MALVERN FEDERAL BANCORP INC
Form 10-Q
February 16, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended: December 31, 2009

or
o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ______ to ______

Commission File Number: 001-34051

MALVERN FEDERAL BANCORP, INC.
(Exact name of Registrant as specified in its charter)

United States	38-3783478
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
42 E. Lancaster Avenue, Paoli, Pennsylvania	19301
(Address of Principal Executive Offices)	(Zip Code)

(610) 644-9400
(Registrant's Telephone Number, Including Area Code)

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 and (2) has been subject to such filing requirements for the past 90 days.
YES x NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES o NO o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES o NO x

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's class of common stock, as of the latest practicable date: As of February 16, 2010, 6,102,500 shares of the Registrant's common stock were issued and outstanding.

MALVERN FEDERAL BANCORP, INC.

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Malvern Federal Bancorp, Inc. and Subsidiaries
Consolidated Statements of Financial Condition (Unaudited)

	December 31, 2009	September 30, 2009
Assets		
Cash and due from depository institutions	$ 8,352,357	$ 10,815,796
Interest bearing deposits in depository institutions	10,170,494	14,508,803
Cash and Cash Equivalents	18,522,851	25,324,599
Investment securities available for sale	25,727,787	27,097,590
Investment securities held to maturity (fair value of $4,863,583 and $4,942,102, respectively)	4,809,263	4,842,176
Restricted stock, at cost	6,566,973	6,566,973
Loans receivable, net of allowance for loan losses of $6,262,570 and $5,717,510, respectively	590,235,603	593,565,338
Other real estate owned	4,447,849	5,874,854
Accrued interest receivable	2,304,365	2,226,206
Property and equipment, net	8,403,467	8,381,962
Deferred income taxes, net	2,777,120	2,331,656
Bank-owned life insurance	13,790,518	13,649,585
Other assets	4,578,289	1,777,629
Total Assets	$ 682,164,085	$ 691,638,568
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Deposits-noninterest-bearing	$ 23,698,745	$ 19,314,263
Deposits-interest-bearing	494,761,138	497,196,415
Total Deposits	518,459,883	516,510,678
FHLB line of credit	3,000,000	-
FHLB advances	87,117,605	99,621,045
Advances from borrowers for taxes and insurance	2,475,164	1,227,604
Accrued interest payable	526,138	706,895
Other liabilities	1,241,454	3,729,966
Total Liabilities	612,820,244	621,796,188
Commitments and Contingencies	-	-
Shareholders' Equity		

Preferred stock, $0.01 par value, 10,000,000 shares authorized, none issued		-		-
Common stock, $0.01par value, 40,000,000 shares authorized, issued and outstanding:				
6,102,500 at December 31, 2009 and 6,150,500 at September 30, 2009		61,525		61,525
Additional paid-in capital		25,932,543		25,937,027
Retained earnings		46,214,649		46,285,949
Treasury stock—at cost, 50,000 shares at December 31, 2009 and 2,000 shares at September 30, 2009		(476,920)		(19,000)
Unearned Employee Stock Ownership Plan (ESOP) shares		(2,408,183)		(2,444,565)
Accumulated other comprehensive income (loss)		20,227		21,444
Total Shareholders' Equity		69,343,841		69,842,380
Total Liabilities and Shareholders' Equity	$	682,164,085	$	691,638,568

See notes to unaudited consolidated financial statements.

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Malvern Federal Bancorp, Inc. and Subsidiaries
Consolidated Statements of Income (Unaudited)

	Three Months Ended December 31,	
	2009	2008
Interest and Dividend Income		
Loans, including fees	$ 8,410,129	$ 8,678,487
Investment securities, taxable	246,155	210,446
Investment securities, tax-exempt	11,512	20,882
Interest-bearing cash accounts	5,699	5,506
Total Interest and Dividend Income	8,673,495	8,915,321
Interest Expense		
Deposits	2,834,021	3,513,859
Short-term borrowings	1,527	1,281
Long-term borrowings	1,115,008	1,331,953
Total Interest Expense	3,950,556	4,847,093
Net Interest Income	4,722,939	4,068,228
Provision for Loan Losses	945,000	445,000
Net Interest Income after Provision for Loan Losses	3,777,939	3,623,228
Other Income		
Service charges and other fees	384,494	303,590
Rental income	64,865	63,386
Gain on sale of investment securities available for sale, net	-	17,796
Gain on sale of other real estate owned, net	16,882	-
Earnings on bank-owned life insurance	140,933	86,470
Total Other Income	607,174	471,242
Other Expenses		
Salaries and employee benefits	1,666,719	1,558,300
Occupancy expense	452,740	442,905
Federal deposit insurance premiums	637,840	81,677
Advertising	221,305	152,876
Data processing	394,539	306,745
Professional fees	242,609	281,663

Other real estate owned expense	427,739	26,802
Other operating expenses	418,101	498,267
Total Other Expenses	4,461,592	3,349,235
Income (loss) before Income tax (benefit) expense	(76,479)	745,235
Income tax (benefit) expense	(88,238)	229,251
Net Income	$ 11,759	$ 515,984
Basic Earnings Per Share	$ 0.00	$ 0.09
Dividends Declared Per Share	$ 0.03	$ 0.04

See notes to unaudited consolidated financial statements.

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Malvern Federal Bancorp, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, October 1, 2008	$61,525	$25,959,169	$45,663,389	$-	$(2,571,028)	$ (277,356)	$68,835,699
Comprehensive Income:							
Net Income	-	-	515,984	-	-	-	515,984
Net change in unrealized loss on securities available for sale, net of reclassification adjustment and tax effect	-	-	-	-	-	65,355	65,355
Total Comprehensive Income	-	-	-	-	-	-	581,339
Cash dividend declared ($0.04 per share)	-	-	(110,745)	-	-	-	(110,745)
Committed to be released ESOP shares (3,351 shares)	-	(3,196)	-	-	36,382	-	33,186
Balance, December 31, 2008	$61,525	$25,955,973	$46,068,628	$-	$(2,534,646)	$ (212,001)	$69,339,479
Balance, October 1, 2009	$61,525	$25,937,027	$46,285,949	$(19,000)	$(2,444,565)	$ 21,444	$69,842,380
Comprehensive Income:							
Net Income	-	-	11,759	-	-	-	11,759
	-	-	-	-	-	(1,217)	(1,217)

Net change in unrealized gain on securities available for sale, net of reclassification adjustment and tax effect							
Total Comprehensive Income	-	-	-	-	-	-	10,542
Treasury stock purchased (48,000 shares)	-	-	-	(457,920)	-	-	(457,920)
Cash dividends declared ($0.03 per share)	-	-	(83,059)	-	-	-	(83,059)
ESOP shares committed to be released (3,351 shares)	-	(4,484)	-	-	36,382	-	31,898
Balance, December 31, 2009	$61,525	$25,932,543	$46,214,649	$(476,920)	$(2,408,183)	$ 20,227	$69,343,841

See notes to unaudited consolidated financial statements.

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Malvern Federal Bancorp,
Inc. and Subsidiaries
Consolidated Statements of
Cash Flows (Unaudited)

	Three Months Ended December 31,	
	2009	2008
Cash Flows from Operating Activities		
Net income	$ 11,759	$ 515,984
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation expense	208,862	232,886
Provision for loan losses	945,000	445,000
Deferred income taxes (benefit)	(445,007)	26,027
ESOP expense	31,898	33,186
Amortization (accretion) of premiums and discounts on investments securities, net	(154,446)	350,351
Amortization of mortgage servicing rights	6,007	24,500
Net gain on sale of investment securities available for sale	-	(17,796)
Gain on sale of other real estate owned	(16,882)	-
Write down of other real estate owned	359,500	-
(Increase) decrease in accrued interest receivable	(78,159)	270,733
(Decrease) increase in accrued interest payable	(180,757)	389,489
(Decrease) increase in other liabilities	(2,488,512)	300,467
Earnings on bank-owned life insurance	(140,933)	(86,470)
(Increase) decrease in other assets	210,630	(132,470)
Prepaid FDIC assessment	(3,017,297)	-
Amortization of loan origination fees and costs	(106,611)	(174,294)
Net Cash (Used in) Provided by Operating Activities	(4,854,948)	2,177,593
Cash Flows from Investing Activities		
Proceeds from maturities and principal collections:		
Investment securities held to maturity	69,520	109,911
Investment securities available for sale	3,170,811	449,866
Proceeds from sales, investment securities available for sale	-	1,143,619
Purchases of investment securities available for sale	(1,684,843)	(1,642,163)
Loan purchases	(6,162,390)	(15,396,557)
Loan originations and principal collections, net	8,653,736	(5,580,950)
Proceeds from sale of other real estate owned	1,084,387	-
Purchase of other real estate owned	-	(780,281)
Purchases of bank-owned life insurance	-	(5,000,000)
Net decrease in FHLB stock	-	328,700
Purchases of property and equipment	(230,367)	(332,826)
Net Cash Provided by (Used in) Investing Activities	4,900,854	(26,700,681)
Cash Flows from Financing Activities		

Net increase in deposits	1,949,205	22,428,770
Net increase (decrease) in short-term borrowings	3,000,000	(500,000)
Proceeds from long-term borrowings	3,000,000	5,000,000
Repayment of long-term borrowings	(15,503,440)	(4,590,726)
Increase in advances from borrowers for taxes and insurance	1,247,560	1,002,638
Cash dividends paid	(83,059)	(110,745)
Treasury stock purchased	(457,920)	-
Net Cash (Used in) Provided by Financing Activities	(6,847,654)	23,229,937
Net Decrease in Cash and Cash Equivalents	(6,801,748)	(1,293,151)
Cash and Cash Equivalents - Beginning	25,324,599	12,922,297
Cash and Cash Equivalents - Ending	$ 18,522,851	$ 11,629,146
Supplementary Cash Flows Information		
Interest paid	$ 4,131,313	$ 4,457,604
Income taxes paid	$ -	$ -
Non-cash transfer of loans to foreclosed real estate	$ -	$ 2,525,800

See notes to unaudited consolidated financial statements.

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Malvern Federal Bancorp,
Inc. and Subsidiaries
Notes to Consolidated
Financial Statements
(Unaudited)

Note 1 – Organizational Structure and Nature of Operations

Malvern Federal Bancorp, Inc. (the "Company") and its subsidiaries, Malvern Federal Holdings, Inc., a Delaware investment company, formed on September 26, 2008 for the purpose of managing certain investment securities, and Malvern Federal Savings Bank (the "Bank") and the Bank's subsidiaries, Strategic Asset Management Group, Inc. ("SAMG") and Malvern Federal Investments, Inc., a Delaware investment company, formed on September 26, 2008 for the purpose of managing certain investment securities, provide various banking services, primarily the accepting of deposits and the origination of residential and commercial mortgage loans and consumer loans and other loans through the Bank's seven full-service branches in Chester County, Pennsylvania. SAMG owns 50% of Malvern Insurance Associates, LLC. Malvern Insurance Associates, LLC offers a full line of business and personal lines of insurance products. As of December 31, 2009 and September 30, 2009, SAMG's total assets were $34,709 and $34,709, respectively. There was no income reported for SAMG for the three months ended December 31, 2009. The net loss of SAMG for the three month ended December 31, 2008 was $425. The Company is subject to competition from various other financial institutions and financial services companies. The Company is also subject to the regulations of certain federal and state agencies and, therefore, undergoes periodic examinations by those regulatory agencies.

On May 19, 2008 Malvern Federal Savings Bank completed its reorganization to a two-tier mutual holding company structure and the sale by the mid-tier stock company, Malvern Federal Bancorp, Inc., of shares of its common stock. In the reorganization and offering, the Company sold 2,645,575 shares of common stock to certain members of the Bank and the public at a purchase price of $10.00 per share, issued 3,383,875 shares to Malvern Federal Mutual Holding Company and contributed 123,050 shares to the Malvern Federal Charitable Foundation. The Mutual Holding Company is a federally chartered mutual holding company. The Mutual Holding Company and the Company are subject to regulation and supervision of the Office of Thrift Supervision ("OTS"). Malvern Federal Mutual Holding Company became the owner of 55% of Malvern Federal Bancorp's outstanding common stock immediately after the reorganization and must always own at least a majority of the voting stock of Malvern Federal Bancorp, Inc. In addition to the shares of Malvern Federal Bancorp, Inc. which it owns, Malvern Federal Mutual Holding Company was capitalized with $100,000 in cash. The offering resulted in approximately $26.0 million in net proceeds. An Employee Stock Ownership Plan ("ESOP") was established which borrowed approximately $2.6 million from Malvern Federal Bancorp, Inc. to purchase 241,178 shares of common stock. Principal and interest payments on the loan are being made quarterly over a term of 18 years at a fixed interest rate of 5.0%.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The consolidated financial statements at December 31, 2009 and September 30, 2009 and for the three months ended December 31, 2009 include the accounts of the Malvern Federal Bancorp, Inc. and its subsidiaries, including Malvern Federal Savings Bank and its subsidiaries, and Malvern Federal Holdings, Inc.. For the three months ended December 31, 2008, the consolidated financial statements are of Malvern Federal Savings Bank and its subsidiary, Strategic Asset Management Group, Inc. All significant intercompany transactions and balances have been eliminated.

The accompanying unaudited consolidated financial statements were prepared in accordance with the instructions to Form 10-Q, and therefore, do not include all the information or footnotes necessary for a complete presentation of financial condition, statement of income, changes in shareholders' equity, and cash flows in conformity with accounting principles generally accepted in the United States. However, all normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the consolidated financial statements have been included. These financial statements should be read in conjunction with the audited consolidated financial statements of Malvern Federal Bancorp, Inc. and the accompanying notes thereto for the year ended September 30, 2009, which are included in the Company's Annual Report on Form 10-K for the year ended September 30, 2009. The results for the three months ended December 31, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2010, or any other period.

The Company has evaluated subsequent events and transactions through February 16, 2010, the date the unaudited consolidated financial statements were issued, for potential recognition or disclosure herein.

Malvern Federal Bancorp,
Inc. and Subsidiaries
Notes to Consolidated
Financial Statements
(Unaudited)

Note 2 – Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the potential impairment of FHLB stock, the valuation of deferred tax assets, and the evaluation of other-than-temporary impairment of investment securities.

Significant Group Concentrations of Credit Risk

Most of the Company's activities are with customers located within Chester County, Pennsylvania. Note 5 discusses the types of investment securities that the Company invests in. Note 6 discusses the types of lending that the Company engages in. The Company does not have any significant concentrations to any one industry or customer. Although the Company has a diversified portfolio, its debtors ability to honor their contracts is influenced by, among other factors, the region's economy.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from depository institutions and interest bearing deposits.

The Company maintains cash deposits in other depository institutions that occasionally exceed the amount of deposit insurance available. Management periodically assesses the financial condition of these institutions and believes that the risk of any possible credit loss is minimal.

The Company is required to maintain average reserve balances in vault cash with the Federal Reserve Bank based upon outstanding balances of deposit transaction accounts. Based upon the Company's outstanding transaction deposit balances, the Bank maintained a deposit account with the Federal Reserve Bank in the amount of $5,371,000 and $6,652,000 at December 31, 2009 and September 30, 2009, respectively.

Investment Securities

Debt securities held to maturity are securities that the Company has the positive intent and the ability to hold to maturity; these securities are reported at amortized cost and adjusted for unamortized premiums and discounts. Securities held for trading are securities that are bought and held principally for the purpose of selling in the near term; these securities are reported at fair value, with unrealized gains and losses reported in current earnings. At December 31, 2009 and September 30, 2009, the Company had no investment securities classified as trading. Debt

and equity securities that will be held for indefinite periods of time, including securities that may be sold in response to changes in market interest or prepayment rates, needs for liquidity and changes in the availability of and the yield of alternative investments are classified as available for sale. Realized gains and losses are recorded on the trade date and are determined using the specific identification method. Securities held as available for sale are reported at fair value, with unrealized gains and losses, net of tax, reported as a component of accumulated other comprehensive income ("AOCI"). Management determines the appropriate classification of investment securities at the time of purchase and reevaluates such designation as of each statement of financial condition date.

Securities are evaluated on a quarterly basis, and more frequently when market conditions warrant such an evaluation, to determine whether declines in their value are other-than-temporary. To determine whether a loss in value is other-than-temporary, management utilizes criteria such as the reasons underlying the decline, the magnitude and duration of the decline and whether or not management intends to sell or expects that it is more likely than not that it will be required to sell the security prior to an anticipated recovery of the fair value. The term "other-than-temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value for a debt security is determined to be other-than-temporary, the other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income.

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Malvern Federal Bancorp,
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(Unaudited)

Note 2 – Summary of Significant Accounting Policies (Continued)

Loans Receivable

The Company, through the Bank, grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by residential and commercial mortgage loans throughout Chester County, Pennsylvania and surrounding areas. The ability of the Company's debtors to honor their contracts is dependent upon, among other factors, the real estate and general economic conditions in this area.

Loans receivable that management has the intent and ability to hold until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees and costs. Interest income is accrued on the unpaid principal balance. Loan origination fees and costs are deferred and recognized as an adjustment of the yield (interest income) of the related loans using the interest method. The Company is amortizing these amounts over the contractual lives of the loans.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or sooner if management has serious doubts about further collectibility of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectibility of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectibility of the total contractual principal and interest is no longer in doubt.

In addition to originating loans, the Company purchases consumer and mortgage loans from brokers in our market area. Such purchases are reviewed for compliance with our underwriting criteria before they are purchased, and are generally purchased without recourse to the seller.

Allowance for Loan Losses

The Company maintains allowances for loan losses at a level deemed sufficient to absorb probable losses. The allowance for loan losses is established through a provision for loan losses charged as an expense. Loans are charged against the allowance when management believes that the collectibility of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb probable losses on existing loans that may become uncollectible based on evaluations of the collectibility of loans, and prior loss experience. The evaluation of the adequacy of the allowance for loan losses includes an analysis of the individual loans and overall risk characteristics and size of the different loan portfolios, and takes into consideration current economic and market conditions, the capability of specific borrowers to pay specific loan obligations, as well as current loan collateral values. However, actual losses on specific loans, which also are encompassed in the analysis, may vary from estimated losses. The

Company also maintains an allowance for losses on commitments to extend credit, which is included in other liabilities and is computed using information similar to that used to determine the allowance for loan, modified to take into account the probability of drawdown on the commitment as well as inherent risk factors on those commitments.

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Malvern Federal Bancorp,
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Note 2 – Summary of Significant Accounting Policies (Continued)

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for all loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and mortgage loans for impairment disclosures, unless they are subject to a restructuring agreement.

Loans Held For Sale

The Company does not originate any loans specifically for the purpose of being sold. Since loans are not originated for the purpose of being sold, the cash flows from the sale of such loans have been classified as an investing activity in the consolidated statements of cash flows.

There were no loans held for sale at December 31, 2009 and September 30, 2009.

Loan Servicing

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Capitalized servicing rights are reported in other assets and are amortized into non-interest expense in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual

tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Company later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the previously established carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other expenses from other real estate owned.

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Note 2 – Summary of Significant Accounting Policies (Continued)

Restricted Stock

Restricted stock represents required investments in the common stock of a correspondent bank and is carried at cost. As of December 31, 2009 and September 30, 2009, restricted stock consists solely of the common stock of the Federal Home Loan Bank of Pittsburgh ("FHLB"). In December 2008, the FHLB notified member banks that it was suspending dividend payments and the repurchase of capital stock.

Management's evaluation and determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of an investment's cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB.

Property and Equipment

Property and equipment are carried at cost. Depreciation is computed using the straight-line and accelerated methods over estimated useful lives ranging from 3 to 39 years beginning when assets are placed in service. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to income as incurred.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Bank-Owned Life Insurance

The Company invests in bank owned life insurance ("BOLI") as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by the Bank on a chosen group of employees. The Bank is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies. Earnings from the increase in cash surrender value of the policies are included in other income on the statement of income.

Employee Benefit Plans

The Bank's 401(k) plan allows eligible participants to set aside a certain percentage of their salaries before taxes. The Company may elect to match employee contributions up to a specified percentage of their respective salaries in an amount determined annually by the Board of Directors. The Company's matching contribution related to the plan resulted in expenses of $84,276 and $82,993, for the three months ended December 31, 2009 and 2008, respectively.

The Company also maintains a Supplemental Executive and a Director Retirement Plan (the "Plans"). The accrued amount for the Plans included in other liabilities was $785,102 and $749,317 at December 31, 2009 and September 30, 2009, respectively. The expense associated with the Plans for the three months ended December 31, 2009 and 2008 was $35,785 and $35,078, respectively.

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Note 2 – Summary of Significant Accounting Policies (Continued)

Advertising Costs

The Company follows the policy of charging the costs of advertising to expense as incurred.

Income Taxes

Deferred taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Malvern Federal Bancorp, Inc. and its subsidiaries file separate state income tax returns and a consolidated federal income tax return.

The Company adopted the provisions of Accounting Standards Codification ("ASC") 740, Accounting for Uncertainty in Income Taxes, on October 1, 2008. Previously, the Company had accounted for tax contingencies in accordance with ASC 450, Accounting for Contingencies. As required by ASC 740, which clarifies Statement 109, Accounting for Income Taxes, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. At the adoption date, the Company applied ASC 740 to all tax positions for which the statute of limitations remained open. As a result of the adoption of ASC 740, there was no material effect on the Company's consolidated financial position or results of operations and no adjustment to retained earnings.

Commitments and Contingencies

In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the statement of financial condition when they are funded.

Segment Information

The Company has one reportable segment, "Community Banking." All of the Company's activities are interrelated, and each activity is dependent and assessed based on how each of the activities of the Company supports the others. For example, lending is dependent upon the ability of the Company to fund itself with deposits and other borrowings and manage interest rate and credit risk. Accordingly, all significant operating decisions are based upon analysis of the Company as one segment or unit.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale investment securities, are reported as a separate component of the shareholders' equity section of the statement of financial condition, such items, along with net income, are components of comprehensive income.

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Note 2 – Summary of Significant Accounting Policies (Continued)

The components of other comprehensive income (loss) and related tax effects are as follows for the three months ended December 31:

	2009	2008
Unrealized holding gains (losses) on available for sale securities	$(1,674)	$148,689
Reclassification adjustment for gains included in net income	(800)	(17,796)
Net Unrealized Gains (losses)	(2,474)	130,893
Income tax effect	(1,257)	65,538
Net of Tax Amount	$(1,217)	$65,355

Recent Accounting Pronouncements

In August 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2009-05, "Measuring Liabilities at Fair Value", which updates ASC 820-10, "Fair Value Measurements and Disclosures". The updated guidance clarifies that the fair value of a liability can be measured in relation to the quoted price of the liability when it trades as an asset in an active market, without adjusting the price for restrictions that prevent the sale of the liability. This guidance is effective beginning October 1, 2009. The adoption of this guidance did not have an impact on the Company's valuation techniques for measuring liabilities at fair value.

In December 2009, FASB ASC 810-10-25, the consolidation guidance related to variable interest entities ("VIEs"), was amended to modify the approach used to evaluate VIEs and add disclosure requirements about an enterprise's involvement with VIEs. These provisions are effective at the beginning of an entity's annual reporting period that begins after November 15, 2009 and for interim periods within that period. The Company does not expect the adoption of this consolidation guidance to have a material effect on its consolidated financial statements.

In December 2009, FASB ASC 860, "Transfers and Servicing", was amended to eliminate the concept of a "qualifying special-purpose entity" and change the requirements for derecognizing financial assets. The amendment requires additional disclosures intended to provide greater transparency about transfers of financial assets, including securitization transactions, and an entity's continuing involvement in and exposure to the risks related to transferred financial assets. This updated guidance is effective for fiscal years beginning after November 15, 2009. The Company does not expect the adoption of this guidance to have a material effect on its consolidated financial statements.

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Note 3 – Earnings Per Share

Earnings Per Share

Basic earnings per common share is computed based on the weighted average number of shares outstanding reduced by unearned ESOP shares. Diluted earnings per share is computed based on the weighted average number of shares outstanding and common stock equivalents ("CSEs") that would arise from the exercise of dilutive securities reduced by unearned ESOP shares. As of December 31, 2009 and for the three months ended December 31, 2009 and December 31, 2008 the Company had not issued and did not have any outstanding CSEs and at the present time, the Bank's capital structure has no potential dilutive securities. For the three months ended December 31, 2009 and 2008, basic earnings per share is shown below

The following table sets forth the composition of the weighted average shares (denominator) used in the earnings per share computations.

	Three Months Ended December 31,	
	2009	2008
Net Income	$ 11,759	$ 515,984
Weighted average shares outstanding	6,122,315	6,152,500
Average unearned ESOP shares	(221,610)	(235,014)
Weighted average shares outstanding – basic	5,900,705	5,917,486
Earnings per share - basic	$ 0.00	$ 0.09

Note 4 – Employee Stock Ownership Plan

In 2008, the Company established an employee stock ownership plan ("ESOP") for substantially all of its full-time employees. Certain senior officers of the Bank have been designated as Trustees of the ESOP. Shares of the Company's common stock purchased by the ESOP are held until released for allocation to participants. Shares released are allocated to each eligible participant based on the ratio of each such participant's base compensation to the total base compensation of all eligible plan participants. As the unearned shares are committed to be released and allocated among participants, the Company recognizes compensation expense equal to the fair value of the ESOP shares during the periods in which they become committed to be released. To the extent that the fair value of the ESOP shares released differs from the cost of such shares, the difference is charged or credited to additional paid-in capital. During the period from May 20, 2008 to September 30, 2008, the ESOP purchased 241,178 shares of the Company's common stock for approximately $2.6 million, an average price of $10.86 per share which was funded by a loan from Malvern Federal Bancorp, Inc. The ESOP loan is being repaid principally from the Bank's contributions to the ESOP. The loan, which bears an interest rate of 5%, is being repaid in quarterly installments through

2026. Shares are released to participants proportionately as the loan is repaid. During the three months ended December 31, 2009 and 2008, there were 3,351 and 3,351 shares committed to be released, respectively, and ESOP expense was $31,898 and $33,186, respectively. At December 31, 2009, there were 219,957 unallocated shares held by the ESOP which had an aggregate fair value of approximately $2.1 million.

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Note 5 - Investment Securities

Investment securities available for sale at December 31, 2009 and September 30, 2009 consisted of the following:

	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government obligations	$999,700	$ 6,745	$ -	$1,006,445
U.S. government agencies	4,049,397	11,437	(2,054)	4,058,781
FHLB notes	3,997,499	50,777	(1)	4,048,275
State and municipal obligations	1,560,893	10,000	(21,937)	1,548,956
Single issuer trust preferred security	1,000,000	-	(287,450)	712,550
Corporate debt securities	1,473,391	34,234	(1,869)	1,505,756
	13,080,880	113,194	(313,311)	12,880,763
Mortgage-backed securities:				
FNMA:				
Adjustable	4,008,323	153,528	(23)	4,161,828
Fixed	1,936,431	29,569	-	1,966,000
Balloon	373,306	6,172	-	379,478
FHLMC:				
Adjustable	1,040,013	14,116	(1,025)	1,053,104
Fixed	570,185	35,951	-	606,136
GNMA, adjustable	184,090	2,331	-	186,421
CMO, fixed-rate	4,503,912	7,874	(17,729)	4,494,057
	12,616,260	249,541	(18,777)	12,847,024
	$25,697,140	$ 362,735	$ (332,088)	$25,727,787

At December 31, 2009 and September 30, 2009, all of the Company’s mortgage-backed securities consisted solely of securities backed by residential mortgage loans. The Company held no mortgage-backed securities backed by commercial mortgage loans at either date.

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Note 5 - Investment Securities (Continued)

	September 30, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government obligations	$999,480	$ 11,457	$ -	$1,010,937
U.S. government agencies	5,448,761	25,241	-	5,474,002
FHLB notes	3,496,874	71,251	-	3,568,125
State and municipal obligations	1,767,569	9,038	(17,363)	1,759,244
Single issuer trust preferred security	1,000,000	-	(361,580)	638,420
Corporate debt securities	1,288,429	37,236	-	1,325,665
	14,001,113	154,223	(378,943)	13,776,393
Mortgage-backed securities:				
FNMA:				
Adjustable	4,545,602	151,558	(627)	4,696,533
Fixed	2,093,663	40,543	-	2,134,206
Balloon	432,342	4,500	-	436,842
FHLMC:				
Adjustable	1,105,739	11,059	(1,233)	1,115,565
Fixed	667,911	46,362	-	714,273
GNMA, adjustable	203,378	2,199	-	205,577
CMO, fixed-rate	4,015,521	13,126	(10,446)	4,018,201
	13,064,156	269,347	(12,306)	13,321,197
	$27,065,269	$ 423,570	$ (391,249)	$27,097,590

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Note 5 - Investment Securities (Continued)

Investment securities held to maturity at December 31, 2009 and September 30, 2009 consisted of the following:

	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities:				
GNMA, adjustable	$287,526	$ 7,297	$ -	$294,823
GNMA, fixed	2,234	211	-	2,445
FNMA, fixed	4,519,503	81,003	(34,191)	4,566,315
	$4,809,263	$ 88,511	$ (34,191)	$4,863,583

	September 30, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities:				
GNMA, adjustable	$298,049	$ 7,025	$ -	$305,074
GNMA, fixed	2,236	166	-	2,402
FNMA, fixed	4,541,891	92,735	-	4,634,626
	$4,842,176	$ 99,926	$ -	$4,942,102

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Note 5 - Investment Securities (Continued)

The following tables summarize the aggregate investments at December 31, 2009 and September 30, 2009 that were in an unrealized loss position.

	December 31, 2009					
	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Investment Securities Available for Sale						
FHLB Notes	$499,980	$ (1)	$-	$ -	$499,980	$ (1)
U.S. government obligations	747,892	(2,054)	-	-	747,892	(2,054)
State and municipal obligations	355,436	(3,937)	27,000	(18,000)	382,436	(21,937)
Single issuer trust preferred security	-	-	712,550	(287,450)	712,550	(287,450)
Corporate security	186,893	(1,869)	-	-	186,893	(1,869)
Mortgage-backed securities:						
FNMA:						
Adjustable	64,481	(18)	2,987	(5)	67,468	(23)
FHLMC:						
Adjustable	30,654	(222)	129,836	(803)	160,490	(1,025)
CMO, fixed-rate	3,023,556	(17,729)	-	-	3,023,556	(17,729)
	$4,908,892	$ (25,830)	$872,373	$ (306,258)	$5,781,265	$ (332,088)
Investment Securities Held to Maturity						
Mortgage-backed securities:						
FNMA, fixed	$2,326,158	$ (34,191)	$-	$ -	$2,326,158	$ (34,191)
	$2,326,158	$ (34,191)	$-	$ -	$2,326,158	$ (34,191)

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Note 5 - Investment Securities (Continued)

	September 30, 2009					
	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Investment Securities Available for Sale						
State and municipal obligations	$184,877	$ (17,363)	$-	$ -	$84,877	$ (17,363)
Single issuer trust preferred security	-	-	638,420	(361,580)	638,420	(361,580)
Mortgage-backed securities:						
FNMA:						
Adjustable	301,396	(415)	78,775	(212)	380,171	(627)
FHLMC:						
Adjustable	349,060	(418)	166,512	(815)	515,572	(1,233)
CMO, fixed-rate	1,658,480	(10,446)	-	-	1,658,480	(10,446)
	$2,493,813	$ (28,642)	$883,707	$ (362,607)	$3,377,520	$ (391,249)

The Company had no securities classified as held to maturity which were in an unrealized loss position at September 30, 2009.

As of December 31, 2009, the estimated fair value of the securities disclosed above is primarily dependent upon the movement in market interest rates particularly given the negligible inherent credit risk associated with these securities. These investment securities are comprised of securities that are rated investment grade by at least one bond credit rating service. Although the fair value will fluctuate as the market interest rates move, management believes that these fair values will recover as the underlying portfolios mature and are reinvested in market rate yielding investments. As of December 31, 2009, the Company held one FHLB agency, two U.S. government agencies, three tax-free municipals, 11 mortgage-backed securities, and one single issuer trust preferred security which were in an unrealized loss position. The Company does not intend to sell or expects that it is more likely than not that it will not be required to sell these securities until such time as the value recovers or the securities mature. Management does not believe any individual unrealized loss as of December 31, 2009 represents other-than-temporary impairment.

During the quarter ended December 31, 2009, the gross unrealized loss of the single issuer trust preferred security improved by $74,130 from an unrealized loss at September 30, 2009 of $361,580 to an unrealized loss of $287,450 as of December 31, 2009. The stability of the underlying credit and the financial markets has contributed to this improvement. The historic changes in the economy and interest rates have continued to cause the pricing of agency, mortgage-backed securities, and trust preferred securities to widen dramatically over U.S. Treasury securities into the December 2009 quarter, but slight signs of improvement are beginning to occur. Management will continue to

monitor the performance of this security and the markets to determine the true economic value of this security.

At December 31, 2009 and September 30, 2009 the Company had no securities pledged to secure public deposits.

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Note 5 - Investment Securities (Continued)

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2009 follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within 1 year	$6,496,892	$6,555,702	$-	$-
Over 1 year through 5 years	5,381,746	5,428,961	-	-
After 5 years through 10 years	1,202,242	896,100	-	-
	13,080,880	12,880,763	-	-
Mortgage-backed securities	12,616,260	12,847,024	4,809,263	4,863,583
	$25,697,140	$25,727,787	$4,809,263	$4,863,583

Note 6 - Loans Receivable

Loans receivable consisted of the following for the periods indicated below:

	At December 31, 2009	At September 30, 2009
Mortgage Loans:		
One-to four-family	$ 246,227,213	$ 252,307,828
Multi-family	8,009,350	9,613,184
Construction or development	34,641,171	37,507,536
Land loans	3,197,872	3,236,550
Commercial real estate	152,143,623	142,863,313
Total Mortgage Loans	444,219,229	445,528,411
Commercial Loans	14,015,863	15,647,219
Consumer loans:		
Home equity lines of credit	20,426,023	19,149,135
Second mortgages	112,918,778	113,943,091
Other	1,148,812	1,142,967
Total Consumer Loans	134,493,613	134,235,193
Total Loans	592,728,705	595,410,823

Deferred loan costs, net		3,769,468		3,872,025
Allowance for loan losses		(6,262,570)		(5,717,510)
	$	590,235,603	$	593,565,338

Included in loans receivable are nonaccrual loans in the amount of $18,770,190 and $14,194,724 at December 31, 2009 and September 30, 2009, respectively. Interest income that would have been recognized on these nonaccrual loans had they been current in accordance with their original terms was $295,840 and $130,086 for the three months ended December 31, 2009 and 2008, respectively. There were no loans past due 90 days or more and still accruing interest at December 31, 2009.

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Note 6 - Loans Receivable (Continued)

The following is an analysis of the activity in the allowance for loan losses during the periods indicated:

	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008	Year Ended September 30, 2009
Balance at beginning of year	$ 5,717,510	$ 5,504,512	$ 5,504,512
Provision for loan losses	945,000	445,000	2,280,100
Charge-offs	(400,859)	(1,151,074)	(2,096,928)
Recoveries	919	909	29,826
Net Charge-offs	(399,940)	(1,150,165)	(2,067,102)
Balance at end of year	$ 6,262,570	$ 4,799,347	$ 5,717,510

At December 31, 2009 and September 30, 2009, 100% of impaired loan balances were measured for impairment based on the fair value of the loan's collateral.

	December 31, 2009	September 30, 2009
Impaired loans without an allocated valuation allowance	$ 1,834,795	$ 10,570,188
Impaired loans with an allocated valuation allowance	5,395,052	3,624,536
Total impaired loans	$ 7,229,847	$ 14,194,724
Valuation allowance allocated to impaired loans	$ 2,207,478	$ 2,057,318

	Three Months Ended December 31, 2009	Year Ended September 30, 2009
Average impaired loans	$ 11,278,402	$ 14,285,848
Interest income recognized on impaired loans	$ 2,983	$ 698,270
Cash basis collections on impaired loans	$ 4,188	$ 859,681

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Note 7 - Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt correction action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of tangible and core capital (as defined in the regulations) to total adjusted tangible assets (as defined) and of risk-based capital (as defined) to risk-weighted assets (as defined). Management believes, as of December 31, 2009, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2009, the most recent notification from the regulators categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum tangible, core, and risk-based ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's status of "well-capitalized."

The Bank's actual capital amounts and ratios are also presented in the table:

	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2009						
Tangible Capital (to tangible assets)	$ 62,253,067	9.18 %	$ ≥10,167,444	≥1.50%	N/A	
Core Capital (to adjusted tangible assets)	62,253,067	9.18	≥27,113,183	≥4.00	$ ≥33,891,479	≥ 5.00%
Tier 1 Capital (to risk-weighted assets)	62,253,067	12.03	≥20,704,842	≥4.00	≥31,057,263	≥ 6.00
Total risk-based Capital (to risk-weighted assets)	66,308,158	12.81	≥41,409,684	≥8.00	≥51,762,105	≥10.00
As of September 30, 2009:						
Tangible Capital (to tangible assets)	$ 62,247,317	9.07 %	$ ≥10,297,204	≥1.50%	N/A	

Core Capital (to adjusted tangible assets)	62,247,317	9.07	≥27,459,211	≥4.00	$	≥34,324,014	≥ 5.00%
Tier 1 Capital (to risk-weighted assets)	62,247,317	11.96	≥20,815,426	≥4.00		≥31,223,140	≥ 6.00
Total risk-based Capital (to risk-weighted assets)	65,907,510	12.67	≥41,630,853	≥8.00		≥52,038,566	≥10.00

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Note 8 - Fair Value Measurements

The table below presents a summary of activity in our other real estate owned during the three months ended December 31, 2009:

	December 31, 2009				
	Balance as of September 30, 2009	Additions	Sales, net	Write-downs	Balance as of December 31, 2009
One-to four-family	$1,567,600	$-	$194,116	$ -	$1,373,484
Commercial real estate	4,006,291	-	592,041	359,500	3,054,750
Commercial	19,615	-	-	-	19,615
Second mortgages	85,008	-	85,008	-	-
Construction and development	196,340	-	196,340	-	-
Total	$5,874,854	$-	$1,067,505	$ 359,500	$4,447,849

The Company uses fair value measurements to record fair value adjustments to certain assets to determine fair value disclosures. Investment and mortgage-backed securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as impaired loans, real estate owned and certain other assets. These nonrecurring fair value adjustments typically involve application of lower-of-cost-or-market accounting or write-downs of individual assets.

Under FASB ASC Topic 820, "Fair Value Measurements", the Company groups its assets at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1—Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2—Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3—Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset.

Under FASB ASC Topic 820, the Company bases its fair values on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is our policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy in FASB ASC Topic 820.

Fair value measurements for assets where there exists limited or no observable market data and, therefore, are based primarily upon the Company’s or other third-party’s estimates, are often calculated based on the characteristics of the asset, the economic and competitive environment and other such factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of current or future valuations. At December 31, 2009 and September 30, 2009, the Company did have assets that were measured at fair value on a recurring basis that use Level 3 measurements.

FASB ASC 825 provides an option to elect fair value as an alternative measurement for selected financial assets and financial liabilities not previously recorded at fair value. The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation.

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of FASB ASC 825, “Disclosures About Fair Value of Financial Instruments.” The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methods. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company would realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. FASB ASC 825 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

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Note 8 - Fair Value Measurements (Continued)

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2009 and September 30, 2009. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since December 31, 2009 and September 30, 2009 and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

The following assumptions were used to estimate the fair value of the Company's financial instruments:

Cash and Cash Equivalents—These assets are carried at historical cost. The carrying amount is a reasonable estimate of fair value because of the relatively short time between the origination of the instrument and its expected realization.

Investment and Mortgage-backed Securities—Investment and mortgage-backed securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are measured at fair value on a recurring basis. Fair value measurements for these securities are typically obtained from independent pricing services that we have engaged for this purpose. When available, we, or our independent pricing service, use quoted market prices to measure fair value. If market prices are not available, fair value measurement is based upon models that incorporate available trade, bid and other market information and for structured securities, cash flow and, when available, loan performance data. Because many fixed income securities do not trade on a daily basis, our independent pricing service's applications apply available information as applicable through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing to prepare evaluations. For each asset class, pricing applications and models are based on information from market sources and integrate relevant credit information. All of our securities available for sale are valued using either of the foregoing methodologies to determine fair value adjustments recorded to our financial statements. The Company had no Level 1 securities as of December 31, 2009 and September 30, 2009. Level 2 securities include corporate bonds, agency bonds, municipal bonds, mortgage-backed securities, and collateralized mortgage obligations.

Loans Receivable—We do not record loans at fair value on a recurring basis. As such, valuation techniques discussed herein for loans are primarily for estimating fair value for FASB ASC 825 disclosure purposes. However, from time to time, we record nonrecurring fair value adjustments to loans to reflect partial write-downs for impairment or the full charge-off of the loan carrying value. The valuation of impaired loans is discussed below. The fair value estimate for FASB ASC 825 purposes differentiates loans based on their financial characteristics, such as product classification, loan category, pricing features and remaining maturity. Prepayment and credit loss estimates are evaluated by loan type and rate. The fair value of one-to four-family residential mortgage loans is estimated by discounting contractual cash flows using discount rates based on current industry pricing, adjusted for prepayment and credit loss estimates. The fair value of loans is estimated by discounting contractual cash flows using discount rates based on our current pricing for loans with similar characteristics, adjusted for prepayment and credit loss estimates.

Impaired Loans—Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. Fair value is measured based on the value of the collateral securing these loans and is classified at a

Level 3 in the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable and is determined based on appraisals by qualified licensed appraisers hired by the Company. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client's business. Impaired loans are reviewed and evaluated on a monthly basis for additional impairment and adjusted accordingly, based on the same factors identified above.

Accrued Interest Receivable—This asset is carried at historical cost. The carrying amount is a reasonable estimate of fair value because of the relatively short time between the origination of the instrument and its expected realization.

Restricted Stock—Although restricted stock is an equity interest in the FHLB, it is carried at cost because it does not have a readily determinable fair value as its ownership is restricted and it lacks a market. The estimated fair value approximates the carrying amount.

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Note 8 - Fair Value Measurements (Continued)

Other Real Estate Owned—Other real estate owned includes foreclosed properties securing commercial, residential and construction loans. Real estate properties acquired through foreclosure are initially recorded at the fair value of the property at the date of foreclosure. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of cost or fair value less estimated costs to sell. Fair value is generally based upon independent market prices or appraised value of the collateral. Our appraisals are typically performed by independent third party appraisers. For appraisals of commercial and construction properties, comparable properties within the area may not be available. In such circumstances, our appraisers will rely on certain judgments in determining how a specific property compares in value to other properties that are not identical in design or in geographic area. Our current portfolio of other real estate owned is comprised of such properties and, accordingly, we classify other real estate owned as Level 3.

Deposits—Deposit liabilities are carried at cost. As such, valuation techniques discussed herein for loans are primarily for estimating fair value for FASB ASC 825 disclosure purposes. The fair value of deposits is discounted based on rates available for borrowings of similar maturities. A decay rate is estimated for non-time deposits. The discount rate for non-time deposits is adjusted for servicing costs based on industry estimates.

Long-Term Borrowings—Advances from the FHLB are carried at amortized cost. However, we are required to estimate the fair value of this debt under FASB ASC 825. The fair value is based on the contractual cash flows discounted using rates currently offered for new notes with similar remaining maturities.

Short-Term Borrowings—These liabilities are carried at historical cost. The carrying amount is a reasonable estimate of fair value because of the relatively short time between the origination of the instrument and its expected realization.

Accrued Interest Payable—This liability is carried at historical cost. The carrying amount is a reasonable estimate of fair value because of the relatively short time between the origination of the instrument and its expected realization.

Commitments to Extend Credit and Letters of Credit—The majority of the Bank's commitments to extend credit and letters of credit carry current market interest rates if converted to loans. Because commitments to extend credit and letters of credit are generally unassignable by either the Bank or the borrower, they only have value to the Bank and the borrower. The estimated fair value approximates the recorded deferred fee amounts, which are not significant.

Mortgage Servicing Rights—The fair value of mortgage servicing rights is based on observable market prices when available or the present value of expected future cash flows when not available. Assumptions, such as loan default rates, costs to service, and prepayment speeds significantly affect the estimate of future cash flows. Mortgage servicing rights are carried at the lower of cost or fair value.

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Note 8 - Fair Value Measurements (Continued)

The table below presents the balances of assets measured at fair value on a recurring basis:

	December 31, 2009			
	Total	Level 1	Level 2	Level 3
Debt securities available for sale	$12,880,763	$-	$12,880,763	$-
Mortgage-backed securities available for sale	12,847,024	-	12,847,024	-
Total	$25,727,787	$-	$25,727,787	$-

	September 30, 2009			
	Total	Level 1	Level 2	Level 3
Debt securities available for sale	$13,776,393	$-	$13,776,393	$-
Mortgage-backed securities available for sale	13,321,197	-	13,321,197	-
Total	$27,097,590	$-	$27,097,590	$-

For assets measured at fair value on a nonrecurring basis that were still held at the end of the period, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related individual assets or portfolios at December 31, 2009 and September 30, 2009:

	December 31, 2009			
	Total	Level 1	Level 2	Level 3
Other real estate owned	$4,447,849	$-	$-	$4,447,849
Impaired loans	3,187,574	-	-	3,187,574
Total	$7,635,423	$-	$-	$7,635,423

	September 30, 2009			
	Total	Level 1	Level 2	Level 3
Other real estate owned	$5,874,854	$-	$-	$5,874,854
Impaired loans	1,567,218	-	-	1,567,218
Total	$7,460,072	$-	$-	$7,460,072

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Note 8 - Fair Value Measurements (Continued)

The table below presents a summary of activity in our other real estate owned during the three months ended December 31, 2009:

	December 31, 2009				
	Balance as of September 30, 2009	Additions	Sales, net	Write-downs	Balance as of December 31, 2009
One-to four-family	$1,567,600	$-	$194,116	$ -	$1,373,484
Commercial real estate	4,006,291	-	592,041	359,500	3,054,750
Commercial	19,615	-	-	-	19,615
Second mortgages	85,008	-	85,008	-	-
Construction and development	196,340	-	196,340	-	-
Total	$5,874,854	$-	$1,067,505	$ 359,500	$4,447,849

The carrying amount and estimated fair value of the Company's financial instruments as of December 31, 2009 and September 30, 2009:

	December 31, 2009		September 30, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$18,522,851	$18,522,851	$25,324,599	$25,324,599
Investment securities available for sale	25,727,787	25,727,787	27,097,590	27,097,590
Investment securities held to maturity	4,809,263	4,863,583	4,842,176	4,942,102
Loans receivable	590,235,603	594,540,921	593,565,338	597,729,181
Accrued interest receivable	2,304,365	2,304,365	2,226,206	2,226,206
Restricted stock	6,566,973	6,566,973	6,566,973	6,566,973
Mortgage servicing rights	285,976	285,976	291,983	291,983
Financial liabilities:				
Deposits	518,459,883	518,728,017	516,510,678	518,478,826
Short-term borrowings	3,000,000	3,000,000	-	-
Long-term borrowings (FHLB advances)	87,117,605	90,104,201	99,621,045	100,713,237
Accrued interest payable	526,138	526,138	706,896	706,895

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Note 9 – Income Taxes

The following is reconciliation between the statutory federal income tax rate of 34% and the effective income tax rate on income before income taxes:

	Three Months Ended December 31,			
	2009			2008
At federal statutory rate	$(26,003)			$253,380
Adjustments resulting from:				
State tax, net of federal benefit	(13,772)			27,104
Tax-exempt interest	(9,121)Retail			
				19.1
				.7
Other (includes 5 industry groups)				
				17.3
				.5
Total				
			$	125.3
(3)				
			$	10.2

(3) Represents 1.7% of the total fixed maturity securities portfolio.

Gross Unrealized Losses Stratified by Industry Concentration for Investment Grade Fixed Maturity Securities

	December 31, 2007	
	Amortized Cost	Gross Unrealized Losses

Fixed Maturity Securities by Industry Concentration:		
Utilities	$ 362.1	$ 5.3
Financial	144.2	3.3
Service	120.4	2.7
Banking	157.5	2.2
Other (includes 16 industry groups)	1,317.6	11.6
Total	$ 2,102.0(4)	$ 25.3

(4) Represents 28.7% of the total fixed maturity securities portfolio.

Gross Unrealized Losses Stratified by Industry Concentration for Equity Securities

	December 31, 2007	
	Cost	Gross Unrealized Losses
Equity Securities by Industry Concentration:		
Insurance	$ 237.4	$ 66.8
Banking	102.0	10.8
Health Care	22.4	2.7
Natural Gas	.4	-
Total	$ 362.3 (5)	$ 80.4 (6)

(5) Represents 44.9% of the total equity securities portfolio.

(6) Represents 10.0% of the cost of the total equity securities portfolio, while gross unrealized gains represent 14.3% of the portfolio.

Gross Unrealized Losses Stratified by Maturity Ranges for All Fixed Maturity Securities

	December 31, 2007			
	Amortized Cost of Fixed Maturity Securities		Gross Unrealized Losses	
	All	Non-Investment Grade Only	All	Non-Investment Grade Only
Maturity Ranges:				
Due in one year or less	$ 438.5	$ 33.9	$ 2.3	$ 1.0
Due after one year through five years	1,026.9	78.5	15.7	6.6
Due after five years through ten years	758.3	12.8	17.4	2.6
Due after ten years	3.6	-	-	-
Total	$ 2,227.4	$ 125.3	$ 35.6	$ 10.2

Gross Unrealized Losses Stratified by Duration and Amount of Unrealized Losses

	December 31, 2007			
	Amount of Gross Unrealized Losses			
	Less than 20% of Cost	20% to 50% of Cost	More than 50% of Cost	Total Gross Unrealized Loss
Number of Months in Loss Position:				
Fixed Maturity Securities:				
One to six months	$ 3.2	$ -	$ -	$ 3.2
Seven to twelve months	1.9	-	-	1.9
More than twelve months	25.8	4.5	-	30.4
Total	$ 31.0	$ 4.5	$ -	$ 35.6
Equity Securities:				
One to six months	$ 12.2	$ 68.1	$ -	$ 80.4
Seven to twelve months	-	-	-	-
More than twelve months	-	-	-	-

Total	$ 12.2	$ 68.2	$ -	$ 80.4
Number of Issues in Loss Position:				
Fixed Maturity Securities:				
One to six months	71	-	-	71
Seven to twelve months	43	-	-	43
More than twelve months	424	4	-	428
Total	538	4	-	542(7)
Equity Securities:				
One to six months	11	2	-	13
Seven to twelve months	-	-	-	-
More than twelve months	-	1	-	1
Total	11	3	-	14(7)

(7) At December 31, 2007 the number of issues in an unrealized loss position represent 27.6% as to fixed maturities, and 56.0% as to equity securities of the total number of such issues held by the Company.

The aging of issues with unrealized losses employs closing market price comparisons with an issue's original cost. The percentage reduction from original cost reflects the decline as of a specific point in time (December 31, 2007 in the above table) and, accordingly, is not indicative of a security's value having been consistently below its cost at the percentages and throughout the periods shown.

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Age Distribution of Fixed Maturity Securities

	December 31,	
	2007	2006
Maturity Ranges:		
Due in one year or less	11.7%	9.6%
Due after one year through five years	46.8	44.4
Due after five years through ten years	41.1	45.6
Due after ten years through fifteen years	.4	.4
Due after fifteen years	-	-
Total	100.0%	100.0%

Average Maturity in Years	4.4	4.5
Duration (8)	3.8	3.9

(8) Duration is used as a measure of bond price sensitivity to interest rate changes. A duration of 3.8 as of December 31, 2007 implies that a 100 basis point parallel increase in interest rates from current levels would result in a possible decline in the market value of the long-term fixed maturity investment portfolio of approximately 3.8%.

Composition of Unrealized Gains (Losses)

	December 31,	
	2007	2006
Fixed Maturity Securities:		
Amortized cost	$ 7,312.2	$ 6,873.8
Estimated fair value	7,383.6	6,832.6
Gross unrealized gains	106.9	46.6
Gross unrealized losses	(35.6)	(87.8)
Net unrealized gains (losses)	$ 71.3	$ (41.2)
Equity Securities:		
Cost	$ 807.3	$ 534.7
Estimated fair value	842.1	669.1
Gross unrealized gains	115.1	136.1
Gross unrealized losses	(80.4)	(1.8)
Net unrealized gains	$ 34.7	$ 134.3

Other Assets - Among other major assets, substantially all of the Company's receivables are not past due. Reinsurance recoverable balances on paid or estimated unpaid losses are deemed recoverable from solvent reinsurers or have otherwise been reduced by allowances for estimated amounts unrecoverable. Deferred policy acquisition costs are estimated by taking into account the variable costs of producing specific types of insurance policies, and evaluating their recoverability on the basis of recent trends in claims costs. The Company's deferred policy acquisition cost balances have not fluctuated substantially from period-to-period and do not represent significant percentages of assets or shareholders' equity.

Liquidity - The parent holding company meets its liquidity and capital needs principally through dividends paid by its subsidiaries. The insurance subsidiaries' ability to pay cash dividends to the parent company is generally restricted by law or subject to approval of the insurance regulatory authorities of the states in which they are domiciled. The Company can receive up to $414.7 million in dividends from its subsidiaries in 2008 without the prior approval of regulatory authorities. The liquidity achievable through such permitted dividend payments is more than adequate to cover the parent holding company's currently expected cash outflows represented mostly by interest on outstanding debt and quarterly cash dividend payments to shareholders. In addition, Old Republic can access the commercial paper market for up to $300.0 million to meet short-term liquidity needs of which $60.0 million was outstanding at December 31, 2007.

Capitalization - Old Republic's total capitalization of $4,605.7 million at December 31, 2007 consisted of debt of $64.1 million and common shareholders' equity of $4,541.6 million. Changes in the common shareholders' equity account for the three most recent years reflect primarily the retention of earnings in excess of dividend requirements. Old Republic has paid cash dividends to its shareholders without interruption since 1942, and has increased the annual rate in each of the past 26 years. The annual dividend rate is typically reviewed and approved by the Board of Directors during the first quarter of each year. In establishing each year's cash dividend rate the Company does not follow a strict formulaic approach. Rather it favors a gradual rise in the annual dividend rate that is largely reflective of long-term consolidated operating earnings trends. Accordingly, each year's dividend rate is set judgmentally in consideration of such key factors as the dividend paying capacity of the Company's insurance subsidiaries, the trends in average annual statutory and GAAP earnings for the six most recent calendar years, and management's long-term expectations for the Company's consolidated business. At its February 22, 2007 meeting, the

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Board of Directors approved a new quarterly cash dividend rate of 16 cents per share effective in the second quarter of 2007, up from 15 cents per share, subject to the usual quarterly authorizations.

At its May, 2006 meeting, the Company's Board of Directors authorized the reacquisition of up to $500.0 million of common shares as market conditions warrant during the two year period from that date. The Company reacquired 1,566,100 shares of its common stock during 2007 for $28.3 million or $18.13 per share. As of December 31, 2007, a total of $471.6 million of this authorization remains unutilized.

Contractual Obligations - The following table shows certain information relating to the Company's contractual obligations as of December 31, 2007:

	Payments Due in the Following Years				
	Total	2008	2009 and 2010	2011 and 2012	2013 and after
Contractual Obligations:					
Debt	$ 64.1	$ 61.0	$ 1.7	$ 1.2	$ -
Interest on Debt	.6	.2	.2	-	-
Operating Leases	166.9	39.0	52.3	26.8	48.5
Pension Benefits Contributions (1)	45.8	5.0	12.8	19.4	8.6
Claim & Claim Expense Reserves (2)	6,231.1	1,554.4	1,374.9	606.4	2,695.2
Total	$ 6,508.5	$ 1,659.8	$ 1,442.2	$ 653.9	$ 2,752.4

(1) Represents estimated minimum funding of contributions for the Old Republic International Salaried Employees Restated Retirement Plan (the Old Republic Plan), Bituminous Casualty Corporation Retirement Income Plan (the Bitco Plan), and the Old Republic National Title Group Pension Plan (the Title Plan). Funding of the plans is dependent on a number of factors including actual performance versus actuarial assumptions made at the time of the actuarial valuations, as well as, maintaining certain funding levels relative to regulatory requirements.

(2) Amounts are reported gross of reinsurance. As discussed herein with respect to the nature of loss reserves and the estimating process utilized in their establishment, the Company's loss reserves do not have a contractual maturity date. Estimated gross loss payments are based primarily on historical claim payment patterns, are subject to change due to a wide variety of factors, do not reflect anticipated recoveries under the terms of reinsurance contracts, and cannot be predicted with certainty. Actual future loss payments may differ materially from the current estimates shown in the table above.

RESULTS OF OPERATIONS

Revenues: Premiums & Fees

Pursuant to GAAP applicable to the insurance industry, revenues are associated with the related benefits, claims, and expenses.

Substantially all general insurance premiums are reflected in income on a pro-rata basis. Earned but unbilled premiums are generally taken into income on the billing date, while adjustments for retrospective premiums, commissions and similar charges or credits are accrued on the basis of periodic evaluations of current underwriting experience and contractual obligations.

The Company's mortgage guaranty premiums primarily stem from monthly installment policies. Accordingly, substantially all such premiums are generally written and earned in the month coverage is effective. With respect to annual or single premium policies, earned premiums are largely recognized on a pro-rata basis over the terms of the policies.

Title premium and fee revenues stemming from the Company's direct operations (which include branch offices of its title insurers and wholly owned agency subsidiaries) represent approximately 32% of 2007 consolidated title business revenues. Such premiums are generally recognized as income at the escrow closing date which approximates the policy effective date. Fee income related to escrow and other closing services is recognized when the related services have been performed and completed. The remaining 68% of consolidated title premium and fee revenues is produced by independent title agents and underwritten title companies. Rather than making estimates that could be subject to significant variance from actual premium and fee production, the Company recognizes revenues from those sources upon receipt. Such receipts can reflect a three to four month lag relative to the effective date of the underlying title policy, and are offset concurrently by production expenses and claim reserve provisions.

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The major sources of Old Republic's earned premiums and fees for the periods shown were as follows:

Earned Premiums and Fees

	General	Mortgage	Title	Other	Total	% Change from prior period
Years Ended December 31:						
2005	$ 1,805.2	$ 429.5	$ 1,081.8	$ 70.3	$ 3,386.9	8.7%
2006	1,902.1	444.3	980.0	74.1	3,400.5	.4
2007	$ 2,155.1	$ 518.2	$ 850.7	$ 77.0	$ 3,601.2	5.9%

Earned premiums in the General Insurance Group grew by 13.3%, 5.4%, and 11.2% in 2007, 2006, and 2005, respectively, as a result of additional business produced in a reasonably stable underwriting environment and the year-end 2006 acquisition of a liability insurance book of business. 2007 mortgage guaranty premium revenue trends reflect greater business persistency and increased demand for traditional insurance products. Although overall mortgage originations were lower for 2006, mortgage guaranty premium production was affected favorably by improved business persistency and higher bulk insurance production. Title Group premium and fee revenues decreased by 13.2% and 9.4% in 2007 and 2006 respectively. The decline was particularly accentuated in the segment's direct operations, most of which are concentrated in the Western United States, and all of which reflected a downturn in home sales and resales.

The percentage allocation of net premiums earned for major insurance coverages in the General Insurance Group was as follows:

General Insurance Earned Premiums by Type of Coverage

	Commercial Automobile (mostly trucking)	Workers' Compensation	Financial Indemnity	Inland Marine and Property	General Liability	Other
Years Ended December 31:						
2005	39.1%	21.9%	10.3%	11.0%	5.4%	12.3%
2006	39.6	21.7	11.0	10.7	5.1	11.9
2007	35.0%	23.5%	13.8%	9.3%	7.8%	10.6%

The following tables provide information on production and related risk exposure trends for Old Republic's Mortgage Guaranty Group:

Mortgage Guaranty Production by Type

New Insurance Written:	Traditional Primary	Bulk	Other	Total
Years Ended December 31:				
2005	$ 20,554.5	$ 9,944.3	$ 498.2	$ 30,997.1
2006	17,187.0	13,716.7	583.7	31,487.5
2007	$ 31,841.7	$ 10,800.3	$ 901.6	$ 43,543.7

New Risk Written by Type:		Bulk	Other	Total

	Traditional Primary			
Years Ended December 31:				
2005	$ 5,112.4	$ 1,053.1	$ 11.7	$ 6,177.4
2006	4,246.8	1,146.6	12.2	5,405.7
2007	$ 7,844.5	$ 724.5	$ 15.2	$ 8,584.4

Premium and Persistency Trends by Type:	Earned Premiums		Persistency	
	Direct	Net	Traditional Primary	Bulk
2005	$ 508.0	$ 429.5	65.5%	59.5%
2006	524.7	444.3	73.1	70.5
2007	$ 612.7	$ 518.2	77.6%	73.7%

While there is no consensus in the marketplace as to the precise definition of “sub-prime”, Old Republic generally views loans with credit (FICO) scores less than 620, loans underwritten with reduced levels of documentation and loans with loan to value ratios in excess of 95% as having a higher risk of default. Risk in force concentrations by these attributes are disclosed in the following tables for both traditional primary and bulk production. Premium rates for loans exhibiting greater risk attributes are typically higher in anticipation of potentially greater defaults and claim costs. Additionally, bulk insurance policies, which represent 11.6% of total net risk in force, are frequently subject to deductibles and aggregate stop losses which serve to limit the overall risk on a pool of insured loans. As the decline in the housing markets has accelerated and mortgage lending standards have tightened, rising defaults and the attendant increases in reserves and paid claims on higher

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risk loans have become more significant drivers of increased claim costs.

Risk in Force

Net Risk in Force:	Traditional Primary	Bulk	Other	Total
As of December 31:				
2005	$ 14,711.2	$ 1,758.8	$ 586.1	$ 17,056.2
2006	14,582.1	2,471.1	578.9	17,632.2
2007	$ 18,808.5	$ 2,539.9	$ 511.1	$ 21,859.5

Analysis of Risk in Force

Risk in Force By Fair Issac & Company (“FICO”) Scores:	FICO less than 620	FICO 620 to 680	FICO Greater than 680	Unscored/ Unavailable
Traditional Primary:				
As of December 31:				
2005	8.3%	31.8%	53.1%	6.8%
2006	8.5	32.6	54.6	4.3
2007	8.5%	33.6%	55.1%	2.8%
Bulk(1):				
As of December 31:				
2005	21.2%	38.7%	38.7%	1.4%
2006	24.1	35.7	39.8	.4
2007	19.4%	34.9%	45.4%	.3%

Risk in Force By Loan to Value (“LTV”) Ratio:	LTV less than 85	LTV 85 to 90	LTV 90 to 95	LTV Greater than 95
Traditional Primary:				
As of December 31:				
2005	5.4%	37.7%	39.1%	17.8%
2006	5.0	37.4	36.0	21.6
2007	4.7%	34.4%	32.0%	28.9%
Bulk(1):				
As of December 31:				
2005	57.3%	27.4%	11.6%	3.7%
2006	63.4	23.1	9.0	4.5
2007	62.0%	20.9%	9.3%	7.8%

Risk in Force Distribution By Top Ten States:

Traditional Primary

	FL	TX	GA	IL	OH	CA	NJ	MI	NC	PA
As of December 31:										
2005	9.0%	7.1%	6.3%	5.4%	3.7%	3.6%	3.1%	3.1%	4.7%	3.8%
2006	9.0	7.5	5.8	5.4	3.7	3.1	3.1	3.1	4.8	4.0
2007	8.9%	7.7%	5.3%	5.2%	3.4%	4.5%	3.1%	2.9%	4.5%	3.8%

Bulk (1)

	FL	TX	GA	IL	OH	CA	NJ	AZ	CO	NY
As of December 31:										
2005	8.3%	4.5%	3.3%	4.9%	3.6%	19.0%	3.8%	4.0%	2.7%	6.3%
2006	9.4	4.8	3.6	4.5	3.4	17.7	3.2	4.4	2.8	4.6
2007	9.3%	4.8%	4.2%	4.1%	3.1%	17.5%	3.4%	4.2%	3.0%	5.5%

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Risk in Force By Level of Documentation:	Full Docu–mentation	Reduced Docu–mentation
Traditional Primary:		
As of December 31:		
2005	90.6%	9.4%
2006	89.4	10.6
2007	88.0%	12.0%
Bulk (1):		
As of December 31:		
2005	51.9%	48.1%
2006	51.9	48.1
2007	49.6%	50.4%

Risk in Force By Loan Type:	Fixed Rate	Adjustable Rate
Traditional Primary:		
As of December 31:		
2005	90.9%	9.1%
2006	92.3	7.7
2007	94.4%	5.6%
Bulk (1):		
As of December 31:		
2005	64.6%	35.4%
2006	65.7	34.3
2007	70.9%	29.1%

(1) Bulk pool risk in-force, which represented 43.0% of total bulk risk in-force at December 31, 2007, has been allocated pro-rata based on insurance in-force.

The following table shows the percentage distribution of Title Group premium and fee revenues by production sources:

Title Production

	Direct Operations	Independent Title Agents & Other
Years Ended December 31:		
2005	37.1%	62.9%
2006	32.3	67.7

2007	32.1%	67.9%

Revenues: Net Investment Income

Net investment income is affected by trends in interest and dividend yields for the types of securities in which the Company's funds are invested during each reporting period. The following tables reflect the segmented and consolidated invested asset bases as of the indicated dates, and the investment income earned and resulting yields on such assets. Since the Company can exercise little control over market values, yields are evaluated on the basis of investment income earned in relation to the amortized cost of the underlying invested assets, though yields based on the market values of such assets are also shown in the statistics below.

	Invested Assets at Cost					Market Value Adjust-ment	Invested Assets at Market Value
	General	Mortgage	Title	Corporate and Other	Total		
As of December 31:							
2006	$ 5,524.8	$ 1,571.6	$ 611.1	$ 246.6	$ 7,954.3	$ 101.8	$ 8,056.1
2007	$ 5,984.9	$ 1,795.8	$ 606.0	$ 252.9	$ 8,639.7	$ 121.4	$ 8,761.2

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	Net Investment Income					Yield at	
	General	Mortgage	Title	Corporate and Other	Total	Cost	Market
Years Ended December 31:							
2005	$ 197.0	$ 70.1	$ 26.0	$ 16.9	$ 310.1	4.51%	4.40%
2006	221.5	74.3	26.9	18.7	341.6	4.52	4.47
2007	$ 260.8	$ 79.0	$ 27.3	$ 12.7	$ 379.9	4.58%	4.52%

Consolidated net investment income grew by 11.2%, 10.2% and 6.6% in 2007, 2006 and 2005, respectively. This revenue source was affected by a rising invested asset base caused by positive consolidated operating cash flows, by a concentration of investable assets in interest-bearing securities, and by changes in market rates of return. Yield trends reflect the relatively short maturity of Old Republic's fixed maturity securities portfolio as well as continuation of a relatively lower yield environment during the past several years.

Revenues: Net Realized Gains

The Company's investment policies have not been designed to maximize or emphasize the realization of investment gains. Rather, these policies aim for a stable source of income from interest and dividends, protection of capital, and the providing of sufficient liquidity to meet insurance underwriting and other obligations as they become payable in the future. Dispositions of fixed maturity securities arise mostly from scheduled maturities and early calls; in 2007, 2006 and 2005, 85.1%, 77.2% and 67.9%, respectively, of all such dispositions resulted from these occurrences. Sales of equity securities at a realized gain or loss reflect such factors as ongoing assessments of issuers' business prospects, rotation among industry sectors, and tax planning considerations. Additionally, the amount of net realized gains and losses registered in any one accounting period are affected by the aforementioned assessments of securities' values for other-than-temporary impairment. As a result of the interaction of all these factors and considerations, net realized investment gains or losses can vary significantly from period-to-period, and in the Company's view are not indicative of any particular trend or result in the basics of its insurance business.

The following table reflects the composition of net realized gains or losses for the periods shown. As previously noted, a significant portion of Old Republic's indexed stock portfolio was sold at a gain, with proceeds redirected to a more concentrated, select list of common stocks expected to provide greater long-term total returns. Relatively greater realized gains in equity securities in 2005 resulted largely from sales of substantial portions of actively managed equity holdings and reinvestment of proceeds in index-style investment portfolios.

	Realized Gains on Disposition of:			Impairment Losses on:			
	Fixed maturity securities	Equity securities and miscell-aneous investments	Total	Fixed maturity securities	Equity securities and miscell-aneous investments	Total	Net realized gains
Years Ended December 31:							
2005	$ 4.5	$ 69.6	$ 74.1	$ (2.7)	$ (6.5)	$ (9.2)	$ 64.9
2006	2.0	16.9	19.0	-	-	-	19.0

2007	$ 2.2	$ 68.1	$ 70.3	$ -	$ -	$ -	$ 70.3

Expenses: Benefits and Claims

In order to achieve a necessary matching of premium and fee revenues and expenses, the Company records the benefits, claims and related settlement costs that have been incurred during each accounting period. Total claim costs are affected by the amount of paid claims and the adequacy of reserve estimates established for current and prior years' claim occurrences at each balance sheet date.

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The following table shows a breakdown of gross and net of reinsurance claim reserve estimates for major types of insurance coverages as of December 31, 2007 and 2006:

	December 31,			
	2007		2006	
	Gross	Net	Gross	Net
Claim and Loss Adjustment Expense Reserves:				
Commercial automobile (mostly trucking)	$ 1,041.6	$ 845.6	$ 977.7	$ 810.9
Workers' compensation	2,195.5	1,265.8	2,093.2	1,175.7
General liability	1,173.2	587.1	1,123.8	537.3
Other coverages	691.2	476.9	610.0	400.7
Unallocated loss adjustment expense reserves	154.8	104.0	147.0	97.8
Total general insurance reserves	5,256.5	3,279.7	4,951.8	3,022.6
Mortgage guaranty	645.2	642.9	248.6	247.9
Title	273.5	273.5	278.4	278.4
Life and health	30.3	24.7	28.4	21.6
Unallocated loss adjustment expense reserves – other coverages	25.4	25.4	27.2	27.2
Total claim and loss adjustment expense reserves	$ 6,231.1	$ 4,246.3	$ 5,534.7	$ 3,598.0
Asbestosis and environmental claim reserves included in the above general insurance reserves:				
Amount	$ 190.5	$ 158.1	$ 194.9	$ 157.8
% of total general insurance reserves	3.6%	4.8%	3.9%	5.2%

The Company's reserve for loss and loss adjustment expenses represents the accumulation of estimates of ultimate losses, including incurred but not reported losses and loss adjustment expenses. 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 as further discussed below. Consequently, reserves established are a reflection of the opinions 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 and the resulting changes in estimates are recorded in operations of the periods during which they are made. Increases to prior reserve estimates are often referred to as unfavorable development whereas any changes that decrease previous estimates of the Company's ultimate liability are referred to as favorable development.

Overview of Loss Reserving Process

Most of Old Republic's consolidated claim and related expense reserves stem from its general insurance business. At December 31, 2007, such reserves accounted for 84.4% and 77.2% of consolidated gross and net of reinsurance

reserves, respectively, while similar reserves at December 31, 2006 represented 89.5% and 84.0% of the respective consolidated amounts.

The Company's reserve setting process reflects the nature of its insurance business and the decentralized basis upon which it is conducted. Old Republic's general insurance operations encompass a large variety of lines or classes of commercial insurance; it has negligible exposure to personal lines such as homeowners or private passenger automobile insurance that exhibit wide diversification of risks, significant frequency of claim occurrences, and high degrees of statistical credibility. Additionally, the Company's insurance subsidiaries do not provide significant amounts of insurance protection for premises; most of its property insurance exposures relate to cargo, incidental property, and insureds' inland marine assets. Consequently, the wide variety of policies issued and commercial insurance customers served require that loss reserves be analyzed and established in the context of the unique or different attributes of each block or class of business produced by the Company. For example, accident liability claims emanating from insured trucking companies or from general aviation customers become known relatively quickly, whereas claims of a general liability nature arising from the building activities of a construction company may emerge over extended periods of time. Similarly, claims filed pursuant to errors and omissions or directors and officers' ("E&O/D&O") liability coverages are usually not prone to immediate evaluation or quantification inasmuch as many such claims may be litigated over several years and their ultimate costs may be affected by the vagaries of judged or jury verdicts. Approximately 86% of the general insurance group's claim reserves stem from liability insurance coverages for commercial customers which typically require more extended periods of investigation and at times protracted litigation before they are finally settled. As a consequence of these and other factors, Old Republic does not utilize a single, overarching loss reserving approach.

The Company prepares periodic analyses of its loss reserve estimates for its significant insurance coverages. It establishes point estimates for most losses on an insurance coverage line-by-line basis for individual subsidiaries, sub-classes, individual accounts, blocks of business or other unique concentrations of insurance risks such as directors and officers' liability, that have similar attributes. Actuarially or otherwise derived ranges of reserve levels are not utilized as such in setting these reserves. Instead the reported reserves encompass the Company's best point estimates at each reporting date and the overall reserve level at any point in time therefore represents the compilation of a very large number of reported reserve estimates and the results of a variety of formula calculations largely driven by statistical analysis of

historical data. Reserve releases or additions are implicitly covered by the point estimates incorporated in total reserves at each balance sheet date. The Company does not project future variability or make an explicit provision for uncertainty when determining its best estimate of loss reserves, although, as discussed below, over the most recent ten-year period management's estimates have developed slightly favorably on an overall basis.

Aggregate loss reserves consist of liability estimates for claims that have been reported ("case") to the Company's insurance subsidiaries and reserves for claims that have been incurred but not yet reported ("IBNR") or whose ultimate costs may not become fully apparent until a future time. Additionally, the Company establishes unallocated loss adjustment expense reserves for loss settlement costs that are not directly related to individual claims. Such reserves are based on prior years' cost experience and trends, and are intended to cover the unallocated costs of claim departments' administration of case and IBNR claims over time. Long-term, disability-type workers' compensation reserves are discounted to present value based on interest rates that range from 3.5% to 4.0%. The amount of discount reflected in the year end net reserves totaled $148.5 million, $151.0 million and $138.3 million as of December 31, 2007, 2006, and 2005, respectively.

A large variety of statistical analyses and formula calculations are utilized to provide for IBNR claim costs as well as additional costs that can arise from such factors as monetary and social inflation, changes in claims administration processes, changes in reinsurance ceded and recoverability levels, and expected trends in claim costs and related ratios. Typically, such formulas take into account so-called link ratios that represent prior years' patterns of incurred or paid loss trends between succeeding years, or past experience relative to progressions of the number of claims reported over time and ultimate average costs per claim.

Overall, reserves pertaining to several hundred large individual commercial insurance accounts that exhibit sufficient statistical credibility, and at times may be subject to retrospective premium rating plans or the utilization of varying levels or types of self-insured retentions through captive insurers and similar risk management mechanisms are established on an account by account basis using case reserves and applicable formula-driven methods. Large account reserves are usually set and analyzed for groups of coverages such as workers compensation, commercial auto and general liability that are typically underwritten jointly for many customers. For certain so-called long-tail categories of insurance such as retained or assumed excess liability or excess workers' compensation, officers and directors' liability, and commercial umbrella liability relative to which claim development patterns are particularly long, more volatile, and immature in their early stages of development, the Company judgmentally establishes the most current accident years' loss reserves on the basis of expected loss ratios. Such expected loss ratios typically reflect currently estimated loss ratios from prior accident years, adjusted for the effect of actual and anticipated rate changes, actual and anticipated changes in coverage, reinsurance, mix of business, and other anticipated changes in external factors such as trends in loss costs or the legal and claims environment. Expected loss ratios are generally used for the two to three most recent accident years depending on the individual class or category of business. As actual claims data emerges in succeeding interim and annual periods, the original accident year loss ratio assumptions are validated or otherwise adjusted sequentially through the application of statistical projection techniques such as the Bornhuetter/Ferguson method which utilizes data from the more mature experience of prior years to arrive at a likely indication of more recent years' loss trends and costs.

Mortgage guaranty insurance loss reserves are based on statistical calculations that take into account the number of reported insured mortgage loan defaults as of each balance sheet date, as well as experience-based estimates of IBNR. Further, the loss reserve estimating process also takes into account a large number of variables including trends in claim severity, potential salvage recoveries, expected cure rates for reported loan delinquencies at various stages of default, and judgments relative to future employment levels, housing market activity, and mortgage loan interest costs, demand, and availability.

Title insurance and related escrow services loss and loss adjustment expense reserves are established as point estimates to cover the projected settlement costs of known as well as IBNR losses related to premium and escrow

service revenues of each reporting period. Reserves for known claims are based on an assessment of the facts available to the Company during the settlement process. The point estimates covering all claim reserves take into account IBNR claims based on past experience and evaluations of such variables as changing trends in the types of policies issued, changes in real estate markets and interest rate environments, and changing levels of loan refinancing, all of which can have a bearing on the emergence, number, and ultimate costs of claims.

Incurred Loss Experience

Management is of the opinion that the Company's overall reserving practices have been consistently applied over many years. For at least the past ten years, previously established aggregate reserves have produced reasonable estimates of the cumulative ultimate net costs of claims incurred. However, there are no guarantees that such outcomes will continue, and accordingly, no representation is made that ultimate net claim and related costs will not develop in future years to be greater or lower than currently established reserve estimates. In management's opinion, however, such potential development is not likely to have a material effect on the Company's consolidated financial position, although it could affect materially its consolidated results of operations for any one annual or interim reporting period. See further discussion in this Annual Report on Form 10-K under Item 1A - Risk Factors.

The following table shows an analysis of changes in aggregate reserves for the Company's losses, claims, and settlement expenses for each of the years shown:

Years Ended December 31:	2007	2006	2005
Gross reserves at beginning of year	$ 5,534.7	$ 4,939.8	$ 4,403.5
Less: reinsurance losses recoverable	1,936.6	1,902.1	1,639.6
Net reserves at beginning of year	3,598.0	3,037.6	2,763.8
Incurred claims and claim adjustment expenses:			
Provisions for insured events of the current year	2,224.2	1,646.4	1,504.5
Change in provision for insured events of prior years	(66.1)	(114.0)	(43.9)
Total incurred claims and claim adjustment expenses	2,158.1	1,532.5	1,460.7
Payments:			
Claims and claim adjustment expenses attributable to insured events of the current year	579.7	432.4	484.6
Claims and claim adjustment expenses attributable to insured events of prior years	930.0	539.6	702.1
Total payments	1,509.8	972.1	1,186.8
Amount of reserves for unpaid claims and claim adjustment expenses at the end of each year, net of reinsurance losses recoverable	4,246.3	3,598.0	3,037.6
Reinsurance losses recoverable	1,984.7	1,936.6	1,902.1
Gross reserves at end of year	$ 6,231.1	$ 5,534.7	$ 4,939.8

The percentage of net claims, benefits and related settlement expenses incurred as a percentage of premiums and related fee revenues of the Company's three major operating segments and for consolidated operations were as follows:

Years Ended December 31:	2007	2006	2005
General	67.8%	65.9%	66.9%
Mortgage	118.8	42.8	37.2
Title	6.6	5.9	6.0
Consolidated benefits and claims ratio	60.2%	45.3%	43.3%
Reconciliation of consolidated ratio:			
Provision for insured events of the current year	62.0%	48.7%	44.6%
Change in provision for insured events of prior years:			
Due to asbestos and environmental	.1	1.1	1.5
Due to all other coverages	(1.9)	(4.5)	(2.8)

Net (favorable) unfavorable development	(1.8)	(3.4)	(1.3)
Consolidated benefits and claims ratio	60.2%	45.3%	43.3%

The consolidated benefits and claims ratio reflects the changing effects of period-to-period contributions of each segment to consolidated results, and this ratio's variances within each segment. For the three most recent calendar years, the above table indicates that the one-year development of consolidated reserves at the beginning of each year produced average favorable developments that reduced the consolidated loss ratio by 2.2%.

The percentage of net claims, benefits and related settlement expenses measured against premiums earned by major types of general insurance coverage were as follows:

	General Insurance Claims Ratios by Type of Coverage					
	Commercial Automobile (mostly trucking)	Workers' Compensation	Financial Indemnity	Inland Marine and Property	General Liability	Other
Years Ended December 31:						
2005	66.9%	78.9%	48.9%	52.1%	97.4%	59.5%
2006	75.4	74.5	40.6	55.0	57.5	55.6
2007	74.0%	70.9%	69.6%	54.9%	59.9%	55.9%

The general insurance portion of the claims ratio reflects reasonably consistent trends for all reporting periods. To a large extent this major cost factor reflects pricing and risk selection improvements that have been applied since 2001, together with elements of reduced loss severity and frequency. The higher claim ratio for financial indemnity coverages in 2007 was driven principally by greater claim frequencies experienced in Old Republic's consumer credit indemnity coverage. During the three most recent calendar years, the general insurance group experienced favorable development of prior year loss reserves primarily due to the commercial automobile and the E&O/D&O (financial indemnity) lines of business; these were partially offset by unfavorable development in excess workers compensation coverages and for ongoing development of asbestos and environmental ("A&E") exposures (general liability). Unfavorable developments attributable to A&E

claim reserves are due to periodic re-evaluations of such reserves as well as reclassifications of other coverages' reserves, typically workers compensation, deemed assignable to A&E types of losses.

Except for a small portion that emanates from ongoing primary insurance operations, a large majority of the A&E claim reserves posted by Old Republic stem mainly from its participations in assumed reinsurance treaties and insurance pools which were discontinued fifteen or more years ago and have since been in run-off status. With respect to the primary portion of gross A&E reserves, Old Republic administers the related claims through its claims personnel as well as outside attorneys, and posted reserves reflect its best estimates of ultimate claim costs. Claims administration for the assumed portion of the Company's A&E exposures is handled by the claims departments of unrelated primary or ceding reinsurance companies. While the Company performs periodic reviews of certain claim files managed by third parties, the overall A&E reserves it establishes respond to the paid claim and case reserve activity reported to the Company as well as available industry statistical data such as so-called survival ratios. Such ratios represent the number of years' average paid losses for the three or five most recent calendar years that are encompassed by an insurer's A&E reserve level at any point in time. According to this simplistic appraisal of an insurer's A&E loss reserve level, Old Republic's average five year survival ratios stood at 7.7 years (gross) and 10.7 years (net of reinsurance) as of December 31, 2007 and 7.6 years (gross) and 10.9 years (net of reinsurance) as of December 31, 2006. Fluctuations in this ratio between years can be caused by the inconsistent pay out patterns associated with these types of claims. Incurred net losses for A&E claims have averaged 2.8% of general insurance group net incurred losses for the five years ended December 31, 2007.

A summary of reserve activity, including estimates for IBNR, relating to A&E claims at December 31, 2007 and 2006 is as follows:

	December 31,			
	2007		2006	
	Gross	Net	Gross	Net
Asbestos:				
Reserves at beginning of year	$ 151.8	$ 117.3	$ 141.1	$ 108.9
Loss and loss expenses incurred	10.4	9.8	29.6	18.1
Claims and claim adjustment expenses paid	(12.8)	(5.3)	(18.9)	(9.6)
Reserves at end of year	149.4	121.9	151.8	117.3
Environmental:				
Reserves at beginning of year	43.1	40.4	29.6	23.2
Loss and loss expenses incurred	(3.1)	(7.1)	20.1	19.9
Claims and claim adjustment expenses paid	1.1	2.8	(6.7)	(2.7)
Reserves at end of year	41.1	36.1	43.1	40.4
Total asbestos and environmental reserves	$ 190.5	$ 158.1	$ 194.9	$ 157.8

Average mortgage guaranty paid claims, and certain delinquency ratio data as of the end of the periods shown are listed below:

	Average Paid Claim Amount (1)		Delinquency Ratio	
	Traditional Primary	Bulk	Traditional Primary	Bulk
Years Ended December 31:				
2005	$ 24,255	$ 20,639	4.67%	3.67%
2006	25,989	21,846	4.41	3.29
2007	$ 32,214	$ 34,951	5.47%	6.85%

(1) Amounts are in whole dollars.

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Traditional Primary Delinquency Ratios for Top Ten States (2):

	FL	TX	GA	IL	OH	CA	NJ	MI	NC	PA
As of December 31:										
2005	3.1%	5.7%	5.9%	4.2%	8.3%	1.8%	4.1%	7.3%	4.9%	4.7%
2006	2.7	4.5	6.1	4.5	7.8	2.9	4.1	8.2	4.6	4.8
2007	7.7%	4.5%	7.2%	5.4%	8.1%	6.7%	5.4%	9.8%	4.8%	5.2%

Bulk Delinquency Ratios for Top Ten States (2):

	FL	TX	GA	IL	OH	CA	NJ	AZ	CO	NY
As of December 31:										
2005	1.9%	5.5%	5.8%	3.0%	8.4%	.9%	3.7%	.9%	3.0%	4.3%
2006	1.6	4.0	4.4	4.2	9.3	1.6	3.5	1.0	3.3	4.4
2007	7.8%	5.4%	7.3%	8.6%	10.6%	7.0%	6.6%	5.1%	5.8%	6.6%

Total Delinquency Ratios for Top Ten States (includes “other” business) (2):

	FL	TX	GA	IL	OH	CA	NJ	AZ	NC	PA
As of December 31:										
2005	2.4%	5.3%	5.3%	2.8%	7.5%	.9%	3.7%	1.6%	3.8%	4.3%
2006	2.0	4.1	5.2	3.1	7.3	1.4	3.6	1.5	3.3	4.3
2007	6.9%	4.5%	6.7%	5.0%	8.0%	5.5%	5.5%	4.4%	4.1%	5.1%

(2) As determined by risk in force as of December 31, 2007, these 10 states represent approximately 49%, 59%, and 50%, of traditional primary, bulk, and total risk in force, respectively.

The title insurance loss ratios remain in the low single digits due to favorable trends in claims frequency and severity for business underwritten since 1992 in particular. Though still reasonably contained, the moderate increase in claim costs in 2007 is reflective of the continuing downturn in the housing and related mortgage lending industries.

Volatility of Reserve Estimates and Sensitivity

There is a great deal of uncertainty in the estimates of loss and loss adjustment expense reserves, and unanticipated events can have both a favorable or unfavorable impact on such estimates. The Company believes that the factors most responsible, in varying and continually changing degrees, for such favorable or unfavorable development are as follows:

General insurance net claim reserves can be affected by lower than expected frequencies of claims incurred but not reported, the effect of reserve discounts applicable to workers’ compensation claims, higher than expected severity of litigated claims in particular, governmental or judicially imposed retroactive conditions in the settlement of claims such as noted elsewhere in this document in regard to black lung disease claims, greater than anticipated inflation rates applicable to repairs and the medical benefits portion of claims, and higher than expected IBNR due to the slower and highly volatile emergence patterns applicable to certain types of claims such as those stemming from litigated, assumed reinsurance, or the A&E types of claims noted above.

Mortgage guaranty net claim reserve levels can be affected adversely by several factors, including a change in the mix of insured business toward loans that have a higher probability of default, an increase in the average risk per insured loan, a deterioration of regional or national economic conditions leading to a reduction in borrowers' income and thus their ability to make mortgage payments, and a drop in housing values and/or an increase in housing supply that can increase the rate at which defaults evolve into claim and the overall severity of such claims.

Title insurance loss reserve levels can be impacted adversely by such developments as reduced loan refinancing activity, the effect of which can be to lengthen the period during which title policies remain exposed to loss emergence, or reductions in either property values or the volume of transactions which, by virtue of the speculative nature of some real estate developments, can lead to increased occurrences of fraud, defalcations or mechanics' liens.

With respect to Old Republic's small life and health insurance operations, reserve adequacy may be affected adversely by greater than anticipated medical care cost inflation as well as greater than expected frequency and severity of claims. In life insurance, as in general insurance, concentrations of insured lives coupled with a catastrophic event would represent the Company's largest exposure.

Loss reserve uncertainty is illustrated by the variability in loss reserve development presented in the schedule which appears under Item 1 of this Annual Report. That schedule shows the cumulative loss reserve development for each of the past ten years through December 31, 2007 for the general insurance business which comprises the largest portion of Old Republic's loss and loss adjustment expense reserves at 77.2% of the total. For each of these ten calendar years, prior accident years' general insurance claim reserves have developed, as a percentage of the original estimates, within a range of 7.5% unfavorable in 2000 to a 7.7% favorable development in 2005. For the ten year period the net development has averaged .5% favorable.

On a consolidated basis, which includes all coverages provided by the Company, the annual favorable development on prior year loss reserves over the same ten year period has ranged from 1.6% to 7.4% and averaged 4.1%. Although management does not have a practical business reason for making projections of likely outcomes of future loss developments, its analysis and evaluation of Old Republic's existing business mix, current aggregate loss reserve levels, and loss development patterns suggests the reasonable likelihood that 2007 year-end loss reserves could ultimately develop within a range of +/- 5%. The most significant factors impacting the potential reserve development for each of the Company's insurance segments is discussed above. While the Company has generally experienced favorable loss developments for the latest ten year period on an overall basis, the current analysis of loss development factors and economic conditions influencing the Company's insurance coverages indicates a gradual downward trend in favorable development during the most recent three years. Consequently, management believes that using a 5% potential range of reserve development provides a reasonable benchmark for a sensitivity analysis of the Company's reserves as of December 31, 2007.

Reinsurance Programs

To maintain premium production within its capacity and limit maximum losses and risks for which it might become liable under its policies, Old Republic 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. Further discussion of the Company's reinsurance programs can be found in Part 1 of this Annual Report on Form 10-K.

Subsidiaries within the general insurance segment have generally obtained reinsurance coverage from independent insurance or reinsurance companies pursuant to excess of loss agreements. Under excess of loss reinsurance agreements, the Company is generally reimbursed for losses exceeding contractually agreed-upon levels. During the three year period ended December 31, 2007, the Company's net retention has been increasing gradually within the general insurance segment; however, such changes have not had a material impact on the Company's consolidated financial statements.

Generally, mortgage guaranty insurance risk is reinsured through excess of loss contracts through insurers owned by or affiliated with lending institutions, and financial and other intermediaries whose customers are insured by Old Republic. Except for minor amounts of facultative reinsurance covering large risks, the title insurance segment does not utilize reinsurance in managing its insurance risk.

The Company does not anticipate any significant changes to its reinsurance programs during 2008.

Expenses: Underwriting Acquisition and Other Expenses

The following table sets forth the expense ratios registered by each major business segment and in consolidation for the periods shown:

	General	Mortgage	Title	Consolidated
Years Ended December 31:				
2005	24.6%	22.4%	88.2%	45.2%
2006	24.4	22.5	93.6	44.7
2007	24.1%	17.7%	98.1%	41.3%

Variations in the Company's consolidated expense ratios reflect a continually chang–ing mix of coverages sold and attendant costs of producing business in the Company's three largest business segments. To a significant degree, expense ratios for both the general and title insurance segments are mostly reflective of variable costs, such as commissions or similar charges, that rise or decline along with corresponding changes in premium and fee income, as well as changes in general operating expenses which can contract or expand in differing proportions due to varying

levels of operating efficiencies and expense management opportunities in the face of changing market conditions.

The decline in the Mortgage Guaranty segment's 2007 ratio is reflective of the growth in net earned premium coupled with continued emphasis on operating efficiency; the slight increase in the 2006 expense ratio in comparison to 2005 reflects higher stock option compensation costs.The increase in the Title segment's 2007 and 2006 expense ratios result from a decline in revenues from direct operations during these periods, most of which are concentrated in the Western United States, to a level lower than necessary to support the fixed portion of the operating expense structure.

Expenses: Total

The composite ratios of the above summarized net claims, benefits and underwriting expenses that reflect the sum total of all the factors enumerated above have been as follows:

	General	Mortgage	Title	Consolidated
Years Ended December 31:				
2005	91.5%	59.6%	94.2%	88.5%
2006	90.3	65.3	99.5	90.0
2007	91.9%	136.5%	104.7%	101.5%

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Expenses: Income Taxes

The effective consolidated income tax rates were 28.0% in 2007, 31.7% in 2006 and 26.2% in 2005. The 2005 effective tax rate was reduced and net earnings enhanced by tax and related interest recoveries of $57.9 million ($45.9 million net of tax, or 20 cents per share) due to the favorable resolution of tax issues applicable to the three years ended December 31, 1990. Excluding the effects of these tax and related interest recoveries, the effective tax rates remained consistent with those of the corresponding prior periods. The rates for each year reflect primarily the varying proportions of pretax operating income derived from partially tax-sheltered investment income (principally state and municipal tax-exempt interest) on the one hand, and the combination of fully taxable investment income, realized investment gains or losses, and underwriting and service income, on the other hand.

OTHER INFORMATION

Reference is here made to "Information About Segments of Business" appearing elsewhere herein.

Historical data pertaining to the operating results, liquidity, and other performance indicators applicable to an insurance enterprise such as Old Republic are not necessarily indicative of results to be achieved in succeeding years. In addition to the factors cited below, the long-term nature of the insurance business, seasonal and annual patterns in premium production and incidence of claims, changes in yields obtained on invested assets, changes in government policies and free markets affecting inflation rates and general economic conditions, and changes in legal precedents or the application of law affecting the settlement of disputed and other claims can have a bearing on period-to-period comparisons and future operating results.

Some of the statements made in this report and other Company-published reports, as well as oral statements or commentaries made by the Company's management in conference calls following earnings releases, can constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Of necessity, any such forward-looking statements, commentaries, or inferences, involve assumptions, uncertainties, and risks that may affect the Company's future performance. With regard to Old Republic's General Insurance segment, its results can be affected, in particular, by the level of market competition, which is typically a function of available capital and expected returns on such capital among competitors, the levels of interest and inflation rates, and periodic changes in claim frequency and severity patterns caused by natural disasters, weather conditions, accidents, illnesses, work-related injuries, and unanticipated external events. Mortgage Guaranty and Title Insurance results can be affected by similar factors and, most particularly, by changes in national and regional housing demand and values, the availability and cost of mortgage loans, employment trends, and default rates on mortgage loans. Mortgage Guaranty results, in particular, may also be affected by various risk-sharing arrangements with business producers as well as the risk management and pricing policies of government sponsored enterprises. Life and health insurance earnings can be affected by the levels of employment and consumer spending, variations in mortality and health trends, and changes in policy lapsation rates. At the parent holding company level, operating earnings or losses are generally reflective of the amount of debt outstanding and its cost, interest income on temporary holdings of short-term investments, and period-to-period variations in the costs of administering the Company's widespread operations. A more detailed discussion of all the foregoing risks appears in Part I, Item 1A – Risk Factors, of this Annual Report, which is specifically incorporated herein by reference.

Any forward-looking statements or commentaries speak only as of their dates. Old Republic undertakes no obligation to publicly update or revise any and all such comments, whether as a result of new information, future events or otherwise, and accordingly they may not be unduly relied upon.

Item 7A - Quantitative and Qualitative Disclosure About Market Risk

Market risk represents the potential for loss due to adverse changes in the fair value of financial instruments as a result of changes in interest rates, equity prices, foreign exchange rates and commodity prices. Old Republic's primary market risks consist of interest rate risk associated with investments in fixed maturities and equity price risk associated with investments in equity securities. The Company has no material foreign exchange or commodity risk.

The Company does not own or utilize derivative financial instruments for the purpose of hedging, enhancing the overall return of its investment portfolio, or reducing the cost of its debt obligations. With regard to its equity portfolio, the Company does not own any options nor does it engage in any type of option writing. Traditional investment management tools and techniques are employed to address the yield and valuation exposures of the invested assets base. The long-term fixed maturity investment portfolio is managed so as to limit various risks inherent in the bond market. Credit risk is addressed through asset diversification and the purchase of investment grade securities. Reinvestment rate risk is reduced by concentrating on non-callable issues, and by taking asset-liability matching considerations into account. Purchases of mortgage and asset backed securities, which have variable principal prepayment options, are generally avoided. Market value risk is limited through the purchase of bonds of intermediate maturity. The combination of these investment management practices is expected to produce a more stable long-term fixed maturity investment portfolio that is not subject to extreme interest rate sensitivity and principal deterioration.

The market value of the Company's long-term fixed maturity investment portfolio is sensitive, however, to fluctuations in the level of interest rates, but not materially affected by changes in anticipated cash flows caused by any prepayments. The impact of interest rate movements on the long-term fixed maturity investment portfolio generally affects net unrealized gains or losses. As a general rule, rising interest rates enhance currently available yields but typically lead to a reduction in the fair value of existing fixed maturity investments. By contrast, a decline in such rates reduces currently available yields but usually serves to increase the fair value of the existing fixed maturity investment portfolio. All such changes in fair value are reflected, net of deferred income taxes, directly in the shareholders' equity account, and as a separate component of the statement of comprehensive income. Given the Company's inability to forecast or control the movement of interest rates, Old Republic sets the maturity spectrum of its fixed maturity securities portfolio within parameters of estimated liability payouts, and focuses the overall portfolio on high quality investments. By so doing, Old Republic believes it is reasonably assured of its ability to hold securities to maturity as it may deem necessary in changing environments, and of ultimately recovering their aggregate cost.

The following table illustrates the hypothetical effect on the fixed income and equity investment portfolios resulting from movements in interest rates and fluctuations in the equity securities markets, using the S&P 500 index as a proxy, at December 31, 2007:

	Estimated Fair Value	Hypothetical Change in Interest Rates or S&P 500	Estimated Fair Value After Hypothetical Change in Interest Rates or S&P 500
Interest Rate Risk:			
Fixed Maturities	$ 7,383.6	100 basis point rate increase	$ 7,103.8
		200 basis point rate increase	6,823.9
		100 basis point rate decrease	7,663.4
		200 basis point rate decrease	$ 7,943.3
Equity Price Risk:			
Equity Securities	$ 842.1	10% increase in the S&P 500	$ 954.9
		20% increase in the S&P 500	1,067.8

10% decline in the S&P 500		729.3
20% decline in the S&P 500	$	616.4

Item 8 - Financial Statements and Supplementary Data

Listed below are the consolidated financial statements included herein for Old Republic International Corporation and Subsidiaries:

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

	December 31,	
	2007	2006
Assets		
Investments:		
Available for sale:		
Fixed maturity securities (at fair value) (cost: $7,312.2 and $6,873.8)	$ 7,383.6	$ 6,832.6
Equity securities (at fair value) (cost: $807.3 and $534.7)	842.1	669.1
Short-term investments (at fair value which approximates cost)	462.6	493.6
Miscellaneous investments	64.7	52.7
Total	8,753.1	8,048.1
Other investments	8.1	7.9
Total investments	8,761.2	8,056.1
Other Assets:		
Cash	54.0	71.6
Securities and indebtedness of related parties	15.3	21.8
Accrued investment income	108.7	102.9
Accounts and notes receivable	880.3	962.1
Federal income tax recoverable: Current	6.2	15.5
Prepaid federal income taxes	536.5	468.4
Reinsurance balances and funds held	69.9	74.2
Reinsurance recoverable: Paid losses	65.8	58.6
Policy and claim reserves	2,193.4	2,172.7
Deferred policy acquisition costs	246.5	264.9
Sundry assets	352.3	342.9
	4,529.3	4,556.1
Total Assets	$ 13,290.6	$ 12,612.2
Liabilities, Preferred Stock, and Common Shareholders' Equity		
Liabilities:		
Losses, claims, and settlement expenses	$ 6,231.1	$ 5,534.7
Unearned premiums	1,182.2	1,209.4
	190.2	188.6

Other policyholders' benefits and funds		
Total policy liabilities and accruals	7,603.5	6,932.8
Commissions, expenses, fees, and taxes	225.9	243.5
Reinsurance balances and funds	288.7	314.4
Federal income tax payable: Deferred	417.7	469.4
Debt	64.1	144.3
Sundry liabilities	148.8	138.4
Commitments and contingent liabilities		
Total Liabilities	8,749.0	8,243.0
Preferred Stock:		
Convertible preferred stock (1)	-	-
Common Shareholders' Equity:		
Common stock (1)	232.0	231.0
Additional paid-in capital	344.4	319.5
Retained earnings	3,900.1	3,773.9
Accumulated other comprehensive income	93.3	44.6
Treasury stock (at cost)(1)	(28.3)	-
Total Common Shareholders' Equity	4,541.6	4,369.2
Total Liabilities, Preferred Stock and Common Shareholders' Equity	$ 13,290.6	$ 12,612.2

(1) At December 31, 2007 and 2006, there were 75,000,000 shares of $0.01 par value preferred stock authorized, of which no shares were outstanding. As of the same dates, there were 500,000,000 shares of common stock, $1.00 par value, authorized, of which 232,038,331 in 2007 and 231,047,890 in 2006 were issued. At December 31, 2007 and 2006, there were 100,000,000 shares of Class B Common Stock, $1.00 par value, authorized, of which no shares were issued. Common shares classified as treasury stock were 1,566,100 and 0 as of December 31, 2007 and 2006, respectively.

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31,		
	2007	2006	2005
Revenues:			
Net premiums earned	$ 3,389.0	$ 3,154.1	$ 3,062.3
Title, escrow, and other fees	212.1	246.3	324.6
Total premiums and fees	3,601.2	3,400.5	3,386.9
Net investment income	379.9	341.6	310.1
Other income	39.4	33.0	43.9
Total operating revenues	4,020.6	3,775.2	3,741.0
Realized investment gains	70.3	19.0	64.9
Total revenues	4,091.0	3,794.2	3,805.9
Benefits, Claims and Expenses:			
Benefits, claims, and settlement expenses	2,156.9	1,532.3	1,460.1
Dividends to policyholders	9.3	7.3	5.3
Underwriting, acquisition, and other expenses	1,538.9	1,564.4	1,583.4
Interest and other charges	7.3	9.9	9.5
Total expenses	3,712.6	3,114.0	3,058.5
Income before income taxes	378.4	680.1	747.3
Income Taxes (Credits):			
Current	172.5	158.8	263.0
Deferred	(66.5)	56.4	(67.1)
Total	105.9	215.2	195.9
Net Income	$ 272.4	$ 464.8	$ 551.4
Net Income Per Share:			
Basic:	$ 1.18	$ 2.01	$ 2.40
Diluted:	$ 1.17	$ 1.99	$ 2.37
Average shares outstanding:			
Basic	231,370,242	231,017,947	229,487,273

Diluted	232,912,728	233,034,986	232,108,491
Dividends Per Common Share:			
Cash: Regular	$ .630	$ .590	$ .512
Special	-	-	.800
Total	$ .630	$ .590	$ 1.312
Stock	-%	-%	25%

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31,		
	2007	2006	2005
Net income as reported	$ 272.4	$ 464.8	$ 551.4
Other comprehensive income (loss):			
Foreign currency translation adjustment	20.7	(1.4)	2.9
Unrealized gains (losses) on securities:			
Unrealized gains (losses) arising during period	89.5	44.2	(120.5)
Less: elimination of pretax realized gains included in income as reported	70.3	19.0	64.9
Pretax unrealized gains (losses) on securities carried at market value	19.1	25.2	(185.4)
Deferred income taxes (credits)	6.6	8.7	(64.9)
Net unrealized gains (losses) on securities	12.4	16.4	(120.5)
Defined benefit pension plans:			
Minimum pension liability, net of tax	-	(11.1)	(1.1)
Net pension gain, net of tax	15.0	-	-
Net impact of defined benefit pension plans	15.0	(11.1)	(1.1)
Net adjustments	48.3	3.8	(118.7)
Comprehensive income	$ 320.8	$ 468.7	$ 432.6

See accompanying Notes to Consolidated Financial Statements.

Old Republic International Corporation and Subsidiaries
Consolidated Statements of Preferred Stock
and Common Shareholders' Equity
($ in Millions)

	Years Ended December 31,		
	2007	2006	2005
Convertible Preferred Stock:			
Balance, end of year	$ -	$ -	$ -
Common Stock:			
Balance, beginning of year	$ 231.0	$ 229.5	$ 185.4
Stock dividend	-	-	45.9
Dividend reinvestment plan	-	-	-
Exercise of stock options	.9	1.4	.9
Stock awards	-	-	-
Treasury stock restored to unissued status	-	-	(2.8)
Balance, end of year	$ 232.0	$ 231.0	$ 229.5
Additional Paid-in Capital:			
Balance, beginning of year	$ 319.5	$ 288.6	$ 270.4
Dividend reinvestment plan	1.0	1.1	2.0
Exercise of stock options	13.0	16.4	18.1
Stock option compensation	10.8	13.3	4.8
Stock awards	-	-	.2
Treasury stock restored to unissued status	-	-	(7.1)
Balance, end of year	$ 344.4	$ 319.5	$ 288.6
Retained Earnings:			
Balance, beginning of year	$ 3,773.9	$ 3,444.9	$ 3,240.1
Net income	272.4	464.8	551.4
Dividends on common stock: cash	(145.4)	(135.8)	(300.7)
stock	-	-	(45.9)
Effects of changing pension plan measurement date pursuant to FAS 158, net of tax	(.8)	-	-
Balance, end of year	$ 3,900.1	$ 3,773.9	$ 3,444.9

Accumulated Other Comprehensive Income:						
Balance, beginning of year	$	44.6	$	60.8	$	179.5
Foreign currency translation adjustments		20.7		(1.4)		2.9
Net unrealized gains (losses) on securities, net of tax		12.4		16.4		(120.5)
Minimum pension liability, net of tax credits		-		(11.1)		(1.1)
Adjustment to apply FAS 158, net of tax		.3		(20.0)		-
Net pension gain, net of tax		15.0		-		-
Balance, end of year	$	93.3	$	44.6	$	60.8
Treasury Stock:						
Balance, beginning of year	$	-	$	-	$	(10.0)
Acquired during the year		(28.3)		-		-
Restored to unissued status		-		-		10.0
Balance, end of year	$	(28.3)	$	-	$	-

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31,		
	2007	2006	2005
Cash flows from operating activities:			
Net income	$ 272.4	$ 464.8	$ 551.4
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred policy acquisition costs	21.2	(24.6)	(7.2)
Premiums and other receivables	82.2	(85.5)	(212.7)
Unpaid claims and related items	646.4	560.2	273.9
Other policyholders' benefits and funds	(1.3)	138.9	96.2
Income taxes	(57.1)	(89.1)	53.9
Prepaid federal income taxes	(68.1)	77.3	(46.4)
Reinsurance balances and funds	(29.3)	(77.7)	154.3
Realized investment gains	(70.3)	(19.0)	(64.9)
Accounts payable, accrued expenses and other	66.5	59.6	34.9
Total	862.5	1,004.7	833.6
Cash flows from investing activities:			
Fixed maturity securities:			
Maturities and early calls	692.0	729.1	794.7
Sales	120.9	215.3	375.2
Sales of:			
Equity securities	393.3	21.7	325.8
Other investments	10.6	21.2	12.9
Fixed assets for company use	4.9	.8	5.7
Investment in subsidiary	-	7.7	-
Cash and short-term investments of subsidiaries acquired	.5	17.6	1.2
Purchases of:			
Fixed maturity securities	(1,257.8)	(1,517.5)	(1,748.4)
Equity securities	(604.6)	(50.7)	(380.8)
Other investments	(10.0)	(9.2)	(5.2)
Fixed assets for company use	(20.3)	(19.6)	(37.6)
	(4.9)	(71.3)	(10.1)

Investments in subsidiaries						
Cash and short-term investments of subsidiaries sold		-		(5.5)		-
Net decrease (increase) in short-term investments		32.4		(218.2)		118.9
Other-net		-		(8.9)		4.0
Total		(643.0)		(887.4)		(543.5)
Cash flows from financing activities:						
Issuance of debentures and notes		121.3		3.2		1.0
Issuance of common shares		15.0		18.9		18.4
Redemption of debentures and notes		(201.6)		(1.5)		(1.4)
Dividends on common shares		(145.4)		(135.8)		(300.7)
Purchase of treasury stock		(28.3)		-		-
Other-net		1.8		1.2		.2
Total		(237.1)		(113.9)		(282.4)
Increase (decrease) in cash:		(17.6)		3.3		7.7
Cash, beginning of year		71.6		68.3		60.5
Cash, end of year	$	54.0	$	71.6	$	68.3
Supplemental cash flow information:						
Cash paid during the year for: Interest	$	7.1	$	9.7	$	9.4
Income taxes	$	162.5	$	302.0	$	138.4

See accompanying Notes to Consolidated Financial Statements.

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Old Republic International Corporation and Subsidiaries
Notes to Consolidated Financial Statements
($ in Millions, Except as Otherwise Indicated)

Old Republic International Corporation is a Chicago-based insurance holding company with subsidiaries engaged mainly in the general (property and liability), mortgage guaranty and title insurance businesses. In this report, "Old Republic", or "the Company" refers to Old Republic Inter−national Corporation and its subsidiaries as the context requires. The aforementioned insurance segments are organized as the Old Republic General Insurance, Mortgage Guaranty and Title Insurance Groups, and references herein to such groups apply to the Company's subsidiaries engaged in the respective segments of business. Results of a small life and health insurance business are included in the corporate and other caption of this report.

Note 1 - Summary of Significant Accounting Policies - The significant accounting policies employed by Old Republic International Corporation and its subsidiaries are set forth in the following summary.

(a) Accounting Principles – The Company's insurance subsidiaries are managed pursuant to the laws and regulations of the various states in which they operate. As a result, the subsidiaries maintain their accounts in conformity with accounting practices permitted by various states' insurance regulatory authorities. Federal income taxes and dividends to shareholders are based on financial statements and reports complying with such practices. The statutory accounting requirements vary from generally accepted accounting principles ("GAAP") in the following major respects: (1) the costs of selling insurance policies are charged to operations immediately, while the related premiums are taken into income over the terms of the policies; (2) investments in fixed maturity securities designated as available for sale are generally carried at amortized cost rather than their estimated fair value; (3) certain assets classified as "non-admitted assets" are excluded from the balance sheet through a direct charge to earned surplus; (4) changes in allowed deferred income tax assets or liabilities are recorded directly in earned surplus and not through the income statement; (5) mortgage guaranty contingency reserves intended to provide for future catastrophic losses are established as a liability through a charge to earned surplus; (6) title insurance premium reserves, which are intended to cover losses that will be reported at a future date are based on statutory formulas, and changes therein are charged in the income statement against each year's premiums written; (7) the effect of discounting the medical and loss adjustment expense portion of workers compensation reserves is excluded from losses incurred; and (8) certain required formula-derived liabilities are established for claim reserves in excess of amounts considered adequate by the Company as well as for credits taken relative to reinsurance placed with other insurance companies not licensed in the respective states, all of which are charged directly against earned surplus. In consolidating the statutory financial statements of its insurance subsidiaries, the Company has therefore made necessary adjustments to conform their accounts with GAAP. The following table reflects a summary of all such adjustments:

	Shareholders' Equity December 31,		Net Income (Loss) Years Ended December 31,		
	2007	2006	2007	2006	2005
Statutory totals of insurance company subsidiaries:					
General	$ 2,378.3	$ 2,239.0	$ 329.2	$ 240.3	$ 312.4
Mortgage Guaranty	236.2	231.2	(99.6)	226.7	93.4
Title	173.6	182.1	21.5	34.9	43.3
Life & Health	70.6	54.7	7.2	5.3	3.0

Sub-total	2,858.7	2,707.0	258.3	507.2	452.1
GAAP totals of non-insurance company subsidiaries and consolidation adjustments	261.4	261.9	(32.3)	(20.9)	(6.1)
Unadjusted totals	3,120.3	2,969.0	226.1	486.3	446.1
Adjustments to conform to GAAP:					
Deferred policy acquisition costs	240.7	260.6	(21.4)	26.3	7.8
Fair value of fixed maturity securities	73.9	(39.7)	-	-	-
Non-admitted assets	48.2	58.2	-	-	-
Deferred income taxes	(539.7)	(574.0)	63.7	(62.0)	73.9
Mortgage contingency reserves	1,429.7	1,545.0	-	-	-
Title unearned premiums	356.1	363.0	(6.8)	3.8	13.6
Loss reserves	(254.1)	(264.8)	10.6	6.6	(3.9)
Sundry adjustments	66.2	52.0	.2	3.8	14.2
Total adjustments	1,421.0	1,399.8	46.4	(21.5)	105.0
Consolidated GAAP totals	$ 4,541.6	$ 4,369.2	$ 272.4	$ 464.8	$ 551.4

The preparation of financial statements in conformity with either statutory practices or generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

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(b) Consolidation Practices - The consolidated financial statements include the accounts of the Company and those of its majority owned insurance underwriting and service subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

(c) Statement Presentation - Amounts shown in the consolidated financial statements and applicable notes are stated (except as otherwise indicated and as to share data) in millions, which amounts may not add to totals shown due to truncation. Necessary reclassifications are made in prior periods' financial statements whenever appropriate to conform to the most current presentation.

(d) Investments - The Company may classify its invested assets in terms of those assets relative to which it either (1) has the positive intent and ability to hold until maturity, (2) has available for sale or (3) has the intention of trading. As of December 31, 2007 and 2006, substantially all the Company's invested assets were classified as “available for sale.”

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

The Company reviews the status and market value changes of each of its investments on at least a quarterly basis during the year, and estimates of other-than-temporary impairments in the portfolio’s value are evaluated and established at each quarterly balance sheet date. In reviewing investments for other-than-temporary impairment, the Company, in addition to a security’s market price history, considers the totality of such factors as the issuer’s operating results, financial condition and liquidity, its ability to access capital markets, credit rating trends, most current audit opinion, industry and securities markets conditions, and analyst expectations to reach its conclusions. Sudden market value declines caused by such adverse developments as newly emerged or imminent bankruptcy filings, issuer default on significant obligations, or reports of financial accounting developments that bring into question the validity of previously reported earnings or financial condition, are recognized as realized losses as soon as credible publicly available information emerges to confirm such developments. Accordingly, the recognition of losses from other-than-temporary value impairments is subject to a great deal of judgment as well as turns of events over which the Company can exercise little or no control. In the event the Company’s estimate of other-than- temporary impairments is insufficient at any point in time, future periods’ net income would be adversely affected by the recognition of additional realized or impairment losses, but its financial position would not necessarily be affected adversely inasmuch as such losses, or a portion of them, could have been recognized previously as unrealized losses. The Company recognized no other-than-temporary impairments of investments for the years ended December 31, 2007 and 2006 while recognizing $9.2 million for the year ended December 31, 2005.

The amortized cost and estimated fair values of fixed maturity securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed Maturity Securities:				
December 31, 2007:				
U.S. & Canadian Governments	$ 696.8	$ 26.6	$ .3	$ 723.0
Tax-exempt	2,328.7	27.4	1.6	2,354.5
Utilities	985.2	10.2	7.5	987.8
Corporate	3,301.5	42.7	26.0	3,318.2
	$ 7,312.2	$ 106.9	$ 35.6	$ 7,383.6
December 31, 2006:				

U.S. & Canadian Governments	$	708.7	$	11.6	$	5.6	$	714.7
Tax-exempt		2,234.1		10.1		14.7		2,229.5
Utilities		936.5		7.2		19.8		923.8
Corporate		2,994.4		17.6		47.6		2,964.4
	$	6,873.8	$	46.6	$	87.8	$	6,832.6

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The amortized cost and estimated fair value of fixed maturity securities at December 31, 2007, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Fixed Maturity Securities:		
Due in one year or less	$ 856.9	$ 858.3
Due after one year through five years	3,422.8	3,460.7
Due after five years through ten years	3,007.9	3,039.6
Due after ten years	24.5	24.8
	$ 7,312.2	$ 7,383.6

Bonds and other investments with a statutory carrying value of $356.1 million as of December 31, 2007 were on deposit with governmental authorities by the Company's insurance subsidiaries to comply with insurance laws.

A summary of the Company's equity securities follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2007:				
Equity securities	$ 807.3	$ 115.1	$ 80.4	$ 842.1
December 31, 2006:				
Equity securities	$ 534.7	$ 136.1	$ 1.8	$ 669.1

Investment income is reported net of allocated expenses and includes appropriate adjustments for amortization of premium and accretion of discount on fixed maturity securities acquired at other than par value. Dividends on equity securities are credited to income on the ex-dividend date. Realized investment gains and losses, which are comprised of sales of securities and provisions or write-downs of securities, are reflected as revenues in the income state−ment and are determined on the basis of amortized value at date of sale for fixed maturity securities, and cost in regard to equity securities; such bases apply to the specific securities sold. Unrealized investment gains and losses, net of any defer−red income taxes, are recorded directly as a component of accumulated other comprehensive income in shareholders' equity.

The following table reflects the Company's gross unrealized losses and fair value, aggregated by category and length of time that individual securities have been in an unrealized loss position employing closing market price comparisons with an issuer's original cost at December 31, 2007 and 2006:

	12 Months or Less		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2007:						
Fixed Maturity Securities:						

U.S. & Canadian Governments	$	16.2	$	-	$	75.1	$	.3	$	91.4	$	.3
Tax-exempt		30.3		.1		347.0		1.4		377.3		1.6
Corporates		317.1		4.9		1,405.8		28.6		1,722.9		33.6
		363.7		5.2		1,828.0		30.4		2,191.8		35.6
Equity Securities		281.8		80.4		-		-		281.9		80.4
Total	$	645.6	$	85.6	$	1,828.0	$	30.4	$	2,473.7	$	116.0
December 31, 2006:												
Fixed Maturity Securities:												
U.S. & Canadian Governments	$	210.6	$	2.0	$	229.5	$	3.5	$	440.2	$	5.6
Tax-exempt		402.9		1.7		925.7		13.0		1,328.7		14.7
Corporates		1,047.5		11.7		1,825.6		55.7		2,873.1		67.5
		1,661.1		15.5		2,980.9		72.3		4,642.1		87.8
Equity Securities		25.1		1.8		-		-		25.1		1.8
Total	$	1,686.3	$	17.3	$	2,980.9	$	72.3	$	4,667.3	$	89.7

At December 31, 2007, the Company held 542 fixed maturity and 14 equity securities in an unrealized loss position, representing 27.6% as to fixed maturities and 56.0% as to equity securities of the total number of such issues held by the Company. Of the 542 fixed maturity securities, 428 had been in a continuous unrealized loss position for greater than 12 months. The unrealized losses on these securities are primarily attributable to a rising interest rate environment as opposed to a decline in credit quality of the issuer. As part of its assessment of other-than-temporary impairment, the Company considers its intent and ability to continue to hold investment securities in an unrealized loss

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position until cost recovery, principally on the basis of its asset and liability maturity matching procedures. The Company has not sold nor does it expect to sell investments for purposes of generating cash to pay claim or expense obligations, thereby supporting its ability to continue to hold securities until their cost basis may be recovered.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 ("FAS 157") "Fair Value Measurements", which establishes a framework for measuring fair value. FAS 157 applies to existing accounting pronouncements that require or permit fair value measurements, and becomes effective for fiscal years beginning after November 15, 2007. Disclosure requirements associated with the standard will be incorporated in the Company's 2008 quarterly and annual reports, and its adoption in the first quarter of 2008 is not expected to have a material impact on the consolidated financial statements or on the conduct of its business.

At December 31, 2007, the Company and its subsidiaries had no non-income producing fixed maturity securities.

The following table reflects the composition of net investment income, net realized gains or losses, and the net change in unrealized invest–ment gains or losses for each of the years shown:

	Years Ended December 31,		
	2007	2006	2005
Investment income from:			
Fixed maturity securities	$ 332.9	$ 298.0	$ 284.1
Equity securities	16.1	13.9	9.4
Short-term investments	28.2	26.6	15.9
Other sources	6.4	6.5	5.4
Gross investment income	383.8	345.1	315.0
Investment expenses (1)	3.8	3.5	4.9
Net investment income	$ 379.9	$ 341.6	$ 310.1
Realized gains (losses) on:			
Fixed maturity securities:			
Gains	$ 2.4	$ 2.7	$ 5.8
Losses	(.2)	(.6)	(4.0)
Net	2.2	2.0	1.7
Equity securities & other long-term investments	68.1	16.9	63.1
Total	70.3	19.0	64.9
Income taxes	24.6	6.6	22.6
Net realized gains	$ 45.7	$ 12.3	$ 42.2
Changes in unrealized investment gains (losses) on:			
Fixed maturity securities	$ 112.1	$ (49.2)	$ (174.7)
Less: Deferred income taxes (credits)	39.2	(17.3)	(61.1)
Net changes in unrealized investment gains (losses)	$ 72.9	$ (31.9)	$ (113.5)
Equity securities & other long-term investments	$ (93.0)	$ 74.4	$ (10.7)
Less: Deferred income taxes (credits)	(32.5)	26.0	(3.7)
Net changes in unrealized investment gains (losses)	$ (60.5)	$ 48.3	$ (6.9)

(1) Investment expenses consist of personnel costs and investment management and custody service fees, as well as interest incurred on funds held of $1.1 million, $1.0 million and $.7 million for the years ended December 31, 2007, 2006 and 2005, respectively.

(e) Revenue Recognition - Pursuant to GAAP applicable to the insurance industry, revenues are associated with the related benefits, claims, and expenses by application of numerous management estimates, accounting rules, and conventions.

Substantially all general insurance premiums are reflected in income on a pro-rata basis. Earned but unbilled premiums are generally taken into income on the billing date, while adjustments for retrospective premiums, commissions and similar charges or credits are accrued on the basis of periodic evaluations of current underwriting experience and contractual obligations.

The Company's mortgage guaranty premiums primarily stem from monthly installment policies. Accordingly, substantially all such premiums are generally written and earned in the month coverage is effective. With respect to annual or single premium policies, earned premiums are recognized on a pro-rata basis over the terms of the policies.

Title premium and fee revenues stemming from the Company's direct operations (which include branch offices of its title insurers and wholly owned agency subsidiaries) represent a pproximately 32% of 2007 consolidated title business revenues. Such premiums are generally

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recognized as income at the escrow closing date which approximates the policy effective date. Fee income related to escrow and other closing services is recognized when the related services have been performed and completed. The remaining 68% of consolidated title premium and fee revenues is produced by independent title agents and underwritten title companies. Rather than making estimates that could be subject to significant variance from actual premium and fee production, the Company recognizes revenues from those sources upon receipt. Such receipts can reflect a three to four month lag relative to the effective date of the underlying title policy, and are offset concurrently by production expenses and claim reserve provisions.

(f) Deferred Policy Acquisition Costs - The Company's insurance subsidiaries, other than title companies, defer certain costs which vary with and are primarily related to the production of business. Deferred costs consist principally of commissions, premium taxes, marketing, and policy issuance expenses. With respect to most coverages, defer–red acquisition costs are amortized on the same basis as the related premiums are earned or, alternatively, over the periods during which premiums will be paid. To the extent that future revenues on existing policies are not adequate to cover related costs and expenses, deferred policy acquisition costs are charged to earnings.

The following table summarizes deferred policy acquisition costs and related data for the years shown:

	Years Ended December 31,		
	2007	2006	2005
Deferred, beginning of year	$ 264.9	$ 240.0	$ 232.3
Acquisition costs deferred:			
Commissions – net of reinsurance	210.6	241.7	219.1
Premium taxes	78.5	68.2	75.5
Salaries and other marketing expenses	94.7	81.6	92.6
Sub-total	384.1	391.8	387.4
Amortization charged to income	(402.5)	(366.9)	(379.8)
Change for the year	(18.4)	24.9	7.6
Deferred, end of year	$ 246.5	$ 264.9	$ 240.0

(g) Unearned Premiums - Unearned premium reserves are generally calculated by application of pro-rata factors to premiums in force. At December 31, 2007 and 2006, unearned premiums consisted of the following:

	December 31,	
	2007	2006
General Insurance Group	$ 1,101.7	$ 1,153.8
Mortgage Guaranty Group	80.4	55.6
Total	$ 1,182.2	$ 1,209.4

(h) Losses, Claims and Settlement Expenses - 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.

All reserves are necessarily based on estimates which are periodically reviewed and evaluated in the light of emerging claim experience and changing circumstances. The resulting changes in estimates are recorded in operations of the periods during which they are made. Return and additional premiums and policyholders' dividends, all of which tend to be affected by development of claims in future years, may offset, in whole or in part, developed claim redundancies or deficiencies for certain coverages such as workers' compensation, portions of which are written under loss sensitive programs that provide for such adjustments. The Company believes that its overall reserving practices have been consistently applied over many years, and that its aggregate net reserves have produced reasonable estimates of the ultimate net costs of claims incurred. However, no representation is made that ultimate net claim and related costs will not be greater or lower than previously established reserves.

General Insurance Group reserves are established to provide for the ultimate expected cost of settling un−paid losses and claims reported at each balance sheet date. Such reserves are based on continually evolving assessments of the facts available to the Company during the settlement process which may stretch over long periods of time. Long-term disability-type workers' compen−sation reserves are discounted to present value based on interest rates ranging from 3.5% to 4.0%. Losses and claims incurred but not reported, as well as expenses required to settle losses and claims are established on the basis of a large number of formulas that take into account various criteria, including historical cost experience and anticipated costs of servicing reinsured and other risks. Estimates of possible recoveries from salvage

or subrogation opportunities are considered in the establishment of such reserves as applicable. As part of overall claim and claim expense reserves, the point estimates incorporate amounts to cover net estimates of unusual claims such as those emanating from asbestosis and environmental (“A&E”) exposures as discussed below. Such reserves can affect claim costs and related loss ratios for such insurance coverages as general liability, commercial automobile (truck), workers’ compensation and property.

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 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, 2007, 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, 2007 and 2006, Old Republic’s aggregate indemnity and loss adjustment expense reserves specifically identified with A&E exposures amounted to $190.5 million and $194.9 million gross, respectively, and $158.1 million and $157.8 million net of reinsurance, respectively. Old Republic’s average five year survival ratios stood at 7.7 years (gross) and 10.7 years (net of reinsurance) as of December 31, 2007 and 7.6 years (gross) and 10.9 years (net of reinsurance) as of December 31, 2006. Fluctuations in this ratio between years can be caused by the inconsistent pay out patterns associated with these

types of claims.

Mortgage guaranty insurance loss reserves are based on statistical calculations that take into account the number of reported insured mortgage loan defaults as of each balance sheet date, as well as experience-based estimates of loan defaults that have occurred but have not as yet been reported. Further, the loss reserve estimating process also takes into account a large number of variables including trends in claim severity, potential salvage recoveries, expected cure rates for reported loan delinquencies at various stages of default, and judgments relative to future employment levels, housing market activity, and mortgage loan interest costs, demand and availability.

Title insurance and related escrow services loss and loss adjustment expense reserves are established as point estimates to cover the projected settlement costs of known as well as claims incurred but not reported, concurrently with the recognition of premium and escrow service revenues of each reporting period. Reserves for known claims are based on an assessment of the facts available to the Company during the settlement process. The point estimates covering all claim reserves take into account incurred but not reported ("IBNR") claims based on past experience and evaluations of such variables as changing trends in the types of policies issued, changes in real estate markets and interest rate environments, and changing levels of loan refinancing, all of which can have a bearing on the emergence, number, and ultimate cost of claims.

In addition to the above reserve elements, the Company establishes reserves for loss settlement costs that are not directly related to individual claims. Such reserves are based on prior years' cost experience and trends, and are intended to cover the unallocated costs of claim departments' administration of known and IBNR claims.

The following table shows an analysis of changes in aggregate reserves for the Company's losses, claims and settlement expenses for each of the years shown:

	Years Ended December 31,		
	2007	2006	2005
Gross reserves at beginning of year	$ 5,534.7	$ 4,939.8	$ 4,403.5
Less: reinsurance losses recoverable	1,936.6	1,902.1	1,639.6
Net reserves at beginning of year	3,598.0	3,037.6	2,763.8
Incurred claims and claim adjustment expenses:			
Provisions for insured events of the current year	2,224.2	1,646.4	1,504.5
Change in provision for insured events of prior years	(66.1)	(114.0)	(43.9)
Total incurred claims and claim adjustment expenses	2,158.1	1,532.5	1,460.7
Payments:			
Claims and claim adjustment expenses attributable to insured events of the current year	579.7	432.4	484.6
Claims and claim adjustment expenses attributable to insured events of prior years	930.0	539.6	702.1
Total payments	1,509.8	972.1	1,186.8
Amount of reserves for unpaid claims and claim adjustment expenses at the end of each year, net of reinsurance losses recoverable	4,246.3	3,598.0	3,037.6
Reinsurance losses recoverable	1,984.7	1,936.6	1,902.1
Gross reserves at end of year	$ 6,231.1	$ 5,534.7	$ 4,939.8

For the three most recent calendar years, the above table indicates that the one-year development of consolidated reserves at the beginning of each year produced average favorable annual developments of 2.4%. The Company believes that the factors most responsible, in varying and continually changing degrees, for such redundancies or deficiencies included differences in originally estimated salvage and subrogation recoveries, in sales and prices of homes that can impact claim costs upon the sale of foreclosed properties, by changes in regional or local economic conditions and employment levels, by the extent of loan refinancing activity that can reduce the period of time over which a policy remains at risk, by lower than expected frequencies of claims incurred but not reported, by the effect of reserve discounts applicable to workers' compensation claims, by higher than expected severity of litigated claims in particular, by governmental or judicially imposed retroactive conditions in the settlement of claims such as noted above in regard to black lung disease claims, by greater than anticipated inflation rates applicable to repairs and the medical portion of claims in particular, and by higher than expected claims incurred but not reported due to the slower and highly volatile emergence patterns applicable to certain types of claims such as those stemming from litigated, assumed reinsurance, or the A&E types of claims noted above.

(i) Reinsurance - The cost of reinsurance is recognized over the terms of reinsurance contracts. Amounts recoverable from reinsurers for loss and loss adjustment expenses are estimated in a manner consistent with the claim liability

associated with the reinsured business. The Company evaluates the financial condition of its reinsurers on a regular basis. Allowances are established for amounts deemed uncollectible and are included in the Company's net claim and claim expense reserves.

(j) Income Taxes - The Company and most of its subsidiaries file a consolidated tax return and provide for income taxes payable currently. Deferred income taxes included in the accompanying consolidated financial statements will not necessarily become payable/recoverable in the future. The Company uses the asset and liability method of calculating deferred income taxes. This method calls for the establishment of a deferred tax, calculated at currently enacted tax rates that are applied to the cumulative temporary differences between financial statement and tax bases of assets and liabilities.

The provision for combined current and deferred income taxes reflected in the consolidated statements of income does not bear the usual relationship to income before income taxes as the result of permanent and other differences between pretax income and taxable income determined under existing tax regulations. The more significant differences, their effect on the statutory income tax rate, and the resulting effective income tax rates are summarized below:

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	Years Ended December 31,		
	2007	2006	2005
Statutory tax rate	35.0%	35.0%	35.0%
Tax rate increases (decreases):			
Tax-exempt interest	(6.7)	(3.3)	(2.6)
Dividends received exclusion	(.9)	(.4)	(.2)
Other items – net (1)	.6	.4	(6.0)
Effective tax rate	28.0%	31.7%	26.2%

(1) Tax and related interest recoveries of $57.9 million ($45.9 million net of tax) were recorded in the second quarter of 2005 due to the favorable resolution of tax issues applicable to the three years ended December 31, 1990. This adjustment reduced the 2005 effective tax rate by approximately 6.2 percentage points.

The tax effects of temporary differences that give rise to significant portions of the Company's net deferred tax assets (liabilities) are as follows at the dates shown:

	December 31,		
	2007	2006	2005
Deferred Tax Assets:			
Losses, claims, and settlement expenses	$ 207.6	$ 192.0	$ 176.5
Pension and deferred compensation plans	27.9	30.3	9.6
Other timing differences	6.9	1.9	6.2
Total deferred tax assets (1)	242.5	224.3	192.3
Deferred Tax Liabilities:			
Unearned premium reserves	23.4	22.6	29.5
Deferred policy acquisition costs	80.2	87.2	77.7
Mortgage guaranty insurers' contingency reserves	501.3	536.6	468.5
Fixed maturity securities adjusted to cost	9.3	7.6	6.8
Net unrealized investment gains	41.3	35.0	26.9
Title plants and records	4.4	4.4	4.4
Total deferred tax liabilities	660.3	693.7	614.0
Net deferred tax liabilities	$ 417.7	$ 469.4	$ 421.6

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(1) The Company has evaluated its deferred tax assets as of each of these dates and has concluded that no valuation allowance is warranted.

Pursuant to special provisions of the Internal Revenue Code pertaining to mortgage guaranty insurers, a contingency reserve (established in accordance with insurance regulations designed to protect policyholders against extraordinary volumes of claims) is deductible from gross income. The tax benefits obtained from such deductions must, however, be invested in a special type of non-interest bearing U.S. Treasury Tax and Loss Bonds which aggregated $536.5 million at December 31, 2007. For Federal income tax purposes, amounts deducted from the contingency reserve are taken into gross statutory taxable income in the period in which they are released. Contingency reserves may be released when incurred losses exceed thresholds established under state law or regulation, upon special request and approval by state insurance regulators, or in any event, upon the expiration of ten years. During 2007, the Company released net contingency reserves of $115.2 million and consequently, $35.3 million of U.S. Treasury Tax and Loss Bonds were to be redeemed during the first quarter of 2008.

Through December 31, 2005, cumulative tax and loss bonds purchased and subsequent redemptions were reflected as U.S. government securities within the investments section of the consolidated balance sheets. Effective January 1, 2006 the Company has reclassified such bonds to conform to more common industry reporting practices and to better align these investments with the corresponding long-term deferred income tax liabilities to which they relate. As a result of this reclassification, invested asset balances have been reduced and the prepaid income tax asset has been increased, while periodic operating cash flow and cash flow from investing activities have been adjusted by correspondingly identical amounts. The reclassification has no effect on the financial position or net income of the Company, nor does it call for the receipt or disbursement of any additional cash resources.

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48) which became effective for the Company in the first quarter of 2007. FIN 48 provides recognition criteria and a related measurement model for uncertain tax positions taken or expected to be taken in income tax returns. FIN 48 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. The Company’s unrecognized tax benefits, including interest and penalty accruals, are not considered material to the consolidated financial statements and did not change significantly upon the adoption of FIN 48. There are no tax uncertainties that are expected to result in significant increases or decreases to unrecognized tax benefits within the next twelve month period. The Company views its income tax exposures as consisting of timing differences whereby the ultimate deductibility of a tax position is highly certain but the timing of its deductibility is uncertain. Such differences relate principally to the timing of deductions for loss and premium reserves. As in prior examinations, the Internal Revenue Service (IRS) could assert that claim reserve deductions were overstated thereby reducing taxable income in any particular year. The Company believes that it establishes its reserves fairly and consistently at each balance

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sheet date, and that it would succeed in defending its tax position in these regards. Because of the impact of deferred tax accounting, other than possible interest and penalties, the possible accelerated payment of tax to the IRS would not affect the annual effective tax rate. The Company classifies interest and penalties as income tax expense in the consolidated statement of income. The IRS has audited the Company's consolidated Federal income tax returns through year end 2003 and no significant adjustments ultimately resulted.

(k) Property and Equipment - Property and equipment is generally depreciated or amortized over the estimated useful lives of the assets, (2 to 27 years), substantially by the straight-line method. Depreciation and amortization expenses related to property and equipment were $18.3 million, $18.5 million, and $19.0 million in 2007, 2006, and 2005, respectively. Expenditures for maintenance and repairs are charged to income as incurred, and expenditures for major renewals and additions are capitalized.

(l) Title Plants and Records - Title plants and records are carried at original cost or appraised value at the date of pur–chase. Such values represent the cost of producing or acquiring interests in title records and indexes and the apprais–ed value of purchased subsidiaries' title records and indexes at dates of acquisition. The cost of maintaining, updating, and operating title records is charged to income as incurred. Title records and indexes are ordinarily not amortized unless events or circumstances indicate that the carrying amount of the capitalized costs may not be recoverable.

(m) Goodwill and Intangible Assets - Goodwill resulting from business combinations is no longer amortizable against operations but must be tested annually for possible impairment of its continued value ($159.1 million and $155.6 million at December 31, 2007 and 2006, respectively). No impairment charges were required for any period presented. Goodwill and intangible assets of $58.5 million were recorded during 2006 as a result of the November 30, 2006 acquisition of a casualty insurance book of business (see Note 7). Intangible assets related to the acquisition will be amortized against future operating results.

(n) Employee Benefit Plans - The Company has three pension plans covering a portion of its work force. The three plans are the Old Republic International Salaried Employees Restated Retirement Plan (the Old Republic Plan), the Bituminous Casualty Corporation Retirement Income Plan (the Bituminous Plan) and the Old Republic National Title Group Pension Plan (the Title Plan). The plans are defined benefit plans pursuant to which pension payments are based primarily on years of service and employee com–pensation near retirement. It is the Company's policy to fund the plans' costs as they accrue. These plans have been closed to new participants since December 31, 2004. Plan assets are com–prised principally of bonds, common stocks and short-term investments. Prior to 2007, the dates used to determine pension measurements were December 31 for the Old Republic Plan and the Bituminous Plan, and September 30 for the Title Plan. Effective December 31, 2007, the Company adopted the measurement date provision of Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("FAS 158"), which requires the Company to measure the funded status of its plans as of the end of the fiscal year. Consequently, the Title Plan changed its measurement date to December 31. The adoption of the measurement date provisions of FAS 158 did not have a material impact on the consolidated financial statements.

Effective December 31, 2006, the Company adopted the recognition and disclosure provisions of FAS 158 which requires that the funded status of pension and other postretirement plans be recognized in the consolidated balance sheet. The funded status is measured as the difference between the fair value of plan assets and the projected benefit obligations on a plan-by-plan basis. The funded status of an overfunded benefit plan is recognized as a net pension asset while the funded status for underfunded benefit plans is recognized as a net pension liability; offsetting entries are reflected as a component of shareholders' equity in accumulated other comprehensive income, net of deferred taxes. Changes in the funded status of the plans are recognized in the period in which they occur. The adoption of FAS 158's recognition provision resulted in a reduction to accumulated other comprehensive income of $20.0 million in 2006.

The changes in the projected benefit obligation are as follows at the above measurement dates:

	2007	2006	2005
Projected benefit obligation at beginning of year	$ 250.1	$ 230.9	$ 214.4
Increases (decreases) during the year attributable to:			
Service cost	9.6	9.3	8.5
Interest cost	15.2	13.0	12.2
Actuarial (gains) losses	(22.6)	5.9	4.4
Benefits paid	(10.4)	(9.1)	(8.7)
Net increase (decrease) for the year	(8.1)	19.1	16.5
Projected benefit obligation at end of year	$ 242.0	$ 250.1	$ 230.9

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The changes in the fair value of net assets available for plan benefits as of the above measurement dates are as follows:

	2007	2006	2005
Fair value of net assets available for plan benefits			
At beginning of the year	$ 210.5	$ 195.6	$ 185.7
Increases (decreases) during the year attributable to:			
Actual return on plan assets	14.9	17.1	10.8
Sponsor contributions	5.0	6.8	8.0
Benefits paid	(10.4)	(9.1)	(8.7)
Administrative expenses	-	-	(.1)
Net increase for year	9.4	14.8	9.8
Fair value of net assets available for plan benefits			
At end of the year	$ 219.9	$ 210.5	$ 195.6

The components of aggregate annual net periodic pension costs that take into account the above measurement dates consisted of the following:

	2007	2006	2005
Service cost	$ 8.7	$ 9.3	$ 8.5
Interest cost	14.1	13.0	12.2
Expected return on plan assets	(16.0)	(14.8)	(14.7)
Recognized loss	3.2	3.4	2.4
Net cost	$ 9.9	$ 10.9	$ 8.5

The pretax amounts recognized in other comprehensive income consist of the following:

	Years Ended December 31,		
	2007	2006	2005
Amounts arising during the period:			
Net recognized gain (loss)	$ 20.1	$ -	$ -
Net prior service cost	-	-	-
Reclassification adjustment to components Of net periodic pension cost:			
Net recognized (gain) loss	3.2	-	-
Net prior service cost	-	-	-
Minimum pension liability	-	(16.9)	(1.7)
Net pretax amount recognized	$ 23.3	$ (16.9)	$ (1.7)

The amounts included in accumulated other comprehensive income that have not yet been recognized as components of net periodic pension cost consist of the following as of December 31:

	2007	2006

Net recognized gain (loss)	$	(29.8)	$	(53.7)
Net prior service cost		-		-
Total	$	(29.8)	$	(53.7)

The amounts included in accumulated other comprehensive income expected to be recognized as components of net periodic pension cost during 2008 consist of the following:

Net recognized gain (loss)	$	(.7)
Net prior service cost		-
Total	$	(.7)

The projected benefit obligations for the plans were determined using the following weighted-average assumptions as of the above measurement dates:

	2007	2006
Settlement discount rates	6.50%	5.75%
Rates of compensation increase	4.25%	3.92%

The net periodic benefit cost for the plans were determined using the following weighted-average assumptions, for the plan years taking into account the above measurement dates:

	2007	2006
Settlement discount rates	5.75%	5.67%
Rates of compensation increase	3.92%	3.59%
Long-term rates of return on plans' assets	7.83%	7.83%

The assumed settlement discount rates were determined by matching the current estimate of each Plan's projected cash outflows against spot rate yields on a portfolio of high quality bonds as of the measurement date. To develop the expected long-term rate of return on

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assets assumption, the Plans considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolios.

The accumulated benefit obligation for the plans was $214.1 million and $221.1 million for the 2007 and 2006 plan years taking into account the above measurement dates, respectively.

The following information is being provided for plans with projected benefit obligations in excess of plan assets as of the above measurement dates:

	2007	2006
Projected benefit obligations	$ 160.0	$ 250.1
Fair value of plan assets	$ 134.0	$ 210.5

The following information is being provided for plans with accumulated benefit obligations in excess of plan assets as of the above measurement dates:

	2007	2006
Projected benefit obligations	$ 79.4	$ 165.1
Accumulated benefit obligations	69.7	145.5
Fair value of plan assets	$ 61.0	$ 125.7

The benefits expected to be paid as of December 31, 2007 for the next 10 years are as follows: 2008: $11.2 million; 2009: $11.7 million; 2010: $12.5 million; 2011: $13.0 million; 2012: $13.9 million and for the five years after 2012: $86.3 million.

The Companies made cash contributions of $5.0 million to their pension plans in 2007 and expect to make cash contributions of approximately $5 million in calendar year 2008.

The weighted-average asset allocations of the Plans as of the above measurement dates are as follows:

	Plan Assets		Investment Policy Asset
	2007	2006	Allocation % Range Target
Equity securities:			
Common shares of Company stock	- %	- %	
Other	52.9	52.4	
Sub-total	52.9	52.4	30% to 70%
Debt securities	45.5	44.5	30% to 70%
Other (including short-term and accrued interest and dividends)	1.6	3.1	1% to 20%
Total	100.0%	100.0%	

Plan assets are managed pursuant to the investment policies set forth at Note 1(d).

The Company has a number of profit sharing and other incentive compensation programs for the benefit of a substantial number of its employees. The costs related to such programs are summarized below:

	Years Ended December 31,		
	2007	2006	2005
Employees Savings and Stock Ownership Plan	$ 2.5	$ 6.8	$ 6.5
Other profit sharing plans	5.1	9.6	9.3
Cash and deferred incentive compensation	$ 24.2	$ 25.7	$ 29.1

The Company sponsors an Employees Savings and Stock Ownership Plan (ESSOP) in which a majority of its employees participate. Current Company contributions are directed to the open market purchase of its shares. Dividends on shares are allocated to participants as earnings, and likewise invested in Company stock. The Company's annual contributions are based on a formula that takes the growth in net operating income per share over consecutive five year periods into account. As of December 31, 2007, there were 9,845,934 Old Republic common shares owned by the ESSOP, all of which were allocated to employees' account balances. There are no repurchase obligations in existence.

(o) Escrow Funds - Segregated cash deposit accounts and the offsetting liabilities for escrow deposits in connection with Ti−tle Insurance Group real estate transactions in the same amounts ($660.8 million and $928.6 million at December 31, 2007 and 2006, respectively) are not included as assets or liabilities in the accompanying consolidated balance sheets as the escrow funds are not available for regular operations.

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

	Years Ended December 31,		
	2007	2006	2005
Numerator:			
Net Income	$ 272.4	$ 464.8	$ 551.4
Less: Convertible preferred stock dividends	-	-	-
Numerator for basic earnings per share -			
Income available to common stockholders	272.4	464.8	551.4
Effect of dilutive securities:			
Convertible preferred stock dividends	-	-	-
Numerator for diluted earnings per share -			
income available to common stockholders			
after assumed conversions	$ 272.4	$ 464.8	$ 551.4
Denominator:			
Denominator for basic earnings per share -			
weighted-average shares	231,370,242	231,017,947	229,487,273
Effect of dilutive securities (2):			
Stock options	1,542,486	2,017,039	2,621,218
Convertible preferred stock	-	-	-
Dilutive potential common shares	1,542,486	2,017,039	2,621,218
Denominator for diluted earnings per share -			
adjusted weighted-average shares and			
assumed conversions	232,912,728	233,034,986	232,108,491
Basic earnings per share (1)	$ 1.18	$ 2.01	$ 2.40
Diluted earnings per share (1)	$ 1.17	$ 1.99	$ 2.37

(1) All per share statistics have been restated to reflect all stock dividends or splits declared through December 31, 2007.

(2) Outstanding stock option awards totaling 4,864,000, 1,517,025 and 0 shares as of December 31, 2007, 2006 and 2005, respectively, were excluded from the computation of earnings per share because their effect would have been antidilutive to the periods presented.

(q) Concentration of Credit Risk - The Company is not exposed to material concentrations of credit risks as to any one issuer.

(r) Stock Option Compensation - Effective April 1, 2003, the Company adopted the requirements of Statement of Financial Accounting Standards No. 148 (“FAS 148”), “Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment of FAS No. 123” on a prospective basis. Under FAS 148, stock-based compensation expense is recognized for awards granted after the beginning of the fiscal year of adoption, as such awards become vested. Prior to April 1, 2003, the Company accounted for stock options under APB Opinion No. 25 (“APB 25”), “Accounting for Stock Issued to Employees” and related interpretations under Statement of Financial Accounting Standards No. 123 (“FAS 123”), “Accounting for Stock-Based Compensation” which permitted the inclusion of stock-based compensation as a pro forma disclosure in the financial statements.

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123-Revised (“FAS 123R”), “Share-Based Payment” using the modified prospective transition method. Under this method, compensation cost in 2006 includes the portion vesting in the period for (1) all stock option awards granted prior to, but not vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of FAS 123, and (2) all stock option awards granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of FAS 123R. Further, FAS 123R requires that compensation cost be recognized immediately for awards granted to the Company’s retirement eligible employees after January 1, 2006. Earnings for 2007 and 2006 include the accelerated recognition of stock option expenses of $2.0 million ($1.3 million net of tax) and $3.7 million ($2.4 million net of tax), respectively, attributable to the 2007 and 2006 option grants to retirement eligible employees who meet certain age and service criteria, typically long-term employees who are ages 57 or older. Prior to adoption of FAS 123R, the Company recognized compensation cost for such awards on a straight line basis over the nominal vesting period. Results for prior periods have not been restated. The cumulative effect of the initial adoption of FAS 123R on the Company’s financial statements and earnings per share information was immaterial.

The following table presents the stock based compensation expense and income tax benefit recognized in the financial statements:

	2007	2006	2005
Stock based compensation expense	$ 10.5	$ 10.6	$ 4.6
Income tax benefit	$ 3.6	$ 3.7	$ 1.6

The following table illustrates the effect on net income and earnings per share as if the Company had applied the fair value provisions of FAS 123 to all options granted under the Company's stock option plans during 2005.

Years Ended December 31,	2005
Net income, as reported	$ 551.4
Add: Stock-based compensation expense included in reported income, net of related tax effects	3.0
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	8.6
Pro forma basis	$ 545.7
Basic earnings per share:	
As reported	$ 2.40
Pro forma basis	2.38
Diluted earnings per share:	
As reported	2.37
Pro forma basis	$ 2.35

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes-Merton Model. The following table presents the assumptions used in the Black-Scholes Model for the awards granted during the periods presented. Expected volatilities are based on the historical experience of Old Republic's common stock. The expected term of stock options represents the period of time that stock options granted are assumed to be outstanding. Beginning in 2006, the Company uses historical data to estimate the effect of stock option exercise and employee departure behavior; groups of employees that have similar historical behavior are considered separately for valuation purposes. The risk-free rate of return for periods within the contractual term of the share option is based on the U.S. Treasury rate in effect at the time of the grant.

	2007	2006	2005
Expected volatility	.19	.25	.26
Expected dividends	3.56%	3.35%	3.82%
Expected term (in years)	7	7	10
Risk-free rate	4.43%	4.81%	4.62%

A summary of stock option activity under the plan as of December 31, 2007, 2006 and 2005, and changes in outstanding options during the years then ended is presented below:

As of and for the Years Ended December 31,					
2007		2006		2005	
	Weighted Average		Weighted Average		Weighted Average

	Shares	Exercise Price	Shares	Exercise Price	Shares	Exercise Price
Outstanding at beginning of year	13,282,329	$ 17.26	12,266,170	$ 15.76	11,602,443	$ 15.00
Granted	2,329,000	21.78	2,511,800	22.01	2,057,500	18.44
Exercised	932,593	14.98	1,419,404	12.56	1,249,709	13.04
Forfeited and canceled	108,159	19.47	76,238	18.66	144,064	17.01
Outstanding at end of year	14,570,577	18.12	13,282,329	17.26	12,266,170	15.76
Exercisable at end of year	8,919,827	$ 16.38	8,077,223	$ 15.51	7,725,233	$ 14.31
Weighted average fair value of options granted during the year (1)	$ 3.73	per share	$ 5.12	per share	$ 4.34	per share

(1) Based on the Black-Scholes option pricing model and the assumptions outlined above.

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A summary of stock options outstanding and exercisable at December 31, 2007 follows:

	Options Outstanding				Options Exercisable		
		Weighted – Average				Weighted	
Ranges of Exercise Prices	Year(s) Of Grant	Number Out-Standing	Remaining Contractual Life	Exercise Price	Number Exercisable	Average Exercise Price
$15.49	1998	491,733	0.25	$ 15.49	491,733	$ 15.49
$ 9.37 to $10.40	1999	452,208	1.25	10.40	449,239	10.40
$ 6.40 to $ 7.23	2000	411,859	2.25	6.40	399,801	6.40
$14.36	2001	1,195,579	3.25	14.36	1,152,731	14.36
$16.85	2002	1,499,199	4.25	16.85	1,499,199	16.85
$14.37	2003	1,482,229	5.25	14.37	1,482,229	14.37
$19.32 to $20.02	2004	2,304,532	6.25	19.33	1,639,948	19.33
$18.41 to $20.87	2005	1,941,737	7.25	18.44	908,482	18.44
$21.36 to $22.35	2006	2,471,375	8.25	22.00	652,048	22.02
$21.78 to $23.16	2007	2,320,125	9.25	21.78	244,416	21.78
Total		14,570,577		$ 18.12	8,919,827	$ 16.38

Pursuant to the Company's self-imposed limits, the maximum number of options available for future issuance as of December 31, 2007, is 6,171,924 shares.

As of December 31, 2007, there was $15.8 million of total unrecognized compensation cost related to nonvested stock-based compensation arrangements granted under the plan. That cost is expected to be recognized over a weighted average period of approximately 3 years.

The cash received from stock option exercises, the total intrinsic value of stock options exercised, and the actual tax benefit realized for the tax deductions from option exercises are as follows:

	2007	2006	2005
Cash received from stock option exercise	$ 13.9	$ 17.8	$ 16.3
Intrinsic value of stock options exercised	5.1	13.1	9.4
Actual tax benefit realized for tax deductions from stock options exercised	$ 1.7	$ 4.6	$ 3.3

Note 2 - Debt - Consolidated debt of Old Republic and its subsidiaries is summarized below:

	December 31,			
	2007		2006	
	Carrying	Fair	Carrying	Fair

	Amount	Value	Amount	Value
Commercial paper due within 180 days with an average yield of 5.09% and 5.51%, respectively	$ 59.8	$ 59.8	$ 18.8	$ 18.8
Debentures maturing in 2007 at 7.0%	-	-	114.9	115.7
Other miscellaneous debt	4.2	4.2	10.5	10.5
Total Debt	$ 64.1	$ 64.1	$ 144.3	$ 145.1

The Company has access to the commercial paper market for up to $300.0 million of which $240.0 million remains unused as of December 31, 2007. The carrying amount of the Company's commercial paper borrowings approximates its fair value. The fair value of publicly traded debt is based on its quoted market price.

Scheduled maturities of the above debt at December 31, 2007 are as follows: 2008: $61.0 million; 2009: $.8 million; 2010: $.8 million; 2011: $.7 million; 2012: $.4 million; 2013 and after: $ -. During 2007, 2006 and 2005, $6.8 million, $9.8 million and $9.5 million, respectively, of interest expense on debt was charged to consolidated operations.

Note 3 - Shareholders' Equity - All common and preferred share data herein has been retroactively adjusted as applicable for stock dividends or splits declared through December 31, 2007.

(a) Preferred Stock - The following table shows certain information pertaining to the Company's pre–ferred shares issued and outstanding:

Preferred Stock Series:	Convertible Series G(1)
Annual cumulative dividend rate per share	$ (1)
Conversion ratio of preferred into common shares	1 for .95
Conversion right begins	Anytime
Redemption and liquidation value per share	(1)
Redemption beginning in year	(1)
Total redemption value (millions)	(1)
Vote per share	one
Shares outstanding:	
December 31, 2006	0
December 31, 2007	0

(1) The Company has authorized up to 1,000,000 shares of Series G Convertible Preferred Stock for issuance pursuant to the Company's Stock Option Plan. Series G had been issued under the designation “G-2”. As of December 31, 2003, all Series “G-2” had been converted into shares of common stock. In 2001, the Company created a new designation, “G-3”, from which no shares have been issued as of December 31, 2007. Management believes this designation will be the source of possible future issuances of Series G stock. Except as otherwise stated, Series “G-2” and Series “G-3” are collectively referred to as Series “G”. Each share of Series G pays a floating rate dividend based on the prime rate of interest. At December 31, 2007, the annual dividend rate for Series “G-3” would have been 86 cents per share. Each share of Series G is convertible at any time, after being held six months, into .95 shares of Common Stock (See Note 3(c)). Unless previously converted, Series G shares may be redeemed at the Company's sole option five years after their issuance.

(b) Cash Dividend Restrictions - The payment of cash dividends by the Company is principally dependent upon the amount of its insurance subsidiaries' statutory policyholders' surplus available for dividend distribution. The insurance subsidiaries' ability to pay cash dividends to the Company is in turn generally restricted by law or subject to approval of the insurance regulatory authorities of the states in which they are domiciled. These authorities recognize only statutory accounting practices for determining financial position, results of operations, and the ability of an insurer to pay dividends to its shareholders. Based on 2007 data, the maximum amount of dividends payable to the Company by its insurance and a small number of non-insurance company subsidiaries during 2008 without the prior approval of appropriate regulatory authorities is approximately $414.7 million.

(c) Stock Option Plan - The Company has had stock option plans in effect for certain eligible key employees since 1978. An amended plan adopted in 1992 was replaced at its expiration by a plan approved by the shareholders in 2002, and the 2002 plan was replaced by the 2006 Incentive Compensation Plan approved by the shareholders in May 2006. Under the current plan, options awarded at the date of grant together with options previously issued and then-outstanding may not exceed 9% of the Company's outstanding common stock at the end of the month immediately preceding an option grant. Under the current plan, like its predecessors, the exercise price of stock options is equal to the closing market price of the Company's common stock on the date of the grant, and the contractual life of the grant is generally ten years from the date of the grant. Options granted in 2001 and prior years under the 1992 plan may be exercised to the extent of 10% of the number of shares covered thereby on and after the date of grant, and cumulatively, to the extent of an additional 10% on and after each of the first through ninth subsequent calendar years. Options granted in 2002 and thereafter may be exercised to the extent of 10% of the number of shares covered thereby as of December 31st of the year of the grant and, cumulatively, to the extent of an additional 15%, 20%, 25% and 30% on and after the second through fifth calendar years, respectively. Options granted to employees who meet certain retirement eligibility provisions become fully vested upon retirement.

In the event the closing market price of Old Republic's common stock reaches a pre-established value ("the vesting acceleration price"), options granted in 2001 and prior years may be exercised cumulatively to the extent of 10% of the number of shares covered by the grant for each year of employment by the optionee. For grants in 2002 and 2003, optionees become vested on an accelerated basis to the extent of the greater of 10% of the options granted times the number of years of employment, or the sum of the optionee's already vested grant plus 50% of the remaining unvested grant. There is no vesting acceleration for 2004 and subsequent years' grants.

The option plans enable optionees to, alternatively, exercise their options that have vested through December 31, 2004, into Series "G" Convertible Preferred Stock. The exercise of options into such Preferred Stock reduces by 5% the number of equivalent common shares which would otherwise be obtained from the exercise of options into common shares.

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(d) Common Stock - At December 31, 2007, there were 500,000,000 shares of common stock authorized. At the same date, there were 100,000,000 shares of Class “B” common stock authorized, though none were issued or outstanding. Class “B” common shares have the same rights as common shares except for being entitled to 1/10th of a vote per share. The Company reacquired a total of 1,566,100 shares of its common stock during 2007 for $28.3 million or $18.13 per share.

(e) Undistributed Earnings - At December 31, 2007, the equity of the Company in the GAAP undistributed earnings, and net unrealized investment gains (losses) of its subsidiaries amounted to $3,273.3 million and $79.2 million, respectively. Dividends declared dur−ing 2007, 2006 and 2005, to the Company by its subsidiaries amounted to $175.8 million, $362.3 million and $287.2 million, respectively.

Note 4 - Commitments and Contingent Liabilities:

(a) Reinsurance and Retention Limits - In order to maintain premium production within their capacity and to limit maximum losses for which they might become liable under policies they’ve underwritten, Old Republic's insurance subsidiaries, as is the common prac−tice in the insurance industry, may cede all or a portion of their premiums and related liabilities on certain classes of business to other insurers and reinsurers. Although the ceding of insurance does not ordinarily discharge an insurer from 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 and a large variety of risk-sharing procedures and arrangements for parts of its business in order to reduce underwriting losses for which it might become liable under insurance policies it issues. To the extent that any reinsurance companies, assured or producer might be unable to meet their obligations under existing reinsurance, retrospective insurance and production agreements, Old Republic would be liable for the defaulted amounts. As deemed necessary, reinsurance ceded to other companies is secured by letters of credit, cash, and/or securities.

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 : $1.8 million for workers' compensation; $1.8 million for commercial auto liability; $1.8 million for general liability; $5.6 million for executive protection (directors & officers and errors & omissions); $1.0 million for aviation; and $1.0 million for property coverages. Roughly 53% 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 net primary mortgage guaranty exposure is approximately (in whole dollars) $35,300. Title insurance risk assumptions are currently limited to a maximum of $100.0 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 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 for an insurer such as the Company. Such aggregations could result from a catastrophe such as caused by an earthquake that could 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 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 owners 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 an 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, but the reinsurance market has not

displayed a widespread willingness to accept such risks. To date, coverage for acts of terrorism are excluded from substantially all the Company's reinsurance treaties and are effectively retained by it subject to any recovery that would be collected under the temporary federal reinsurance program.

Reinsurance ceded by the Company's insurance subsidiaries in the ordinary course of business is typically placed on an excess of loss basis. Under excess of loss reinsurance agreements, the companies are generally reimbursed for losses exceeding contractually agreed-upon levels. Quota share reinsurance is most often effected between the Company's insurance subsidiaries and industry-wide assigned risk plans or captive insurers owned by assureds. Under quota share reinsurance, the Company remits to the assuming entity an agreed upon percentage of premiums written and is reimbursed for underwriting expenses and proportionately related claims costs.

Reinsurance recoverable asset balances represent amounts due from or credited by assuming reinsurers for paid and unpaid claims and premium reserves. Such reinsurance balances as are recoverable from non-admitted foreign and certain other reinsurers such as captive insurance companies owned by assureds, 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 self-insured deductible policies. Estimates of unrecoverable amounts totaling $28.7 million as of December 31, 2007 and $30.2 million as of December 31, 2006 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.

At December 31, 2007, the Company's ten largest reinsurers represented approximately 66% of reinsurance recoverable on paid and unpaid losses, with Munich Re America, Inc. the largest reinsurer representing 32.1% of the total recoverable balance. Of the balance due from these ten reinsurers, 79.4% was recoverable from A or better rated reinsurance companies, 12.6% from industry-wide insurance assigned risk pools, and 8.0% from captive reinsurance companies.

The following information relates to reinsurance and related data for the General Insurance and Mortgage Guaranty Groups for the three years ended December 31, 2007. Reinsurance transactions of the Title Insurance Group and small life and health insurance operation are not material.

Property and liability insurance companies are required to annualize certain policy premiums in their regulatory financial statements though such premiums may not be contractually due nor ultimately collectable. The annualization process relies on a large number of estimates, and has the effect of increasing direct, ceded, and net premiums written, and of grossing up corresponding balance sheet premium balances and liabilities such as unearned premium reserves. The accrual of these estimates has no effect on net premiums earned or GAAP net income. During 2005, the Company further refined certain premium annualization estimates. In the following table, the sum total of these adjustments had the effect of increasing general insurance direct premiums written by $66.3 million, premiums written ceded by $43.2 million, and net premiums written by $23.1 million for 2005.

	Years Ended December 31,		
	2007	2006	2005
General Insurance Group			
Written premiums:			
Direct	$ 2,685.2	$ 2,389.4	$ 2,424.9
Assumed	61.5	137.8	37.9
Ceded	$ 634.7	$ 504.4	$ 573.5

Earned premiums:			
Direct	$ 2,644.7	$ 2,345.4	$ 2,291.9
Assumed	173.4	30.7	35.9
Ceded	663.0	$ 474.0	$ 522.6
Claims ceded	$ 366.2	$ 330.3	$ 469.0
Mortgage Guaranty Group			
Written premiums:			
Direct	$ 637.9	$ 534.9	$ 511.7
Assumed	-	.1	.1
Ceded	$ 95.1	$ 81.0	$ 79.3
Earned premiums:			
Direct	$ 612.7	$ 524.7	$ 508.0
Assumed	.4	.6	.8
Ceded	$ 94.9	$ 81.0	$ 79.3
Claims ceded	$ 1.9	$ .3	$ .5
Insurance in force as of December 31:			
Direct	$ 124,738.4	$ 111,172.7	$ 102,919.7
Assumed	1,737.1	1,964.6	2,196.3
Ceded	$ 7,419.7	$ 6,940.7	$ 6,467.2

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(b) Leases - Some of the Company's subsidiaries maintain their offices in leased premises. Some of these leases provide for the payment of real estate taxes, insurance, and other operating expenses. Rental expenses for operating leases amounted to $42.5 million, $41.0 million and $39.9 million in 2007, 2006 and 2005, respectively. These expenses relate primarily to building leases of the Company. A number of the Company's subsidiaries also lease other equipment for use in their businesses. At December 31, 2007, ag−gregate minimum rental commitments (net of expected sub-lease receipts) under noncancellable operating leases are summarized as follows: 2008: $39.0 million; 2009: $30.6 million; 2010: $21.7 million; 2011: $15.6 million; 2012: $11.2 million; 2013 and after: $48.5 million.

(c) General - In the normal course of business, the Company and its subsidiaries are subject to various contingent liabilities, including possible income tax assessments resulting from tax law interpretations or issues raised by taxing or regulatory authorities in their regular examinations, catastrophic claim occurrences not indemnified by reinsurers such as noted at 4(a) above, or failure to collect all amounts on its investments or balances due from assureds and reinsurers. The Company does not have a basis for anticipating any significant losses or costs that could result from any known or existing contingencies.

(d) 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 in−surance 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, pursuant to rate schedules filed by ORNTIC or by state rating bureaus with the state insurance regulators, ORNTIC was required to, but failed to give consumers reissue and/or refinance credits on the premiums charged for title insurance covering mortgage refinancing transactions. Substantially similar lawsuits are also pending against other unaffiliated title insurance companies in these and other states as well. The actions seek damages and declaratory and injunctive relief. ORNTIC intends to defend vigorously against the actions but, at this stage in the litigation, the Company cannot estimate the ultimate costs it may incur as the actions proceed to their conclusions.

During the fourth quarter of 2007, purported class action lawsuits were filed against two of the Company's title agency subsidiaries, Old Republic Title & Escrow, Ltd. and Old Republic Title Company, in the Superior Court of Washington, King County, and the U.S. District Court for the Northern District of California, respectively. The action in Washington alleges that the Company's subsidiary overcharged customers for escrow-related fees and did not disclose to customers that it would keep interest or credits or benefits in lieu of interest on money deposited into escrow. The action in California is brought by and on behalf of Hispanic home buyers in Monterey County against various real estate developers, brokers, mortgage brokers, mortgage lenders, mortgage loan servicers, as well as the Company's title agency subsidiary, and alleges that the title agency failed to provide adequate disclosures to protect the buyers from the abusive sales and predatory lending practices of the other defendants. Both actions seek damages, declaratory and injunctive relief. The Company's subsidiaries intend to defend vigorously against both actions and are unable at this early stage in the litigation to estimate the costs they may incur in defending these actions to their conclusions.

Note 5 - Consolidated Quarterly Results - Unaudited - Old Republic's consolidated quarterly operating data for the two years ended December 31, 2007 is presented below.

In the opinion of management, all adjustments consisting of normal recurring adjustments necessary for a fair statement of quarterly results have been reflected in the data which follows. It is also management's opinion, however, that quarterly operating data for insurance enterprises such as the Company is not indicative of results to be achieved in succeeding quarters or years. The long-term nature of the insurance business, seasonal and cyclical factors affecting

premium production, the fortuitous nature and, at times, delayed emergence of claims, and changes in yields on invested assets are some of the factors necessitating a review of operating results, changes in shareholders' equity, and cash flows for periods of several years to obtain a proper indicator of perfor−mance trends. The data below should be read in conjunction with the "Management Analysis of Financial Position and Results of Operations":

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Year Ended December 31, 2007:				
Operating Summary:				
Net premiums, fees, and other income	$ 879.2	$ 925.2	$ 930.7	$ 905.2
Net investment income and realized gains (losses)	94.4	107.0	99.0	149.5
Total revenues	973.9	1,032.2	1,029.8	1,054.9
Benefits, claims, and expenses	818.2	865.0	994.8	1,034.4
Net income	$ 107.7	$ 115.1	$ 29.2	$ 20.2
Net income per share:				
Basic	$ .47	$ .50	$ .13	$ .09
Diluted	$ .46	$ .49	$ .12	$ .09
Average shares outstanding:				
Basic	231,388,190	231,558,161	231,014,468	230,458,010
Diluted	233,614,450	233,556,032	232,298,642	231,121,858

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	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Year Ended December 31, 2006:				
Operating Summary:				
Net premiums, fees, and other income	$ 852.6	$ 858.0	$ 876.9	$ 845.6
Net investment income and realized gains (losses)	90.2	90.7	87.8	91.6
Total revenues	942.9	948.9	964.9	937.4
Benefits, claims, and expenses	770.9	762.4	795.7	784.8
Net income	$ 117.4	$ 126.6	$ 116.1	$ 104.6
Net income per share:				
Basic	$ .51	$ .55	$ .50	$ .45
Diluted	$ .51	$ .54	$ .50	$ .45
Average shares outstanding:				
Basic	229,835,408	230,013,892	230,470,356	231,037,520
Diluted	231,999,922	232,240,816	232,517,359	233,244,626

Note 6 - Information About Segments of Business - The Company's major business segments are organized as the General Insurance (property and liability insurance), Mortgage Guaranty and Title Insurance Groups. The Company includes the results of its small life & health insurance business with those of its holding company parent and minor corporate services operations. Each of the Company's segments underwrites and services only those insurance coverages which may be written by it pursuant to state insurance regulations and corporate charter provisions. Segment results exclude realized investment gains or losses and impairments, and these are aggregated in consolidated totals. The contributions of Old Republic's insurance industry segments to consolidated totals are shown in the following table.

The Company does not derive over 10% of its consolidated revenues from any one customer. Revenues and assets connected with foreign operations are not significant in relation to consolidated totals.

The General Insurance Group provides property and liability insurance primarily to commercial clients. Old Republic does not have a meaningful participation in personal lines of insurance. Commercial automobile (principally trucking) insurance is the largest type of coverage underwritten by the General Insurance Group, accounting for 29.7% of the Group's direct premiums written in 2007. The remaining premiums written by the General Insurance Group are derived largely from a wide variety of coverages, including workers' compensation, general liability, loan credit indemnity, general aviation, directors and officers indemnity, fidelity and surety indemnities, and home and auto warranties.

Private mortgage insurance produced by the Mortgage Guaranty Group 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 having one-to-four family dwelling units. The Mortgage Guaranty segment's ten largest customers were responsible for 49.5%, 39.7% and 44.2% of traditional primary new insurance written in 2007, 2006 and 2005, respectively. The largest single customer accounted for 9.8% of traditional primary new insurance written in 2007 compared to 8.8% and 11.5% in 2006 and 2005, respectively.

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, loans and encumbrances affecting the insured title and not excluded or excepted from the coverage of the policy.

The accounting policies of the segments parallel those described in the summary of significant accounting policies pertinent thereto.

Segment Reporting

	Years Ended December 31,		
	2007	2006	2005
General Insurance:			
Net premiums earned	$ 2,155.1	$ 1,902.1	$ 1,805.2
Net investment income and other income	282.9	236.5	212.4
Total revenues before realized gains or losses	$ 2,438.0	$ 2,138.7	$ 2,017.6
Income before taxes and realized investment gains or losses (2)	$ 418.0	$ 401.6	$ 350.0
Income tax expense on above (1)	$ 126.5	$ 123.2	$ 62.9
Segment assets - at year end	$ 9,769.9	$ 9,363.5	$ 8,178.9
Mortgage Guaranty:			
Net premiums earned	$ 518.2	$ 444.3	$ 429.5
Net investment income and other income	90.1	85.6	86.5
Total revenues before realized gains or losses	$ 608.3	$ 529.9	$ 516.0
Income (loss) before taxes (credits) and realized investment gains or losses	$ (110.4)	$ 228.4	$ 243.7
Income tax expense (credits) on above	$ (44.0)	$ 75.3	$ 81.1
Segment assets - at year end	$ 2,523.8	$ 2,189.6	$ 2,211.8
Title Insurance:			
Net premiums earned	$ 638.5	$ 733.6	$ 757.2
Title, escrow and other fees	212.1	246.3	324.6
Sub-total	850.7	980.0	1,081.8
Net investment income and other income	27.7	27.3	26.7
Total revenues before realized gains or losses	$ 878.5	$ 1,007.3	$ 1,108.6
Income (loss) before taxes (credits) and realized investment gains or losses (2)	$ (14.7)	$ 31.0	$ 88.7
Income tax expense (credits) on above	$ (6.4)	$ 9.9	$ 30.1

Segment assets - at year end	$ 770.4	$ 772.7	$ 776.3

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Reconciliations of Segmented Amounts to Consolidated Totals

	Years Ended December 31,		
	2007	2006	2005
Consolidated Revenues:			
Total revenues of above Company segments	$ 3,925.0	$ 3,676.0	$ 3,642.3
Other sources (3)	131.4	127.1	122.5
Consolidated net realized investment gains	70.3	19.0	64.9
Consolidation elimination adjustments	(35.8)	(27.9)	(23.9)
Consolidated revenues	$ 4,091.0	$ 3,794.2	$ 3,805.9
Consolidated Income before taxes:			
Total income before taxes and realized investment gains or losses of above Company segments	$ 292.9	$ 661.2	$ 682.6
Other sources – net (3)	15.1	-	(.1)
Consolidated net realized investment gains	70.3	19.0	64.9
Consolidated income before income taxes	$ 378.4	$ 680.1	$ 747.3
Consolidated Income Tax Expense:			
Total income tax expense of above Company segments	$ 75.9	$ 208.6	$ 174.2
Other sources – net (3)	5.3	-	(.9)
Income tax expense on consolidated net realized investment gains	24.6	6.6	22.6
Consolidated income tax expense	$ 105.9	$ 215.2	$ 195.9

	December 31,	
	2007	2006
Consolidated Assets:		
Total assets for above Company segments	$ 13,064.2	$ 12,325.9
Other assets (3)	437.9	443.4
Consolidation elimination adjustments	(211.5)	(157.0)
Consolidated assets	$ 13,290.6	$ 12,612.2

In the above tables, net premiums earned on a GAAP basis differ slightly from statutory amounts due to certain differences in calculations of unearned premium reserves under each accounting method.

(1) General Insurance tax expense was reduced by $45.9 million in 2005 as discussed in Note 1(j).

(2) In the above tables, income before taxes is reported net of interest charges on intercompany financing arrangements within Old Republic's holding company system for the following segments: General - $15.4 million, $3.0 million, and $1.2 million for the years ended December 31, 2007, 2006 and 2005, respectively; Title - $2.3 million, $.1 million, and $ - for the years ended December 31, 2007, 2006, and 2005, respectively.

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

Note 7 - Acquisition of Contractors Insurance Book of Business – On November 30, 2006, Old Republic Insurance Company ("ORINSCO"), a wholly owned subsidiary of the Company, acquired a casualty insurance book of business from an insurance subsidiary of Aon Corporation ("Aon"). ORINSCO acquired policy renewal rights and certain other minor assets for a purchase price of $85 million, inclusive of deferred policy acquisition costs. Concurrently, the Company assumed certain insurance assets and liabilities through a quota share reinsurance agreement covering the net liabilities of the Aon insurance subsidiary. The liabilities assumed included unearned premium and claim reserves of $106.9 million and $228.3 million, respectively, which relate to business previously written through the Aon insurance subsidiary. The insurance book of business is focused on specialized casualty insurance coverages and services for trade contractors and large commercial construction projects. Renamed Old Republic Construction Program Group, Inc., the business has been organized as a joint underwriting venture between Old Republic and certain principals previously associated with the book of business.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Old Republic International Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, preferred stock and common shareholders' equity and cash flows, present fairly, in all material respects, the financial position of Old Republic International Corporation and its subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control Over Financial Reporting under Item 9A of the 2007 Form 10-K Annual Report. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Chicago, Illinois
February 25, 2008

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Management's Responsibility for Financial Statements

Management is responsible for the preparation of the Company's consolidated financial statements and related information appearing in this report. Management believes that the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements reasonably present the Company's financial position and results of operations in conformity with generally accepted accounting principles. Management also has included in the Company's financial statement amounts that are based on estimates and judgments which it believes are reasonable under the circumstances.

The independent registered public accounting firm has advised that it audits the Company's consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board and provides an objective, independent review of the fairness of reported operating results and financial position.

The Board of Directors of the Company has an Audit Committee composed of five non-management Directors. The committee meets periodically with financial management, the internal auditors and the independent registered public accounting firm to review accounting, control, auditing and financial reporting matters.

Item 9 - Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A - Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's principal executive officer and its principal financial officer have evaluated the Company's disclosure controls and procedures as of the end of the period covered by this annual report. Based upon their evaluation, the principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective for the above referenced evaluation period.

Changes in Internal Control

During the three month period ended December 31, 2007, there were no changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable

assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our evaluation under the framework in Internal Control – Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2007. PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of December 31, 2007. Their report is shown on the preceding page in this Annual Report.

Item 9B - Other Information

Pursuant to the requirements of Section 303A.12(a) of the New York Stock Exchange Listed Company Manual, the Company has filed the Annual CEO Certification with the New York Stock Exchange on June 8, 2007.

PART III

Item 10 - Directors and Executive Officers of the Registrant

Executive Officers of the Registrant

The following table sets forth certain information as of December 31, 2007, regarding the senior executive officers of the Company:

Name	Age	Position
Charles S. Boone	54	Senior Vice President - Investments and Treasurer since August, 2001.
James A. Kellogg	56	President and Chief Operating Officer since July, 2006 and President of Old Republic Insurance Company since October, 2002.
Spencer LeRoy, III	61	Senior Vice President, Secretary and General Counsel since 1992.
Karl W. Mueller	48	Senior Vice President and Chief Financial Officer since October, 2004. Prior to joining Old Republic, Mr. Mueller was a partner with the public accounting firm of KPMG LLP.
Christopher S. Nard	44	Senior Vice President - Mortgage Guaranty since May, 2005. President and Chief Executive Officer of Republic Mortgage Insurance Companies since May, 2005.
R. Scott Rager	59	Senior Vice President - General Insurance and President and Chief Operating Officer of Old Republic General Insurance Companies since July, 2006.
Rande K. Yeager	59	Senior Vice President - Title Insurance since March, 2003; President and Chief Executive Officer of Old Republic Title Insurance Companies since March, 2002.
Aldo C. Zucaro	68	Chairman of the Board, Chief Executive Officer, and Director since 1993, 1990 and 1976, respectively.

The term of office of each officer of the Company expires on the date of the annual meeting of the board of directors, which is generally held in May of each year. There is no family relationship between any of the executive officers named above. Each of these named officers, except for Karl W. Mueller, has been employed in executive capacities with the Company and/or its subsidiaries for the past five years.

The Company will file with the Commission prior to March 28, 2008 a definitive proxy statement pursuant to Regulation 14a in connection with its Annual Meeting of Shareholders to be held on May 23, 2008. A list of Directors appears on the “Signature” page of this report. Information about the Company’s directors is contained in the Company’s definitive proxy statement for the 2008 Annual Meeting of shareholders, which is incorporated herein by reference.

The Company has adopted a code of ethics that applies to its principal executive officer and principal financial officer. A copy has been filed with the Commission and appears as Exhibit (14) in the exhibit index under item 15. The Company has also posted the text of its code of ethics on its internet website at www.oldrepublic.com.

Item 11 - Executive Compensation

Information with respect to this Item is incorporated herein by reference to the section entitled “Executive Compensation” in the Company’s proxy statement in connection with the Annual Meeting of Shareholders to be held on May 23, 2008, which will be on file with the Commission by March 28, 2008.

Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information with respect to this Item is incorporated herein by reference to the sections entitled “General Information” and “Principal Holders of Securities” in the Company’s proxy statement to be filed with the Commission by March 28, 2008, in connection with the Annual Meeting of Shareholders to be held on May 23, 2008.

Item 13 - Certain Relationships and Related Transactions

Information with respect to this Item is incorporated herein by reference to the section entitled "Principal Holders of Securities" in the Company's Proxy Statement in connection with the Annual Meeting of Shareholders to be held on May 23, 2008, which will be on file with the Commission by March 28, 2008.

Item 14 - Principal Accountant Fees and Services

Information with respect to this Item is incorporated herein by reference to the section entitled "Board Committees" in the Company's Proxy Statement in connection with the Annual Meeting of Shareholders to be held on May 23, 2008, which will be on file with the Commission by March 28, 2008.

PART IV

Item 15 - Exhibits and Financial Statement Schedules

Documents filed as a part of this report:

1. Financial statements: See Item 8, Index to Financial Statements.
2. Financial statement schedules will be filed on or before April 11, 2008 under cover of Form 10-K/A.
3. See exhibit index on page 79 of this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized (Name, Title or Principal Capacity, and Date).

(Registrant): Old Republic International Corporation

By	:	/s/ Aldo C. Zucaro Aldo C. Zucaro, Chairman of the Board, Chief Executive Officer and Director	02/25/08 Date
By	:	/s/ Karl W. Mueller Karl W. Mueller, Senior Vice President and Chief Financial Officer	02/25/08 Date

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated (Name, Title or Principal Capacity, and Date).

/s/ Harrington Bischof
Harrington Bischof, Director*

/s/ Jimmy A. Dew
Jimmy A. Dew, Director*
Vice Chairman of
Republic Mortgage Insurance Company

/s/ John M. Dixon
John M. Dixon, Director*

/s/ Leo E. Knight, Jr.
Leo E. Knight, Jr., Director*

/s/ John W. Popp
Jophn W. Popp*

/s/ William A. Simpson
William A. Simpson, Director*
Chairman of Republic Mortgage
Insurance Company

/s/ Arnold L. Steiner
Arnold L. Steiner, Director*

/s/ Fredicka Taubitz
Fredicka Taubitz, Director*

/s/ Charles F. Titterton
Chalres F. Titterton, Director*

/s/ Dennis P. Van Mieghem
Dennis P. Van Mieghem, Director*

/s/ Steven Walker
Steven Walker, Director*

* By/s/Aldo C. Zucaro
Attorney-in-fact
Date: February 21, 2008

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EXHIBIT INDEX

An index of exhibits required by Item 601 of Regulation S-K follows:

(3) Articles of incorporation and by-laws.

(A) * Restated Certificate of Incorporation. (Exhibit 3(A) to Registrant's Annual Report on Form 10-K for 2004).

(B) * By-laws, as amended. (Exhibit 99.2 to Form 8-K filed September 4, 2007).

(4) Instruments defining the rights of security holders, including indentures.

(A)* Amended and Restated Rights Agreement dated as of November 19, 2007 between Old Republic International Corporation and Wells Fargo Bank, NA. (Exhibit 4.1 to Registrant's Form 8-A filed November 19, 2007).

(B)* Agreement to furnish certain long term debt instruments to the Securities & Exchange Commission upon request. (Exhibit 4(D) on Form 8 dated August 28, 1987).

(10) Material contracts.

**(A)* Amended and Restated Old Republic International Corporation Key Employees Performance Recognition Plan. (Exhibit 10(A) to Registrant's Annual Report on Form 10-K for 2002).

**(B)* Old Republic International Corporation 2005 Key Employees Performance Recognition Plan. (Exhibit 10(B) to Registrant's Annual Report on Form 10-K for 2006).

**(C)* Amended and Restated 1992 Old Republic International Corporation Non-qualified Stock Option Plan. (Exhibit 10(B) to Registrant's Annual Report on Form 10-K for 2002).

**(D)* Amended and Restated 2002 Old Republic International Corporation Non-qualified Stock Option Plan. (Exhibit 10(C) to Registrant's Annual Report on Form 10-K for 2005).

**(E)* Old Republic International Corporation 2006 Incentive Compensation Plan. (Exhibit 99.1 to Form 8-K/A filed June 2, 2006).

**(F)* Amended and Restated Old Republic International Corporation Executives Excess Benefits Pension Plan. (Exhibit 10(E) to Registrant's Annual Report on Form 10-K for 1997).

**(G)* Form of Indemnity Agreement between Old Republic International Corporation and each of its directors and certain officers. (Exhibit 10 to Form S-3 Registration Statement No. 33-16836).

**(H)* RMIC Corporation/Republic Mortgage Insurance Company Amended and Restated Key Employees Performance Recognition Plan. (Exhibit 10(I) to Registrant's Annual Report on Form 10-K for 2000).

**(I)* RMIC/Republic Mortgage Insurance Company 2005 Key Employees Performance Recognition Plan. (Exhibit 10(J) to Registrant's Annual Report on Form 10-K for 2006).

** (J) * RMIC Corporation/Republic Mortgage Insurance Company Executives Excess Benefits Pension Plan. (Exhibit 10(J) to Registrant's Annual Report on Form 10-K for 2000).

** (K) * Amended and Restated Old Republic Risk Management Key Employees Recognition Plan. (Exhibit 10(J) to Registrant's Annual Report on Form 10-K for 2002).

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(Exhibit Index, Continued)

**(L) * Old Republic Risk Management, Inc. 2005 Key Employees Performance Recognition Plan. (Exhibit 10(M) to Registrant's Annual Report on Form 10-K for 2006).

**(M) * Old Republic National Title Group Incentive Compensation Plan. (Exhibit 10(K) to Registrant's Annual Report on Form 10-K for 2003).

**(N) * ORI Great West Holdings, Inc. Key Employees Performance Recognition Plan. (Exhibit 10(O) to Registrant's Annual Report on Form 10-K for 2006).

**(O) * ORI Great West Holdings, Inc. 2005 Key Employees Performance Recognition Plan. (Exhibit 10(P) to Registrant's Annual Report on Form 10-K for 2006).

(12) Not applicable

(13) Not applicable

(14) * Code of Ethics for the Principal Executive Officer and Senior Financial Officer. (Exhibit 14 to Registrant's Annual Report on Form 10-K for 2003).

(21) Subsidiaries of the registrant.

(23) Consent of PricewaterhouseCoopers LLP.

(24) Powers of attorney.

(28) Consolidated Schedule P (To be filed by amendment).

(31.1) Certification by Aldo C. Zucaro, Chief Executive Officer, pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbannes-Oxley Act of 2002.

(31.2) Certification by Karl W. Mueller, Chief Financial Officer, pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbannes-Oxley Act of 2002.

(32.1) Certification by Aldo C. Zucaro, Chief Executive Officer, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbannes-Oxley Act of 2002.

(32.2) Certification by Karl W. Mueller, Chief Financial Officer, pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbannes-Oxley Act of 2002.

(99.1) * Old Republic International Corporation Audit Committee Charter. (Exhibit 99.1 of Registrant's Form 8-K filed February 27, 2006).

(99.2) * Old Republic International Corporation Nominating Committee Charter. (Exhibit 99.2 to Registrant's Annual Report on Form 10-K for 2003).

(99.3) * Old Republic International Corporation Compensation Committee Charter. (Exhibit 99.2 of Registrant's Form 8-K filed February 27, 2006).

(99.4) * Code of Business Conduct and Ethics. (Exhibit 99.4 to Registrant's Annual Report on Form 10-K for 2003).

(99.5) * Corporate Governance Guidelines. (Exhibit 99.5 to Registrant's Annual Report on Form 10-K for 2003).

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* Exhibit incorporated herein by reference.

** Denotes a management or compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 601 of Regulation S-K.

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