

Best's Rating Report

RLI®

■ RLI Indemnity

RLI INDEMNITY COMPANY

Peoria, Illinois



A+

Ultimate Parent:
RLI Corp.

RLI INDEMNITY COMPANY

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Ultimate Parent#: 058460

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FEIN#: 76-0227154

BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the company's Financial Strength and relationship with an affiliated reinsurer, which reinsures virtually all of the company's business, the company is assigned the Best's Financial Strength Rating of its affiliated reinsurer, RLI Insurance Company, which is A+ (Superior). The company is assigned the Financial Size Category of Class XI, which is the Financial Size Category of its affiliated reinsurer.

RATING RATIONALE

The following text is derived from the report of RLI Group.

Rating Rationale: The rating of RLI Group (RLI) is based on the consolidated operations of RLI Insurance Company and its wholly-owned subsidiaries, Mt. Hawley Insurance Company and RLI Indemnity Company. The rating reflects the group's superior, historical operating profitability, its strong capitalization and the financial flexibility afforded by its publicly traded parent, RLI Corp. These factors are partially offset by the group's above average equity leverage and the resulting potential susceptibility of earnings to the volatility of the financial markets. The rating outlook is based upon the expectation of

continued operating profitability and the maintenance of capitalization levels that are commensurate with the current rating.

RLI benefits from its specialty insurance solutions approach, extensive product offerings and local branch office network. As part of its strategy, RLI provides insurance solutions to market segments that are generally underserved by the standard market due to their unique risk characteristics. The group writes business on both an admitted basis and on a surplus lines basis. Despite strong market competition in recent years, RLI continues to demonstrate its ability to generate strong operating results through strict underwriting discipline, steadfast focus on rate adequacy and diversified strategies that can focus on niche-related opportunities, providing insurance solutions to underserved markets in the ever-changing insurance landscape. RLI has significantly reduced its exposure to earthquake and flood (difference in conditions), which has helped limit potential volatility in its capitalization; however, the group continues to benefit from this high risk, high reward property business, which remains a consistent source of RLI's earnings. In the face of heightened market competition over the last few years, RLI has sustained its competitive advantage through utilization of its advanced technology, aggregate risk management and its comprehensive reinsurance program that serves to protect the group's capital base. Over the past decade, RLI has outperformed the overall commercial casualty composite by approximately 17.0 points in terms of its combined ratio.

RLI has long maintained above average investment leverage via a high-quality portfolio of value and dividend-oriented equity securities, in addition to a significantly larger, well-diversified portfolio of highly rated fixed income securities. While the dividends earned on equity securities have fortified investment income, the volatility in the global financial markets experienced in recent years has led to

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both realized and unrealized losses on the group's equity portfolio. Management has taken the aggressive action of liquidating higher yielding equity investments that were deemed likely to continue being poor performers, while increasing investment in short-term investments to help stabilize overall investment performance.

Best's Financial Strength Rating: A+ r

Outlook: Stable

KEY FINANCIAL INDICATORS (\$000)

Year	Net Premiums Written	Pretax Operating Income	Total Admitted Assets	Policyholders' Surplus	Comb. Ratio
2005	208	1,754	37,359	34,041	-28.0
2006	594	1,622	41,724	35,397	121.4
2007	563	2,221	41,511	36,897	68.1
2008	447	2,111	43,163	38,446	67.8
2009	204	1,401	40,579	39,588	40.1

(*) Data reflected within all tables of this report has been compiled from the company-filed statutory statement.

BUSINESS REVIEW

The following text is derived from the report of RLI Group.

Through its operating companies, RLI underwrites select property & casualty coverage throughout the United States. The group underwrites specialty insurance coverage on an admitted basis through its principal subsidiary RLI Insurance Company (RLI Insurance) and RLI Indemnity Company (RLI Indemnity). RLI Insurance's coverages include commercial fire, homeowners, general and product liability, directors & officers, commercial and personal umbrella, marine, facultative reinsurance, professional liability, commercial automobile, and small-to-large commercial and small contract surety coverages. In addition, RLI Insurance offers fidelity and commercial crime coverage for commercial insureds and select financial institutions. RLI Indemnity, a direct subsidiary of Mt. Hawley Insurance Company (Mt. Hawley), specializes in underwriting surety coverage on commercial risks relating to the exploration, drilling, producing and gathering activities of the oil and gas industry. This coverage is also written in RLI Insurance. In addition, surety coverages offered include miscellaneous surety bonds, such as license and permit, notary and court bonds. RLI Indemnity also writes commercial umbrella and deductible buy back coverages. RLI operates on a surplus lines basis through Mt. Hawley, a subsidiary of RLI Insurance. Mt. Hawley writes both property and liability coverages. Liability products include primarily general liability business, commercial umbrella, commercial package, employers' excess indemnity, errors & omissions and directors & officers coverages. The property book consists property (fire and associated perils), commercial earthquake, marine, inland marine and "difference in conditions" coverages. In 2010, RLI added crop reinsurance to its property segment as RLI entered into a two-year agreement to become a quota share reinsurer of Producers Agricultural Insurance Company (ProAg). Under this agreement, RLI will reinsure a portion of ProAg's multi-peril crop insurance (MPCI) and crop hail premium and exposure.

As a "niche" company, RLI offers specialty insurance coverages designed to meet the specific insurance needs of targeted insured groups while also underwriting particular types of coverage for certain markets that are considered underserved by the insurance industry. All coverage is marketed through several branch offices around the coun-

try, largely via wholesale brokers and independent agents. RLI focuses on lines of business that are generally characterized by low claims frequency and high claims severity. These lines are often avoided by standard carriers. Solid underwriting guidelines, a strong reinsurance program and active monitoring of aggregate exposures have enabled RLI to generate profitable business.

2009 BUSINESS PRODUCTION AND PROFITABILITY (\$000)

Product Line	—Premiums Written—		% of Total	Pure Loss Ratio	Loss & LAE Res.
	Direct	Net	NPW		
Oth Liab Occur	474	113	55.3	-6.3	53
Surety	1,678	85	41.9	-99.9	36
Fidelity	8	6	3.0	1.3	0
All Other	-9	0	-0.2	44.7	149
Totals	2,151	204	100.0	5.0	237

HISTORY

This company was originally incorporated on January 28, 1987, under the laws of Texas and began business on January 30, 1987. On December 4, 1989, the company redomesticated from Texas to Colorado. On September 20, 1999, the company redomesticated from Colorado to Illinois. On October 1, 2003, the company's name was changed from Planet Indemnity Company to RLI Indemnity Company.

Paid in capital of \$23,000,000 consists of 600,000 common shares at a par value of \$7 per share and \$18,800,000 of contributed surplus. There are 5,100,000 authorized common shares.

MANAGEMENT

All of the outstanding shares of the company are owned by Mt. Hawley Insurance Company, who in turn, is wholly-owned by RLI Insurance Company. Ownership of the latter is held by RLI Corp., a publicly held holding company.

The company's affairs are managed by the same group of executives that manage the parent organization. The company maintains an intercompany services agreement with RLI Insurance Company.

Officers: President, Michael J. Stone; Senior Vice President and Chief Financial Officer, Joseph E. Dondanville; Senior Vice President, Craig W. Kliethermes (Risk Services); Vice President and Chief Information Officer, Carol J. Denzer; Vice President and Controller, Todd W. Bryant; Vice President and General Counsel, Daniel O. Kennedy; Vice Presidents, Seth A. Davis (Internal Audit), Roy C. Die, Donald J. Driscoll (Claims), Jeffrey D. Fick (Human Resources), Aaron H. Jacoby (Corporate Development); Secretary, Jean M. Stephenson (Corporate); Treasurer and Chief Investment Officer, John E. Robison.

Directors: Carol J. Denzer, Joseph E. Dondanville, Donald J. Driscoll, Jeffrey D. Fick, Craig W. Kliethermes, Jonathan E. Michael, Michael J. Stone.

TERRITORY

The company is licensed in the District of Columbia, AL, AZ, AR, CA, CO, CT, DE, FL, GA, HI, ID, IL, IN, IA, KS, KY, LA, ME, MD, MA, MI, MN, MS, MO, MT, NE, NV, NH, NJ, NM, NY, NC, ND, OH, OK, OR, PA, RI, SC, SD, TN, TX, UT, VT, VA, WA, WV, WI and WY.

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Balance Sheet		
Admitted Assets (\$000)		
	12/31/2009	%
Bonds	\$30,994	76.4
Cash & short-term invest	8,561	21.1
Total invested assets	\$39,555	97.5
Premium balances	90	0.2
Accrued interest	348	0.9
All other assets	585	1.4
Total assets	\$40,579	100.0
Liabilities & Surplus (\$000)		
Loss & LAE reserves	\$ 237	0.6
Unearned premiums	184	0.5
All other liabilities	571	1.4
Total liabilities	\$ 991	2.4
Capital & assigned surplus	23,000	56.7
Unassigned surplus	16,588	40.9
Total policyholders' surplus	\$39,588	97.6
Total liabilities & surplus	\$40,579	100.0

Why is this Best's® Rating Report important to you?

A Rating Report from the A.M. Best Company represents an independent opinion from the leading provider of insurer ratings of a company's financial strength and ability to meet its obligations to policyholders.

The A.M. Best Company is the oldest, most experienced rating agency in the world and has been reporting on the financial condition of insurance companies since 1899. The Financial Strength Rating **opinion** addresses the relative ability of an insurer to meet its ongoing insurance policy and contract obligations. The rating is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is **not a recommendation** to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

The company information appearing in this pamphlet is an extract from the complete company report prepared by the A.M. Best Company.

A Best's Rating is assigned after an extensive quantitative and qualitative evaluation of a company's financial strength, operating performance and market profile.

Best's Ratings are assigned according to the following scale:

Secure Best's Ratings

A++ and A+	Superior
A and A-	Excellent
B++ and B+	Good

Vulnerable Best's Ratings

B and B-	Fair
C++ and C+	Marginal
C and C-	Weak
D	Poor
E	Under Regulatory Supervision
F	In Liquidation
S	Rating Suspended

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