003883 - RLI Group

Report Revision Date: 07/15/2013

Rating and Commentary [1]	***Financial*** [2]	***General Information*** [3]
Best's Credit Rating: N/A	**Time Period:** 2nd Quarter - 2013	**Corporate Structure:** 03/12/2004
Rating Rationale: N/A	**Last Updated:** 08/08/2013	**States Licensed:** N/A
Report Commentary: 07/15/2013	**Status:** Quality Cross Checked	**Officers and Directors:** N/A

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[1]The Rating and Commentary date outlines the most recent updates to the Company's Rating, Rationale, and Report Commentary for key rating and business changes. Report commentary may include significant changes to Business Review, Financial Performance/Earnings, Capitalization, Investment/Liquidity, or Reinsurance sections of the report.

[2]The Financial date reflects the current status of the financial tables found within the body of the Report, including whether the data was loaded as received or had been run through our quality control cross-check process.

[3]The General Information date covers key areas that may have changed such as corporate structure, states licensed or officers and directors.

Associated Parent: RLI Corp.

RLI Group

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AMB #: 003883 **Associated Parent:** 058460 **NAIC #:** N/A **FEIN #:** N/A

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Rating Rationale

Rating Rationale: The ratings reflect RLI Insurance Company (RLI Insurance) and its subsidiaries' specialty niche business strategy, superior operating profitability, strong capitalization, excellent liquidity and the financial flexibility afforded by its publicly traded parent, RLI Corp. (RLI). These factors are partially offset by the group's above average equity leverage, the resulting potential earnings volatility associated with it and the challenges associated with low investment yields. The outlooks are based upon the expectation of continued operating profitability and the maintenance of capitalization levels that are commensurate with the current ratings.

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. Also, adding to its product line diversification via becoming a quota share reinsurer of crop insurance, and the acquisition of a historically profitable surety company and its portfolio, should help the group sustain a level of profitability near historical norms despite the competitive market conditions. In the face of heightened market competition over the last few years, RLI has sustained its competitive advantage through utilization of advanced technology, aggregate risk management and its comprehensive reinsurance program that serves to protect the group's capital base. In addition, RLI has outperformed the overall commercial casualty composite by approximately seventeen percentage points over the last decade 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, especially given the sustained low interest rate environment, the volatility in the global financial markets experienced in recent years has led, at times, to both realized and unrealized losses on the group's equity portfolio. However, management has taken the aggressive action of liquidating higher-yielding equity investments that were deemed likely to continue being poor performers, while increasing allocations in short-term investments to help stabilize overall investment performance.

A.M. Best believes that RLI Insurance and its subsidiaries are well positioned at their current rating levels. Key rating drivers that could lead to downward rating pressure is deterioration in RLI's underwriting performance and a significant decline in its risk-adjusted capitalization.

Rating Unit Members

RLI Group (AMB# 003883)

AMB#	Company	BEST'S FSR	BEST'S ICR	Pool %
004210	RLI Insurance Company	A+	aa	
002591	Mt Hawley Insurance Company	A+	aa	

Rating Unit Members (Continued ...)

AMB#	Company	BEST'S FSR	BEST'S ICR	Pool %
000267	RLI Indemnity Company	A+	aa	

Key Financial Indicators

Period Ending	Statutory Data ($000) Premiums Written Direct	Premiums Written Net	Pre-tax Operating Income	Net Income	Total Admitted Assets	Policyholder's Surplus
2012	709,107	593,086	137,505	125,672	1,945,862	684,072
2011	648,494	563,788	158,771	127,222	2,034,890	710,186
2010	647,197	535,316	188,380	149,905	2,124,983	844,302
2009	682,612	525,753	173,775	128,319	2,177,775	892,322
2008	758,190	584,424	184,383	90,276	2,079,909	776,150
06/2013	387,118	352,915	61,932	42,606	2,071,978	772,492
06/2012	351,975	309,971	64,441	53,535	2,083,671	780,746

Period Ending	Profitability Combined Ratio	Profitability Investment Yield (%)	Profitability Pre-Tax ROR (%)	Leverage Non-Affiliated Investment Leverage	Leverage NPW to PHS	Leverage Net Leverage	Liquidity Overall Liquidity (%)	Liquidity Operating Cash-flow (%)
2012	88.0	4.1	23.8	55.1	0.9	2.7	154.4	116.0
2011	84.5	4.2	28.7	55.2	0.8	2.6	153.8	112.5
2010	82.7	4.5	34.5	38.9	0.6	2.1	166.2	126.6
2009	84.6	3.9	31.4	30.3	0.6	2.0	169.6	123.6
2008	85.3	4.5	30.5	36.1	0.8	2.4	159.7	129.3
5-Yr Avg	85.0	4.3	29.7	...	...	...	...	...
06/2013	81.3	3.7	20.7	55.9	0.8	2.5	159.6	109.0
06/2012	84.1	4.0	23.1	53.9	0.7	2.4	160.1	108.6

(*) Within several financial tables of this report, this company is compared against the Commercial Casualty Composite.
(*) Data reflected within all tables of this report has been compiled through the A.M. Best Consolidation of statutory filings.

Business Profile

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 and RLI Indemnity Company (RLI Indemnity). RLI operates on a surplus lines basis through Mt. Hawley Insurance Company (Mt. Hawley), a subsidiary of RLI Insurance. In 2011, RLI Insurance acquired Contractors Bonding and Insurance Company (CBIC), through its holding company, Data and Staff Service Company.

As a "niche" insurance organization, RLI offers specialty insurance coverage 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 its numerous 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, which are lines often avoided by standard carriers. Solid underwriting guidelines and fundamentals, a strong reinsurance program and active monitoring of aggregate exposures have enabled RLI to generate profitable business on a consistent basis.

RLI Insurance's coverage includes commercial fire, homeowners, general and product liability, directors & officers, commercial and personal umbrella, workers compensation, marine, facultative and treaty reinsurance, professional liability, commercial automobile, and small-to-large commercial and small contract surety coverage. 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, specializes in underwriting surety coverage on commercial risks relating to the exploration, drilling, producing and gathering activities of the oil and gas industry. RLI Indemnity also writes commercial umbrella and deductible buy back coverage. Surety coverage offered by RLI Insurance includes miscellaneous surety bonds, such as license and permit, notary and court bonds. CBIC was originally founded as a surety only company in 1979 but also began writing property and casualty business on its own paper in 1994 after initially writing it as a managing general agent for another insurance company. The deal also makes RLI Insurance (including CBIC) a top ten surety writer in terms of market share of total surety market direct written premium. Mt. Hawley writes both property and liability coverage. Liability products include primarily general liability business, commercial umbrella, commercial package, employers' excess indemnity, errors & omissions and directors & officers coverage. The property book consists of property (fire and associated perils), commercial earthquake, marine, inland marine and "difference in conditions" coverage. In 2010, RLI Insurance added crop reinsurance to its property segment as RLI Insurance entered into a two-year agreement to become a quota share reinsurer of Producers Agricultural Insurance Company (ProAg). Under this agreement, RLI Insurance reinsures a portion of ProAg's multi-peril crop insurance (MPCI) and crop hail premium and exposure.

Scope of Operations

Total Premium Composition & Growth Analysis

Period Ending	Direct Premiums Written		Reinsurance Premiums Assumed		Reinsurance Premiums Ceded		Net Premiums Written	
	($000)	(%Chg)	($000)	(%Chg)	($000)	(%Chg)	($000)	(%Chg)
2012	709,107	9.3	75,693	4.9	191,713	22.2	593,086	5.2
2011	648,494	0.2	72,190	45.3	156,897	-2.9	563,788	5.3
2010	647,197	-5.2	49,692	204.6	161,573	-6.7	535,316	1.8
2009	682,612	-10.0	16,314	105.4	173,173	-4.7	525,753	-10.0
2008	758,190	-8.7	7,943	57.4	181,709	-15.9	584,424	-5.6
5-Yr CAGR	...	-3.1	...	71.9	...	-2.4	...	-0.9
06/2013	387,118	10.0	63,767	16.0	97,970	1.0	352,915	13.9
06/2012	351,975	8.2	54,953	14.0	96,957	26.3	309,971	4.4

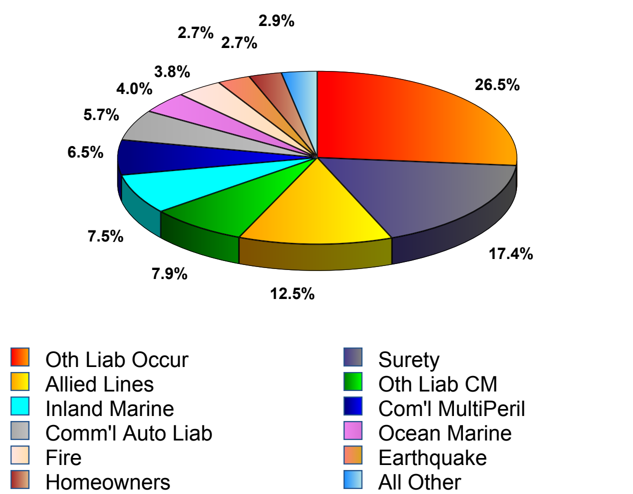
Business Trends

Business Trends (Continued ...)

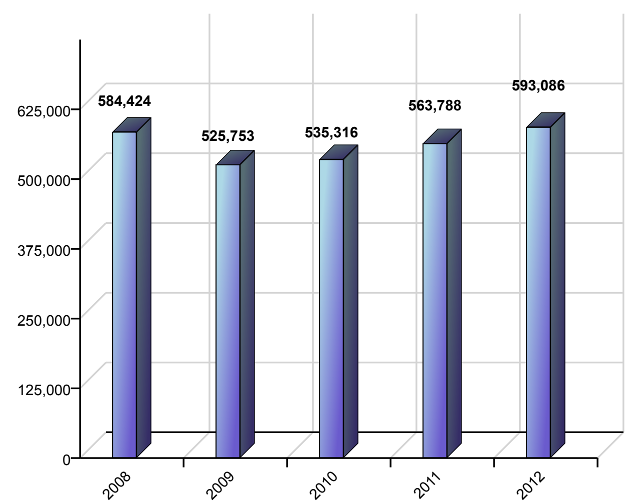
2012 By-Line Business ($000)

	Direct Premiums Written		Reinsurance Premiums Assumed		Reinsurance Premiums Ceded		Net Premiums Written		Business Retention
Product Line	($000)	(%)	($000)	(%)	($000)	(%)	($000)	(%)	%
Oth Liab Occur	206,233	29.1	4	0.0	49,250	25.7	156,987	26.5	76.1
Surety	110,619	15.6	414	0.5	7,611	4.0	103,422	17.4	93.1
Allied Lines	51,676	7.3	54,428	71.9	32,002	16.7	74,101	12.5	69.8
Oth Liab CM	86,279	12.2	...	...	39,386	20.5	46,893	7.9	54.4
Inland Marine	56,523	8.0	1,760	2.3	14,064	7.3	44,219	7.5	75.9
Com'l MultiPeril	44,537	6.3	...	...	5,842	3.0	38,695	6.5	86.9
Comm'l Auto Liab	41,216	5.8	1,144	1.5	8,441	4.4	33,920	5.7	80.1
Ocean Marine	27,811	3.9	...	...	4,095	2.1	23,716	4.0	85.3
Fire	25,751	3.6	7,280	9.6	10,757	5.6	22,274	3.8	67.4
Earthquake	26,927	3.8	2,620	3.5	13,653	7.1	15,894	2.7	53.8
Homeowners	9,418	1.3	7,046	9.3	676	0.4	15,789	2.7	95.9
All Other	22,116	3.1	997	1.3	5,936	3.1	17,178	2.9	74.3
Total	709,107	100.0	75,693	100.0	191,713	100.0	593,086	100.0	75.6

2012 Top Product Lines of Business (Net Premiums Written)



5 Years of Net Premiums Written ($000)



Business Trends (Continued ...)

By-Line Reserve ($000)

Product Line	2012	2011	2010	2009	2008
Oth Liab Occur	446,659	473,477	535,719	535,280	529,711
Surety	24,562	31,723	32,107	32,150	25,747
Allied Lines	52,890	22,692	27,812	9,226	20,093
Oth Liab CM	81,936	59,493	47,259	46,039	43,121
Inland Marine	13,713	14,850	20,563	17,235	17,284
Com'l MultiPeril	46,735	47,401	45,484	46,789	48,446
Comm'l Auto Liab	49,878	49,464	59,537	64,461	74,831
Ocean Marine	33,927	39,457	42,982	46,558	31,842
Fire	10,421	17,212	18,426	20,422	26,966
Earthquake	1,072	984	1,306	1,017	1,421
Homeowners	3,933	1,940	1,141	2,210	1,602
All Other	32,823	37,922	40,291	43,507	46,328
Total	798,550	796,616	872,626	864,895	867,393

Market Share / Market Presence

Geographical Breakdown By Direct Premium Writings ($000)

	2012	2011	2010	2009	2008
California	118,398	112,085	109,067	124,391	136,206
New York	101,168	74,927	79,505	88,097	105,222
Florida	70,641	74,171	74,138	74,844	86,952
Texas	56,954	51,766	54,147	55,067	54,144
Washington	29,127	28,137	30,025	32,822	45,691
New Jersey	25,148	23,362	23,469	25,039	26,042
Illinois	18,338	19,899	18,485	18,247	18,104
Louisiana	17,608	17,453	16,442	17,182	15,493
Aggregate Alien	17,345	16,976	16,568	16,501	20,404
Pennsylvania	16,783	13,036	15,127	15,096	17,849
All Other	237,595	216,683	210,225	215,326	232,084
Total	709,107	648,494	647,197	682,612	758,190

Risk Management

RLI has a well-developed, highly interactive enterprise risk management (ERM) platform with specific risk committees on underwriting, claim, actuarial & risk services, treasury and other functional areas. These committees are chaired by the company President and CEO and they report quarterly to RLI's Audit Committee. The company has separated its risk inventory amongst different categories, specifically Strategic, Financial, Compliance, Operational, and People. Specific risk mitigation techniques and objectives are established relative to each of the risks involved within the five areas and embedded within the overall risk evaluation process. The focus is on what is needed to help improve overall corporate performance and generate corporate earnings. RLI's highly developed risk evaluation process consists of the following steps: Outline Process/Objectives, Risk Assessment, Risk Ranking, Identify/Evaluated Mitigation, Determine Metrics/Tolerances, and Risk Committee Presentation.

Catastrophe Exposure & Management: Management's goal is to effectively utilize reinsurance to limit the net effect of a catastrophic event. As a result, the group maintains an extensive reinsurance program with high quality reinsurers. Due to its business composition, the group maintains some susceptibility to catastrophes, particularly California earthquakes. However, RLI actively monitors its catastrophe exposure through model based and non-modeled based metrics. The group also maintains high data capture and data quality standards, while also maintaining monthly surveillance on policies written highlighting premium and exposure trends.

Operating Performance

Operating Results: The group has consistently generated a strong level of operating earnings utilizing sound pricing discipline, strong risk management techniques and a conservative loss reserving philosophy. In addition, the group's pretax returns on both revenue and equity comfortably exceed those of the commercial casualty composite over the last five years. RLI's stellar operating results have been driven by strong underwriting earnings as well as the consistent flow of investment income over that period. The group has historically produced a solid level of realized capital gains annually, with the exception of realized losses in 2008 and 2009 which borne the impact of the global financial crisis that took hold in the second half of 2008 and continued into 2009. Favorable prior year loss reserve development is also a key component to earnings. In 2012, prior year reserve development enhanced pre-tax earnings by $71 million, down from $116 million in 2011.

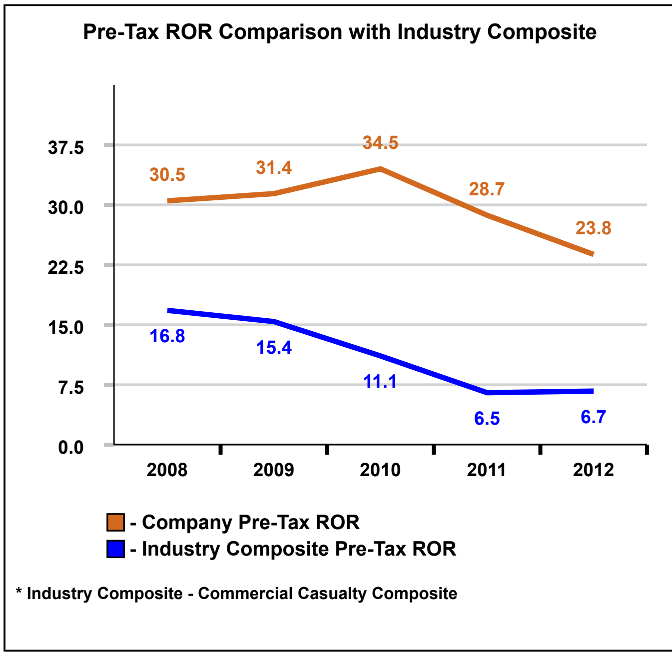
RLI has consistently generated net underwriting profits and maintains a five-year combined ratio that considerably outperforms the composite. The ability to sustain favorable underwriting results continues to stem from an unwavering focus on underwriting profitability. A culture of strict adherence to underwriting fundamentals is evidenced by the group's incentive compensation plans, which reward underwriters and management based on underwriting results. The group also benefits from its high risk/high reward strategy, diverse product offerings, specialty niche focus and adherence to rate adequacy. All these characteristics combined have resulted in the substantial loss ratio advantage. Seizing the opportunity to add historically profitable crop and surety business portfolios in 2010 and 2011, respectively, these strategic moves were designed to help sustain and enhance profitability via diversification into markets presenting attractive profit margins.

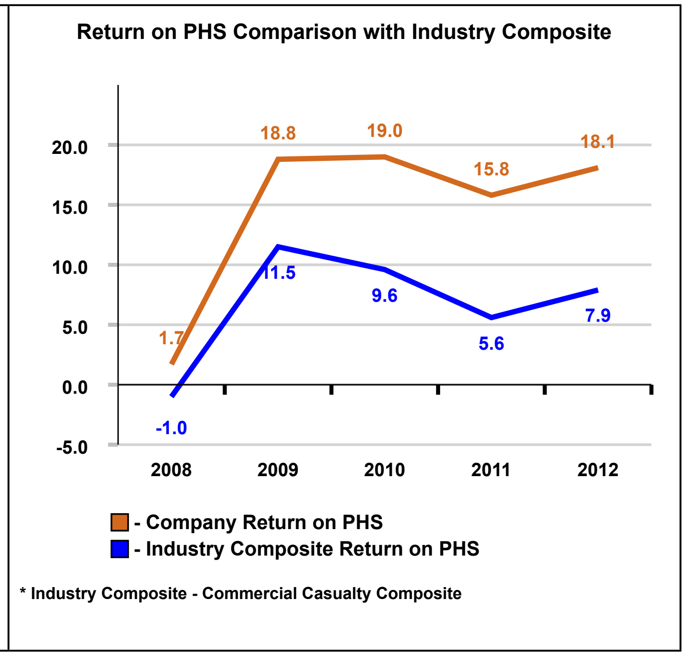
Management has responded to potential natural catastrophic events by strengthening its reinsurance program in recent years. In addition, the group continues to diversify both in terms of product lines and geographically, further mitigating the concentration risk in California. A.M. Best expects the group's underwriting results to continue to outperform the composite over the near term.

Profitability Analysis

	Company							Industry Composite		
Period Ending	Pre-tax Operating Income	After-tax Operating Income	Net Income	Total Return	Pre-Tax ROR	Return on PHS	Operating Ratio	Pre-Tax ROR	Return on PHS	Operating Ratio
2012	137,505	107,267	125,672	126,524	23.8	18.1	75.2	6.7	7.9	92.4
2011	158,771	113,825	127,222	122,829	28.7	15.8	70.3	6.5	5.6	93.1
2010	188,380	134,728	149,905	164,718	34.5	19.0	66.4	11.1	9.6	88.2
2009	173,775	135,993	128,319	156,607	31.4	18.8	70.9	15.4	11.5	84.6
2008	184,383	120,783	90,276	13,758	30.5	1.7	70.9	16.8	-1.0	83.6
5-Yr Avg/Tot	842,814	612,596	621,394	584,436	29.7	14.7	70.8	11.3	6.8	88.4
06/2013	61,932	37,236	42,606	86,535	20.7	18.3	72.5	XX	XX	XX
06/2012	64,441	45,080	53,535	70,926	23.1	14.2	72.8	XX	XX	XX

Operating Performance (Continued ...)





Underwriting Results

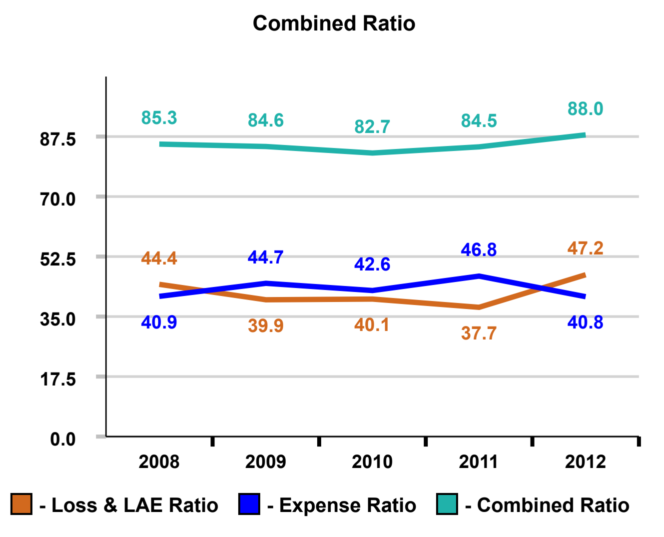
Underwriting Experience

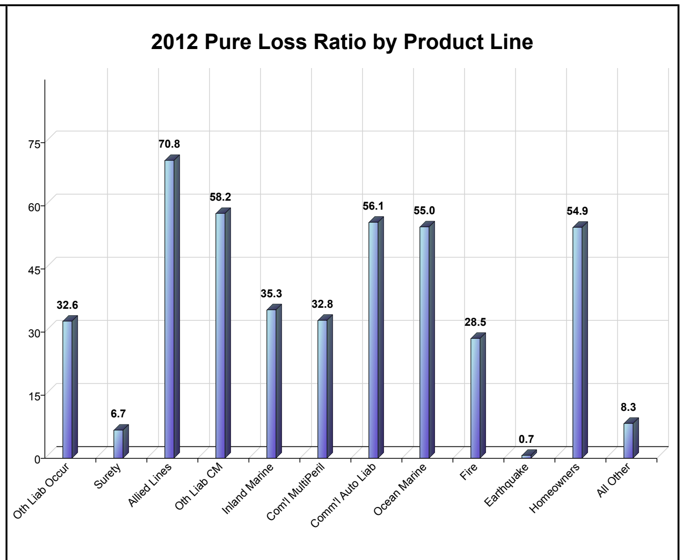
Year	Net Undrw Income ($000)	Loss Ratios: Pure Loss	Loss Ratios: LAE	Loss Ratios: Loss & LAE	Expense Ratios: Net Comm	Expense Ratios: Other Exp.	Expense Ratios: Total Exp.	Div. Pol.	Comb. Ratio
2012	62,724	36.1	11.0	47.2	17.5	23.3	40.8	...	88.0
2011	80,502	26.8	10.9	37.7	17.7	29.1	46.8	...	84.5
2010	99,606	29.3	10.8	40.1	17.6	25.0	42.6	...	82.7
2009	97,846	28.9	11.0	39.9	18.2	26.4	44.7	...	84.6
2008	97,391	34.7	9.7	44.4	18.1	22.8	40.9	...	85.3
5-Yr Avg	438,069	31.3	10.7	41.9	17.8	25.3	43.1	...	85.0
06/2013	34,953	33.2	9.4	42.5	XX	XX	38.7	...	81.3
06/2012	31,844	34.8	9.3	44.1	XX	XX	40.0	...	84.1

Underwriting Results (Continued ...)

Loss Ratio By Line

Product Line	2012	2011	2010	2009	2008	5-Yr. Avg.
Oth Liab Occur	32.6	10.3	38.3	31.4	39.4	31.4
Surety	6.7	10.1	4.3	11.6	0.0	6.5
Allied Lines	70.8	61.7	36.8	0.7	61.5	49.5
Oth Liab CM	58.2	41.0	25.9	30.3	71.8	46.4
Inland Marine	35.3	11.7	35.7	28.2	17.0	26.2
Com'l MultiPeril	32.8	41.4	37.2	28.3	25.9	32.4
Comm'l Auto Liab	56.1	32.5	30.5	29.4	47.7	39.3
Ocean Marine	55.0	54.1	57.6	105.5	69.2	70.3
Fire	28.5	39.3	28.6	43.2	54.7	40.2
Earthquake	0.7	-2.1	2.3	0.0	2.4	0.7
Homeowners	54.9	38.9	13.6	24.5	17.1	33.9
All Other	8.3	21.7	12.3	4.3	27.7	14.9
Total	36.1	26.8	29.3	28.9	34.7	31.3





Underwriting Results (Continued ...)

Direct Loss Ratios By State

	2012	2011	2010	2009	2008	5-Yr. Avg.
California	21.8	4.2	28.4	17.8	23.2	19.4
New York	60.7	43.0	53.0	46.1	22.6	44.1
Florida	22.1	8.1	14.5	17.0	9.7	14.1
Texas	33.5	9.8	-0.3	20.4	60.2	25.1
Washington	22.2	19.5	37.0	30.1	34.0	29.4
New Jersey	88.0	12.6	22.8	27.4	23.5	35.2
Illinois	19.7	25.4	32.5	-5.3	1.7	14.8
Louisiana	19.7	22.4	51.1	28.4	48.9	33.8
Aggregate Alien	37.3	19.9	35.6	74.1	29.2	39.2
Pennsylvania	59.4	42.5	7.4	29.1	36.9	34.7
All Other	22.7	24.4	45.0	29.3	28.2	29.8
Total	31.6	19.8	33.5	27.5	26.9	27.9

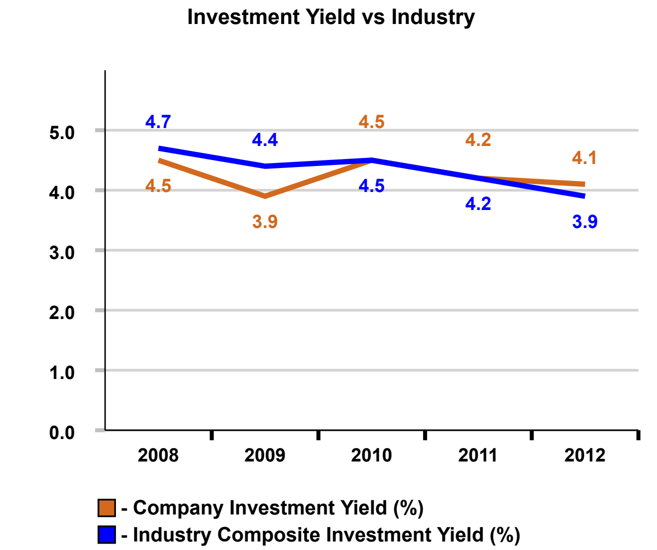
Investment Results

Investment Results: RLI's overall earnings also continue to benefit from the steady flow of investment income largely derived from its high quality bond portfolio. Due to RLI's above average concentration of common stocks, the investment yield produced has generally trailed that of the commercial casualty composite. A sizable portfolio of equity securities have also historically been utilized to generate long-term capital growth, however this portfolio, particularly securities in the financial sector accounted for the vast majority of realized and unrealized losses suffered by the group in 2008. Imbedded gains in equities, however, have appreciated since then as demonstrated by almost $30 million in realized gains and unrealized gains of $16 million as of year-end 2012. Management continues to maintain a buy-and-hold investment strategy focused primarily on capital preservation and secondarily on capital appreciation. This strategy has been demonstrated by the group's relatively low investment turnover rate.

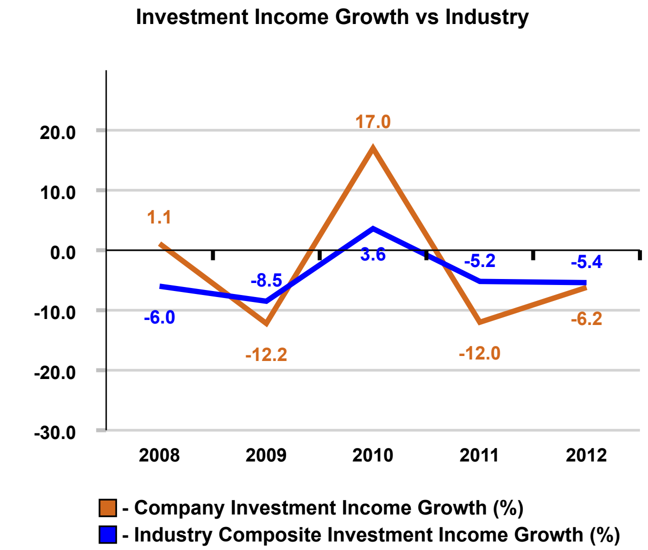
Investment Gains ($000)

	Company							Industry Composite	
Year	Net Investment Income ($000)	Realized Capital Gains ($000)	Unrealized Capital Gains ($000)	Investment Income Growth (%)	Investment Yield (%)	Return on Invested Assets (%)	Total Return (%)	Investment Income Growth (%)	Investment Yield (%)
2012	73,343	18,405	853	-6.2	4.1	5.2	5.2	-5.4	3.9
2011	78,213	13,397	-4,393	-12.0	4.2	4.9	4.7	-5.2	4.2
2010	88,882	15,177	14,812	17.0	4.5	5.3	6.1	3.6	4.5
2009	75,980	-7,673	28,288	-12.2	3.9	3.5	5.0	-8.5	4.4
2008	86,507	-30,507	-76,517	1.1	4.5	2.9	-1.0	-6.0	4.7
5-Yr Avg/Tot	402,925	8,799	-36,958	-2.9	4.3	4.3	4.0	-4.4	4.4
06/2013	26,240	5,370	43,929	-16.6	3.7	4.5	6.0	XX	XX
06/2012	31,462	8,454	17,391	-8.0	4.0	4.6	3.6	XX	XX

Investment Results (Continued ...)



* Industry Composite - Commercial Casualty Composite



* Industry Composite - Commercial Casualty Composite

Balance Sheet Strength

Capitalization

Capitalization: The group's capitalization, as measured by Best Capital Adequacy Ratio (BCAR), is strong and comfortably supports its underwriting, credit and investment risks. This favorable capital position is derived from RLI's conservative underwriting and reserving philosophy. This is partially offset by an above average level of investment (common stock) leverage and the company's sizeable gross exposure to a California earthquake. However, the exposure to California earthquakes is largely mitigated through reinsurance protection. In addition, the credit risk associated with reinsurance recoverables is tempered by the use of high quality carriers.

While the group's capitalization has historically been bolstered by infusions of capital, capital growth in recent years has been tempered by dividend distributions to RLI, including $208 million in 2010, $158 million in 2011 and $138 million in 2012. These dividends have been used to fund the corporation's share repurchase initiatives and to support both the debt service obligations and shareholder dividends of RLI. The group also benefits from RLI's financial flexibility and ability to access capital, if necessary.

Capital Generation Analysis ($000)

	Source of Surplus Growth							
Year	Pre-tax Operating Income	Realized Capital Gains	Income Taxes	Unrealized Capital Gains	Net Contributed Capital	Other Changes	Change in PHS	% Change in PHS
2012	137,505	18,405	30,238	853	-138,000	-14,638	-26,114	-3.7
2011	158,771	13,397	44,946	-4,393	-253,293	-3,652	-134,116	-15.9
2010	188,380	15,177	53,652	14,812	-211,000	-1,738	-48,020	-5.4
2009	173,775	-7,673	37,782	28,288	-42,700	2,265	116,172	15.0
2008	184,383	-30,507	63,600	-76,517	-72,600	-4,431	-63,273	-7.5
5-Yr Total	842,814	8,799	230,219	-36,958	-717,593	-22,194	-155,350	-4.0
06/2013	61,932	5,370	24,696	43,929	...	1,885	88,420	12.9
06/2012	64,441	8,454	19,361	17,391	...	-366	70,560	9.9

Quality of Surplus ($000)

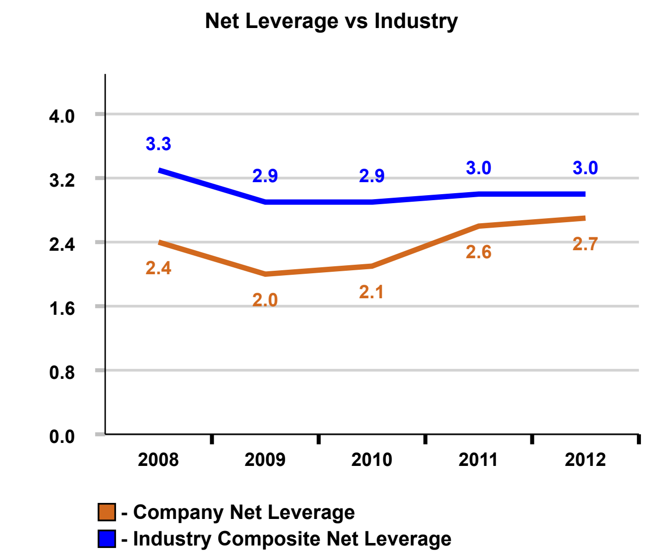
Year	Surplus Notes	Other Debt	Contributed Capital	Unassigned Surplus	Year End Policyholders Surplus	Conditional Reserves	Adjusted Policyholders Surplus
2012	...	...	252,451	431,621	684,072	1,289	685,361
2011	...	...	252,451	457,734	710,186	1,691	711,877
2010	...	...	257,462	586,840	844,302	2,281	846,583
2009	...	...	257,462	634,860	892,322	1,106	893,428
2008	...	...	257,462	518,688	776,150	1,494	777,644
06/2013	...	...	252,451	520,040	772,492	1,289	773,781
06/2012	...	...	252,451	528,294	780,746	1,691	782,437

Underwriting Leverage

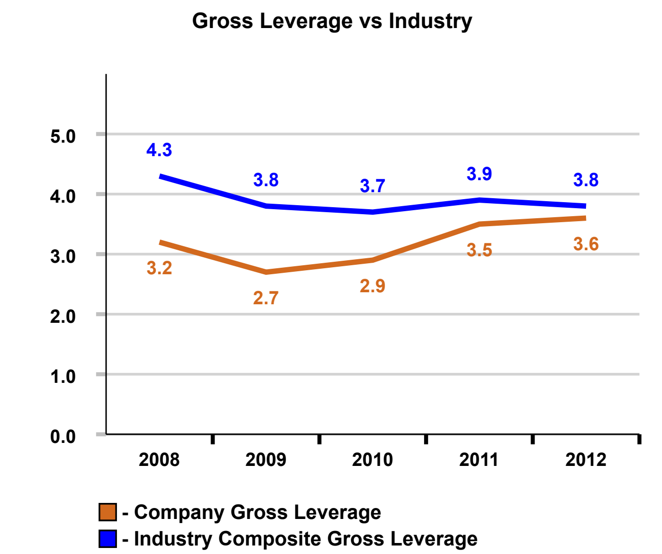
Leverage Analysis

	Company				Industry Composite			
Year	NPW to PHS	Reserves to PHS	Net Leverage	Gross Leverage	NPW to PHS	Reserves to PHS	Net Leverage	Gross Leverage
2012	0.9	1.2	2.7	3.6	0.8	1.5	3.0	3.8
2011	0.8	1.1	2.6	3.5	0.8	1.5	3.0	3.9
2010	0.6	1.0	2.1	2.9	0.7	1.5	2.9	3.7
2009	0.6	1.0	2.0	2.7	0.7	1.5	2.9	3.8
2008	0.8	1.1	2.4	3.2	0.9	1.6	3.3	4.3
06/2013	0.8	1.0	2.5	XX	XX	XX	XX	XX
06/2012	0.7	1.0	2.4	XX	XX	XX	XX	XX

Current BCAR: 268.2



* Industry Composite - Commercial Casualty Composite



* Industry Composite - Commercial Casualty Composite

Underwriting Leverage (Continued ...)

Ceded Reinsurance Analysis ($000)

	Company				Industry Composite		
Year	Ceded Reinsurance Total	Business Retention (%)	Reinsurance Recoverables to PHS (%)	Ceded Reinsurance to PHS (%)	Business Retention (%)	Reinsurance Recoverables to PHS (%)	Ceded Reinsurance to PHS (%)
2012	629,619	75.6	64.0	92.0	82.6	59.1	84.5
2011	580,300	78.2	59.6	81.7	81.6	59.4	84.5
2010	610,901	76.8	53.2	72.4	81.2	57.6	80.4
2009	602,308	75.2	48.1	67.5	82.6	61.2	84.8
2008	634,568	76.3	58.3	81.8	84.6	70.6	97.6

2012 Reinsurance Recoverables ($000)

	Paid & Unpaid Losses	Incurred But Not Reported (IBNR) Losses	Unearned Premiums	Other Recoverables *	Total Reinsurance Recoverables
US Affiliates	49	778	1,805	...	2,632
US Insurers	157,063	147,260	56,401	-4,601	356,123
Pools/Associations	...	9	11	...	20
Other Non-Us	38,529	31,259	16,778	-4,805	81,761
Total(ex Us Affils)	195,592	178,528	73,190	-9,406	437,904
Grand Total	195,641	179,306	74,995	-9,406	440,536

* Includes Commissions less Funds Withheld

Loss Reserves

Loss and ALAE Reserve Development: Calendar Year ($000)

Calendar Year	Original Loss Reserves	Developed Reserves Thru 2012	Development to Original (%)	Development to PHS (%)	Development to NPE (%)	Unpaid Reserves @ 12/2012	Unpaid Reserves to Development (%)
2012	748,713	748,713	...	...	129.9	748,713	100.0
2011	750,286	679,191	-9.5	-10.0	122.9	501,226	73.8
2010	831,686	658,453	-20.8	-20.5	120.4	361,100	54.8
2009	823,790	602,294	-26.9	-24.8	108.7	254,338	42.2
2008	825,465	583,927	-29.3	-31.1	96.6	177,230	30.4
2007	795,564	555,996	-30.1	-28.5	89.0	124,908	22.5

Loss Reserves (Continued ...)

Loss and ALAE Reserve Development: Accident Year ($000)

Accident Year	Original Loss Reserves	Developed Reserves Thru 2012	Development to Original (%)	Unpaid Reserves @ 12/2012	Accident Year Loss Ratio	Accident Year Comb. Ratio
2012	247,487	247,487	...	247,487	58.3	99.1
2011	208,233	194,594	-6.5	140,126	54.5	101.3
2010	239,765	204,295	-14.8	106,762	49.7	92.3
2009	228,028	181,804	-20.3	77,108	44.4	89.1
2008	257,546	193,176	-25.0	52,322	44.0	84.9
2007	252,898	178,010	-29.6	31,323	39.0	78.7

Asbestos And Environmental Reserves Analysis

	Company						Industry Composite		
Year	Net A&E Reserves ($000)	Reserve Retention (%)	Net Incurred But Not Reported (IBNR) Mix (%)	Survival Ratio (3 Yr)	Comb. Ratio Impact (1 Yr)	Comb. Ratio Impact (3 Yr)	Survival Ratio (3 Yr)	Comb. Ratio Impact (1 Yr)	Comb. Ratio Impact (3 Yr)
2012	27,585	65.8	49.8	15.2	0.3	0.3	9.1	0.6	0.6
2011	27,471	50.4	47.8	17.0	-0.2	0.2	9.1	0.5	0.6
2010	30,480	51.9	45.4	15.2	0.9	0.6	7.2	0.7	0.5
2009	27,520	60.9	42.1	...	-0.1	...	...	0.6	...
2008	28,761	67.2	47.0	...	0.9	...	...	0.3	...

Liquidity

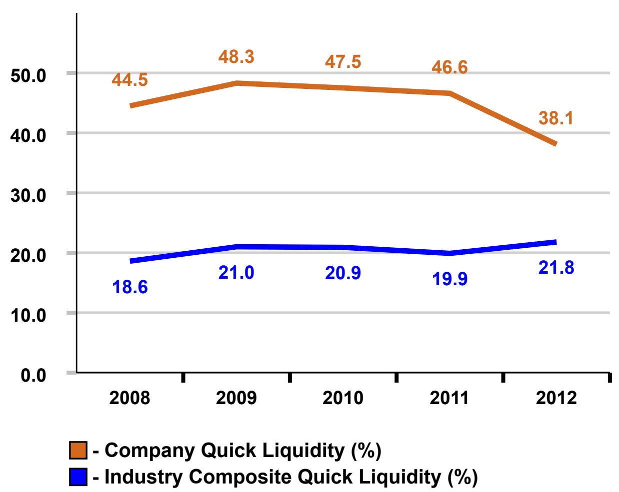
Liquidity: The group's liquidity measures remain strong, exceeding the industry composite averages by a comfortable margin. Historically, this excellent liquidity position has been supported by strong underwriting and operating cash flows. These favorable cash flows subsequently enhance the group's ability to satisfy its financial obligations without having to prematurely liquidate fixed-income holdings.

Liquidity (Continued ...)

Liquidity Analysis

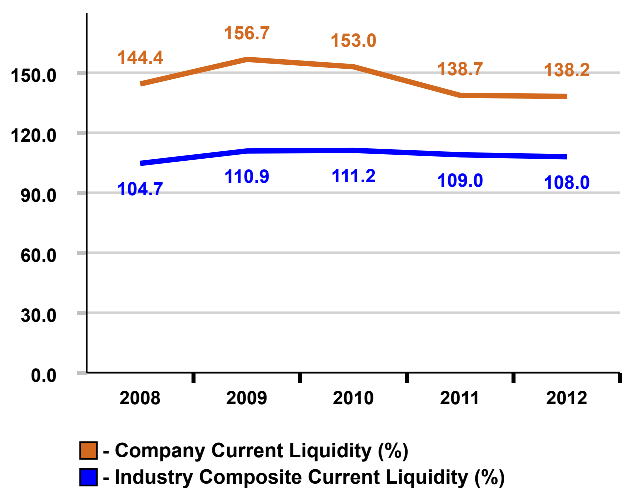
	Company				Industry Composite			
Year	Quick Liquidity (%)	Current Liquidity (%)	Overall Liquidity (%)	Gross Agents Balances to PHS(%)	Quick Liquidity (%)	Current Liquidity (%)	Overall Liquidity (%)	Gross Agents Balances to PHS (%)
2012	38.1	138.2	154.4	6.7	21.8	108.0	144.9	10.9
2011	46.6	138.7	153.8	7.9	19.9	109.0	144.5	10.3
2010	47.5	153.0	166.2	6.9	20.9	111.2	146.2	9.0
2009	48.3	156.7	169.6	7.7	21.0	110.9	146.0	9.1
2008	44.5	144.4	159.7	9.7	18.6	104.7	140.8	11.9
06/2013	XX	139.6	159.6	5.7	XX	XX	XX	XX
06/2012	XX	140.7	160.1	6.1	XX	XX	XX	XX

Quick Liquidity vs Industry



* Industry Composite - Commercial Casualty Composite

Current Liquidity vs Industry



* Industry Composite - Commercial Casualty Composite

Liquidity (Continued ...)

Cash Flow Analysis ($000)

	Company					Industry Composite	
Year	Underwriting Cash Flow	Operating Cash Flow	Net Cash Flow	Underwriting Cash Flow (%)	Operating Cash Flow (%)	Underwriting Cash Flow (%)	Operating Cash Flow (%)
2012	46,087	93,511	-31,629	108.4	116.0	98.2	110.7
2011	45,527	71,237	47,816	108.9	112.5	96.5	107.6
2010	77,507	130,217	-48,188	117.6	126.6	96.6	108.6
2009	69,581	116,588	7,720	115.2	123.6	98.4	109.5
2008	109,898	152,471	37,614	123.4	129.3	101.2	112.6
5-Yr Total	348,599	564,023	13,332	...	...	...	...
06/2013	25,572	29,694	-42,392	108.5	109.0	XX	XX
06/2012	1,775	24,563	4,054	100.6	108.6	XX	XX

Investments

Investments: RLI invests the majority of its bond portfolio in tax exempt municipal issues, corporate bonds, structured securities and U.S. Treasury and Agency obligations with an average duration of approximately five years. The mix of taxable and tax exempt bonds is dependent on maturities and the after tax yield spread at the time of purchase. The group employs a laddering strategy to manage its fixed income maturities, which is structured to match the cash flow needs of its liabilities. The remainder of the group's investments consists primarily of a well-diversified equity portfolio that has become even more diversified as the group expands into equity index funds. Historically, the group has maintained a buy-and-hold strategy on its diverse portfolio of value and dividend-oriented stocks that carry a low beta coefficient relative to the S&P 500. RLI does not invest in mortgage loans or real estate.

Investment Leverage Analysis (% of PHS)

	Company						Industry Composite	
Year	Class 3-6 Bonds	Real Estate / Mortgages	Other Invested Assets	Common Stock	Non - Affiliated Investment Leverage	Affiliated Investments	Class 3-6 Bonds	Common Stock
2012	...	...	0.2	54.9	55.1	8.8	7.1	10.3
2011	...	0.3	0.1	54.7	55.2	3.0	7.4	9.5
2010	...	0.3	0.1	38.5	38.9	3.8	7.2	9.0
2009	0.4	...	0.1	29.7	30.3	4.0	6.0	8.2
2008	0.4	...	...	35.7	36.1	5.4	5.4	9.1

Investments - Bond Portfolio

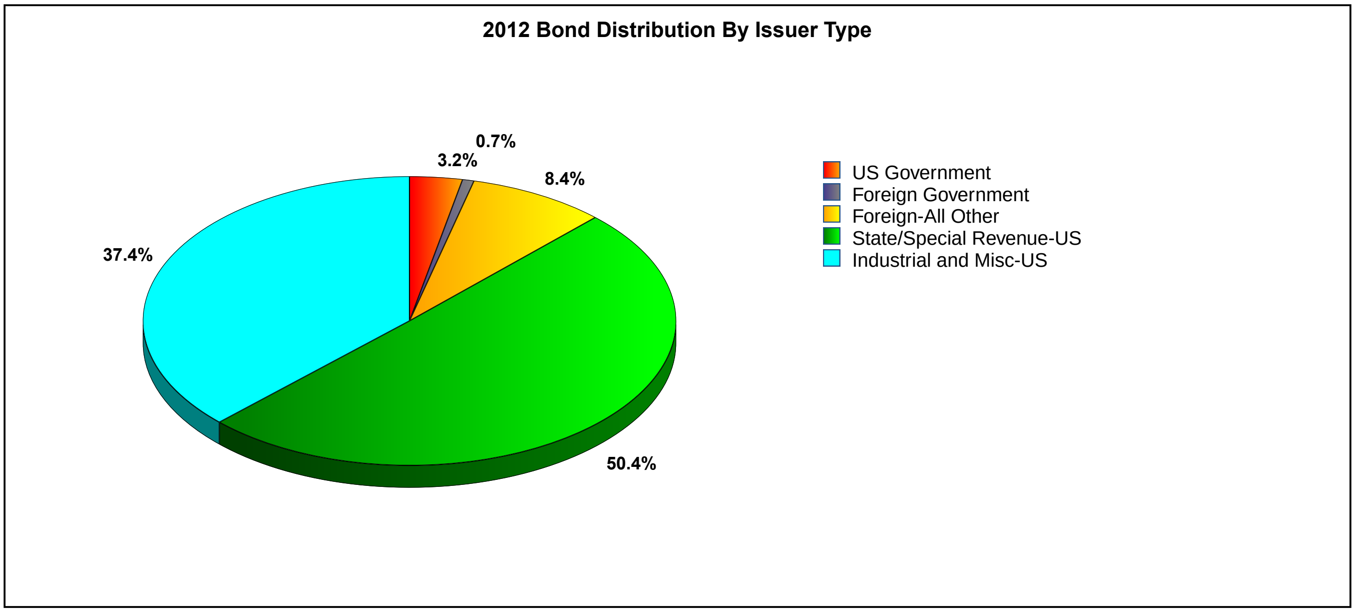
Investments - Bond Portfolio (Continued ...)

2012 Distribution By Maturity

	Years					
	0-1	1-5	5-10	10-20	20+	Years Average Maturity
Government	1.8	2.1	1.1	0.1	...	3.3
Government Agencies & Muni.	5.2	21.4	19.8	2.9	...	5.3
Industrial & Misc.	2.5	8.3	33.4	1.4	...	7.0
Total	9.4	31.9	54.3	4.3	...	5.7

Bond Distribution By Issuer Type

	2012	2011	2010	2009	2008
Bonds (000)	1,286,118	1,317,906	1,560,321	1,626,435	1,442,874
US Government	3.2	27.8	36.1	31.2	28.6
Foreign Government	0.7	0.5	...	0.1	...
Foreign-All Other	8.4	8.7	8.0	4.3	2.5
State/Special Revenue-US	50.4	33.5	31.3	39.7	46.4
Industrial and Misc-US	37.4	29.6	24.6	24.7	22.6



Bond Percent Private vs Public

	2012	2011	2010	2009	2008
Private Issues	12.0	10.8	7.3	4.8	4.7
Public Issues	88.0	89.2	92.7	95.2	95.3

Investments - Bond Portfolio (Continued ...)

Bond Quality Percent

	2012	2011	2010	2009	2008
Class 1	91.6	88.5	93.3	93.2	94.4
Class 2	8.4	11.5	6.7	6.5	5.4
Class 3	...	...	...	0.2	0.2

Investments - Equity Portfolio

	2012	2011	2010	2009	2008
Total Stocks(000)	419,012	403,407	350,116	291,379	320,006
Unaffiliated Common	89.7	96.4	92.8	91.1	86.7
Affiliated Common	10.3	3.6	7.2	8.9	9.8
Unaffiliated Preferred	...	...	...	...	3.5

Investments - Mortgage Loans And Real Estate

	2012	2011	2010	2009	2008
Mortgage Loans and Real Estate (000)	17,271	8,718	9,480	10,083	10,743
Property Occupied by Company	100.0	72.8	74.1	100.0	100.0
Property Held for Income	...	27.2	25.9	...	...

Investments - Other Invested Assets

	2012	2011	2010	2009	2008
Other Invested Assets(000)	60,959	92,073	44,256	92,445	126,726
Cash	48.6	85.6	16.1	3.1	-7.7
Short-Term	48.9	13.3	81.6	95.8	73.7
Schedule BA Assets	1.8	1.1	2.3	1.1	...
All Other	0.7	...	...	...	33.9

Management

The affairs of the group are under the direction of Chairman and Chief Executive Officer, Jonathan E. Michael; President and Chief Operating Officer, Michael J. Stone; Vice President, Chief Financial Officer and Treasurer, Thomas L. Brown; and Executive Vice President, Operations, Craig W. Kliethermes. 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. Brown was associated with PricewaterhouseCoopers before joining the company in 2011. Prior to joining the company in 2006, Mr. Kliethermes held executive positions with GE Insurance/Employers Reinsurance and John Deere Insurance Company and was promoted to his current position in May 2013.

Reinsurance

The company's casualty products are covered under various reinsurance treaties. The commercial umbrella program is placed in an excess of loss treaty with a $10,000,000 limit and maximum retention of $1,600,000. The general liability and personal umbrella programs are placed in an excess of loss treaty with up to $6,000,000 in limit with a maximum retention of $1,750,000. The executive products group's coverage consists of a $25,000,000 quota share with a maximum retention of $8,750,000. The casualty portion of the transportation program is covered under an excess of loss arrangement with a

Reinsurance (Continued ...)

$5,000,000 limit and a maximum retention of $575,000. The professional liability for architects and engineers program is placed in an excess of loss treaty with up to $5,000,000 in limit and a maximum retention of $1,625,000. The medical professional liability program is covered by a per claim limit of $2,000,000 with a maximum retention of $1,250,000 and a per policy aggregate limit of $6,000,000 with a maximum retention of $4,000,000.

The surety program is covered by an excess of loss treaty with a maximum limit of $50,000,000 and a maximum retention of $7,200,000 within the treaty limit.

The property reinsurance program consists of various working layer treaties and a corporate catastrophe cover. For earthquake, there is a surplus share cover with a per risk limit of $7,500,000 and a maximum occurrence limit of $80,500,000. The surplus cover is placed on a pro rata basis with runoff protection, so a single event will access two treaty years. Marine is covered by four excess of loss layers with a total limit of $30,000,000 and maximum retention of $2,000,000. For other property business, RLI retains the first $1,000,000 per risk, with a maximum retention of $1,600,000 for limits of $15,000,000. Package programs are covered by a multiline treaty with an $11,000,000 limit and maximum retention of $500,000.

In addition to working layers, the corporate catastrophe program covers all property lines. The coverage is on an all-risk basis, attaching in excess of $20,000,000. The retention can be reduced by up to $6,000,000 by inuring recoveries from facultative certificates or working layer treaties. RLI purchases up to $350,000,000 in catastrophe protection for non-California earthquake, $325,000,000 for California earthquake, and $250,000,000 for AOP. In the event of a California earthquake RLI would retain $62,500,000, in the event of an earthquake in any other region RLI would retain $68,750,000 and in a wind event RLI's retention would be $58,750,000.

Principal reinsurers include Munich Reinsurance Company, Swiss Reinsurance of America, Endurance Reinsurance, Axis Reinsurance Company, Aspen Reinsurance America and Transatlantic Reinsurance.

Consolidated Balance Sheet ($000)

Admitted Assets	12/31/2012	12/31/2011	2012 %	2011 %
Bonds	1,286,118	1,317,906	66.1	64.8
Preferred Stock	...	...	...	...
Common Stock	375,788	388,689	19.3	19.1
Cash & Short-Term Invest	59,443	91,073	3.1	4.5
Real estate, investment	...	2,370	...	0.1
Derivatives	...	...	...	...
Other Non-Affil Inv Asset	1,516	1,000	0.1	...
Investments in Affiliates	43,224	14,718	2.2	0.7
Real Estate, Offices	17,271	6,348	0.9	0.3
Total Invested Assets	1,783,360	1,822,104	91.6	89.5
Premium Balances	115,437	105,762	5.9	5.2
Accrued Interest	14,210	13,594	0.7	0.7
Life department	...	...	...	...
All Other Assets	32,855	93,430	1.7	4.6
Total Assets	1,945,862	2,034,890	100.0	100.0

Liabilities & Surplus	12/31/2012	12/31/2011	2012 %	2011 %
Loss & LAE Reserves	798,550	796,616	41.0	39.1
Unearned Premiums	296,154	279,639	15.2	13.7
Conditional Reserve Funds	1,289	1,691	0.1	0.1
Derivatives	...	...	...	...
Life department	...	...	...	...
All Other Liabilities	165,798	246,758	8.5	12.1
Total Liabilities	1,261,790	1,324,704	64.8	65.1
Surplus notes	...	...	...	...
Capital & Assigned Surplus	252,451	252,451	13.0	12.4
Unassigned Surplus	431,621	457,734	22.2	22.5
Total Policyholders' Surplus	684,072	710,186	35.2	34.9
Total Liabilities & Surplus	1,945,862	2,034,890	100.0	100.0

Interim Balance Sheet ($000)

Admitted Assets	03/31/2013	06/30/2013
Bonds	1,325,038	1,362,531
Preferred Stock	...	...
Common Stock	466,904	477,113
Cash & Short-Term Invest	24,383	17,051
Other Investments	21,025	21,499
Total Invested Assets	1,837,350	1,878,194
Premium Balances	97,723	147,444
Accrued Interest	12,709	14,642
Reinsurance Funds	19,721	11,497
All Other Assets	12,789	20,201
Total Assets	1,980,291	2,071,978

Liabilities & Surplus	03/31/2013	06/30/2013
Loss & LAE Reserves	773,149	772,344
Unearned Premiums	304,969	350,365
Conditional Reserve Funds	1,289	1,289
All Other Liabilities	153,016	175,488
Total Liabilities	1,232,423	1,299,486
Capital & Assigned Surp	252,451	252,451
Unassigned Surplus	495,417	520,040
Total Policyholders' Surplus	747,868	772,492
Total Liabilities & Surplus	1,980,291	2,071,978

Consolidated Summary Of 2012 Operations ($000)

Statement of Income	12/31/2012	Funds Provided from Operations	12/31/2012
Premiums earned	576,571	Premiums collected	596,052
Losses incurred	208,413	Benefit & loss-related pmts	230,788
LAE incurred	63,476		
Undwr expenses incurred	241,958	LAE & undwr expenses paid	319,178
Other expenses incurred	...	Other income / expense	...
Dividends to policyholders	...	Dividends to policyholders	...
Net underwriting income	62,724	Underwriting cash flow	46,087
		Net transfer	...
Net investment income	73,343	Investment income	81,021
Other income/expense	1,438	Other income/expense	1,438
Pre-tax operating income	137,505	Pre-tax cash operations	128,545
Realized capital gains	18,405		
Income taxes incurred	30,238	Income taxes pd (recov)	35,034
Net income	125,672	Net oper cash flow	93,511

Interim Income Statement ($000)

	Period Ended 06/30/2013	Period Ended 06/30/2012	Increase / Decrease
Premiums earned	298,704	278,864	19,841
Losses incurred	99,035	97,053	1,982
LAE incurred	28,055	26,028	2,027
Undwr expenses incurred	136,661	123,939	12,722
Other expenses incurred	...	...	...
Dividends to policyholders	...	...	...
Net underwriting income	34,953	31,844	3,109
Net investment income	26,240	31,462	-5,222
Other income/expense	739	1,135	-396
Pre-tax operating income	61,932	64,441	-2,509
Realized capital gains	5,370	8,454	-3,085
Income taxes incurred	24,696	19,361	5,336
Net income	42,606	53,535	-10,929

Interim Cash Flow ($000)

	Period Ended 06/30/2013	Period Ended 06/30/2012	Increase / Decrease
Premiums collected	327,005	275,947	51,058
Benefit & loss-related pmts	119,033	97,721	21,312
LAE & undwr expenses paid	182,400	176,451	5,948
Dividends to policyholders	...	...	...
Underwriting cash flow	25,572	1,775	23,798
Net transfer	...	...	...
Investment income	31,988	34,082	-2,094
Other income/expense	739	1,135	-396
Pre-tax cash operations	58,299	36,991	21,308
Income taxes pd (recov)	28,605	12,429	16,177
Net oper cash flow	29,694	24,563	5,131

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do 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.

A Best's Debt/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

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