

# Old Republic Reports First Quarter 2006 Results Led By a 4.3 Percent Increase in Net Operating Income Per Share

April 27, 2006 9:03 AM ET

CHICAGO, April 27 /PRNewswire-FirstCall/ --

## Financial Highlights

(unaudited; amounts in millions except per share data and percentages; all per share amounts are shown on a diluted basis and have been restated retroactively to reflect the 25% stock dividend issued in December 2005)

	Quarters Ended March 31,		
	2006	2005	Change
Total Revenues	\$942.9	\$880.2	7.1%
Net Operating Income	\$112.5	\$109.1	3.1%
Net Income	\$117.4	\$114.3	2.7%
Diluted Earnings Per Share:			
Net Operating Income	\$0.49	\$0.47	4.3%
Net Income	\$0.51	\$0.49	4.1%

Old Republic International Corporation (NYSE: ORI), today announced that net operating earnings were slightly higher in this year's first quarter. Earnings for the latest quarter benefited from continued strength in general insurance operations, but were impacted adversely by a cyclical downturn in title insurance profitability and lower mortgage guaranty underwriting margins.

As shown in the above table, Old Republic's consolidated net operating earnings, which exclude net realized investment gains, amounted to \$112.5 million, or 49 cents per share, for the first quarter of 2006, compared to \$109.1 million, or 47 cents per share in the same period of 2005. Inclusive of net realized investment gains, net income for this year's first quarter amounted to \$117.4 million, or 51 cents per share, versus \$114.3 million, or 49 cents per share in the year-ago period.

## Consolidated Results

The major components of Old Republic's consolidated operating revenues and income were as follows for the first three months of 2006 and 2005:

	(\$ in millions, except share data)		
	Quarters Ended March 31,		
	2006	2005	Change
Operating revenues:			
General insurance	\$ 516.9	\$ 482.5	7.1%
Mortgage guaranty	131.2	127.0	3.3
Title insurance	260.3	238.4	9.2
Corporate and other	26.8	24.2	
Total	\$ 935.3	\$ 872.2	7.2%
Pretax operating income (loss):			
General insurance	\$97.0	\$84.8	14.3%
Mortgage guaranty	60.1	64.6	-7.0
Title insurance	7.6	12.8	-40.6
Corporate and other	(.3)	(1.7)	
Sub total	164.4	160.5	2.4
Realized investment gains (losses):			
From sales	7.5	13.0	
From impairments	-	(5.1)	
Net realized gains	7.5	7.9	
Consolidated pretax income	171.9	168.5	2.0
Income taxes	54.5	54.2	.6
Net income	\$ 117.4	\$ 114.3	2.7%
Consolidated underwriting ratio:			
Benefits and claims ratio	43.3%	43.9%	
Expense ratio	46.5	44.6	
Composite ratio	89.8%	88.5%	
Components of diluted earnings per share:			
Net operating income	\$0.49	\$0.47	4.3%
Net realized investment gains	0.02	0.02	

Net income	\$0.51	\$0.49	4.1%
------------	--------	--------	------

Consolidated results are provided in terms of both operating and net income to highlight the effect of realized investment gain or loss recognition on period-to-period comparisons. Recognition of such gains or losses can be highly discretionary and arbitrary due to such factors as the timing of individual securities sales, recognition of losses from write-downs of impaired securities, tax-planning considerations, and changes in investment management judgments relative to the direction of securities markets or the future prospects of individual investees or industry sectors.

## General Insurance Results

The General Insurance Group continued to grow its book of business and maintain strong underwriting results. Key indicators of Old Republic's General Insurance performance follow:

	(\$ in millions)		
	Quarters Ended March 31,		
	2006	2005	Change
Net premiums earned	\$459.9	\$431.1	6.7%
Net investment income	52.9	47.8	10.6
Pretax operating income	\$97.0	\$84.8	14.3%
Claims ratio	64.5%	66.8%	
Expense ratio	25.9	24.5	
Composite ratio	90.4%	91.3%	

General Insurance earned premiums continued to reflect the reasonably stable pricing environment of recent periods, as well as a moderate amount of new business. Underwriting results in the latest quarter benefited from relatively steady overall claims ratios and control of production and administrative expenses. The composite underwriting ratio represents the most widely accepted indicator of underwriting performance in the industry, and Old Republic has produced a favorable general insurance composite ratio below 100 percent for 16 consecutive quarters. Both underwriting/service and net investment income contributed to the increase in general insurance pretax income in this year's first quarter, with net investment income rising on the strength of a greater invested asset base and higher short-term interest rates.

## Mortgage Guaranty Results

Old Republic's Mortgage Guaranty Group showed slightly lower pretax operating earnings in this year's first three months. Key indicators of this segment's performance follow:

	(\$ in millions)		
	Quarters Ended March 31,		
	2006	2005	Change
Net premiums earned	\$109.0	\$105.4	3.4%
Net investment income	19.1	17.5	9.2
Pretax operating income	\$60.1	\$64.6	-7.0%
Claims ratio	38.8%	32.2%	
Expense ratio	23.7	23.1	
Composite ratio	62.5%	55.3%	

The composite underwriting ratio of 62.5 percent in the first quarter of 2006 was 13.0 percent higher than the corresponding ratio of 55.3 percent in 2005. Substantially all of the increase was due to higher claim costs. The increase in claim costs stems primarily from higher paid claims, as well as expectations of greater claim frequency and severity for the traditional primary business. The lower underwriting profit margin evidenced by this year's higher composite ratio was partially offset by net investment income growth.

## Title Insurance Results

Old Republic's Title Insurance segment registered a significant drop in profitability in the first quarter of 2006. Key indicators of that performance follow:

(\$ in millions)  
Quarters Ended March 31,

	2006	2005	Change
Net premiums and fees earned	\$253.4	\$231.7	9.4%
Net investment income	6.8	6.3	6.7
Pretax operating income	\$7.6	\$12.8	-40.6%
Claims ratio	6.2%	6.0%	
Expense ratio	93.4	91.2	
Composite ratio	99.6%	97.2%	

While overall title premium and fee revenues were up by 9.4 percent in this year's first quarter, profit margins from underwriting/service operations deteriorated significantly. Substantially all of the margin compression occurred in the segment's direct operations, most of which are concentrated in the Western United States. Revenues in that region dropped by approximately 23 percent year-over-year to a level much lower than required to support the related operating expense structure. As a consequence of the relatively greater expense load, the segment posted a much higher composite underwriting ratio in this year's first quarter. The 6.7 percent growth in net investment income was insufficient to offset the significant reduction in underwriting/service profitability during the most recent quarter.

### Corporate and Other Operations

Old Republic's small life and health business, and the net corporate service costs of the parent holding company and internal services subsidiaries produced combined pretax losses of \$0.3 million and \$1.7 million in the first quarters of 2006 and 2005, respectively. Life and health pretax income was affected adversely by greater life insurance claim costs for the first three months of 2006. Overall net corporate expenses, however, were lower year-over-year.

### Cash, Invested Assets and Shareholders' Equity

The following table shows the changes in consolidated cash and invested assets as well as shareholders' equity, as of the dates shown:

	(\$ in millions, except share data)		
	2006	March 31, 2005	Change
Cash and invested assets:			
Total	\$ 7,469.3	\$ 7,016.7	6.4%
Per share	32.50	30.72	5.8
Shareholders' equity:			
Total: as reported	4,066.8	3,880.9	4.8
at cost	4,064.3	3,787.5	7.3
Per share: as reported	17.69	16.99	4.1
at cost	\$17.68	\$16.58	6.6%

Effective January 1, 2006, the Company reclassified its long-term investments in U.S. Treasury Tax and Loss Bonds held by its mortgage guaranty insurance subsidiaries. The reclassification is intended to conform to more common industry reporting practices and to better align such assets 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 as shown in the following tables. 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. The following table shows the effect of these adjustments on pertinent financial statement performance indicators as of the balance sheet dates and for the periods shown.

	(\$ in millions)		
	March 31, 2006	December 31, 2005	March 31, 2005
Cash and invested assets:			
Previous classification	\$7,937.8	\$7,939.9	\$7,562.5
After reclassification	7,469.3	7,394.1	7,016.7
Change	(468.4)	(545.7)	(545.7)
Total other assets:			
Previous classification	3,676.8	3,603.2	3,117.0
After reclassification	4,145.3	4,149.0	3,662.8
Change	\$468.4	\$545.7	\$545.7

	(\$ in millions)			
	Quarters Ended		Years Ended	
	March 31,	March 31,	December 31,	December 31,
	2006	2005	2005	2004
<b>Cash flows from operating activities:</b>				
Previous classification	\$107.3	\$195.6	\$880.0	\$828.3
After reclassification	184.6	149.1	833.6	775.5
Change	77.3	(46.4)	(46.4)	(52.8)
<b>Cash flows from investing activities:</b>				
Previous classification	(82.6)	(171.6)	(589.9)	(734.1)
After reclassification	(159.9)	(125.2)	(543.5)	(681.3)
Change	\$(77.3)	\$46.4	\$46.4	\$52.8

The investment portfolio reflects a current allocation of approximately 87 percent in fixed-maturity securities and 8 percent in equities. As in the past, it contains little or no exposure to real estate investments, mortgage-backed securities, derivatives, junk bonds, private placements or mortgage loans.

The latest quarter's change in shareholders' equity reflects principally additions from earnings in excess of dividend payments, offset by a decline in the value of investment securities carried at market values.

#### Conference Call Information

Old Republic has scheduled a conference call at 3:00 p.m. EDT (2:00 p.m. CDT) today to discuss its first quarter 2006 performance and review ongoing trends. To access this call, log on to <http://www.oldrepublic.com> 15 minutes before the call to download the necessary software. A replay will be available through this website for 30 days.

#### About Old Republic

Chicago-based Old Republic International Corporation is an insurance holding company whose subsidiaries market, underwrite and provide risk management services for a wide variety of coverages primarily in the property and liability, mortgage guaranty, and title insurance fields. One of the nation's 50 largest publicly owned insurance organizations, Old Republic has assets of approximately \$11.6 billion and shareholders' equity of \$4.0 billion or \$17.69 per share. Its current stock market valuation is approximately \$5.1 billion, or \$22.26 per share.

#### Safe Harbor Statement

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 News Release and 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 impacted 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.

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.

For the latest news releases and other corporate documents on Old Republic International Corporation Visit: <http://www.oldrepublic.com>

Old Republic International Corporation  
FINANCIAL HIGHLIGHTS (\*)  
(\$ in Millions, Except Share Data)

	Quarters Ended		
	March 31,		
	2006	2005	Change
NET INCOME:			
Total	\$117.4	\$114.3	2.7%
Per Share: Basic	\$0.51	\$0.50	2.0%
Diluted	\$0.51	\$0.49	4.1%
Average number of shares outstanding:			
Basic	229,835,408	228,351,494	
Diluted	231,999,922	230,861,205	
COMPOSITION OF EARNINGS PER SHARE:			
Basic Earnings:			
Net operating income	\$0.49	\$0.48	2.1%
Realized investment gains	0.02	0.02	
Net income	\$0.51	\$0.50	2.0%
Diluted Earnings:			
Net operating income	\$0.49	\$0.47	4.3%
Realized investment gains	0.02	0.02	
Net income	\$0.51	\$0.49	4.1%

FINANCIAL POSITION SUMMARY:

	March 31, 2006	December 31, 2005	March 31, 2005
Assets:			
Cash and fixed maturity securities	\$6,744.0	\$6,675.4	\$6,448.4
Equity securities	572.2	552.4	413.6
Other invested assets	153.0	166.3	154.7
Accounts and premiums receivable	819.2	803.4	544.2
Reinsurance balances recoverable	2,227.6	2,167.2	1,924.3
Prepaid federal income taxes	468.4	545.7	545.7
Sundry assets	629.8	632.5	648.6
Total	\$11,614.6	\$11,543.2	\$10,679.5
Liabilities and Shareholders' Equity:			
Policy liabilities	\$1,245.0	\$1,228.1	\$1,088.1
Benefit and claim reserves	5,068.7	4,939.8	4,544.4
Federal income tax payable:			
current	38.6	129.3	42.1
deferred	404.5	421.6	522.9
Debt	142.2	142.7	143.2
Sundry liabilities	648.5	657.4	457.7
Shareholders' equity	4,066.8	4,024.0	3,880.9
Total	\$11,614.6	\$11,543.2	\$10,679.5
Number of shares outstanding	229,845,866	229,575,404	228,376,174

(\*) Per share data reflect adjustments for the 25% stock dividend issued in December 2005.



General Insurance:		
Benefits and claims ratio	64.5%	66.8%
Expense ratio	25.9%	24.5%
Composite ratio	90.4%	91.3%
Paid loss ratio	48.1%	49.5%
Mortgage Guaranty:		
New insurance written:		
Traditional Primary	\$3,892.5	\$4,705.6
Bulk	3,256.9	3,299.5
Other	51.3	39.8
Total	\$7,200.7	\$8,045.0
Net risk in force:		
Traditional Primary	\$14,587.0	\$15,274.2
Bulk	1,823.7	1,094.5
Other	586.8	580.4
Total	\$16,997.6	\$16,949.2
Earned premiums: Direct	\$128.9	\$124.6
Net	\$109.0	\$105.4
Persistency/Traditional Primary	66.6%	65.2%
Delinquency ratio:		
Traditional Primary	4.12%	3.75%
Bulk	3.42%	3.79%
Claims ratio	38.8%	32.2%
Expense ratio	23.7%	23.1%
Composite ratio	62.5%	55.3%
Paid loss ratio	32.9%	31.6%
Title Insurance:		
Direct orders opened	86,911	99,025
Direct orders closed	68,109	77,118
Claims ratio	6.2%	6.0%
Expense ratio	93.4%	91.2%
Composite ratio	99.6%	97.2%
Paid loss ratio	4.1%	5.0%

SOURCE Old Republic International Corporation

CONTACT: A.C. Zucaro, Chairman & CEO of Old Republic, +1-312-346-8100; Leslie Loyet, Analysts/Investors, +1-312-640-6672, lloyet@financialrelationsboard.com, or Tim Grace, Media Inquiries, +1-312-640-6667, tgrace@financialrelationsboard.com, both of Financial Relations Board