

Best's Rating Report



Mt. Hawley Insurance Company

Peoria, Illinois



A+

Ultimate Parent:

RLI Corp.

MT. HAWLEY INSURANCE COMPANY

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Peoria, IL 61615

Web: www.rlicorp.com

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Ultimate Parent#: 058460

Fax: 309-692-1068

NAIC#: 37974

FEIN#: 37-1072999

BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the consolidated Financial Strength of the property/casualty members of RLI Group, which operate under a group structure, each group member is assigned a Best's Financial Strength Rating of A+ (Superior). The company is assigned the Financial Size Category of Class XI, which is the Financial Size Category of the group.

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+ g

Outlook: Stable

KEY FINANCIAL INDICATORS (\$000)

Year	Net Premiums Written	Pretax Operating Income	Total Admitted Assets	Policyholders' Surplus	Comb. Ratio
2005	277,804	81,437	940,323	367,092	79.8
2006	321,512	92,827	1,024,694	416,425	80.0
2007	284,918	147,157	1,040,417	454,154	66.7
2008	238,591	98,833	1,052,280	470,109	82.9
2009	186,842	107,542	1,097,605	565,555	73.6

(*) 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 country, 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 & Res.
	Direct	Net	NPW	Loss Ratio	LAE
Oth Liab Occur	121,420	97,853	52.4	31.6	388,301
Allied Lines	47,287	35,450	19.0	-1.9	6,766
Fire	24,792	19,915	10.7	47.0	18,788
Earthquake	27,166	14,207	7.6	-1.9	757
Inland Marine	28,008	14,189	7.6	2.3	1,917
Prod Liab Occur	5,400	3,524	1.9	-39.9	15,504
All Other	3,374	1,703	0.9	-4.5	4,662
Totals	257,447	186,842	100.0	21.6	436,697

HISTORY

This company was incorporated on October 26, 1979, under the laws of Delaware. It began business on December 18, 1979. During 1994, a company was formed in the State of Kansas (Mt. Hawley Insurance Company - Kansas) for the purpose of redomesticating the Delaware company to Kansas. On December 20, 1995, Mt. Hawley Insurance Company (Delaware) merged with and into Mt. Hawley Insurance Company - Kansas, the survivor, and changed the name to Mt. Hawley Insurance Company. On April 21, 1999, Mt. Hawley Insurance Company reorganized and exists under the Illinois Insurance Code.

Paid in capital of \$140,695,879 consists of 1,000 common shares at a par value of \$10,000 per share and \$130,695,879 of contributed surplus. All authorized common shares are issued and outstanding.

MANAGEMENT

All of the outstanding capital stock is owned by the sponsor, RLI Insurance Company. Ownership of the latter is held by RLI Corp., a publicly held holding company.

The company operates under the same general management as those guiding the affairs of the parent, RLI Insurance Company. Jonathan E. Michael, Chairman and Chief Executive Officer, also serves in the same capacity with the parent, RLI Insurance Company. The company maintains an inter-company services agreement with RLI Insurance Company.

Officers: Chairman and Chief Executive Officer, Jonathan E. Michael; President and Chief Operating Officer, 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), 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.

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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 Illinois. It also operates on a surplus lines or non-admitted basis in the District of Columbia, Guam, Puerto Rico, U.S. Virgin Islands, AL, AK, AZ, AR, CA, CO, CT, DE, FL, GA, HI, ID, 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.

Balance Sheet Admitted Assets (\$000)

	12/31/2009	%
Bonds	\$ 849,332	77.4
Common stock	85,960	7.8
Cash & short-term invest	22,897	2.1
Investments in affiliates	65,626	6.0
Total invested assets	\$1,023,815	93.3
Premium balances	19,960	1.8
Accrued interest	10,456	1.0
All other assets	43,374	4.0
Total assets	\$1,097,605	100.0

Liabilities & Surplus (\$000)

Loss & LAE reserves	\$ 436,697	39.8
Unearned premiums	93,875	8.6
Conditional reserve funds	223	0.0
All other liabilities	1,255	0.1
Total liabilities	\$ 532,050	48.5
Capital & assigned surplus	147,584	13.4
Unassigned surplus	417,971	38.1
Total policyholders' surplus	\$ 565,555	51.5
Total liabilities & surplus	\$1,097,605	10

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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