OLD REPUBLIC INTERNATIONAL CORP
Form 10-K
February 27, 2009

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

FORM 10-K

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
(FEE REQUIRED)

For the fiscal year ended: December 31, 2008 OR

_ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
(NO FEE REQUIRED)

For the transition period from ________________________________ to ______________________

Commission File Number: 001-10607

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

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of Each Exchange on Which Registered
Common Stock/$1 par value	New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes: X/ No:

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes: / No:X

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨

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

The aggregate market value of the registrant's voting Common Stock held by non-affiliates of the registrant (assuming, for purposes of this calculation only, that the registrant's directors and executive officers, the registrant's various employee benefit plans and American Business & Personal Insurance Mutual, Inc. and its subsidiaries are all affiliates of the registrant), based on the closing sale price of the registrant's common stock on June 30, 2008, the last day of the registrant's most recently completed second fiscal quarter, was $2,564,894,535.

The registrant had 235,036,335 shares of Common Stock outstanding as of January 30, 2009.

Documents incorporated by reference:

The following documents are incorporated by reference into that part of this Form 10-K designated to the right of the document title.

Title	Part
Proxy statement for the 2009 Annual Meeting of Shareholders	III, Items 10, 11, 12, 13 and 14
Exhibits as specified in exhibit index (page 93)	IV, Item 15

There are 94 pages in this report

PART I

Item 1 - Business

(a) General Description of Business. Old Republic International Corporation is a Chicago based holding company engaged in the single business of insurance underwriting. It conducts its operations through a number of regulated insurance company subsidiaries organized into three major segments, namely, it's General (property and liability insurance), Mortgage Guaranty, and Title Insurance Groups. References herein to such groups apply to the Company's subsidiaries engaged in these respective segments of business. The results of a small life and health insurance business are included within the corporate and other caption of this report. "Old Republic", or "the Company" refers to Old Republic International Corporation and its subsidiaries as the context requires.

The insurance business is distinguished from most others in that the prices (premiums) charged for various insurance products are set without certainty of the ultimate benefit and claim costs that will emerge or be incurred, often many years after issuance and expiration of a policy. This basic fact casts Old Republic as a risk-taking enterprise managed for the long run. Management therefore conducts the business with a primary focus on achieving favorable underwriting results over cycles, and the maintenance of financial soundness in support of its subsidiaries' long term obligations to insurance beneficiaries. To achieve these objectives, adherence to certain basic insurance risk management principles is stressed, and asset diversification and quality are emphasized. The underwriting principles encompass:

- Disciplined risk selection, evaluation, and pricing to reduce uncertainty and adverse selection;
- Augmenting the predictability of expected outcomes through insurance of the largest number of homogeneous risks as to each type of coverage;
- Reducing the insurance portfolio risk profile through:
  - diversification and spread of insured risks; and
  - assimilation of uncorrelated asset and liability exposures across economic sectors that tend to offset or counterbalance one another; and
- Effectively managing gross and net limits of liability through appropriate use of reinsurance.

In addition to income arising from Old Republic's basic underwriting and related services functions, significant investment income is earned from invested funds generated by those functions and from shareholders' capital. Investment management aims for stability of income from interest and dividends, protection of capital, and sufficient liquidity to meet insurance underwriting and other obligations as they become payable in the future. Securities trading and the realization of capital gains are not objectives. The investment philosophy is therefore best characterized as emphasizing value, credit quality, and relatively long-term holding periods. The Company's ability to hold both fixed maturity and equity securities for long periods of time is in turn enabled by the scheduling of maturities in contemplation of an appropriate matching of assets and liabilities.

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

The contributions to consolidated net revenues and income before taxes, and the assets and shareholders' equity of each Old Republic segment are set forth in the following table. This information should be read in conjunction with the consolidated financial statements, the notes thereto, and the "Management Analysis of Financial Position and Results of Operations" appearing elsewhere in this report.

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Financial Information Relating to Segments of Business (a)

Net Revenues (b)		($ in Millions)	
Years Ended December 31:	2008	2007	2006
General	$ 2,255.9	$ 2,438.0	$ 2,138.7
Mortgage Guaranty	690.0	608.3	529.9
Title	681.3	878.5	1,007.3
Corporate & Other – net (c)	132.1	131.4	127.1
Consolidated realized investment gains (losses)	(486.4)	70.3	19.0
Consolidation elimination adjustments	(35.3)	(35.8)	(27.9)
Consolidated	$ 3,237.7	$ 4,091.0	$ 3,794.2

Income (Loss) Before Taxes			
Years Ended December 31:	2008	2007	2006
General	$ 294.3	$ 418.0	$ 401.6
Mortgage Guaranty	(594.3)	(110.4)	228.4
Title	(46.3)	(14.7)	31.0
Corporate & Other – net (c)	13.5	15.1	-
Consolidated realized investment gains (losses)	(486.4)	70.3	19.0
Consolidated	$ (819.2)	$ 378.4	$ 680.1

Assets			
As of December 31:	2008	2007	2006
General	$ 9,482.9	$ 9,769.9	$ 9,363.5
Mortgage Guaranty	2,973.1	2,523.8	2,189.6
Title	762.4	770.4	772.7
Corporate & Other – net (c)	509.5	437.9	443.4
Consolidation elimination adjustments	(462.0)	(211.5)	(157.0)
Consolidated	$ 13,266.0	$ 13,290.6	$ 12,612.2

Shareholders' Equity			
As of December 31:	2008	2007	2006
General	$ 2,258.7	$ 2,536.7	$ 2,312.8
Mortgage Guaranty	828.0	1,237.7	1,292.0
Title	260.0	334.9	362.3
Corporate & Other – net (c)	433.7	475.4	439.2
Consolidated elimination adjustments	(40.2)	(43.2)	(37.3)
Consolidated	$ 3,740.3	$ 4,541.6	$ 4,369.2

(a) Reference is made to the table in Note 6 of the Notes to Consolidated Financial Statements, incorporated herein by reference, which shows the contribution of each subcategory to the consolidated net revenues and income or loss before income taxes of Old Republic's insurance industry segments.

(b) Revenues consist of net premiums, fees, net investment and other income earned; realized investment gains (losses) are shown in total for all groups combined since the investment portfolio is managed as a whole.

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

General Insurance Group

Old Republic's General Insurance segment is best characterized as a commercial lines insurance business with a strong focus on liability insurance coverages. Most of these coverages are provided to businesses, government, and other institutions. The Company does not have a meaningful exposure to personal lines insurance such as homeowners and private automobile coverages, nor does it insure significant amounts of commercial or other real property. In continuance of its commercial lines orientation, Old Republic also focuses on specific sectors of the North American economy, most prominently the transportation (trucking and general aviation), commercial construction, forest products, energy, general manufacturing, and financial services industries. In managing the insurance risks it undertakes, the Company employs various underwriting and loss mitigation techniques such as utilization of policy deductibles, captive insurance risk-sharing arrangements, and retrospective rating and policyholder dividend plans. These underwriting techniques are intended to better correlate premium charges with the ultimate claims experience pertaining to individual or groups of assureds.

Over the years, the General Insurance Group's operations have been developed steadily through a combination of internal growth, the establishment of additional subsidiaries focused on new types of coverages and/or industry sectors, and through several mergers of smaller companies. As a result, this segment has become widely diversified with a business base encompassing the following major coverages:

Automobile Extended Warranty Insurance (1992): Coverage is provided to the vehicle owner for certain mechanical or electrical repair or replacement costs after the manufacturer's warranty has expired.

Aviation (1983): Insurance policies protect the value of aircraft hulls and afford liability coverage for acts that result in injury, loss of life, and property damage to passengers and others on the ground or in the air. Old Republic's aviation business does not extend to commercial airlines.

Commercial Automobile Insurance (1930's): Covers vehicles (mostly trucks) used principally in commercial pursuits. Policies cover damage to insured vehicles and liabilities incurred by an assured for bodily injury and property damage sustained by third parties.

Commercial Multi-Peril ("CMP")(1920's): Policies afford liability coverage for claims arising from the acts of owners or employees, and protection for the physical assets of large businesses.

Financial Indemnity: Multiple types of specialty coverages, including most prominently the following five, are underwritten by Old Republic within this financial indemnity products classification.

Consumer Credit Indemnity ("CCI")(1950's): Policies provide limited indemnity to lenders and other financial intermediaries against the risk of non-payment of consumer loan balances by individual buyers and borrowers arising from unemployment, bankruptcy, and other failures to pay.

Errors & Omissions("E&O")/Directors & Officers ("D&O")(1983): E&O liability policies are written for non-medical professional service providers such as lawyers, architects and consultants, and provides coverage for legal expenses, and indemnity settlements for claims alleging breaches of professional standards. D&O coverage provides for the payment of legal expenses, and indemnity settlements for claims made against the directors and officers of corporations from a variety of sources, most typically shareholders.

Fidelity (1981): Bonds cover the exposures of financial institutions and commercial and other enterprises for losses of monies or debt and equity securities due to acts of employee dishonesty.

Guaranteed Asset Protection ("GAP")(2003): This insurance covers an automobile loan borrower for the dollar value difference between a primary insurance company's liability for the total loss (remaining cash value) of an insured vehicle and the amount still owed on an automobile loan.

Surety (1981): Bonds are insurance company guarantees of performance by a corporate principal or individual such as for the completion of a building or road project, or payment on various types of contracts.

General Liability (1920's): Protects against liability of an assured which stems from carelessness, negligence, or failure to act, and results in property damage or personal injury to others.

Home Warranty Insurance (1981): This product provides repair and/or replacement coverage for home systems (e.g. plumbing, heating, and electrical) and designated appliances.

Inland Marine (1920's): Coverage pertains to the insurance of property in transit over land and of property which is mobile by nature.

Travel Accident (1970): Coverages provided under these policies, some of which are also underwritten by the Company's Canadian life insurance affiliate, cover monetary losses arising from trip delay and cancellation for individual insureds.

Workers' Compensation (1920's): This coverage is purchased by employers to provide insurance for employees' lost wages and medical benefits in the event of work-related injury, disability, or death.

(Parenthetical dates refer to the year(s) when Old Republic's Companies began underwriting the coverages)

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Commercial automobile, general liability and workers' compensation insurance are typically produced in tandem for many assureds. For 2008, production of commercial automobile direct insurance premiums accounted for approximately 28.5% of consolidated General Insurance Group direct premiums written, while workers' compensation and general liability direct premium production amounted to approximately 19.1% and 13.4%, respectively, of such consolidated totals.

Approximately 83% of general insurance premiums are produced through independent agency or brokerage channels, while the remaining 17% is obtained through direct production facilities.

Mortgage Guaranty Group

Private mortgage insurance protects mortgage lenders and investors from default related losses on residential mortgage loans made primarily to homebuyers who make down payments of less than 20% of the home's purchase price. The Mortgage Guaranty Group insures only first mortgage loans, primarily on residential properties incorporating one-to-four family dwelling units.

There are two principal types of private mortgage insurance coverage: "primary" and "pool". Primary mortgage insurance provides mortgage default protection on individual loans and covers a stated percentage of the unpaid loan principal, delinquent interest, and certain expenses associated with the default and subsequent foreclosure. In lieu of paying the stated coverage percentage, the Company may pay the entire claim amount, take title to the mortgaged property, and subsequently sell the property to mitigate its loss. Pool insurance, which is written on a group of loans in negotiated transactions, provides coverage that ranges up to 100% of the net loss on each individual loan included in the pool, subject to provisions regarding deductibles, caps on individual exposures, and aggregate stop loss provisions which limit aggregate losses to a specified percentage of the total original balances of all loans in the pool.

Traditional primary insurance is issued on an individual loan basis to mortgage bankers, brokers, commercial banks and savings institutions through a network of Company-managed underwriting sites located throughout the country. Traditional primary loans are individually reviewed (except for loans insured under delegated approval programs) and priced according to filed premium rates. In underwriting traditional primary business, the Company generally adheres to the underwriting guidelines published by the Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac") or the Federal National Mortgage Association ("FNMA" or "Fannie Mae"), purchasers of many of the loans the Company insures. Delegated underwriting programs allow approved lenders to commit the Company to insure loans provided they adhere to predetermined underwriting guidelines. In 2008, delegated underwriting approvals accounted for approximately 73% of the Company's new traditional primary risk written.

Bulk and other insurance is issued on groups of loans to mortgage banking customers through a centralized risk assessment and underwriting department. These groups of loans are priced in the aggregate, on a bid or negotiated basis. Coverage for insurance issued in this manner can be provided through primary insurance policies (loan level coverage) or pool insurance policies (aggregate coverage). The Company considers transactions designated as bulk insurance to be exposed to higher risk (as determined by characteristics such as origination channel, loan amount, credit quality, and loan documentation) than those designated as other insurance.

Before insuring any loans, the Company issues to each approved customer a master policy outlining the terms and conditions under which coverage will be provided. Primary business is then executed via the issuance of a commitment/certificate for each loan submitted and approved for insurance. In the case of business providing pool coverage, a separate pool insurance policy is issued covering the particular loans applicable to each transaction.

As to all types of mortgage insurance products, the amount of premium charge depends on various underwriting criteria such as loan-to-value ratios, the level of coverage being provided, the borrower's credit history, the type of loan instrument (whether fixed rate/fixed payment or an adjustable rate/adjustable payment), documentation type, and whether or not the insured property is categorized as an investment or owner occupied property. Coverage is non-cancelable by the Company (except in the case of non-payment of premium or certain master policy violations) and premiums are paid under single, annual, or monthly payment plans. Single premiums are paid at the inception of coverage and provide coverage for the entire coverage term. Annual and monthly premiums are renewable on their anniversary dates with the premium charge determined on the basis of the original or outstanding loan amount. The majority of the Company's direct premiums are written under monthly premium plans. Premiums may be paid by borrowers as part of their monthly mortgage payment and passed through to the Company by the servicer of the loan or they may be paid directly by the originator of, or investor in the mortgage loan.

Title Insurance Group

The title insurance business consists primarily of the issuance of policies to real estate purchasers and investors based upon searches of the public records, which contain information concerning interests in real property. The policy insures against losses arising out of defects, liens and encumbrances affecting the insured title and not excluded or excepted from the coverage of the policy. For the year ended December 31, 2008, approximately 37% of the Company's consolidated title premium and related fee income stemmed from direct operations (which include branch offices of its title insurers and wholly owned subsidiaries of the Company), while the remaining 63% emanated from independent title agents and underwritten title companies.

There are two basic types of title insurance policies: lenders' policies and owners' policies. Both are issued for a one–time premium. Most mortgages made in the United States are extended by mortgage bankers, savings and commercial banks, state and federal agencies, and life insurance companies. The financial institutions secure title insurance policies to protect their mortgagees' interest in the real property. This protection remains in effect for as long as the mortgagee has an interest in the property. A separate title insurance policy may be issued to the owner of the real estate. An owner's policy of title insurance protects an owner's interest in the title to the property.

The premiums charged for the issuance of title insurance policies vary with the policy amount and the type of policy issued. The premium is collected in full when the real estate transaction is closed, there being no recurring fee thereafter. In many areas, premiums charged on subsequent policies on the same property may be reduced, depending generally upon the time elapsed between issuance of the previous policies and the nature of the transactions for which the policies are issued. Most of the charge to the customer relates to title services rendered in conjunction with the issuance of a policy rather than to the possibility of loss due to risks insured against. Accordingly, the cost of service performed by a title insurer relates for the most part to the prevention of loss rather than to the assumption of the risk of loss. Claim losses that do occur result primarily from title search and examination mistakes, fraud, forgery, incapacity, missing heirs and escrow processing errors.

In connection with its title insurance operations, Old Republic also provides escrow closing and construction disbursement services, as well as real estate information products, national default management services, and services pertaining to real estate transfers and loan transactions.

Corporate and Other Operations

Corporate and other operations include the accounts of a small life and health insurance business as well as those of the parent holding company and several minor corporate services subsidiaries that perform investment management, payroll, administrative and minor marketing services.

The Company's small life and health business registered 2008 and 2007 net premium revenues of $80.1 million and $77.0 million, respectively. This business is conducted in both the United States and Canada and consists mostly of limited product offerings sold through financial intermediaries such as automobile dealers, travel agents, and marketing channels that are also utilized in some of Old Republic's general insurance operations. Production of term life insurance, accounting for net premiums earned of $16.8 million in 2008 and $16.5 million in 2007, was terminated and placed in run off as of year end 2004.

Consolidated Underwriting Statistics

The following table reflects underwriting statistics covering premiums and related loss, expense, and policyholders' dividend ratios for the major coverages underwritten in the Company's in–surance segments.

	($ in Millions) Years Ended December 31,		
	2008	2007	2006
General Insurance Group:			
Overall Experience:			
Net Premiums Earned	$ 1,989.3	$ 2,155.1	$ 1,902.1
Claim Ratio	72.2%	67.4%	65.5%
Policyholders' Dividend Benefit	.8	.4	.4
Expense Ratio	24.2	24.1	24.4
Composite Ratio	97.2%	91.9%	90.3%
Experience by Major Coverages:			
Commercial Automobile (Principally Trucking):			
Net Premiums Earned	$ 694.5	$ 752.4	$ 752.4
Claim Ratio	75.8%	73.9%	75.3%
Workers' Compensation:			
Net Premiums Earned	$ 418.4	$ 505.6	$ 412.8
Claim Ratio	67.2%	69.7%	73.6%
Policyholders' Dividend Benefit	2.2%	1.2%	.9%
General Liability:			
Net Premiums Earned	$ 150.2	$ 168.1	$ 96.2
Claim Ratio	63.9%	59.8%	57.2%
Three Above Coverages Combined:			
Net Premiums Earned	$ 1,263.2	$ 1,426.2	$ 1,261.5
Claim Ratio	71.5%	70.7%	73.4%
Financial Indemnity: (a)			
	$ 319.7	$ 298.0	$ 209.4

Net Premiums Earned			
Claim Ratio	95.0%	69.6%	40.6%
Inland Marine and Commercial Multi-Peril:			
Net Premiums Earned	$ 192.9	$ 199.3	$ 203.1
Claim Ratio	58.8%	54.0%	54.0%
Home and Automobile Warranty:			
Net Premiums Earned	$ 126.2	$ 129.8	$ 133.1
Claim Ratio	61.2%	62.9%	63.8%
Other Coverages: (b)			
Net Premiums Earned	$ 89.5	$ 98.9	$ 94.0
Claim Ratio	43.6%	46.7%	43.8%
Mortgage Guaranty Group:			
Net Premiums Earned	$ 592.5	$ 518.2	$ 444.3
Claim Ratio	199.3%	118.8%	42.8%
Expense Ratio	15.7	17.7	22.5
Composite Ratio	215.0%	136.5%	65.3%
Title Insurance Group: (c)			
Net Premiums Earned	$ 463.1	$ 638.5	$ 733.6
Combined Net Premiums & Fees Earned	$ 656.1	$ 850.7	$ 980.0
Claim Ratio	7.0%	6.6%	5.9%
Expense Ratio	103.6	98.1	93.6
Composite Ratio	110.6%	104.7%	99.5%
All Coverages Consolidated:			
Net Premiums & Fees Earned	$ 3,318.1	$ 3,601.2	$ 3,400.5
Claim and Benefit Ratio	81.8%	60.2%	45.3%
	39.1	41.3	44.7

Expense Ratio			
Composite Ratio	120.9%	101.5%	90.0%

Any necessary reclassifications of prior year data are reflected in the above table to conform to our current presentation.

(a) Consists principally of fidelity, surety, consumer credit indemnity, executive indemnity (directors & officers and errors & omissions), and guaranteed asset protection (GAP) coverages.

(b) Consists principally of aviation and travel accident coverages.

(c) Title claim, expense, and composite ratios are calculated on the basis of combined net premiums and fees earned.

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Variations in claim ratios are typically caused by changes in the frequency and severity of claims incurred, changes in premium rates and the level of premium refunds, and periodic changes in claim and claim expense reserve estimates resulting from ongoing reevaluations of reported and incurred but not reported claims and claim expenses. The Company can therefore experience period-to-period volatility in the underwriting results for individual coverages as demonstrated in the above table. As a result of the Company's basic underwriting focus in the management of its business, it has attempted to dampen this volatility and thus ensure a higher degree of overall underwriting stability by diversifying the coverages it offers and industries it serves.

The claim ratios include loss adjustment expenses where appropriate. Policyholders' dividends, which apply principally to workers' compensation insurance, are a reflection of changes in loss experience for individual or groups of policies, rather than overall results, and should be viewed in conjunction with loss ratio trends.

The general insurance claims ratio reflects reasonably consistent trends for all reporting periods. This major cost factor reflects largely pricing and risk selection improvements that have been applied since 2001, together with elements of reduced loss severity and frequency. General Insurance Group loss ratios for workers' compensation and liability insurance coverages in particular may reflect greater variability due to chance events in any one year, changes in loss costs emanating from participation in involuntary markets (i.e. insurance assigned risk pools and associations in which participation is basically man–datory), and added provisions for loss costs not recoverable from assuming reinsurers which may experience financial difficulties from time to time. The Company generally underwrites concurrently workers' compensation, commercial automobile (liability and physical damage), and general liability insurance coverages for a large number of customers. Accordingly, an evaluation of trends in premiums, claims and dividend ratios for these individual coverages should be considered in the light of such a concurrent underwriting approach. With respect to commercial automobile coverages, higher claims ratios experienced during the past three years are primarily due to greater claim frequency. Better results in workers' compensation in 2008 and 2007 have been due to improved pricing in general as well as stronger growth of business subject to captive reinsurance, retrospective premium, or self-insured deductible programs that are intended to produce lower net loss ratios. The claims ratio for a relatively small book of general liability coverages has tended to be highly volatile, usually rising due to the impact of higher claims emergence and greater than anticipated severity, mostly from legacy asbestos and environmental claims exposures. The higher claim ratio for financial indemnity coverages in 2008 and 2007 was driven principally by greater claim frequencies experienced in Old Republic's consumer credit indemnity ("CCI") coverage. The higher loss experience on Old Republic's CCI product added 4.1 percentage points to the 2008 general insurance overall composite ratio by comparison to an insignificant effect for 2007.

The mortgage guaranty claims ratios have continued to rise in recent periods, principally as a result of higher reserve positions and paid losses. Reserve additions have been increasing as a result of higher levels of reported delinquencies as well as increased expectations as to claim frequencies and severities. Claim severity has trended upward primarily due to loans with larger unpaid principal balances and corresponding risk becoming delinquent along with a lower level of mitigation potential due to housing depreciation trends. Expectations of greater claim frequency are impacted by several factors, including the number of loans entering into default, the outlook for the housing market, tightening lending standards which affect borrowers' ability to refinance troubled loans, the aging of the bulk business, and the overall declining state of the economy.

The title insurance claim ratio has been in the mid single digits in each of the past several years due to favorable trends in claims frequency and severity for business underwritten in the past fifteen years or so. Though still reasonably contained, the increases in claim ratios in 2008 and 2007 are reflective of the continuing downturn in the housing and related mortgage industries.

The consolidated claims, expense, and composite ratios reflect all the above factors and the changing period-to-period contributions of each segment to consolidated results.

General Insurance Claim Reserves

The Company’s property and liability insurance subsidiaries establish claim reserves which consist of estimates to settle: a) reported claims; b) claims which have been incurred as of each balance sheet date but have not as yet been reported (“IBNR”) to the insurance subsidiaries; and c) the direct costs, (fees and costs which are allocable to individual claims) and indirect costs (such as salaries and rent applicable to the overall management of claim departments) to administer known and IBNR claims. Such claim reserves, except as to classification in the Consolidated Balance Sheets as to gross and reinsured portions, are reported for financial and regulatory reporting purposes at amounts that are substantially the same.

The establishment of claim reserves by the Company's insurance subsidiaries is a reasonably complex and dynamic process influenced by a large variety of factors. These factors principally include past experience applicable to the anticipated costs of various types of claims, continually evolving and changing legal theories emanating from the judicial system, recurring accounting, statistical, and actuarial studies, the professional experience and expertise of the Company's claim departments' personnel or attorneys and independent claim adjusters, ongoing changes in claim frequency or severity patterns such as those caused by natural disasters, illnesses, accidents, work-related injuries, and changes in general and industry-specific economic conditions. Consequently, the reserves established are a reflection of the opi–nions of a large number of persons, of the application and interpretation of historical precedent and trends, of expectations as to future developments, and of management’s judgment in interpreting all such factors. At any point in time, the Company is exposed to possibly higher or lower than anticipated claim costs due to all of these factors, and to the evolution, interpretation, and expansion of tort law, as well as the effects of unexpected jury verdicts.

In establishing claim reserves, the possible increase in future loss settlement costs caused by inflation is considered implicitly, along with the many other factors cited above. Reserves are generally set to provide for the ultimate cost of all claims. With regard to workers' compensation reserves, however, the ultimate cost of long-term disability or pension type claims is discounted to present value based on interest rates ranging from 3.5% to 4.0%. The Company, where applicable, uses only such discounted reserves in evaluating the results of its operations, in pricing its products and settling retrospective and reinsured accounts, in evaluating policy terms and experience, and for other general business purposes. Solely to comply with reporting rules mandated by the Securities and Exchange Commission, however, Old Republic has made statistical studies of applicable workers' compensation reserves to obtain estimates of the amounts by which claim and claim adjustment expense reserves, net of reinsurance, have been discounted. These studies have resulted in estimates of such amounts at $156.8 million, $148.5 million and $151.0 million, as of December 31, 2008, 2007 and 2006, respectively. It should be noted, however, that these differences between discounted and non-discounted (terminal) reserves are, fundamentally, of an informational nature, and are not indicative of an effect on operating results for any one or series of years for the above noted reasons.

Early in 2001, the Federal Department of Labor revised the Federal Black Lung Program regulations. The revisions basically require a reevaluation of previously settled, denied, or new occupational disease claims in the context of newly devised, more lenient standards when such claims are resubmitted. Following a number of challenges and appeals by the insurance and coal mining industries, the revised regulations were, for the most part, upheld in June, 2002 and are to be applied prospectively. Since the final quarter of 2001, black lung claims filed or refiled pursuant to these anticipated and now final regulations have increased, though the volume of new claim reports has abated in recent years. The vast majority of claims filed to date against Old Republic pertain to business underwritten through loss sensitive programs that permit the charge of additional or refund of return premiums to wholly or partially offset changes in estimated claim costs, or to business underwritten as a service carrier on behalf of various industry-wide involuntary market (i.e. assigned risk) pools. A much smaller portion pertains to business produced on a traditional risk transfer basis. The Company has established applicable reserves for claims as they have been reported and for claims not as yet reported on the basis of its historical experience as well as assumptions relative to the effect of the revised regulations. Inasmuch as a variety of challenges are likely as the revised regulations are implemented through the actual claim settlement process, the potential impact on reserves, gross and net of reinsurance or retrospective premium adjustments, resulting from such regulations cannot as yet be estimated with reasonable certainty.

Old Republic's reserve estimates also include provisions for indemnity and settlement costs for various asbestosis and environmental impairment (“A&E”) claims that have been filed in the normal course of business against a number of its insurance subsidiaries. Many such claims relate to policies issued prior to 1985, including many issued during a short period between 1981 and 1982 pursuant to an agency agreement canceled in 1982. Over the years, the Company's property and liability insurance subsidiaries have typically issued general liability insurance policies with face amounts ranging between $1.0 million and $2.0 million and rarely exceeding $10.0 million. Such policies have, in turn, been subject to reinsurance cessions which have typically reduced the subsidiaries’ net retentions to $.5 million or less as to each claim. Old Republic's exposure to A&E claims cannot, however, be calculated by conventional insurance reserving methods for a variety of reasons, including: a) the absence of statistically valid data inasmuch as such claims typically involve long reporting delays and very often uncertainty as to the number and identity of insureds against whom such claims have arisen or will arise; and b) the litigation history of such or similar claims for insurance industry members which has produced inconsistent court decisions with regard to such questions as to when an alleged loss occurred, which policies provide coverage, how a loss is to be allocated among potentially responsible insureds and/or their insurance carriers, how policy coverage exclusions are to be interpreted, what types of environmental impairment or toxic tort claims are covered, when the insurer's duty to defend is triggered, how policy limits are to be calculated, and whether clean-up costs constitute property damage. In recent times, the Executive Branch and/or the Congress of the United States have proposed or considered changes in the legislation and rules affecting the determination of liability for environmental and asbestosis claims. As of December 31, 2008, however, there is no solid evidence to suggest that possible future changes might mitigate or reduce some or all of these claim exposures. Because of the above issues and uncertainties, estimation of reserves for losses and allocated loss adjustment expenses for A&E claims in particular is much more difficult or impossible to quantify with a high degree of precision. Accordingly, no representation can be made that the Company's reserves for such claims and related costs will not prove to be overstated or understated in the future. At December 31, 2008, Old Republic’s aggregate indemnity and loss adjustment expense reserves specifically identified with A&E exposures amounted to approximately $172.4 million gross, and $145.0 million net of reinsurance. Based on average annual claims payments during the five most recent calendar years, such reserves represented 7.3 years (gross) and 9.9 years (net of reinsurance) of average annual claims payments. Fluctuations in this ratio between years can be caused by the inconsistent pay out patterns associated with these types of claims. For the five years ended December 31, 2008, incurred A&E claim and related loss settlement costs have averaged 2.4% of average annual General Insurance Group claims and related settlement costs.

Over the years, the subject of property and liability insurance claim reserves has been written about and analyzed extensively by a large number of professionals and regulators. Accordingly, the above discussion summary should, of necessity, be regarded as a basic outline of the subject and not as a definitive presentation. The Company believes that its overall reserving practices have been consistently applied over many years, and that its aggregate reserves have generally resulted in reasonable approximations of the ultimate net costs of claims incurred. However, no representation is made nor is any guaranty given that ultimate net claim and related costs will not develop in future years to be greater or lower than currently established reserve estimates.

The following table shows the evolving redundancies or deficiencies for reserves established as of December 31, of each of the years 1998 through 2008. In reviewing this tabular data, it should be noted that prior periods' loss payment and development trends may not be repeated in the future due to the large variety of factors influencing the reserving and settlement processes outlined herein above. The reserve redundancies or deficiencies shown for all years are not necessarily indicative of the effect on reported results of any one or series of years since cumulative retrospective premium and commission adjustments employed in various parts of the Company's business may partially offset such effects. The moderately deficient development of reserves at year-ends 1998 to 2002 pertain mostly to claims incurred in prior accident years, generally for business written in the 1980's. (See "Consolidated Underwriting Statistics" above, and "Reserves, Reinsurance, and Retrospective Ad–justments" elsewhere herein).

($ in Millions)

(a) As of December 31:	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
(b) Liability(1) for unpaid claim and claim adjustment expenses(2):	$ 3,222	$ 3,175	$ 2,924	$ 2,414	$ 2,182	$ 1,964	$ 1,802	$ 1,678	$ 1,661	$ 1,699	$ 1,742
(c) Paid (cumulative) as of (3):											
One year later	- %	26.5%	23.6%	14.9%	25.1%	24.7%	23.5%	23.4%	23.2%	22.2%	22.5%
Two years later	-	-	38.4	30.6	33.5	39.2	38.7	37.4	37.1	36.8	35.7
Three years later	-	-	-	41.7	44.0	44.3	48.4	47.8	46.1	45.9	44.9
Four years later	-	-	-	-	51.0	50.8	51.2	54.1	52.9	52.1	51.0
Five years later	-	-	-	-	-	55.8	55.6	55.3	57.7	57.0	55.6
Six years later	-	-	-	-	-	-	59.5	58.7	57.8	61.0	59.6
Seven years later	-	-	-	-	-	-	-	62.0	60.7	60.5	63.1
Eight years later	-	-	-	-	-	-	-	-	63.7	63.0	62.4
Nine years later	-	-	-	-	-	-	-	-	-	65.8	64.7
Ten years later	- %	- %	- %	- %	- %	- %	- %	- %	- %	- %	67.2%
(d) Liability reestimated (i.e., cumulative payments plus reestimated ending liability) As of (4):											
One year later	- %	97.4%	96.2%	95.2%	97.6%	97.2%	98.6%	99.6%	97.3%	96.1%	96.2%
Two years later	-	-	94.3	92.3	94.8	97.0	98.2	101.3	98.1	94.9	93.3
Three years later	-	-	-	90.4	93.3	95.6	99.7	102.7	100.1	96.5	93.0
Four years later	-	-	-	-	92.2	95.7	100.4	105.8	102.2	98.0	95.1

Five years later	-	-	-	-	-	95.6	100.6	106.7	105.6	100.7	96.5
Six years later	-	-	-	-	-	-	101.0	107.3	106.9	104.2	99.4
Seven years later	-	-	-	-	-	-	-	107.8	107.5	105.4	103.0
Eight years later	-	-	-	-	-	-	-	-	108.3	106.1	104.1
Nine years later	-	-	-	-	-	-	-	-	-	106.7	104.7
Ten years later	- %	- %	- %	- %	- %	- %	- %	- %	- %	- %	105.3%
(e) Redundancy (deficiency)(5)											
for each year-end at (a):	- %	2.6%	5.7%	9.6%	7.8%	4.4%	-1.0%	-7.8%	-8.3%	-6.7%	-5.3%
Average redundancy (deficiency) for all											
year-ends at (a):	1.1%										

(1) Amounts are reported net of reinsurance.

(2) Excluding unallocated loss adjustment expense reserves.

(3) Percent of most recent reestimated liability (line d). Decreases in paid loss percen–tages may at times reflect the reassumption by the Company of certain previously ceded loss reserves from assuming reinsurers through commutations of then existing reserves.

(4) Percent of beginning liability (line b) for unpaid claims and claim adjustment expenses.

(5) Beginning liability less the most current liability reestimated (line d) as a percent of beginning liability (line b).

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The following table shows an analysis of changes in aggregate reserves for the Company's property and liability insurance claims and allocated claim adjustment expenses for each of the years shown:

	($ in Millions) Years Ended December 31,										
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
(a) Beginning net reseres	$ 3,175	$ 2,924	$ 2,414	$ 2,182	$ 1,964	$ 1,802	$ 1,678	$ 1,661	$ 1,699	$ 1,742	$ 1,846
Incurred claims and claim expenses:											
(b) Current year provision	1,452	1,490	1,295	1,191	1,070	893	814	749	690	734	728
(c) Change in prior years' provision	(83)	(110)	(116)	(52)	(55)	(25)	(7)	(44)	(66)	(66)	(123)
(d) Total incurred	1,369	1,379	1,179	1,138	1,014	868	807	704	623	668	604
Claim payments on:											
(e) Current years' events	502	476	342	402	332	277	260	269	258	298	322
(f) Prior years' events	820	652	326	504	463	428	423	418	402	412	385
(g) Total payments	1,323	1,128	668	907	796	706	683	687	661	710	708
(h) Ending net reserves (a + d – g)	3,222	3,175	2,924	2,414	2,182	1,964	1,802	1,678	1,661	1,699	1,742
(i) Unallocated loss adjustment expense reserves	104	103	97	92	87	83	78	76	73	71	73
(j) Reinsurance recoverable on claims reserves	2,020	1,976	1,929	1,894	1,632	1,515	1,363	1,261	1,235	1,238	1,190
(k) Gross claims reserves (h + i + j)	$ 5,346	$ 5,256	$ 4,951	$ 4,401	$ 3,902	$ 3,562	$ 3,244	$ 3,016	$ 2,969	$ 3,009	$ 3,005

(b) Investments. In common with other insurance organizations, Old Republic invests most capital and operating funds in income producing securities. Investments must comply with applicable insurance laws and regulations which prescribe the nature, form, quality, and relative amounts of investments which may be made by insurance companies. Generally, these laws and regulations permit insurance companies to invest within varying limitations in state, municipal and federal government obligations, corporate debt, preferred and common stocks, certain types of real estate, and first mortgage loans. For many years, Old Republic's investment policy has therefore been to acquire and retain primarily investment grade, publicly traded, fixed maturity securities. The investment policy is also influenced by the terms of the insurance coverages written, by its expectations as to the timing of claim and benefit payments, and by income tax considerations. As a consequence of all these factors, the Company's invested assets are managed in consideration of enterprise-wide risk management objectives intended to assure solid funding of its subsidiaries' long-term obligations to insurance policyholders and other beneficiaries, as well as evaluations of their long-term effect on stability of capital accounts. Accordingly, the Company's exposure to so called "junk bonds", illiquid private equity investments, real estate, mortgage loans, mortgage-backed securities, asset-backed securities, collateralized debt obligations ("CDO's"), guaranteed investment contracts, and derivatives (including credit default swaps, interest rate swaps, or structured investment vehicles, and auction rate variable short-term investments) is either immaterial or non existent. In a similar vein, the Company does not engage in hedging transactions or securities lending operations, nor does it invest in securities whose values are predicated on non-regulated financial instruments exhibiting amorphous counter-party risk attributes.

Management considers investment grade securities to be those rated by Standard & Poor's Corporation ("Standard & Poor's") or Moody's Investors Service, Inc. ("Moody's") that fall within the top four rating categories, or securities which are not rated but have characteristics similar to securities so rated. The Company had no bond or note investments in default as to principal and/or interest at December 31, 2008 and 2007. The status and market value changes of each investment is reviewed on at least a quarterly basis, and estimates of other-than-temporary impairments in the portfolio's value are evaluated and established at each balance sheet date. Substantially all of the Company's invested assets as of December 31, 2008 have been classified as "available for sale" pursuant to the existing investment policy.

The Company's investment policies are not designed to maximize or emphasize the realization of investment gains. The combination of gains and losses from sales or impairments of securities are reflected as realized gains and losses in the income statement. Dispositions of securities result principally from scheduled maturities of bonds and notes and sales of fixed income and equity securities available for sale. Dispositions of securities at a realized gain or loss reflect such factors as ongoing assessments of issuers' business prospects, rotation among industry sectors, changes in credit quality, and tax planning considerations.

The following tables show invested assets at the end of the last two years, together with investment income for each of the last three years:

Consolidated Investments
($ in Millions)
December 31,

	2008	2007
Available for Sale		
Fixed Maturity Securities:		
U.S. & Canadian Governments	$ 694.4	$ 723.0
Tax-Exempt	2,365.7	2,354.5
Utilities	1,108.1	987.8
Corporate	3,238.6	3,318.2
	7,406.9	7,383.6
Equity Securities	350.3	842.1
Short-term Investments	888.0	462.6
Miscellaneous Investments	29.7	64.7
Total available for sale	8,675.0	8,753.1
Other Investments	7.8	8.1
Total Investments	$ 8,682.9	$ 8,761.2

Sources of Consolidated Investment Income
($ in Millions)
Years Ended December 31,

	2008	2007	2006
Fixed Maturity Securities:			
Taxable Interest	$ 259.1	$ 247.7	$ 222.5
Tax-Exempt Interest	86.1	85.2	75.5
	345.2	332.9	298.0
Equity Securities Dividends	13.3	16.1	13.9
Other Investment Income:			
Interest on Short-term Investments	16.5	28.2	26.6
Sundry	5.6	6.4	6.5
	22.1	34.6	33.1
Gross Investment Income	380.8	383.8	345.1
Less: Investment Expenses (a)	3.4	3.8	3.5

Net Investment Income	$	377.3	$	379.9	$	341.6

(a) Investment expenses consist primarily of personnel costs, investment management and custody service fees, and interest incurred on funds held of $.6 million, $1.1 million, and $1.0 million for the years ended December 31, 2008, 2007, and 2006 respectively.

The independent credit quality ratings and maturity distribution for Old Republic's consolidated fixed maturity investments, excluding short-term investments, at the end of the last two years are shown in the following tables. These investments, $7.4 billion and $7.3 billion at December 31, 2008 and 2007, respectively, represented approximately 56% of consolidated assets as of both such dates, and 78% and 84%, respectively, of consolidated liabilities as of such dates.

Credit Quality Ratings of Fixed Maturity Securities (b)

	December 31,	
	2008	2007
	(% of total portfolio)	
Aaa	14.2%	32.9%
Aa	28.7	17.0
A	33.4	27.9
Baa	22.1	20.2
Total investment grade	98.4	98.0
All others (c)	1.6	2.0
Total	100.0%	100.0%

(b) Credit quality ratings used are those assigned primarily by Moody’s; other ratings are assigned by Standard & Poor’s and converted to equivalent Moody’s ratings classifications.

(c) “All others” includes non-investment grade or non-rated small issues of tax-exempt bonds.

Age Distribution of Fixed Maturity Securities

	December 31, 2008	2007
	(% of total portfolio)	
Maturity Ranges:		
Due in one year or less	14.0%	11.7%
Due after one year through five years	51.0	46.8
Due after five years through ten years	34.7	41.1
Due after ten years through fifteen years	.3	.4
Due after fifteen years	-	-
	100.0%	100.0%
Average Maturity in Years	4.4	4.4

(c) Marketing. Commercial automobile (trucking), workers' compensation and general liability insurance underwritten for business enterprises and public entities is marketed primarily through independent insurance agents and brokers with the assistance of Old Republic's trained sales, underwriting, actuarial, and loss control personnel. The remaining property and liability commercial insurance written by Old Republic is obtained through insurance agents or brokers who are independent contractors and generally represent other insurance companies, and by direct sales. No single source accounted for over 10% of Old Republic's premium volume in 2008.

Traditional primary mortgage insurance is marketed primarily through a direct sales force which calls on mortgage bankers, brokers, commercial banks, savings institutions and other mortgage originators. No sales commissions or other forms of remuneration are paid to the lending institutions or others for the procurement or development of business. The Mortgage Guaranty segment’s ten largest customers were responsible for 50.4%, 49.5%, and 39.7% of traditional primary new insurance written in 2008, 2007, and 2006, respectively. The largest single customer accounted for 15.6% of traditional primary new insurance written in 2008 compared to 9.8% and 8.8% in 2007 and 2006, respectively.

A substantial portion of the Company's title insurance business is referred to it by title insurance agents, builders, lending institutions, real estate developers, realtors, and lawyers. Title insurance and related real estate settlement products are sold through 227 Company offices and through agencies and underwritten title companies in Puerto Rico, the District of Columbia and all 50 states. The issuing agents are authorized to issue commitments and title insurance policies based on their own search and examination, or on the basis of abstracts and opinions of approved attorneys. Policies are also issued through independent title companies (not themselves title insurers) pursuant to underwriting agreements. These agreements generally provide that the agency or underwritten company may cause title policies of the Company to be issued, and the latter is responsible under such policies for any payments to the insured. Typically, the agency or underwritten title company deducts the major portion of the title insurance charge to the customer as its commission for services. During 2008, approximately 63% of title insurance premiums and fees were accounted for by policies issued by agents and underwritten title companies.

Title insurance premium and fee revenue is closely related to the level of activity in the real estate market. The volume of real estate activity is affected by the availability and cost of financing, population growth, family movements and other factors. Also, the title insurance business is seasonal. During the winter months, new building activity is reduced and, accordingly, the Company produces less title insurance business relative to new construction during such months than during the rest of the year. The most important factors, insofar as Old Republic's title business is concerned, however, are the rates of activity in the resale and refinance markets for residential properties.

The personal contacts, relationships, reputations, and intellectual capital of Old Republic's key executives are a vital element in obtaining and retaining much of its business. Many of the Company's customers produce large amounts of premiums and therefore warrant substantial levels of top executive attention and involvement. In this respect, Old Republic's mode of operation is similar to that of professional reinsurers and commercial insurance brokers, and relies on the marketing, underwriting, and management skills of relatively few key people for large parts of its business.

Several types of insurance coverages underwritten by Old Republic, such as consumer credit indemnity, title, and mortgage guaranty insurance, are affected in varying degrees by changes in national economic conditions. During periods when housing activity or mortgage lending are constrained by any combination of rising interest rates, tighter mortgage underwriting guidelines, falling home prices, excess housing supply and/or economic recession operating and/or claim costs pertaining to such coverages tend to rise disproportionately to revenues and can result in underwriting losses and reduced levels of profitability.

At least one Old Republic general insurance subsidiary is licensed to do business in each of the 50 states, the District of Columbia, Puerto Rico, Virgin Islands, Guam, and each of the Canadian provinces; mortgage insurance subsidiaries are licensed in 50 states and the District of Columbia; title insurance operations are licensed to do business in 50 states, the District of Columbia, Puerto Rico and Guam. Consolidated direct premium volume distributed among the various geographical regions shown was as follows for the past three years:

Geographical Distribution of Consolidated Direct Premiums Written

	2008	2007	2006
United States:			
Northeast	9.4 %	10.1 %	8.4 %
Mid-Atlantic	7.3	8.6	8.8
Southeast	20.0	20.6	21.1
Southwest	12.7	12.2	12.8
East North Central	12.9	12.3	13.3
West North Central	13.5	12.4	13.0
Mountain	8.3	8.2	8.1
Western	13.4	13.0	11.8
Foreign (Principally Canada)	2.5	2.6	2.7
Total	100.0 %	100.0 %	100.0 %

(d) Reserves, Reinsurance, and Retrospective Adjustments. Old Republic's insurance subsidiaries establish reserves for unearned premiums, reported claims, claims incurred but not reported, and claim adjustment expenses, as required in the circumstances. Such reserves are based on regulatory accounting requirements and generally accepted accounting principles. In accordance with insurance industry practices, claim reserves are based on estimates of the amounts that will be paid over a period of time and changes in such estimates are reflected in the financial statements of the periods during which they occur. See “General Insurance Claim Reserves” herein.

To maintain premium production within its capacity and limit maximum losses and risks for which it might become liable under its policies, Old Republic, as is the practice in the insurance industry, may cede a portion or all of its premiums and liabilities on certain classes of insurance, individual policies, or blocks of business to other insurers and reinsurers. Although the ceding of insurance does not generally discharge an insurer from its direct liability to a policyholder, it is industry practice to establish the reinsured part of risks as the liability of the reinsurer. Old Republic also employs retrospective premium adjustments and risk sharing arrangements for parts of its business in order to minimize losses for which it might become liable under its insurance policies, and to afford its customers or producers a degree of participation in the risks and rewards associated with such business. Under retrospective arrangements, Old Republic collects additional premiums if losses are greater than originally anticipated and refunds a portion of original premiums if loss costs are lower. Pursuant to risk sharing arrangements, the Company adjusts production costs or premiums retroactively to likewise reflect deviations from originally expected loss costs. The amount of premium, production costs and other retrospective adjustments which may be made is either limited or unlimited depending on the Company's evaluation of risks and related contractual arrangements. To the extent that any reinsurance companies, retrospectively rated risks, or producers might be unable to meet their obligations under existing reinsurance, retrospective insurance and production agreements, Old Republic would be liable for the defaulted amounts. In these regards, however, the Company generally protects itself by withholding funds, by securing indemnity agreements, by obtaining surety bonds, or by otherwise collateralizing such obligations through irrevocable letters of credit, cash, or securities.

Reinsurance recoverable asset balances represent amounts due from or credited by assuming reinsurers for paid and unpaid claims and policy reserves. Such reinsurance balances that are recoverable from non-admitted foreign and certain other reinsurers such as captive insurance companies owned by assureds or business producers, as well as similar balances or credits arising from policies that are retrospectively rated or subject to assureds’ high deductible retentions are substantially collateralized by letters of credit, securities, and other financial instruments. Old Republic evaluates on a regular basis the financial condition of its assuming reinsurers and assureds who purchase its retrospectively rated or high deductible policies. Estimates of unrecoverable amounts are included in the Company’s net claim and claim expense reserves since reinsurance, retrospectively rated and self-insured deductible policies and contracts do not relieve Old Republic from its direct obligations to assureds or their beneficiaries.

Old Republic's reinsurance practices with respect to portions of its business also result from its desire to bring its sponsoring organizations and customers into some degree of joint venture or risk sharing relationship. The Company may, in exchange for a ceding commission, reinsure up to 100% of the underwriting risk, and the premium applicable to such risk, to insurers owned by or affiliated with lending institutions, financial and other intermediaries whose customers are insured by Old Republic, or individual customers who have formed captive insurance companies. The ceding commissions received compensate Old Republic for performing the direct insurer's functions of underwriting, actuarial, claim settlement, loss control, legal, reinsurance, and administrative services to comply with local and federal regulations, and for providing appropriate risk management services.

Remaining portions of Old Republic's business are reinsured in most instances with independent insurance or reinsurance companies pursuant to excess of loss agreements. Except as noted in the following paragraph, reinsurance protection on property and liability coverages generally limits the net loss on most individual claims to a maximum of: $2.7 million for workers' compensation; $2.6 million for commercial auto liability; $2.6 million for general liability; $8.0 million for executive protection (directors & officers and errors & omissions); $1.1 million for aviation; and $2.6 million for property coverages. Roughly 49% of the mortgage guaranty traditional primary insurance in force is subject to lender sponsored captive reinsurance arrangements structured primarily on an excess of loss basis. All bulk and other insurance risk in force is retained. Exclusive of reinsurance, the average direct primary mortgage guaranty exposure is approximately (in whole dollars) $40,200. Title insurance risk assumptions are currently limited to a maximum of $500.0 million as to any one policy. The vast majority of title policies issued, however, carry exposures of $1.0 million or less.

Due to worldwide reinsurance capacity and related cost constraints, effective January 1, 2002, the Company began retaining exposures for all, but most predominantly workers’ compensation liability insurance coverages in excess of $40.0 million that were previously assumed by unaffiliated reinsurers for up to $100.0 million. Effective January 1, 2003, reinsurance ceded limits were raised once again to the $100.0 million level, and as of January 1, 2005, they were further increased to $200.0 million. Pursuant to regulatory requirements, however, all workers’ compensation primary insurers such as the Company remain liable for unlimited amounts in excess of reinsured limits. Other than the substantial concentration of workers’ compensation losses caused by the September 11, 2001 terrorist attack on America, to the best of the Company’s knowledge there had not been a similar accumulation of claims in a single location from a single occurrence prior to that event. Nevertheless, the possibility continues to exist that non-reinsured losses could, depending on a wide range of severity and frequency assumptions, aggregate several hundred million dollars to an insurer such as the Company in the event a catastrophe, such as caused by an earthquake, lead to the death or injury of a large number of employees concentrated in a single facility such as a high rise building.

As a result of the September 11, 2001 terrorist attack on America, the reinsurance industry eliminated coverage from substantially all contracts for claims arising from acts of terrorism. Primary insurers such as the Company thereby became fully exposed to such claims. Late in 2002, the Terrorism Risk Insurance Act of 2002 (the “TRIA”) was signed into law, immediately establishing a temporary federal reinsurance program administered by the Secretary of the Treasury. The program applied to insured commercial property and casualty losses resulting from an act of terrorism, as defined in the TRIA. Congress extended and modified the program in late 2005 through the Terrorism Risk Insurance Revision and Extension Act of 2005 (the “TRIREA”). TRIREA expired on December 31, 2007. Congress enacted a revised program in December 2007 through the Terrorism Risk Insurance Program Reauthorization Act of 2007 (the “TRIPRA”), a seven year extension through December 31, 2014. The TRIA automatically voided all policy exclusions which were in effect for terrorism related losses and obligated insurers to offer terrorism coverage with most commercial property and casualty insurance lines. The TRIREA revised the definition of “property and casualty insurance” to exclude commercial automobile, burglary and theft, surety, professional liability and farm owner's multi-peril insurance. TRIPRA did not make any further changes to the definition of property and casualty insurance, however, it does include domestic acts of terrorism within the scope of the program. Although insurers are permitted to charge an additional premium for terrorism coverage, insureds may reject the coverage. Under TRIPRA, the program’s protection is not triggered for losses arising from an act of terrorism until the industry first suffers losses of $100 billion in the aggregate during any one year. Once the program trigger is met, the program will pay 85% of an insurer’s terrorism losses that exceed that individual insurer’s deductible. The insurer’s deductible is 20% of direct earned premium on property and casualty insurance. Insurers may reinsure that portion of the risk they retain under the program. Effective January 1, 2008, the Company reinsured limits of $198.0 million excess of $2.0 million for claims arising from certain acts of terrorism for casualty clash coverage and catastrophe workers’ compensation liability insurance coverage.

(e) Competition. The insurance business is highly competitive and Old Republic competes with many stock and mutual insurance companies. Many of these competitors offer more insurance coverages and have substantially greater financial resources than the Company. The rates charged for many of the insurance coverages in which the Company specializes, such as workers' compensation insurance, other property and liability insurance and title insurance, are primarily regulated by the states and are also subject to extensive competition among major insurance organizations. The basic methods of competition available to Old Republic, aside from rates, are service to customers, expertise in tailoring insurance programs to the specific needs of its clients, efficiency and flexibility of operations, personal involvement by its key executives, and, as to title insurance, accuracy and timely delivery of evidences of title issued. Mortgage insurance companies also compete by providing contract underwriting services to lenders, enabling the latter to improve the efficiency of their operations by outsourcing all or part of their mortgage loan underwriting processes. For certain types of coverages, including loan credit indemnity and mortgage guaranty insurance, the Company also competes in varying degrees with the Federal Housing Administration ("FHA") and the Veterans Administration ("VA"). In these regards, the Company's insurance subsidiaries compete with the FHA and VA by offering different coverages and by establishing different requirements relative to such factors as interest rates, closing costs, and loan processing charges. The Company believes its experience and expertise have enabled it to develop a variety of specialized insurance programs and related services for its customers, and to secure state insurance departments' approval of these programs.

(f) Government Regulation. In common with all insurance companies, the Company's insurance subsidiaries are subject to the regulation and supervision of the jurisdictions in which they do business. The method of such regulation varies, but, generally, regulation has been delegated to state insurance commissioners who are granted broad administrative powers relating to: the licensing of insurers and their agents; the nature of and limitations on investments; approval of policy forms; reserve requirements; and trade practices. In addition to these types of regulation, many classes of insurance, including most of the Company's insurance coverages, are subject to rate regulations which require that rates be reasonable, adequate, and not unfairly discriminatory.

The FNMA and the FHLMC sometimes also referred to as Government Sponsored Enterprises ("GSEs") have various qualifying requirements for private mortgage guaranty insurers which write mortgage insurance on loans acquired by the FNMA and FHLMC from mortgage lenders. These requirements call for compliance with the applicable laws and regulations of the insurer's domiciliary state and those states in which it conducts business and maintenance of contingency reserves in accordance with applicable state laws. The requirements also contain guidelines pertaining to captive reinsurance transactions. The GSEs also place additional restrictions on qualified insurers who fail to maintain the equivalent of a AA financial strength rating from at least two nationally recognized statistical rating agencies. During 2008, substantially all national mortgage guaranty insurance companies, including Old Republic's mortgage guaranty insurance subsidiaries, experienced ratings downgrades below AA. All such companies have been required to submit capital remediation plans to FNMA and FHLMC, and continue as approved mortgage guaranty insurers for loans purchased by the GSEs.

The majority of states have also enacted insurance holding company laws which require registration and periodic reporting by insurance companies controlled by other corporations licensed to transact business within their respective jurisdictions. Old Republic's insurance subsidiaries are subject to such legislation and are registered as controlled insurers in those jurisdictions in which such registration is required. Such legislation varies from state to state but typically requires periodic disclosure concerning the corporation which controls the registered insurers, or ultimate holding company, and all subsidiaries of the ultimate holding company, and prior approval of certain intercorporate transfers of assets (including payments of dividends in excess of specified amounts by the insurance subsidiary) within the holding company system. Each state has established minimum capital and surplus requirements to conduct an insurance business. All of the Company's subsidiaries meet or exceed these requirements, which vary from state to state.

(g) Employees. As of December 31, 2008, Old Republic employed approximately 5,600 persons on a full time basis. A majority of eligible full time employees participate in various pension or similar plans which provide benefits payable upon retirement. Eligible employees are also covered by hospitalization and major medical insurance, group life insurance, and various savings, profit sharing, and deferred compensation plans. The Company considers its employee relations to be good.

(h) Website access. The Company files various reports with the U.S. Securities and Exchange Commission ("SEC"), including its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. The Company's filings are available for viewing and/or copying at the SEC's Public Reference Room located at 450 Fifth Street, NW., Washington, DC 20549. Information regarding the operation of the Public Reference Room can be obtained by calling 1-800-SEC-0330. The Company's reports are also available by visiting the SEC's internet website (http://www.sec.gov) and accessing its EDGAR database to view or print copies of the electronic versions of the Company's reports. Additionally, the Company's reports can be obtained, free of charge, by visiting its internet website (http://www.oldrepublic.com), selecting Investors then SEC Filings to view or print copies of the electronic versions of the Company's reports. The contents of the Company's internet website are not intended to be, nor should they be considered incorporated by reference in any of the reports the Company files with the SEC.

Item 1A - Risk Factors

Risk factors are uncertainties and events over which the Company has limited or no control, and which can have a materially adverse effect on its business, results of operations or financial condition. The Company and its business segments are subject to a variety of risk factors and, within individual segments, each type of insurance coverage may be exposed to varying risk factors. The following sections set forth management's evaluation of the most prevalent material risk factors for the Company as a whole and for each business segment. There may be risks which management does not presently consider to be material that may later prove to be material risk factors as well.

Parent Company

Dividend Dependence and Liquidity

The Company is an insurance holding company with no operations of its own. Its principal assets consist of the business conducted by its insurance subsidiaries. It relies upon dividends from such subsidiaries in order to pay the interest and principal on its debt obligations, dividends to its shareholders and corporate expenses. The ability of the insurance subsidiaries to declare and pay dividends is subject to regulations under state laws that limit dividends based on the amount of their adjusted unassigned surplus, and require them to maintain minimum amounts of capital, surplus and reserves. Dividends in excess of the ordinary limitations can only be declared and paid with prior regulatory approval, of which there can be no assurance. The inability of the insurance subsidiaries to pay dividends in an amount sufficient to meet debt service and cash dividends on stock, as well as other cash requirements of the Company could result in liquidity issues for Old Republic.

Capitalization

The Company has access to various capital resources including dividends from its subsidiaries, holding company investments, undrawn capacity under its commercial paper program, and access to debt and equity capital markets. At December 31, 2008 the Company’s consolidated debt to equity ratio was 6.2%. This relatively low level of financial leverage provides the Company with additional borrowing capacity to meet its capital commitments.

Investment Risks

The Company's invested assets and those of its subsidiaries are centrally managed through a wholly owned asset management subsidiary. Most of the investments consist of fixed maturity securities. Changes in interest rates directly affect the income from, and the market value of fixed maturity investments and could reduce the value of the Company's investment portfolio and adversely affect the Company's, and its subsidiaries', results of operations and financial condition. A smaller percentage of total investments are in indexed funds and actively managed equities. A change in general economic conditions, the stock market, or many other external factors could adversely affect the value of those investments and, in turn, the Company's, or its subsidiaries' results and financial condition. Further, the Company manages its fixed maturity investments by taking into account the maturities of such securities and the anticipated liquidity needs of the Company and its subsidiaries. Should the Company suddenly experience greater than anticipated liquidity needs for any reason, it could face a liquidity risk that may adversely affect its financial condition or operating results.

Risk Factors Common to All Subsidiaries

Excessive Losses and Loss Expenses

Although the Company's three major business segments encompass different types of insurance, the greatest risk factor common to all insurance coverages is excessive losses due to unanticipated claims frequency, severity or a combination of both. Many of the factors affecting the frequency and severity of claims depend upon the type of insurance coverage, but others are shared in common. Severity and frequency can be affected by changes in national economic conditions, unexpectedly adverse outcomes in claims litigation, often as a result of unanticipated jury verdicts, changes in court made law, adverse court interpretations of insurance policy provisions resulting in increased liability or new judicial theories of liability, together with unexpectedly high costs of defending claims.

Inadequate Reserves

Reserves are the amounts that an insurance company sets aside for its anticipated policy liabilities. Claim reserves are an estimate of liability for unpaid claims and claims defense and adjustment expenses, and cover both reported as well as incurred, but not yet reported claims. It is not possible to calculate precisely what these liabilities will amount to in advance and, therefore, the reserves represent a best estimate at any point in time. Such estimates are based upon known historical loss data and expectations of future trends in claims frequency, severity, interest rates and other considerations which in turn are affected by a variety of factors over which insurers have little or no control and which can be quite volatile. Reserve estimates are periodically reviewed in light of known developments and, where necessary, adjusted and refined as circumstances may warrant. Nevertheless, the reserve setting process is inherently uncertain. If for any of these reasons reserve estimates prove to be inadequate, the Company's subsidiaries can be forced to increase their reported liabilities; such an occurrence could result in a materially adverse impact on their results of operations and financial condition.

Inadequate Pricing

Premium rates are generally determined on the basis of historical data for claims frequency and severity as well as related production and other expense patterns. In the event ultimate claims and expenses exceed historically projected levels, premium rates are likely to prove insufficient. Premium rate inadequacy may not become evident quickly and may require time to correct. Inadequate premiums, much like excessive losses, if material, can adversely affect the Company's business, operating results and financial condition.

Liquidity Risk

As indicated above, the Company manages its fixed-maturity investments with a view toward matching the maturities of those investments with the anticipated liquidity needs of its subsidiaries for the payment of claims and expenses. If a subsidiary suddenly experienced greater-than-anticipated liquidity needs for any reason, it could require an injection of funds that might not necessarily be available to the Company to meet its obligations at a point in time.

Regulatory Environment

The Company's insurance businesses are subject to extensive governmental regulation in all of the state and similar jurisdictions in which they operate. These regulations relate to such matters as licensing requirements, types of insurance products that may be sold, premium rates, marketing practices, capital and surplus requirements, investment limitations, underwriting limitations, dividend payment limitations, transactions with affiliates, accounting practices, taxation and other matters. While most of the regulation is at the state level, the federal government has increasingly expressed an interest in regulating the insurance business and has injected itself through the Graham-Leach-Bliley Act, the Patriot Act, financial services regulation, changes in the Internal Revenue Code and other legislation. All of these regulations raise the costs of conducting an insurance business through increased compliance expenses. Furthermore, as existing regulations evolve through administrative and court interpretations, and as new regulations are adopted, there can be no way of predicting what impact these changes will have on the Company's businesses in the future, and the impact could adversely affect the Company's profitability and limit its growth.

Competition

Each of the Company's lines of insurance business is highly competitive and is likely to remain so for the foreseeable future. Moreover, existing competitors and the capital markets have from time to time brought an influx of capital and newly-organized entrants into the industry, and changes in laws have allowed financial institutions, like banks and savings and loans, to sell insurance products. Increases in competition threaten to reduce demand for the Company's insurance products, reduce its market share, reduce its growth, reduce its profitability and generally adversely affect its results of operations and financial condition.

Rating Downgrades

The competitive positions of insurance companies, in general, have come to depend increasingly on independent ratings of their financial strength and claims-paying ability. The rating agencies base their ratings on criteria they establish regarding an insurer's financial strength, operating performance, strategic position and ability to meet its obligations to policyholders. A significant downgrade in the ratings of any of the Company's major policy-issuing subsidiaries could negatively impact their ability to compete for new business and retain existing business and, as a result, adversely affect their results of operations and financial condition.

Financial Institutions Risk

The Company's subsidiaries have significant business relationships with financial institutions, particularly national banks. The subsidiaries are the beneficiaries of a considerable amount of security in the form of letters of credit which they hold as collateral securing the obligations of insureds and certain reinsurers. Some of the banks themselves have subsidiaries that reinsure the Company's business. Other banks are depositories holding large sums of money in escrow accounts established by the Company's title subsidiaries. There is thus a risk of concentrated financial exposures in one or more such banking institutions. If any of these institutions fail or are unable to honor their credit obligations, or if escrowed funds become lost or tied up due to the failure of a bank, the result could be adverse to the Company's business, results of operations and financial condition.

In addition to the foregoing, the following are risk factors that are particular to each of the Company's three major business segments.

General Insurance Group

Catastrophic Losses

While the Company limits the property exposures it writes, the casualty or liability insurance it underwrites creates an exposure to claims arising out of catastrophes. The two principal catastrophe exposures are earthquakes and acts of terrorism in areas where there are large concentrations of employees of an insured employer or other individuals who could potentially be injured and assert claims against an insured.

Following the September 11, 2001 terrorist attack, the reinsurance industry eliminated coverage from substantially all reinsurance contracts for claims arising from acts of terrorism. As discussed elsewhere in this report, the U.S. Congress subsequently passed TRIA, TRIREA, and TRIPRA legislation that required primary insurers to offer coverage for certified acts of terrorism under most commercial property and casualty insurance policies. Although these programs established a temporary federal reinsurance program through December 31, 2014, primary insurers like the Company's general insurance subsidiaries retain significant exposure for terrorist act-related losses.

Long-Tailed Losses

Coverage for general liability is considered long-tailed coverage. Written in most cases on an "occurrence" basis, it often takes longer for the claims to be reported and become known, adjusted and settled than it does for property claims, for example, which are generally considered short-tailed. The extremely long-tailed aspect of such claims as pollution, asbestos, silicosis, manganism (welding rod fume exposure), black lung, lead paint and other toxic tort claims, coupled with uncertain and sometimes variable judicial rulings on coverage and policy allocation issues and the possibility of legislative actions, makes reserving for these exposures highly uncertain. While the Company believes that it has reasonably estimated its liabilities for such exposures to date, and that its exposures are relatively modest, there is a risk of materially adverse developments in both known and as-yet-unknown claims.

Workers' Compensation Coverage

Workers' compensation coverage is the second largest line of insurance written within the Company. The frequency and severity of claims under, and the adequacy of reserves for workers' compensation claims and expenses can all be significantly influenced by such risk factors as future wage inflation in states that index benefits, the speed with which injured employees are able to return to work in some capacity, the cost and rate of inflation in medical treatments, the types of medical procedures and treatments, the cost of prescription medications, the frequency with which closed claims reopen for additional or related medical issues, the mortality of injured workers with lifetime benefits and medical treatments, the use of health insurance to cover some of the expenses, the assumption of some of the expenses by states' second injury funds, the use of cost containment practices like preferred provider networks, and the opportunities to recover against third parties through subrogation. Adverse developments in any of these factors, if significant, could have a materially adverse effect on the Company's operating results and financial condition.

Reinsurance

Reinsurance is a contractual arrangement whereby one insurer (the reinsurer) assumes some or all of the risk exposure written by another insurer (the reinsured). The Company uses reinsurance to manage its risks both in terms of the amount of coverage it is able to write, the amount it is able to retain for its own account, and the price at which it is able to write it. The availability of reinsurance and its price, however, are determined in the reinsurance market by conditions beyond the Company's control.

Reinsurance does not relieve the reinsured company of its primary liability to its insureds in the event of a loss. It merely reimburses the reinsured company. The ability and willingness of reinsurers to honor their obligations represent credit risks inherent in reinsurance transactions. The Company addresses these risks by limiting its reinsurance to those reinsurers it considers the best credit risks. In recent years, however, there has been an ever decreasing number of reinsurers considered to be acceptable risks by the Company.

There can be no assurance that the Company will be able to find the desired or even adequate amounts of reinsurance at favorable rates from acceptable reinsurers in the future. If unable to do so, the Company would be forced to reduce the volume of business it writes or retain increased amounts of liability exposure. Because of the declining number of reinsurers the Company finds acceptable, there is a risk that too much reinsurance risk may become concentrated in too few reinsurers. Each of these results could adversely affect the Company's business, results of operations and financial condition.

Insureds as Credit Risks

A significant amount of the Company's liability and workers' compensation business, particularly for large commercial insureds, is written on the basis of risk sharing underwriting methods utilizing large deductibles, captive insurance risk retentions, or other arrangements whereby the insureds effectively retain and fund varying and at times significant amounts of their losses. Their financial strength and ability to pay are carefully evaluated as part of the underwriting process and monitored periodically thereafter, and their retained exposures are estimated and collateralized based on pertinent credit analysis and evaluation. Because the Company is primarily liable for losses incurred under its policies, the possible failure or inability of insureds to honor their retained liability represents a credit risk. Any subsequently developing shortage in the amount of collateral held would also be a risk, as would the failure or inability of a bank to honor a letter of credit issued as collateral. These risk factors could have a material adverse impact on the Company's results of operations and financial condition.

Guaranty Funds and Residual Markets

In nearly all states, licensed property and casualty insurers are required to participate in guaranty funds through assessments covering a portion of insurance claims against impaired or insolvent property and casualty insurers. Any increase in the number or size of impaired companies would likely result in an increase in the Company's share of such assessments.

Many states have established second injury funds that compensate injured employees for aggravation of prior injuries or conditions. These second injury funds are funded by assessments or premium surcharges.

Residual market or pooling arrangements exist in many states to provide various types of insurance coverage to those that are otherwise unable to find private insurers willing to insure them. All licensed property and casualty insurers writing such coverage voluntarily are required to participate in these residual market or pooling mechanisms.

A material increase in any of these assessments or charges could adversely affect the Company's results of operations and financial condition.

Prior Approval of Rates

Most of the lines of insurance underwritten by the Company are subject to prior regulatory approval of premium rates in a majority of the states. The process of securing regulatory approval can be time consuming and can impair the Company's ability to effect necessary rate increases in an expeditious manner. Furthermore, there is a risk that the regulators will not approve a requested increase, particularly in regard to workers' compensation insurance with respect to which rate increases often confront strong opposition from local business, organized labor, and political interests.

Mortgage Guaranty Group

Housing and Mortgage Lending Markets

Any significant development which adversely affects the housing and related mortgage lending markets could be a risk factor for the Company's mortgage insurance subsidiaries. Falling home prices, excessive housing supplies, negative employment trends, and unfavorable trends in the general health of the national and regional economies, such as we are currently experiencing, are all factors which may produce lower mortgage loan origination volumes that could result in a decline of new business and/or an increase in mortgage defaults, all of which could in turn lead to an increase in claims.

On the other hand, low interest rates and rising home prices can also be risk factors inasmuch as they can threaten persistency of coverage. Declining rates or rising home prices can encourage mortgage refinance activity. When a mortgage loan insured by the Company is refinanced, there is a risk the lender will replace the Company's coverage with coverage written by another mortgage insurer or, alternatively, that coverage may no longer be necessary in the event that price appreciation of the property has served to reduce the loan-to-value ratio below 80%. Each of these factors, if significant enough, could have a materially adverse affect on the business, results of operations and financial condition of the Company's mortgage guaranty subsidiaries.

Capitalization

Under state insurance regulations, the Company's mortgage guaranty insurance subsidiaries are required to operate at a maximum risk to capital ratio of 25:1. If a company's risk to capital ratio exceeds the limit, it may be prohibited from writing new business until its risk to capital ratio falls below the limit. At December 31, 2008, the statutory risk to capital ratio was 19.8:1 on a combined basis excluding the capital contribution noted below. All of the segment's mortgage guaranty insurance companies were within the 25:1 requirement. A continuation of operating losses could further reduce statutory surplus thus increasing the risk to capital ratio. Old Republic invested $150.0 million of capital in its mortgage guaranty segment during the fourth quarter of 2008. The Company evaluates the trends in this ratio on a quarterly basis to determine the necessity of possible capital additions.

Competition

Competition is always a risk factor and comes not only from the five other mortgage insurers which comprise the industry, but also from the Federal Housing Administration ("FHA") as well as the GSEs, such as Fannie Mae and Freddie Mac, and the insured mortgage lenders themselves. The market for private mortgage insurance exists primarily as a result of restrictions within the federal charters of the GSEs which require an acceptable form of credit enhancement on loans purchased by the GSEs that have loan to value (LTV) ratios in excess of 80%. These institutions establish the levels of required coverage, the underwriting standards for the loans they will purchase and the loss mitigation efforts that must be followed on insured loans. Changes in any of these respects could result in a reduction of the Mortgage Guaranty Group's business or an increase in its claim costs.

In response to their deteriorating financial condition, the GSEs were placed in conservatorship under the Federal Housing Finance Agency ("FHFA") in September 2008. As their conservator, the FHFA could change the GSE's business practices or new federal legislation could alter the GSE's charters in ways that could have a dramatically adverse effect on our business and that of the other mortgage insurers.

Lender consolidation has resulted in fewer lenders originating a greater share of all mortgage loans. In 2008, 40.9% of all mortgage loans were purchased or originated by the top 3 nationwide lenders. Consequently, mortgage insurance business is increasingly becoming controlled by a small number of nationwide mortgage lenders, some of which have reduced the number of mortgage insurers they do business with, thus increasing competition among the insurers.

Many mortgage lenders have organized their own captive reinsurers as a means of extending their business to the underwriting of mortgage guaranty risks. Through such captives they provide excess of loss, and in some cases, quota share reinsurance protection to the mortgage guaranty insurers such as the Company's subsidiaries in this segment. This involvement is a competitive risk factor inasmuch as it reduces the amount of business that the Company could otherwise retain. In February 2008, Freddie Mac announced limitations on the percentage of risk that can be ceded to captive reinsurers by its approved private mortgage insurers. This limitation is effective for new risk written subsequent to May 31, 2008. In September 2008, the Company announced that it was discontinuing excess of loss reinsurance cessions to lenders' captive insurance companies for new business written subsequent to December 31,

2008. Consequently, over time the Company’s Mortgage Guaranty Group will likely increase its net retention on the loans it insures.

Other competitive risk factors faced by the Company’s Mortgage Guaranty Group stem from certain credit enhancement alternatives to private mortgage insurance. These include:

- the retention of mortgage loans on an uninsured basis in the lender’s portfolio of assets;
- capital markets utilizing alternative credit enhancements.

Litigation and Regulation

The possibly adverse effect of litigation and regulation are ever present risk factors. Captive reinsurance and other risk participating structures with mortgage lenders have been challenged in recent years as potential violations of the Real Estate Settlement Procedures Act (“RESPA”). From time to time, the U. S. Department of Housing and Urban Development has considered adopting RESPA regulations which would have adversely impacted mortgage insurance by requiring that the premiums be combined with all other settlement service charges in a single package fee. Adverse litigation or regulatory developments could have a materially adverse effect on the Company’s mortgage guaranty business, results of operations and financial condition.

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Title Insurance Group

Housing and Mortgage Lending Markets

The fortunes of title insurance are even more directly tied to the level of real estate activity than are those of mortgage insurance. The principal risk factor for title insurance is a decline in residential real estate activity. The major factors that can adversely impact real estate activity include:

- high or rising mortgage interest rates;
- high or rising unemployment;
- any downturn in a regional or the national economy, any reduction in the availability or affordability of housing, as well as, any precipitous decline in housing prices;
- any reduction in mortgage refinancing activity; and
- any reduction in the availability of mortgage funding.

A significant adverse development among any of these risk factors could have a materially adverse effect on the Company’s title insurance business, results of operations and financial condition.

Competition

Business comes to title insurers primarily by referral from real estate agents, lenders, developers and other settlement providers. The sources of business lead to a great deal of competition among title insurers. Although the top four title insurance companies during 2008 accounted for about 92% of industry-wide premium volume, there are numerous smaller companies representing the remainder at the regional and local levels. The smaller companies are an ever-present competitive risk in the regional and local markets where their business connections can give them a competitive edge. Moreover, there is almost always competition among the major companies for key employees, especially those who are engaged in the production side of the business.

Regulation and Litigation

Regulation is also a risk factor for title insurers. The title insurance industry has recently been, and continues to be, under regulatory scrutiny in a number of states with respect to pricing practices, and alleged RESPA violations and unlawful rebating practices. The regulatory investigations could lead to industry-wide reductions in premium rates and escrow fees, the inability to get rate increases when necessary, as well as to changes that could adversely affect the Company’s ability to compete for or retain business or raise the costs of additional regulatory compliance.

As with the Company’s other business segments, litigation poses a risk factor. Litigation is currently pending in a number of states in actions against the title industry alleging violations of rate applications in those states with respect to title insurance issued in certain mortgage refinancing transactions and violations of federal anti-trust laws in settling and filing premium rates.

Other Risks

Inadequate title searches are among the risk factors faced by the entire industry. If a title search is conducted thoroughly and accurately, there should theoretically never be a claim. When the search is less than thorough or complete, title defects can go undetected and claims result.

To a lesser extent, fraud is also a risk factor for all title companies -- sometimes in the form of an agent's or an employee's defalcation of escrowed funds, sometimes in the form of fraudulently issued title insurance policies.

Item 1B - Unresolved Staff Comments

None

Item 2 - Properties

The principal executive offices of the Company are located in the Old Republic Building in Chicago, Illinois. This Company-owned building contains 151,000 square feet of floor space of which approximately 53% is occupied by Old Republic, and the remainder is leased to others. In addition to its Chicago building, a subsidiary of the Title Insurance Group partially occupies its owned headquarters building in Minneapolis, Minnesota. This building contains 110,000 square feet of floor space of which approximately 65% is occupied by the Old Republic National Title Insurance Company. The remainder of the building is leased to others. Nine smaller buildings are owned by Old Republic and its subsidiaries in various parts of the nation and are primarily used for its business. The carrying value of all owned buildings and related land at December 31, 2008 was $35.6 million.

Certain other operations of the Company and its subsidiaries are directed from leased premises. See Note 4(b) of the Notes to Consolidated Financial Statements for a summary of all material lease obligations.

Item 3 - Legal Proceedings

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

Purported class action lawsuits are pending against the Company's principal title insurance subsidiary, Old Republic National Title Insurance Company ("ORNTIC") in state and federal courts in Connecticut, New Jersey, Ohio, Pennsylvania and Texas. The plaintiffs allege that ORNTIC failed to give consumers reissue and/or refinance credits on the premiums charged for title insurance covering mortgage refinancing transactions, as required by rate schedules filed by ORNTIC or by state rating bureaus with the state insurance regulatory authorities. Substantially similar lawsuits are also pending against other unaffiliated title insurance companies in these and other states as well, and additional lawsuits based upon similar allegations could be filed against ORNTIC in the future.

Since early February 2008 approximately 80 purported consumer class action lawsuits have been filed nationwide against the title industry's principal title insurance companies, their subsidiaries and affiliates, and title insurance rating bureaus or associations in at least 10 states. The suits are substantially identical in alleging that the defendant title insurers engaged in illegal price-fixing agreements to set artificially high premium rates and conspired to create premium rates which the state insurance regulatory authorities could not evaluate and therefore, could not adequately regulate. A number of the suits also allege violations of the Federal Real Estate Settlement Procedures Act ("RESPA"). The Company and its principal title insurance subsidiary, Old Republic National Title Insurance Company, are currently among the named defendants in 36 of these actions in 6 states, and are likely to be included in others. A second subsidiary, American Guaranty Title Insurance Company, was originally named in some of the same suits but has been dismissed from all such actions. No class has yet been certified in any of these suits.

Also pending certification as a class action is a suit against ORNTIC and Old Republic Title, Ltd. in the U.S. District Court for the Western District of Washington. Filed in May, 2008, the suit alleges that ORNTIC and its affiliate deceptively charged fees for reconveyancing services they did not perform and split the fees with settlement service providers in violation of RESPA. The action seeks damages, declaratory and injunctive relief. No class has yet been certified in the action.

At their present stage, the ultimate impact of these lawsuits, all of which seek unquantified damages, attorneys' fees and expenses, is uncertain and not reasonably estimable. The Company and its subsidiaries intend to defend vigorously against each of the aforementioned actions. Although the Company does not believe that these lawsuits will have a material adverse effect on its consolidated financial condition, results of operations or cash flows, there can be no assurance in those regards.

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

None.

PART II

Item 5 - Market for the Registrant's Common Equity, Related Security Holder Matters and Issuer Purchases of Equity Securities

The Company's common stock is traded on the New York Stock Exchange under the symbol “ORI”. The high and low closing prices as reported on the New York Stock Exchange, and cash dividends declared for each quarterly period during the past two years were as follows:

		Closing Price		Cash
		High	Low	Dividends
1st quarter	2007	$ 23.51	$ 21.68	$ .15
2nd quarter	2007	22.38	21.06	.16
3rd quarter	2007	21.73	17.70	.16
4th quarter	2007	$ 19.46	$ 13.73	$ .16
1st quarter	2008	$ 15.91	$ 12.31	$ .16
2nd quarter	2008	15.46	11.84	.17
3rd quarter	2008	16.50	9.32	.17
4th quarter	2008	$ 12.07	$ 7.39	$ .17

As of January 30, 2009, there were 2,742 registered holders of the Company's Common Stock. See Note 3(c) of the Notes to Consolidated Financial Statements for a description of certain regulatory restrictions on the payment of dividends by Old Republic's insurance subsidiaries. Closing prices have been restated, as necessary, to reflect all stock dividends and splits declared through December 31, 2008.

Comparative Five Year Performance Graphs for Common Stock

The following tables, prepared on the basis of market and related data furnished by Standard & Poor's Total Return Service, reflects total market return data for the most recent five calendar years ended December 31, 2008. For purposes of the presentation, the information is shown in terms of $100 invested at the close of trading on the last trading day preceding the first day of the fifth preceding year. The $100 investment is deemed to have been made either in Old Republic Common Stock, in the S&P 500 Index of common stocks, or in an aggregate of the common shares of the Peer Group of publicly held insurance businesses selected by Old Republic. In each instance the cumulative total return assumes reinvestment of cash dividends on a pretax basis.

The information utilized to prepare the following tables has been obtained from sources believed to be reliable, but no representation is made that it is accurate or complete in all respects.

Comparison of Five Year Total Market Return
OLD REPUBLIC INTERNATIONAL CORPORATION vs. S&P 500 vs. Peer Group 1
(For the five years ended December 31, 2008)

	Dec 03	Dec 04	Dec 05	Dec 06	Dec 07	Dec 08
ORI	$100.00	$101.82	$112.52	$128.10	$ 87.67	$ 71.57
S&P 500	100.00	110.88	116.33	134.70	142.10	89.53
Peer Group 1	100.00	109.31	126.19	144.81	133.91	104.41

Peer Group 1 consists of the following publicly held corporations selected by the Company for its 2003 to 2008 comparison: Ace Limited, American Financial Group, Inc., The Chubb Corporation, Cincinnati Financial Corporation, First American Corporation, Stewart Information Services Corporation, MGIC Investment Corporation, Markel Corporation, PMI Group Inc., Travelers Companies, Inc., and XL Capital Ltd.

Comparison of Five Year Total Market Return
OLD REPUBLIC INTERNATIONAL CORPORATION vs. S&P 500 vs. Peer Group 2
(For the five years ended December 31, 2008)

	Dec 03	Dec 04	Dec 05	Dec 06	Dec 07	Dec 08
ORI	$100.00	$101.82	$112.52	$128.10	$ 87.67	$ 71.57
S&P 500	100.00	110.88	116.33	134.70	142.10	89.53
Peer Group 2	100.00	111.11	127.85	146.66	135.27	104.88

Peer Group 2 consists of the following publicly held corporations selected by the Company for its 2003 to 2008 comparison: Ace Limited, American Financial Group, Inc., The Chubb Corporation, Cincinnati Financial Corporation, First American Corporation, LandAmerica Financial Group, MGIC Investment Corporation, Markel Corporation, PMI Group Inc., SAFECO Corporation, Travelers Companies, Inc., and XL Capital Ltd.