Insurance Group, and the Republic Financial Indemnity Group ("RFIG") Run-off Business. The results of a small life & accident insurance business are included with those of the holding company parent and minor corporate services operations. Each of the Company's segments underwrites and services only those insurance coverages which may be written by it pursuant to state insurance regulations and corporate charter provisions. Segment results exclude net realized investment gains or losses and other-than-temporary impairments as these are aggregated in the consolidated totals. The contributions of Old Republic's insurance industry segments to consolidated totals are shown in the following table.

	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
<b>General Insurance:</b>				
Net premiums earned	\$741.8	\$709.3	\$1,460.8	\$1,412.7
Net investment income and other income	103.9	100.7	209.7	200.4
Total revenues before realized gains or losses	\$845.8	\$810.1	\$1,670.5	\$1,613.1
Income before taxes (credits) and realized investment gains or losses (a)	\$80.0	\$85.1	\$167.1	\$167.1
Income tax expense (credits) on above	\$24.4	\$27.4	\$51.3	\$53.6
<b>Title Insurance:</b>				
Net premiums earned	\$403.1	\$387.4	\$782.5	\$724.3
Title, escrow and other fees	121.3	115.2	216.1	206.7
Sub-total	524.5	502.7	998.7	931.0
Net investment income and other income	9.3	8.3	18.7	16.7
Total revenues before realized gains or losses	\$533.8	\$511.1	\$1,017.5	\$947.8
Income before taxes (credits) and realized investment gains or losses (a)	\$44.6	\$47.7	\$66.0	\$63.6
Income tax expense (credits) on above	\$15.7	\$16.7	\$23.3	\$22.3
<b>RFIG Run-off Business:</b>				
Net premiums earned	\$42.7	\$56.3	\$90.5	\$114.4
Net investment income and other income	5.7	6.3	11.7	12.6
Total revenues before realized gains or losses	\$48.5	\$62.6	\$102.3	\$127.1
Income before taxes (credits) and realized investment gains or losses	\$14.3	\$(.1)	\$42.0	\$35.0
Income tax expense (credits) on above	\$4.9	\$(.1)	\$14.5	\$12.1
<b>Consolidated Revenues:</b>				
Total revenues of above Company segments	\$1,428.3	\$1,383.9	\$2,790.3	\$2,688.0
Other sources (b)	28.7	29.5	57.1	57.9
Consolidated net realized investment gains (losses)	6.6	16.6	50.8	35.5
Consolidation elimination adjustments	(21.5)	(20.1)	(42.5)	(41.3)
Consolidated revenues	\$1,442.2	\$1,410.0	\$2,855.7	\$2,740.2
<b>Consolidated Income Before Taxes (Credits):</b>				
Total income before income taxes (credits) and realized investment gains or losses of above Company segments	\$139.0	\$132.6	\$275.3	\$265.8
Other sources - net (b)	3.0	2.5	4.9	4.1
Consolidated net realized investment gains (losses)	6.6	16.6	50.8	35.5
Consolidated income before income taxes (credits)	\$148.8	\$151.8	\$331.1	\$305.6