

Best's Rating Report

RLI®

■ RLI Insurance Company

Peoria, Illinois



A+

Ultimate Parent:
RLI Corp.

RLI INSURANCE COMPANY
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Web: www.rlicorp.com

Tel: 309-692-1000

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Ultimate Parent#: 58460

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NAIC: 13056

FEIN#: 37-0915434

BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the consolidated Financial Strength of the company and its insurance subsidiaries, the company is assigned a Best's Financial Strength Rating of A+ (Superior). The company's Financial Size Category is Class X.

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 history of operating profitability, 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. Business is written on an admitted and 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, 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. The group though continues to benefit from this high risk, high reward property business, which remains a consistent source of RLI's earnings. During the competitive market conditions experienced with the past few years, RLI has sustained its competitive advantage through its use of advanced technology, aggregate risk management and its comprehensive reinsurance program that serves to protect the group's capital base. Over the past 10 years, RLI has outperformed the overall commercial casualty composite by an average of 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 current volatility in the global financial markets has led to both realized and unrealized losses on the group's equity portfolio. Management has taken the aggressive action of liquidating higher yielding equity

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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	Policy- holders' Surplus	Comb. Ratio
2004	244,893	45,366	1,216,034	605,967	93.5
2005	216,545	46,707	1,300,271	690,547	95.7
2006	229,424	56,055	1,366,310	746,905	89.6
2007	253,280	132,826	1,351,885	752,004	80.8
2008	274,414	60,571	1,279,074	678,041	87.9

(* 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 and RLI Indemnity Company. RLI Insurance's coverages include commercial fire, homeowners, general and product liability, directors & officers, commercial and personal umbrella, marine, commercial automobile, and contract and miscellaneous surety bonds. RLI Indemnity, a direct subsidiary of Mt. Hawley Insurance Company, 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 Company. In addition, surety coverages offered include miscellaneous surety bonds, such as license and permit, notary and court bonds. 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. The property book consists property (fire and associated perils), commercial earthquake, marine and "difference in conditions" coverage. In addition, the Group offers fidelity and commercial crime coverage for commercial insureds and select financial institutions.

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 the group's branch offices around the country, as well as wholesale brokers and independent agents. The group 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 the group to generate profitable business.

2008 BUSINESS PRODUCTION AND PROFITABILITY (\$000)

Product Line	—Premiums Written—		% of Total NPW	Pure Loss Ratio	Loss & LAE Res.
	Direct	Net			
Oth Liab Occur	84,295	70,921	25.8	37.7	139,953
Surety	71,900	68,960	25.1	-3.0	16,897
Ocean Marine	48,256	41,828	15.2	70.0	31,751
Comm'l Auto Liab	46,583	36,394	13.3	49.3	72,140
Oth Liab CM	54,271	15,581	5.7	65.4	40,504
Inland Marine	10,701	10,784	3.9	45.9	15,111
Homeowners	9,636	7,913	2.9	17.1	1,602
Auto Physical	5,950	5,828	2.1	28.3	3,748
Com'l MultiPeril	5,751	5,589	2.0	-2.4	2,004
All Other	5,622	10,614	3.9	39.3	26,596
Totals	342,965	274,414	100.0	34.1	350,306

HISTORY

The company was incorporated on July 7, 1969, under the laws of Illinois, to become successor to the United Founders Mutual Insurance Company (organized in 1959). The assets and liabilities of the mutual insurance carrier were taken over by the United Founders National Insurance Company as of November 30, 1969, after the repayment of the guaranty fund certificates of the mutual. The company operated as the United Founders National Insurance Company until July 20, 1973, when the present title was adopted.

Paid in capital of \$252,451,459 consists of 80,003 common shares at a par value of \$125 per share and \$242,451,084 of contributed surplus. There are 1,000,000 authorized common shares.

MANAGEMENT

All outstanding capital stock of the company is owned by RLI Corp., a publicly traded holding company, which formerly owned the predecessor mutual company's outstanding guaranty fund certificates.

The affairs of the company are under the direction of Chairman and Chief Executive Officer, Jonathan E. Michael; President and Chief Operating Officer, Michael J. Stone; and Senior Vice President and Chief Financial Officer, Joseph E. Dondanville. Prior to joining the company in 1982, Mr. Michael served with Coopers & Lybrand and was promoted to his current position in 2001. Mr. Stone joined RLI in 1996, after a career with The Travelers Insurance Company. Mr. Dondanville was associated with Arthur Andersen & Co. before joining the company in 1984.

Under the same general management are the wholly-owned subsidiaries, Mt. Hawley Insurance Company, licensed in December 1979 to write surplus lines business, and RLI Indemnity 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 the District of Columbia, Puerto Rico and all states.

Balance Sheet		
Admitted Assets (\$000)		
	12/31/2008	%
Bonds	\$ 473,418	37.0
Preferred stock	813	0.1
Common stock	165,668	13.0
Cash & short-term invest	56,690	4.4
Other non-affil inv asset	16,925	1.3
Investments in affiliates	470,109	36.8
Real estate, offices	<u>8,782</u>	<u>0.7</u>
Total invested assets	\$1,192,406	93.2
Premium balances	45,788	3.6
Accrued interest	6,120	0.5
All other assets	<u>34,760</u>	<u>2.7</u>
Total assets	\$1,279,074	100.0
Liabilities & Surplus (\$000)		
Loss & LAE reserves	\$ 350,306	27.4
Unearned premiums	148,166	11.6
Conditional reserve funds	838	0.1
All other liabilities	<u>101,723</u>	<u>8.0</u>
Total liabilities	\$ 601,032	47.0
Capital & assigned surplus	252,451	19.7
Unassigned surplus	<u>425,590</u>	<u>33.3</u>
Total policyholders' surplus	\$ <u>678,041</u>	<u>53.0</u>
Total liabilities & surplus	\$1,279,074	100.0

Best's Rating Report

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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