

Selected Financial Data

The following is selected financial data of RLI Corp. and Subsidiaries for the 11 years ended December 31, 2003.

(amounts in thousands, except per share data)	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Operating Results											
Gross revenues	\$ 798,766	741,541	548,331	469,759	370,057	316,863	306,383	301,500	293,922	295,966	266,480
Total revenue	\$ 519,886	382,153	309,354	263,496	225,756	168,114	169,424	155,354	155,954	156,722	143,100
Net earnings (loss)	\$ 71,291	35,852	31,047	28,693	31,451	28,239	30,171	25,696	7,950	(4,776)	15,948
Comprehensive earnings (loss) ⁽¹⁾	\$ 97,693	13,673	11,373	42,042	20,880	51,758	66,415	41,970	31,374	(8,513)	21,175
Net cash provided from operating activities	\$ 191,019	161,971	77,874	53,118	58,361	23,578	35,022	48,947	24,649	27,041	73,629
Financial Condition											
Total investments	\$ 1,333,360	1,000,027	793,542	756,111	691,244	677,294	603,857	537,946	471,599	413,835	401,609
Total assets	\$ 2,134,364	1,719,327	1,390,970	1,281,323	1,170,363	1,012,685	911,741	845,474	810,200	751,086	667,650
Unpaid losses and settlement expenses	\$ 903,441	732,838	604,505	539,750	520,494	415,523	404,263	405,801	418,986	394,966	310,767
Total debt	\$ 147,560 ⁽⁷⁾	54,356	77,239	78,763	78,397	39,644	24,900	46,000	48,800	52,255	53,000
Total shareholders' equity	\$ 554,134	456,555 ⁽⁴⁾	335,432	326,654	293,069	293,959	266,552	200,039	158,608	131,170	140,706
Statutory surplus ⁽²⁾	\$ 546,586 ⁽⁷⁾	401,269 ⁽⁴⁾	289,997	309,945	286,247	314,484	265,526	207,787	172,313	136,125	152,262
Share Information⁽³⁾											
Net earnings (loss) per share:											
Basic	\$ 2.84	1.80	1.58 ⁽⁸⁾	1.46	1.55	1.34	1.45	1.30	0.41 ⁽¹⁰⁾	(0.25) ⁽¹⁰⁾	0.84 ⁽¹²⁾
Diluted	\$ 2.76	1.75	1.55 ⁽⁸⁾	1.44	1.54	1.33	1.33	1.14	0.41 ⁽¹⁰⁾	(0.25) ⁽¹⁰⁾	0.80 ⁽¹²⁾
Comprehensive earnings (loss) per share: ⁽¹⁾											
Basic	\$ 3.89	0.69	0.58 ⁽⁸⁾	2.14	1.03	2.46	3.19	2.13	1.60 ⁽¹⁰⁾	(0.44) ⁽¹⁰⁾	1.12 ⁽¹²⁾
Diluted	\$ 3.78	0.67	0.57 ⁽⁸⁾	2.11	1.02	2.43	2.88	1.81	1.39 ⁽¹⁰⁾⁽¹¹⁾	(0.44) ⁽¹⁰⁾	1.05 ⁽¹²⁾
Cash dividends declared per share	\$ 0.40	0.35	0.32	0.30	0.28	0.26	0.24	0.22	0.21	0.18	0.17
Book value per share	\$ 22.02	18.50 ⁽⁴⁾	16.92	16.66	14.84	14.22	12.35	10.23	8.08	6.68	7.30
Closing stock price	\$ 37.46	27.90	22.50	22.35	17.00	16.63	19.93	13.35	10.00	6.56	8.48
Stock split		200%					125%		125%		
Weighted average shares outstanding: ⁽⁴⁾⁽⁵⁾											
Basic	25,120	19,937	19,630	19,634	20,248	21,028	20,804	19,742	19,624	19,466	18,998
Diluted	25,846	20,512	20,004	19,891	20,444	21,276	23,428	24,210	19,624	19,464	20,902
Common shares outstanding	25,165	24,681	19,826	19,608	19,746	20,670	21,586	19,554	19,628	19,624	19,278
Other Non-GAAP Financial Information⁽⁶⁾											
Net premiums written to statutory surplus ⁽²⁾	87%	103%	109%	84%	79%	46%	54%	64%	76%	108%	94%
GAAP combined ratio	92.0	95.6	97.2	94.8	91.2	88.2	86.8	87.4	107.5	116.9	97.2
Statutory combined ratio ⁽²⁾	93.1	92.4	95.8	95.8	90.1 ⁽⁹⁾	88.4	90.4	89.1	106.5	116.9	87.9 ⁽¹³⁾

⁽¹⁾ See note 1.M to the consolidated financial statements.

⁽²⁾ Ratios and surplus information are presented on a statutory basis. As discussed further in the MD&A and note 9, statutory accounting principles differ from GAAP and are generally based on a solvency concept. Reporting of statutory surplus is a required disclosure under GAAP.

⁽³⁾ On October 15, 2002, our stock split on a 2-for-1 basis. All share and per share data has been retroactively stated to reflect this split.

⁽⁴⁾ On December 26, 2002, we closed an underwritten public offering of 4.8 million shares of common stock. This offering generated \$115.1 million in net proceeds. Of this, \$80.0 million was contributed to the insurance subsidiaries. Remaining funds were used to pay down lines of credit.

⁽⁵⁾ In July 1993, we issued \$46.0 million of convertible debentures. In July 1997, these securities were called for redemption. This conversion created an additional 4.4 million new shares of RLI common stock.

⁽⁶⁾ See page 24 for information regarding non-GAAP financial measures.

⁽⁷⁾ On December 12, 2003, we successfully completed a public debt offering, issuing \$100.0 million in Senior Notes maturing January 15, 2014. This offering generated proceeds, net of discount and commission, of \$98.9 million. Of this, \$50.0 million was contributed to our insurance subsidiaries to increase their statutory surplus. Remaining funds were retained at the holding company.

⁽⁸⁾ Basic and diluted earnings per share include \$0.04 per share from the initial application of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities."

⁽⁹⁾ The statutory combined ratio presented includes the results of UIC and PIC only from the date of acquisition, January 29, 1999.

⁽¹⁰⁾ The combined effects of the Northridge earthquake — including losses, expenses and the reduction in revenue due to the reinstatement of reinsurance coverages — reduced 1994 after-tax earnings by \$25.0 million (\$1.29 per basic share, \$1.05 per diluted share) and 1995 after-tax earnings by \$18.6 million (\$0.95 per basic share, \$0.77 per diluted share).

⁽¹¹⁾ For 1995, diluted earnings per share on a GAAP basis were antidilutive. As such, GAAP diluted and basic earnings per share were equal. Diluted comprehensive earnings per share, however, were not antidilutive. The number of diluted shares used for this calculation was 24,047.

⁽¹²⁾ Basic and diluted earnings per share include \$0.09 and \$0.08 per share, respectively, from the initial application of SFAS 109, "Accounting for Income Taxes."

⁽¹³⁾ Contingent commission income recorded during 1993, from the cancellation of a multiple-year, retroactively-rated reinsurance contract, reduced the statutory expenses and combined ratio 10.3 points.