UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2021

or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from to

Commission File Number: 001-09463

RLI Corp.
(Exact name of registrant as specified in its charter)

Delaware	**37-0889946**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
9025 North Lindbergh Drive, Peoria, IL	**61615**
(Address of principal executive offices)	(Zip Code)

(309) 692-1000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock $0.01 par value	**RLI**	**New York Stock Exchange**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒	Accelerated filer ☐	Non-accelerated filer ☐	Smaller reporting company ☐
			Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of October 14, 2021, the number of shares outstanding of the registrant's Common Stock was 45,244,505.

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

RLI Corp. and Subsidiaries
Condensed Consolidated Statements of Earnings and Comprehensive Earnings
(Unaudited)

(in thousands, except per share data)	For the Three Months Ended September 30, 2021	For the Three Months Ended September 30, 2020	For the Nine Months Ended September 30, 2021	For the Nine Months Ended September 30, 2020
Net premiums earned	$ 253,389	$ 216,630	$ 722,984	$ 640,946
Net investment income	17,844	16,543	50,929	51,238
Net realized gains	1,829	1,512	52,442	14,555
Net unrealized gains (losses) on equity securities	(2,592)	28,126	29,526	(27,564)
Consolidated revenue	$ 270,470	$ 262,811	$ 855,881	$ 679,175
Losses and settlement expenses	143,656	127,596	355,574	339,819
Policy acquisition costs	80,449	71,032	232,674	213,436
Insurance operating expenses	15,560	16,850	54,504	45,137
Interest expense on debt	1,906	1,901	5,711	5,701
General corporate expenses	2,505	2,668	9,533	6,417
Total expenses	$ 244,076	$ 220,047	$ 657,996	$ 610,510
Equity in earnings of unconsolidated investees	9,043	8,745	29,407	18,359
Earnings before income taxes	$ 35,437	$ 51,509	$ 227,292	$ 87,024
Income tax expense	6,194	9,122	43,222	13,738
Net earnings	$ 29,243	$ 42,387	$ 184,070	$ 73,286
Other comprehensive earnings (loss), net of tax	(12,240)	9,550	(41,810)	50,090
Comprehensive earnings	$ 17,003	$ 51,937	$ 142,260	$ 123,376
Basic net earnings per share	$ 0.65	$ 0.94	$ 4.07	$ 1.63
Diluted net earnings per share	$ 0.64	$ 0.93	$ 4.03	$ 1.62
Weighted average number of common shares outstanding:				
Basic	45,243	45,014	45,216	44,962
Diluted	45,689	45,426	45,714	45,339

See accompanying notes to the unaudited condensed consolidated interim financial statements.

RLI Corp. and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)

(in thousands, except share and per share data)		September 30, 2021		December 31, 2020
ASSETS				
Investments and cash:				
Fixed income:				
Available-for-sale, at fair value	$	2,394,669	$	2,196,626
(amortized cost of $2,310,314 and allowance for credit losses of $226 at 9/30/21)				
(amortized cost of $2,061,467 and allowance for credit losses of $397 at 12/31/20)				
Equity securities, at fair value (cost - $311,392 at 9/30/21 and $293,190 at 12/31/20)		565,238		524,006
Other invested assets		52,480		54,232
Cash		89,618		62,217
Total investments and cash	$	3,102,005	$	2,837,081
Accrued investment income		17,143		16,126
Premiums and reinsurance balances receivable, net of allowances for uncollectible amounts of $18,860 at 9/30/21 and $17,658 at 12/31/20		177,162		174,628
Ceded unearned premium		127,765		113,488
Reinsurance balances recoverable on unpaid losses and settlement expenses, net of allowances for uncollectible amounts of $10,067 at 9/30/21 and $8,634 at 12/31/20		602,154		443,729
Deferred policy acquisition costs		104,309		88,425
Property and equipment, at cost, net of accumulated depreciation of $73,746 at 9/30/21 and $68,682 at 12/31/20		50,860		51,406
Investment in unconsolidated investees		158,721		128,382
Goodwill and intangibles		53,562		53,719
Other assets		38,985		31,501
TOTAL ASSETS	$	4,432,666	$	3,938,485
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Unpaid losses and settlement expenses	$	2,033,517	$	1,750,049
Unearned premiums		673,809		586,386
Reinsurance balances payable		38,093		42,265
Funds held		89,288		81,747
Income taxes-deferred		78,308		80,235
Bonds payable, long-term debt		149,629		149,489
Accrued expenses		74,155		75,925
Other liabilities		45,611		36,411
TOTAL LIABILITIES	$	3,182,410	$	2,802,507
Shareholders' Equity				
Common stock ($0.01 par value)				
(Shares authorized - 200,000,000 at 9/30/21 and 12/31/20)				
(68,174,719 shares issued, 45,244,505 shares outstanding at 9/30/21)				
(68,072,794 shares issued, 45,142,580 shares outstanding at 12/31/20)	$	682	$	681
Paid-in capital		340,868		335,365
Accumulated other comprehensive earnings		66,904		108,714
Retained earnings		1,234,801		1,084,217
Deferred compensation		8,330		8,292
Less: Treasury shares, at cost (22,930,214 shares at 9/30/21 and 12/31/20)		(401,329)		(401,291)
TOTAL SHAREHOLDERS' EQUITY	$	1,250,256	$	1,135,978
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	4,432,666	$	3,938,485

See accompanying notes to the unaudited condensed consolidated interim financial statements.

RLI Corp. and Subsidiaries
Condensed Consolidated Statements of Shareholders' Equity
(Unaudited)

(in thousands, except share and per share data)	Common Shares	Total Shareholders' Equity	Common Stock	Paid-in Capital	Accumulated Other Comprehensive Earnings (Loss)	Retained Earnings	Deferred Compensation	Treasury Shares at Cost
Balance, January 1, 2020	44,869,015	$ 995,388	$ 678	$ 321,190	$ 52,473	$ 1,014,046	$ 7,980	$ (400,979)
Cumulative-effect adjustment from ASU 2016-13	—	1,095	—	—	22	1,073	—	—
Net earnings	—	(61,267)	—	—	—	(61,267)	—	—
Other comprehensive earnings (loss), net of tax	—	(13,031)	—	—	(13,031)	—	—	—
Deferred compensation	—	—	—	—	—	—	(1,010)	1,010
Share-based compensation	53,641	3,863	1	3,862	—	—	—	—
Dividends and dividend equivalents ($0.23 per share)	—	(10,343)	—	—	—	(10,343)	—	—
Balance, March 31, 2020	44,922,656	$ 915,705	$ 679	$ 325,052	$ 39,464	$ 943,509	$ 6,970	$ (399,969)
Net earnings	—	92,166	—	—	—	92,166	—	—
Other comprehensive earnings (loss), net of tax	—	53,571	—	—	53,571	—	—	—
Deferred compensation	—	—	—	—	—	—	630	(630)
Share-based compensation	29,946	810	—	810	—	—	—	—
Dividends and dividend equivalents ($0.24 per share)	—	(10,794)	—	—	—	(10,794)	—	—
Balance, June 30, 2020	44,952,602	$ 1,051,458	$ 679	$ 325,862	$ 93,035	$ 1,024,881	$ 7,600	$ (400,599)
Net earnings	—	42,387	—	—	—	42,387	—	—
Other comprehensive earnings (loss), net of tax	—	9,550	—	—	9,550	—	—	—
Deferred compensation	—	—	—	—	—	—	103	(103)
Share-based compensation	102,562	6,768	1	6,767	—	—	—	—
Dividends and dividend equivalents ($0.24 per share)	—	(10,823)	—	—	—	(10,823)	—	—
Balance, September 30, 2020	45,055,164	$ 1,099,340	$ 680	$ 332,629	$ 102,585	$ 1,056,445	$ 7,703	$ (400,702)

(in thousands, except share and per share data)	Common Shares	Total Shareholders' Equity	Common Stock	Paid-in Capital	Accumulated Other Comprehensive Earnings (Loss)	Retained Earnings	Deferred Compensation	Treasury Shares at Cost
Balance, January 1, 2021	45,142,580	$ 1,135,978	$ 681	$ 335,365	$ 108,714	$ 1,084,217	$ 8,292	$ (401,291)
Net earnings	—	73,012	—	—	—	73,012	—	—
Other comprehensive earnings (loss), net of tax	—	(44,747)	—	—	(44,747)	—	—	—
Deferred compensation	—	—	—	—	—	—	(366)	366
Share-based compensation	60,858	1,392	—	1,392	—	—	—	—
Dividends and dividend equivalents ($0.24 per share)	—	(10,849)	—	—	—	(10,849)	—	—
Balance, March 31, 2021	45,203,438	$ 1,154,786	$ 681	$ 336,757	$ 63,967	$ 1,146,380	$ 7,926	$ (400,925)
Net earnings	—	81,815	—	—	—	81,815	—	—
Other comprehensive earnings (loss), net of tax	—	15,177	—	—	15,177	—	—	—
Deferred compensation	—	—	—	—	—	—	325	(325)
Share-based compensation	19,905	1,343	1	1,342	—	—	—	—
Dividends and dividend equivalents ($0.25 per share)	—	(11,318)	—	—	—	(11,318)	—	—
Balance, June 30, 2021	45,223,343	$ 1,241,803	$ 682	$ 338,099	$ 79,144	$ 1,216,877	$ 8,251	$ (401,250)
Net earnings	—	29,243	—	—	—	29,243	—	—
Other comprehensive earnings (loss), net of tax	—	(12,240)	—	—	(12,240)	—	—	—
Deferred compensation	—	—	—	—	—	—	79	(79)
Share-based compensation	21,162	2,769	—	2,769	—	—	—	—
Dividends and dividend equivalents ($0.25 per share)	—	(11,319)	—	—	—	(11,319)	—	—
Balance, September 30, 2021	45,244,505	$ 1,250,256	$ 682	$ 340,868	$ 66,904	$ 1,234,801	$ 8,330	$ (401,329)

See accompanying notes to the unaudited condensed consolidated interim financial statements.

RLI Corp. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(in thousands)	For the Nine Months Ended September 30, 2021	2020
Net cash provided by operating activities	$ 280,441	$ 163,244
Cash Flows from Investing Activities		
Purchase of:		
Fixed income securities, available-for-sale	$ (587,910)	$ (368,586)
Equity securities	(117,218)	(62,643)
Property and equipment	(5,005)	(4,969)
Other	(11,938)	(15,095)
Proceeds from sale of:		
Fixed income securities, available-for-sale	42,776	68,229
Equity securities	157,973	66,185
Other	4,496	3,136
Proceeds from call or maturity of:		
Fixed income securities, available-for-sale	296,561	199,036
Net cash used in investing activities	$ (220,265)	$ (114,707)
Cash Flows from Financing Activities		
Cash dividends paid	$ (33,454)	$ (31,931)
Proceeds from stock option exercises	679	7,780
Net cash used in financing activities	$ (32,775)	$ (24,151)
Net increase in cash	$ 27,401	$ 24,386
Cash at the beginning of the period	62,217	46,203
Cash at September 30	$ 89,618	$ 70,589

See accompanying notes to the unaudited condensed consolidated interim financial statements.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The unaudited condensed consolidated interim financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) for interim financial reporting and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all the disclosures required by GAAP for complete financial statements. As such, these unaudited condensed consolidated interim financial statements should be read in conjunction with our 2020 Annual Report on Form 10-K. Management believes that the disclosures are adequate to make the information presented not misleading, and all normal and recurring adjustments necessary to present fairly the financial position at September 30, 2021 and the results of operations of RLI Corp. (the Company) and subsidiaries for all periods presented have been made. The results of operations for any interim period are not necessarily indicative of the operating results for a full year. Certain reclassifications were made to 2020 to conform to the classifications used in the current year.

The preparation of the unaudited condensed consolidated interim financial statements requires management to make estimates and assumptions relating to the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated interim financial statements and the reported amounts of revenue and expenses during the period. These estimates are inherently subject to change and actual results could differ significantly from these estimates.

B. ADOPTED ACCOUNTING STANDARDS

No new accounting standards applicable in 2021 impact our financial statements.

C. PROSPECTIVE ACCOUNTING STANDARDS

There are no prospective accounting standards which would have a material impact on our financial statements as of September 30, 2021.

D. REINSURANCE

Ceded unearned premiums and reinsurance balances recoverable on unpaid losses and settlement expenses are reported separately as an asset, rather than being netted with the related liability, since reinsurance does not relieve the Company of our liability to policyholders. Such balances are subject to the credit risk associated with the individual reinsurer. We continually monitor the financial condition of our reinsurers and actively follow up on any past due or disputed amounts. As part of our monitoring efforts, we review their annual financial statements and Securities and Exchange Commission (SEC) filings for those reinsurers that are publicly traded. We also review insurance industry developments that may impact the financial condition of our reinsurers. We analyze the credit risk associated with our reinsurance balances recoverable by monitoring the AM Best and Standard & Poor’s (S&P) ratings of our reinsurers. In addition, we subject our reinsurance recoverables to detailed recoverability tests, including a segment-based analysis using the average default rating percentage by S&P rating, which assists the Company in assessing the sufficiency of the existing allowance. Additionally, we perform an in-depth reinsurer financial condition analysis prior to the renewal of each of our reinsurance placements.

Our policy is to charge to earnings, in the form of an allowance, an estimate of unrecoverable amounts from reinsurers. This allowance is reviewed on an ongoing basis to ensure that the amount makes a reasonable provision for reinsurance balances that we may be unable to recover. Once regulatory action (such as receivership, finding of insolvency, order of conservation or order of liquidation) is taken against a reinsurer, all paid and unpaid balances recoverable for the reinsurer are specifically identified and expensed into our allowance for estimated unrecoverable amounts from reinsurers. We then re-evaluate the remaining allowance and determine whether the balance is sufficient as detailed above and if needed, an additional allowance is recognized and income charged.

The allowances for uncollectible amounts on paid and unpaid reinsurance recoverables were $16.1 million and $10.1 million, respectively, at September 30, 2021. At December 31, 2020, the amounts were $15.9 million and $8.6 million, respectively. Changes in the allowances were due to changes in the amount of reinsurance balances outstanding, the composition of reinsurers from whom the balances were recoverable and their associated S&P default ratings. No write-offs were applied to the allowances in the first nine months of 2021 and less than $0.1 million was recovered. We have no receivables with a due date that extends beyond one year that are not included in our allowance for uncollectible amounts.

E. INTANGIBLE ASSETS

The composition of goodwill and intangible assets at September 30, 2021 and December 31, 2020 is detailed in the following table:

(in thousands)	September 30, 2021	December 31, 2020
Goodwill		
Surety	$ 40,816	$ 40,816
Casualty	5,246	5,246
Total goodwill	$ 46,062	$ 46,062
Intangibles		
Indefinite-lived intangibles - state insurance licenses	7,500	7,500
Definite-lived intangibles, net of accumulated amortization of $4,035 at 9/30/21 and $3,878 at 12/31/20	-	157
Total intangibles	$ 7,500	$ 7,657
Total goodwill and intangibles	$ 53,562	$ 53,719

All definite-lived intangible assets are amortized based on their estimated useful lives. Amortization of intangible assets was less than $0.1 million for the third quarter of 2021 and $0.2 million for the nine-month period ended September 30, 2021. Amortization of intangible assets was $0.1 million for the third quarter of 2020 and $0.3 million for the nine-month period ended September 30, 2020.

Annual impairment assessments were performed on our goodwill and state insurance license indefinite-lived intangible asset during the second quarter of 2021. Based upon these reviews, none of the assets were impaired. In addition, there were no triggering events as of September 30, 2021 that would suggest an updated impairment test would be needed for our goodwill and intangible assets.

F. EARNINGS PER SHARE

Basic earnings per share (EPS) is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the dilution that could occur if securities or other contracts to issue common stock or common stock equivalents were exercised or converted into common stock. When inclusion of these items increases the earnings per share or reduces the loss per share, the effect on earnings is anti-dilutive. Under these circumstances, the diluted net earnings or net loss per share is computed excluding these items. The following represents a reconciliation of the numerator and denominator of the basic and diluted EPS computations contained in the unaudited condensed consolidated interim financial statements:

(in thousands, except per share data)	For the Three Months Ended September 30, 2021 Income (Numerator)	Shares (Denominator)	Per Share Amount	For the Three Months Ended September 30, 2020 Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS						
Earnings available to common shareholders	$ 29,243	45,243	$ 0.65	$ 42,387	45,014	$ 0.94
Effect of Dilutive Securities						
Stock options and restricted stock units	—	446		—	412	
Diluted EPS						
Earnings available to common shareholders	$ 29,243	45,689	$ 0.64	$ 42,387	45,426	$ 0.93
Anti-dilutive options excluded from diluted EPS		191			339	

(in thousands, except per share data)	For the Nine Months Ended September 30, 2021 Income (Numerator)	Shares (Denominator)	Per Share Amount	For the Nine Months Ended September 30, 2020 Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS						
Earnings available to common shareholders	$ 184,070	45,216	$ 4.07	$ 73,286	44,962	$ 1.63
Effect of Dilutive Securities						
Stock options and restricted stock units	—	498		—	377	
Diluted EPS						
Earnings available to common shareholders	$ 184,070	45,714	$ 4.03	$ 73,286	45,339	$ 1.62
Anti-dilutive options excluded from diluted EPS		191			339	

G. COMPREHENSIVE EARNINGS

Our comprehensive earnings include net earnings plus after-tax unrealized gains and losses on our available-for-sale fixed income portfolio. In reporting the components of comprehensive earnings, we used the federal statutory tax rate of 21 percent. Other comprehensive earnings (loss), as shown in the consolidated statements of earnings and comprehensive earnings, is net of tax benefit of $3.2 million for the third quarter of 2021, compared to $2.5 million of net tax expense for the same period in 2020. For the nine-month period ended September 30, 2021, other comprehensive earnings is net of tax benefit of $11.1 million, compared to $13.3 million of net tax expense for the same period in 2020.

Unrealized losses, net of tax, recognized in other comprehensive earnings (loss) were $41.8 million for the first nine months of 2021, compared to $50.1 million of unrealized gains, net of tax, during the same period last year. The unrealized losses were attributable to increased interest rates in 2021, which decreased the fair value of securities held in the fixed income portfolio, while interest rate declines resulted in unrealized gains in 2020.

The following table illustrates the changes in the balance of each component of accumulated other comprehensive earnings for each period presented in the unaudited condensed consolidated interim financial statements:

(in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
Unrealized Gains/Losses on Available-for-Sale Securities	**2021**	**2020**	**2021**	**2020**
Beginning balance	$ 79,144	$ 93,035	$ 108,714	$ 52,473
Cumulative-effect adjustment of ASU 2016-13	—	—	—	22
Adjusted beginning balance	$ 79,144	$ 93,035	$ 108,714	$ 52,495
Other comprehensive earnings (loss) before reclassifications	(12,114)	10,412	(40,307)	52,264
Amounts reclassified from accumulated other comprehensive earnings	(126)	(862)	(1,503)	(2,174)
Net current-period other comprehensive earnings (loss)	$ (12,240)	$ 9,550	$ (41,810)	$ 50,090
Ending balance	$ 66,904	$ 102,585	$ 66,904	$ 102,585
Balance of securities for which an allowance for credit losses has been recognized in net earnings			$ 426	$ 795

Credit losses on or the sale of an available-for-sale security results in amounts being reclassified from accumulated other comprehensive earnings to current period net earnings. The effects of reclassifications out of accumulated other comprehensive earnings by the respective line items of net earnings are presented in the following table:

(in thousands)	Amount Reclassified from Accumulated Other Comprehensive Earnings				
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		
Component of Accumulated Other Comprehensive Earnings	2021	2020	2021	2020	Affected line item in the Statement of Earnings
Unrealized gains and losses on available-for-sale securities	$ 182	$ 738	$ 1,731	$ 3,356	Net realized gains
	(22)	353	171	(604)	Credit losses presented within net realized gains
	$ 160	$ 1,091	$ 1,902	$ 2,752	Earnings before income taxes
	(34)	(229)	(399)	(578)	Income tax expense
	$ 126	$ 862	$ 1,503	$ 2,174	Net earnings

H. FAIR VALUE MEASUREMENTS

Fair value is defined as the price in the principal market that would be received for an asset to facilitate an orderly transaction between market participants on the measurement date. We determined the fair value of certain financial instruments based on their underlying characteristics and relevant transactions in the marketplace. We maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The following are the levels of the fair value hierarchy and a brief description of the type of valuation inputs that are used to establish each level. Financial assets are classified based upon the lowest level of significant input that is used to determine fair value.

Level 1 is applied to valuations based on readily available, unadjusted quoted prices in active markets for identical assets.

Level 2 is applied to valuations based upon quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets; or valuations based on models where the significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities) or can be corroborated by observable market data.

Level 3 is applied to valuations that are derived from techniques in which one or more of the significant inputs are unobservable.

As a part of management's process to determine fair value, we utilize widely recognized, third-party pricing sources to determine our fair values. We have obtained an understanding of the third-party pricing sources' valuation methodologies and inputs. The following is a description of the valuation techniques used for financial assets that are measured at fair value, including the general classification of such assets pursuant to the fair value hierarchy.

Corporate, Agencies, Government and Municipal Bonds: The pricing vendor employs a multi-dimensional model which uses standard inputs including (listed in approximate order of priority for use) benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, market bids/offers and other reference data. The pricing vendor also monitors market indicators, as well as industry and economic events. All bonds valued using these techniques are classified as Level 2. All corporate, agency, government and municipal securities are deemed Level 2.

Mortgage-backed Securities (MBS)/Commercial Mortgage-backed Securities (CMBS) and Asset-backed Securities (ABS): The pricing vendor evaluation methodology includes principally interest rate movements and new issue data. Evaluation of the tranches (non-volatile, volatile or credit sensitivity) is based on the pricing vendors' interpretation of accepted modeling and pricing conventions. This information is then used to determine the cash flows for each tranche, benchmark yields, pre-payment assumptions and to incorporate collateral performance. To evaluate MBS and CMBS volatility, an option adjusted spread model is used in combination with models that simulate interest rate paths to determine market price information. This process allows the pricing vendor to obtain evaluations of a broad universe of securities in a way that reflects changes in yield curve, index rates, implied volatility, mortgage rates and recent trade activity. MBS/CMBS and ABS with corroborated, observable inputs are classified as Level 2. All of our MBS/CMBS and ABS are deemed Level 2.

Regulation D Private Placement Securities: All Regulation D privately-placed bonds are classified as corporate securities and deemed Level 3. The pricing vendor evaluation methodology for these securities includes a combination of observable and unobservable inputs. Observable inputs include public corporate spread matrices classified by sector, rating and average life, as well as investment and non-investment grade matrices created from fixed income indices. Unobservable inputs include a liquidity spread premium calculated based on public corporate spread and private corporate spread matrices. The quantitative detail of the liquidity spread premium is neither provided nor reasonably available to the Company. An increase to the credit spread assumptions would result in a lower fair value.

For all of our fixed income securities classified as Level 2, we periodically conduct a review to assess the reasonableness of the fair values provided by our pricing services. Our review consists of a two-pronged approach. First, we compare prices provided by our pricing services to those provided by an additional source. In some cases, we obtain prices from securities brokers and compare them to the prices provided by our pricing services. If discrepancies are found in our comparisons, we compare our prices to actual reported trade data for like securities. No changes to the fair values supplied by our pricing services have occurred as a result of our reviews. Based on these assessments, we have determined that the fair values of our Level 2 fixed income securities provided by our pricing services are reasonable.

Common Stock: As of September 30, 2021, nearly all of our common stock holdings were traded on an exchange. Exchange traded equities have readily observable price levels and are classified as Level 1 (fair value based on quoted market prices). Pricing for the equity securities not traded on an exchange is provided by a third-party pricing source and are classified as Level 2.

Due to the relatively short-term nature of cash, short-term investments, accounts receivable and accounts payable, their carrying amounts are reasonable estimates of fair value. Our investments in private funds, classified as other invested assets, are measured using the investments' net asset value per share and are not categorized within the fair value hierarchy.

I. RISKS AND UNCERTAINTIES

Certain risks and uncertainties are inherent to our day-to-day operations. Adverse changes in the economy could lower demand for our insurance products or negatively impact our investment results, both of which could have an adverse effect on the revenue and profitability of our operations. The COVID-19 pandemic may continue to result in significant disruptions in economic activity and financial markets. The cumulative effects of any public health outbreak could reduce demand for our insurance policies; result in increased level of losses, settlement expenses or other operating costs; reduce the market value of invested assets held by the Company or negatively impact the fair value of our goodwill.

2. INVESTMENTS

Our investments are primarily composed of fixed income debt securities and common stock equity securities. We carry our equity securities at fair value and categorize all of our debt securities as available-for-sale, which are carried at fair value.

Realized gains and losses on disposition of investments are based on specific identification of the investments sold on the settlement date. The following is a summary of the disposition of fixed income and equity securities for the nine-month periods ended September 30, 2021 and 2020:

Sales	**Proceeds**	**Gross Realized**		**Net Realized**
(in thousands)	**From Sales**	**Gains**	**Losses**	**Gain (Loss)**
2021				
Available-for-sale	$ 43,041	$ 1,476	$ (107)	$ 1,369
Equities	157,973	52,409	(1,787)	50,622
2020				
Available-for-sale	$ 68,621	$ 4,959	$ (1,518)	$ 3,441
Equities	66,185	22,172	(8,756)	13,416

Calls/Maturities		**Gross Realized**		**Net Realized**
(in thousands)	**Proceeds**	**Gains**	**Losses**	**Gain (Loss)**
2021				
Available-for-sale	$ 296,563	$ 471	$ (109)	$ 362
2020				
Available-for-sale	$ 199,036	$ 525	$ (10)	$ 515

FAIR VALUE MEASUREMENTS

Assets measured at fair value on a recurring basis as of September 30, 2021 and December 31, 2020 are summarized below:

(in thousands)	As of September 30, 2021 Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Fixed income securities - available-for-sale				
U.S. government	$ —	$ 147,193	$ —	$ 147,193
U.S. agency	—	31,625	—	31,625
Non-U.S. government & agency	—	8,521	—	8,521
Agency MBS	—	394,270	—	394,270
ABS/CMBS/MBS*	—	250,558	—	250,558
Corporate	—	906,734	31,536	938,270
Municipal	—	624,232	—	624,232
Total fixed income securities - available-for-sale	$ —	$ 2,363,133	$ 31,536	$ 2,394,669
Equity securities	565,163	75	—	565,238
Other invested assets	—	—	—	—
Total	$ 565,163	$ 2,363,208	$ 31,536	$ 2,959,907

(in thousands)	As of December 31, 2020 Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Fixed income securities - available-for-sale				
U.S. government	$ —	$ 183,357	$ —	$ 183,357
U.S. agency	—	32,872	—	32,872
Non-U.S. government & agency	—	10,965	—	10,965
Agency MBS	—	402,071	—	402,071
ABS/CMBS/MBS*	—	218,373	—	218,373
Corporate	—	798,794	17,798	816,592
Municipal	—	532,396	—	532,396
Total fixed income securities - available-for-sale	$ —	$ 2,178,828	$ 17,798	$ 2,196,626
Equity securities	523,923	83	—	524,006
Other invested assets	6,068	—	—	6,068
Total	$ 529,991	$ 2,178,911	$ 17,798	$ 2,726,700

* Non-agency asset-backed, commercial mortgage-backed and mortgage-backed securities

The following table summarizes changes in the balance of Regulation D private placement fixed income securities whose fair value was measured using significant unobservable inputs (Level 3).

(in thousands)	Level 3 Securities
Balance as of January 1, 2021	$ 17,798
Net realized and unrealized gains (losses)	
Included in net earnings as a part of:	
Net investment income	(39)
Net realized gains	(115)
Included in other comprehensive earnings (loss)	(88)
Total net realized and unrealized gains (losses)	$ (242)
Purchases	13,980
Balance as of September 30, 2021	$ 31,536
Change in unrealized gains (losses) during the period for Level 3 assets held at period-end - included in net realized gains	$ (115)
Change in unrealized gains (losses) during the period for Level 3 assets held at period-end - included in other comprehensive earnings (loss)	$ (88)

The amortized cost and fair value of available-for-sale fixed income securities by contractual maturity as of September 30, 2021 were as follows:

	September 30, 2021	
(in thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 73,089	$ 73,903
Due after one year through five years	587,559	614,447
Due after five years through 10 years	551,943	581,761
Due after 10 years	464,725	479,730
ABS/CMBS/MBS*	632,998	644,828
Total available-for-sale	$ 2,310,314	$ 2,394,669

* Asset-backed, commercial mortgage-backed and mortgage-backed securities

The amortized cost and fair value of available-for-sale securities at September 30, 2021 and December 31, 2020 are presented in the tables below. Amortized cost does not include the $15.9 million and $14.9 million of accrued interest receivable as of September 30, 2021 and December 31, 2020, respectively.

	September 30, 2021				
(in thousands)	Cost or Amortized Cost	Allowance for Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government	$ 139,441	$ —	$ 8,549	$ (797)	$ 147,193
U.S. agency	28,844	—	2,781	—	31,625
Non-U.S. government & agency	8,297	—	407	(183)	8,521
Agency MBS	385,400	—	12,179	(3,309)	394,270
ABS/CMBS/MBS*	247,598	—	3,915	(955)	250,558
Corporate	896,178	(226)	45,230	(2,912)	938,270
Municipal	604,556	—	23,593	(3,917)	624,232
Total Fixed Income	$ 2,310,314	$ (226)	$ 96,654	$ (12,073)	$ 2,394,669

	December 31, 2020				
(in thousands)	Cost or Amortized Cost	Allowance for Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government	$ 170,110	$ —	$ 13,504	$ (257)	$ 183,357
U.S. agency	28,902	—	3,970	—	32,872
Non-U.S. government & agency	10,298	—	667	—	10,965
Agency MBS	384,015	—	18,789	(733)	402,071
ABS/CMBS/MBS*	213,223	(17)	5,580	(413)	218,373
Corporate	753,404	(380)	64,501	(933)	816,592
Municipal	501,515	—	31,099	(218)	532,396
Total Fixed Income	$ 2,061,467	$ (397)	$ 138,110	$ (2,554)	$ 2,196,626

* Non-agency asset-backed, commercial mortgage-backed and mortgage-backed securities

Allowance for Credit Losses and Unrealized Losses on Fixed Income Securities

We adopted ASU 2016-13, Financial Instruments – Credit Losses, on January 1, 2020, which required the recognition of a reversable allowance for credit losses on available-for-sale fixed income securities. Available-for-sale securities in the fixed income portfolio are subjected to several criteria to determine if those securities should be included in the allowance for expected credit loss evaluation, including:

- Changes in technology that may impair the earnings potential of the investment,
- The discontinuance of a segment of business that may affect future earnings potential,
- Reduction of or non-payment of interest and/or principal,
- Specific concerns related to the issuer's industry or geographic area of operation,

- Significant or recurring operating losses, poor cash flows and/or deteriorating liquidity ratios and
- Downgrades in credit quality by a major rating agency.

If changes in interest rates and credit spreads do not reasonably explain the unrealized loss for an available-for-sale security or if any of the criteria above indicate a potential credit loss, the security is subjected to a discounted cash flow analysis. Inputs into the discounted cash flow analysis include prepayment assumptions for structured securities, default rates and recoverability rates based on credit rating. The allowance for any security is limited to the amount that the securities fair value is below amortized cost. As of September 30, 2021, the discounted cash flow analysis resulted in an allowance for credit losses on 11 securities. The following table presents changes in the allowance for expected credit losses on available-for-sale securities:

(in thousands)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Beginning balance	$ 204	$ 985	$ 397	$ —
Adoption impact of ASU 2016-13	-	-	-	28
Increase to allowance from securities for which credit losses were not previously recorded	-	17	-	751
Reduction from securities sold during the period	-	(6)	-	(116)
Reductions from intent to sell securities	-	(186)	-	(186)
Net increase (decrease) from securities that had an allowance at the beginning of the period	22	(178)	(171)	155
Balance as of September 30,	$ 226	$ 632	$ 226	$ 632

As of September 30, 2021, in addition to the securities included in the allowance for credit losses, the fixed income portfolio contained 327 securities with an unrealized loss position for which an allowance for credit losses had not been recorded. The $12.1 million in associated unrealized losses represents 0.5 percent of the fixed income portfolio’s cost basis and 0.4 percent of total invested assets. Isolated to these securities, unrealized losses increased through the first nine months of 2021, as interest rates increased during the period. Of the total 327 securities, 39 have been in an unrealized loss position for 12 consecutive months or longer. The following table illustrates the total value of fixed income securities that were in an unrealized loss position as of September 30, 2021 and December 31, 2020 after factoring in the allowance for credit losses. All fixed income securities continue to pay the expected coupon payments and we believe we will recover the amortized cost basis of available-for-sale securities that remain in an unrealized loss position.

(in thousands)	September 30, 2021 < 12 Mos.	September 30, 2021 12 Mos. & Greater	September 30, 2021 Total	December 31, 2020 < 12 Mos.	December 31, 2020 12 Mos. & Greater	December 31, 2020 Total
U.S. government						
Fair value	$ 2,976	$ 5,152	$ 8,128	$ 5,680	$ —	$ 5,680
Amortized cost	2,986	5,939	8,925	5,937	—	5,937
Unrealized loss	$ (10)	$ (787)	$ (797)	$ (257)	$ —	$ (257)
U.S. agency						
Fair value	$ 1,003	$ —	$ 1,003	$ —	$ —	$ —
Amortized cost	1,003	—	1,003	—	—	—
Unrealized loss	$ —	$ —	$ —	$ —	$ —	$ —
Non-U.S. government						
Fair value	$ 2,817	$ —	$ 2,817	$ —	$ —	$ —
Amortized cost	3,000	—	3,000	—	—	—
Unrealized Loss	$ (183)	$ —	$ (183)	$ —	$ —	$ —
Agency MBS						
Fair value	$ 128,783	$ 15,940	$ 144,723	$ 43,999	$ —	$ 43,999
Amortized cost	131,277	16,755	148,032	44,732	—	44,732
Unrealized loss	$ (2,494)	$ (815)	$ (3,309)	$ (733)	$ —	$ (733)
ABS/CMBS/MBS*						
Fair value	$ 92,083	$ 3,832	$ 95,915	$ 32,771	$ 16,161	$ 48,932
Amortized cost	93,020	3,850	96,870	33,094	16,251	49,345
Unrealized loss	$ (937)	$ (18)	$ (955)	$ (323)	$ (90)	$ (413)
Corporate						
Fair value	$ 173,508	$ 18,574	$ 192,082	$ 52,655	$ 6,235	$ 58,890
Amortized cost	175,695	19,299	194,994	53,440	6,383	59,823
Unrealized loss	$ (2,187)	$ (725)	$ (2,912)	$ (785)	$ (148)	$ (933)
Municipal						
Fair value	$ 154,883	$ 11,179	$ 166,062	$ 25,676	$ —	$ 25,676
Amortized cost	158,310	11,669	169,979	25,894	—	25,894
Unrealized loss	$ (3,427)	$ (490)	$ (3,917)	$ (218)	$ —	$ (218)
Total fixed income						
Fair value	$ 556,053	$ 54,677	$ 610,730	$ 160,781	$ 22,396	$ 183,177
Amortized cost	565,291	57,512	622,803	163,097	22,634	185,731
Unrealized loss	$ (9,238)	$ (2,835)	$ (12,073)	$ (2,316)	$ (238)	$ (2,554)

* Non-agency asset-backed, commercial mortgage-backed and mortgage-backed securities

The following table shows the composition of the fixed income securities in unrealized loss positions, after factoring in the allowance for credit losses, at September 30, 2021 by the National Association of Insurance Commissioners (NAIC) rating and the generally equivalent Standard & Poor's (S&P) and Moody's ratings. The vast majority of the securities are rated by S&P and/or Moody's.

NAIC Rating	Equivalent S&P Rating	Equivalent Moody's Rating	Amortized Cost (dollars in thousands)	Fair Value (dollars in thousands)	Unrealized Loss (dollars in thousands)	Percent to Total
1	AAA/AA/A	Aaa/Aa/A	$ 491,071	$ 480,865	$ (10,206)	84.6 %
2	BBB	Baa	91,432	90,332	(1,100)	9.1 %
3	BB	Ba	15,455	15,211	(244)	2.0 %
4	B	B	23,628	23,131	(497)	4.1 %
5	CCC	Caa	1,217	1,191	(26)	0.2 %
6	CC or lower	Ca or lower	-	-	-	0.0 %
		Total	$ 622,803	$ 610,730	$ (12,073)	100.0 %

Net Unrealized Gains and Losses on Equity Securities

Net unrealized losses recognized on equity securities still held as of September 30, 2021 were $0.8 million during the third quarter, while net unrealized gains were $80.1 million during the first nine months of 2021. Comparatively, net unrealized gains recognized on equity securities still held as of September 30, 2020 were $28.7 million during the third quarter, while net unrealized losses were $14.1 million during the first nine months of 2020.

Other Invested Assets

We had $52.5 million of other invested assets at September 30, 2021, compared to $54.2 million at December 31, 2020. Other invested assets include investments in low income housing tax credit partnerships (LIHTC), membership in the Federal Home Loan Bank of Chicago (FHLBC), and investments in private funds. Our LIHTC investments are carried at amortized cost and our investment in FHLBC stock is carried at cost. Due to the nature of the LIHTC and our membership in the FHLBC, their carrying amounts approximate fair value. The private funds are carried at fair value, using each investment's net asset value.

Our LIHTC interests had a balance of $17.4 million at September 30, 2021, compared to $20.3 million at December 31, 2020 and recognized a total tax benefit of $0.9 million during the third quarters of 2021 and 2020. For the nine-month period ended September 30, 2021, our LIHTC interests recognized a total benefit of $2.7 million, compared to $2.6 million during the same period of 2020. Our unfunded commitment for our LIHTC investments totaled $2.1 million at September 30, 2021 and will be paid out in installments through 2035.

As of September 30, 2021, $9.1 million of investments were pledged as collateral with the FHLBC to ensure timely access to the secured lending facility that ownership of FHLBC stock provides. As of and during the nine-month period ended September 30, 2021, there were no outstanding borrowings with the FHLBC.

Our investments in private funds totaled $31.4 million at September 30, 2021, compared to $32.1 million at December 31, 2020, and we had $9.6 million of associated unfunded commitments at September 30, 2021. Our interest in private funds is generally restricted from being transferred or otherwise redeemed without prior consent by the respective entities and the timed dissolution of the partnerships would trigger redemption. At December 31, 2020, we had a publicly traded common stock with short-term restrictions that limited our ability to sell the security without prior approval. During the first quarter of 2021, our investment in this security became unrestricted and the investment was included in our equity portfolio as of September 30, 2021.

Investments in Unconsolidated Investees

We had $158.7 million of investments in unconsolidated investees at September 30, 2021, compared to $128.4 million at December 31, 2020. Our investments accounted for under the equity method are primarily related to Maui Jim, Inc. (Maui Jim) and Prime Holdings Insurance Services, Inc. (Prime). At September 30, 2021 our investment in Maui Jim was $110.6 million and our investment in Prime was $42.4 million. Other investments in unconsolidated investees totaled $5.7 million at September 30, 2021 and had unfunded commitments of $15.0 million.

Cash

Cash consists of uninvested balances in bank accounts. We had a cash balance of $89.6 million at September 30, 2021, compared to $62.2 million at December 31, 2020.

3. HISTORICAL LOSS AND LAE DEVELOPMENT

The following table is a reconciliation of our unpaid losses and settlement expenses (LAE) for the first nine months of 2021 and 2020:

(in thousands)	For the Nine Months Ended September 30, 2021	2020
Unpaid losses and LAE at beginning of year		
Gross	$ 1,750,049	$ 1,574,352
Ceded	(443,729)	(384,517)
Net	$ 1,306,320	$ 1,189,835
Adoption impact of ASU 2016-13 on reinsurance balances recoverable	$ —	$ (1,345)
Increase (decrease) in incurred losses and LAE		
Current accident year	$ 452,542	$ 409,867
Prior accident years	(96,968)	(70,048)
Total incurred	$ 355,574	$ 339,819
Loss and LAE payments for claims incurred		
Current accident year	$ (58,411)	$ (49,337)
Prior accident years	(172,120)	(192,056)
Total paid	$ (230,531)	$ (241,393)
Net unpaid losses and LAE at September 30	$ 1,431,363	$ 1,286,916
Unpaid losses and LAE at September 30		
Gross	$ 2,033,517	$ 1,686,876
Ceded	(602,154)	(399,960)
Net	$ 1,431,363	$ 1,286,916

We adopted ASU 2016-13, Financial Instruments – Credit Losses, on January 1, 2020, which required financial assets, including reinsurance balances recoverable, to be presented at the net amount expected to be collected. We maintained an allowance for uncollectible reinsurance balances prior to the adoption of this update. However, in order to comply with the updated requirements, we released $1.3 million of the allowance on uncollectible reinsurance balances upon adoption. The implementation guidance required the cumulative-effect adjustment be made to the beginning balance of retained earnings, rather than through net earnings like historical changes have and ongoing modifications will continue to be recorded.

For the first nine months of 2021, incurred losses and LAE included $97.0 million of favorable development on prior years' loss reserves. General liability, transportation, professional services, small commercial, commercial excess, personal umbrella and marine were drivers of the favorable development. No products experienced significant adverse development.

For the first nine months of 2020, incurred losses and LAE included $70.0 million of favorable development on prior years' loss reserves. The majority of products experienced modest amounts of favorable development on prior accident years, with notable contributions from transportation, general liability, executive products, marine and surety. No products experienced significant adverse development.

Actuarial models base future emergence on historic experience, with adjustments for current trends, and the appropriateness of these assumptions involved more uncertainty as of September 30, 2021. We expect the timing of loss emergence and ultimate loss ratios for certain coverages we underwrite will be affected as a result of the spread of COVID-19 and the related economic impact. The industry is experiencing new issues, including the postponement of civil court cases, the extension of various statutes of limitations and changes in settlement trends. Our recorded reserves include consideration of these factors, but the duration and degree to which these issues persist, along with potential legislative, regulatory or judicial actions, could result in loss reserve deficiencies and reduce earnings in future periods.

4. INCOME TAXES

Our effective tax rate for the three and nine months ended September 30, 2021 was 17.5 percent and 19.0 percent, respectively, compared to 17.7 percent and 15.8 percent, respectively, for the same period in 2020. Effective rates are dependent upon components of pretax earnings and the related tax effects. For the nine-month period ended September 30, the effective tax rate was higher for 2021 as lower pretax income was experienced in 2020, which increased the percentage impact of tax-favored adjustments.

Income tax expense attributable to income from operations for the three and nine-month periods ended September 30, 2021 and 2020 differed from the amounts computed by applying the U.S. federal tax rate of 21 percent to pretax income by the items detailed in the below table. In interim periods, income taxes are adjusted to reflect the effective tax rate we anticipate for the year, with adjustments flowing through the other items, net line.

	For the Three Months Ended September 30, 2021		2020		For the Nine Months Ended September 30, 2021		2020	
(in thousands)	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Provision for income taxes at the statutory rate of 21%	$ 7,442	21.0 %	$ 10,817	21.0 %	$ 47,731	21.0 %	$ 18,275	21.0 %
Increase (reduction) in taxes resulting from:								
Excess tax benefit on share-based compensation	(225)	(0.6) %	(848)	(1.6) %	(2,419)	(1.1) %	(2,141)	(2.4) %
Tax exempt interest income	(298)	(0.8) %	(324)	(0.6) %	(927)	(0.4) %	(960)	(1.1) %
Dividends received deduction	(223)	(0.6) %	(221)	(0.4) %	(707)	(0.3) %	(705)	(0.8) %
Investment tax credit	(801)	(2.3) %	(316)	(0.6) %	(2,404)	(1.0) %	(1,766)	(2.0) %
ESOP dividends paid deduction	(132)	(0.4) %	(134)	(0.3) %	(399)	(0.2) %	(403)	(0.5) %
Nondeductible expenses	642	1.8 %	275	0.5 %	1,879	0.8 %	639	0.7 %
Other items, net	(211)	(0.6) %	(127)	(0.3) %	468	0.2 %	799	0.9 %
Total tax expense	$ 6,194	17.5 %	$ 9,122	17.7 %	$ 43,222	19.0 %	$ 13,738	15.8 %

5. STOCK BASED COMPENSATION

Our RLI Corp. Long-Term Incentive Plan (2010 LTIP) was in place from 2010 to 2015. The 2010 LTIP provided for equity-based compensation, including stock options, up to a maximum of 4,000,000 shares of common stock (subject to adjustment for changes in our capitalization and other events). Between 2010 and 2015, we granted 2,878,000 stock options under the 2010 LTIP. The 2010 LTIP was replaced in 2015.

In 2015, our shareholders approved the 2015 RLI Corp. Long-Term Incentive Plan (2015 LTIP), which provides for equity-based compensation and replaced the 2010 LTIP. In conjunction with the adoption of the 2015 LTIP, effective May 7, 2015, options were no longer granted under the 2010 LTIP. Awards under the 2015 LTIP may be in the form of restricted stock, restricted stock units, stock options (non-qualified only), stock appreciation rights, performance units as well as other stock-based awards. Eligibility under the 2015 LTIP is limited to employees and directors of the Company or any affiliate. The granting of awards under the 2015 LTIP is solely at the discretion of the board of directors. The maximum number of shares of common stock available for distribution under the 2015 LTIP is 4,000,000 shares (subject to adjustment for changes in our capitalization and other events). Since the plan's approval in 2015, we have granted 2,876,920 awards under the 2015 LTIP, including 253,551 thus far in 2021.

Compensation expense is based on the probable number of awards expected to vest. The total compensation expense related to equity awards was $1.6 million and $4.8 million in the three and nine-month periods ended September 30, 2021, respectively, compared to $1.6 million and $3.6 million, respectively, for the same periods in 2020. The total income tax benefit was $0.2 million and $0.7 million for the three and nine-month periods ended September 30, 2021, respectively, compared to $0.3 million and $0.6 million, respectively, for the same periods in 2020. Total unrecognized compensation expense relating to outstanding and unvested awards was $7.2 million, which will be recognized over the weighted average vesting period of 2.41 years.

Stock Options

Under the 2015 LTIP, as under the 2010 LTIP, we grant stock options for shares with an exercise price equal to the fair market value of the shares at the date of grant (subject to adjustments for changes in our capitalization, special dividends and other events as set forth in such plans). Options generally vest and become exercisable ratably over a five-year period and expire eight years after grant.

For most participants, the requisite service period and vesting period will be the same. For participants who are retirement eligible, defined by the plan as those individuals whose age and years of service equals 75, the requisite service period is deemed to be met and options are immediately expensed on the date of grant. For participants who will become retirement eligible during the vesting period, the requisite service period over which expense is recognized is the period between the grant date and the attainment of retirement eligibility. Shares issued upon option exercise are newly issued shares.

The following tables summarize option activity for the nine-month period ended September 30, 2021:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (in 000's)
Outstanding options at January 1, 2021	1,632,334	$ 70.67		
Options granted	236,771	109.64		
Options exercised	(148,247)	55.82		
Options canceled/forfeited	(8,215)	84.29		
Outstanding options at September 30, 2021	1,712,643	$ 77.27	5.03	$ 41,702
Exercisable options at September 30, 2021	804,575	$ 65.36	3.74	$ 28,093

The intrinsic value, which is the difference between the fair value and the exercise price, of options exercised was $8.4 million and $7.6 million during the first nine months of 2021 and 2020, respectively.

The fair value of options was estimated using a Black-Scholes based option pricing model with the following weighted average grant-date assumptions and weighted average fair values as of September 30:

	2021	2020
Weighted-average fair value of grants	$ 17.01	$ 13.33
Risk-free interest rates	0.70 %	0.41 %
Dividend yield	2.06 %	2.30 %
Expected volatility	22.73 %	22.67 %
Expected option life	4.97 years	4.96 years

The risk-free rate was determined based on U.S. treasury yields that most closely approximated the option's expected life. The dividend yield was determined based on the average annualized quarterly dividends paid during the most recent five-year period and incorporated a consideration for special dividends paid in recent history. The expected volatility was calculated based on the median of the rolling volatilities for the expected life of the options. The expected option life was determined based on historical exercise behavior and the assumption that all outstanding options will be exercised at the midpoint of the current date and remaining contractual term, adjusted for the demographics of the current year's grant.

Restricted Stock Units

In addition to stock options, restricted stock units (RSUs) are granted with a value equal to the closing stock price of the Company's stock on the dates the units are granted. For employees, these units generally have a three-year cliff vesting, but have an accelerated vesting feature for participants who are retirement eligible, defined by the plan as those individuals whose age and years of service equals 75. For directors, these units vest on the earlier of one year from the date of grant or the next annual shareholders meeting. In addition, the RSUs have dividend participation, which accrue as additional units and are settled with granted stock units at the end of the vesting period. The total fair value of restricted stock units that vested was $2.2 million and $1.5 million during 2021 and 2020, respectively.

	RSUs	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2021	47,658	$ 81.53
Granted	16,780	113.02
Reinvested	322	105.00
Vested	(19,725)	72.53
Forfeited	(789)	95.53
Nonvested at September 30, 2021	44,246	$ 97.41

6. OPERATING SEGMENT INFORMATION

Selected information by operating segment is presented in the table below. Additionally, the table reconciles segment totals to total earnings and total revenues.

Revenues (in thousands)	For the Three Months Ended September 30, 2021	2020	For the Nine Months Ended September 30, 2021	2020
Casualty	$ 162,852	$ 143,002	$ 467,817	$ 421,637
Property	60,886	45,380	168,393	135,115
Surety	29,651	28,248	86,774	84,194
Net premiums earned	$ 253,389	$ 216,630	$ 722,984	$ 640,946
Net investment income	17,844	16,543	50,929	51,238
Net realized gains	1,829	1,512	52,442	14,555
Net unrealized gains (losses) on equity securities	(2,592)	28,126	29,526	(27,564)
Total consolidated revenue	$ 270,470	$ 262,811	$ 855,881	$ 679,175

Net Earnings (in thousands)	2021	2020	2021	2020
Casualty	$ 22,949	$ 13,993	$ 74,254	$ 22,403
Property	(16,558)	(19,951)	(8,684)	(3,876)
Surety	7,333	7,110	14,662	24,027
Net underwriting income	$ 13,724	$ 1,152	$ 80,232	$ 42,554
Net investment income	17,844	16,543	50,929	51,238
Net realized gains	1,829	1,512	52,442	14,555
Net unrealized gains (losses) on equity securities	(2,592)	28,126	29,526	(27,564)
General corporate expense and interest on debt	(4,411)	(4,569)	(15,244)	(12,118)
Equity in earnings of unconsolidated investees	9,043	8,745	29,407	18,359
Earnings before income taxes	$ 35,437	$ 51,509	$ 227,292	$ 87,024
Income tax expense	6,194	9,122	43,222	13,738
Net earnings	$ 29,243	$ 42,387	$ 184,070	$ 73,286

The following table further summarizes revenues by major product type within each operating segment:

Net Premiums Earned (in thousands)	For the Three Months Ended September 30, 2021	For the Three Months Ended September 30, 2020	For the Nine Months Ended September 30, 2021	For the Nine Months Ended September 30, 2020
Casualty				
Commercial excess and personal umbrella	$ 56,285	$ 46,404	$ 161,287	$ 128,813
General liability	23,156	22,747	67,616	69,396
Professional services	22,401	21,422	66,095	63,501
Commercial transportation	22,571	15,130	60,926	47,454
Small commercial	16,301	16,009	48,302	47,433
Executive products	5,461	6,387	15,785	20,693
Other casualty	16,677	14,903	47,806	44,347
Total	$ 162,852	$ 143,002	$ 467,817	$ 421,637
Property				
Commercial property	$ 28,683	$ 20,168	$ 76,488	$ 58,371
Marine	25,416	19,687	72,737	59,976
Specialty personal	5,462	4,794	15,761	14,730
Other property	1,325	731	3,407	2,038
Total	$ 60,886	$ 45,380	$ 168,393	$ 135,115
Surety				
Commercial	$ 11,541	$ 10,543	$ 33,594	$ 32,287
Miscellaneous	11,124	10,547	32,604	31,562
Contract	6,986	7,158	20,576	20,345
Total	$ 29,651	$ 28,248	$ 86,774	$ 84,194
Grand Total	$ 253,389	$ 216,630	$ 722,984	$ 640,946

7. LEASES

Right-of-use (ROU) assets are included in the other assets line item and lease liabilities are included in the other liabilities line item of the consolidated balance sheet. We determine if a contract contains a lease at inception and recognize operating lease ROU assets and operating lease liabilities based on the present value of the future minimum lease payments at the commencement date. As our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of future payments. Lease agreements may include options to extend or terminate. The options are exercised at our discretion and are included in operating lease liabilities if it is reasonably certain the option will be exercised. Lease agreements have lease and non-lease components, which are accounted for as a single lease component. Operating lease cost for future minimum lease payments is recognized on a straight-line basis over the lease term. Variable lease cost is expensed in the period in which the obligation is incurred. Sublease income is recognized on a straight-line basis over the sublease term.

The Company's operating lease obligations are for branch office facilities. The components of lease expense and other lease information as of and during the three and nine-month periods ended September 30, 2021 and 2020 are as follows:

(in thousands)	For the Three Months Ended September 30, 2021	For the Three Months Ended September 30, 2020	For the Nine Months Ended September 30, 2021	For the Nine Months Ended September 30, 2020
Operating lease cost	$ 1,326	$ 1,364	$ 4,005	$ 4,140
Variable lease cost	348	338	1,090	1,014
Sublease income	(123)	(96)	(369)	(139)
Total lease cost	$ 1,551	$ 1,606	$ 4,726	$ 5,015
Cash paid for amounts included in measurement of lease liabilities				
Operating cash outflows from operating leases	$ 1,490	$ 1,480	$ 4,455	$ 4,470
ROU assets obtained in exchange for new operating lease liabilities	$ 4,434	$ —	$ 4,699	$ 15
Reduction to ROU assets resulting from reduction to lease liabilities	$ —	$ 18	$ 1,250	$ 18
Other non-cash reductions to ROU assets	$ 48	$ —	$ 48	$ 1,192

(in thousands)	September 30, 2021	December 31, 2020
Operating lease ROU assets	$ 15,882	$ 16,200
Operating lease liabilities	$ 18,148	$ 19,072
Weighted-average remaining lease term - operating leases	4.58 years	3.87 years
Weighted-average discount rate - operating leases	2.05 %	2.32 %

Future minimum lease payments under non-cancellable leases as of September 30, 2021 were as follows:

(in thousands)	September 30, 2021
2021	$ 1,283
2022	5,475
2023	4,901
2024	2,871
2025	1,462
2026	884
Thereafter	2,176
Total future minimum lease payments	$ 19,052
Less imputed interest	(904)
Total operating lease liability	$ 18,148

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 appear throughout this report. These statements relate to our current expectations, beliefs, intentions, goals or strategies regarding the future and are based on certain underlying assumptions by the Company. These forward looking statements generally include words such as "expect," "predict," "estimate," "will," "should," "anticipate," "believe" and similar expressions. Such assumptions are, in turn, based on information available and internal estimates and analyses of general economic conditions, competitive factors, conditions specific to the property and casualty insurance and reinsurance industries, claims development and the impact thereof on our loss reserves, the adequacy and financial security of our reinsurance programs, developments in the securities market and the impact on our investment portfolio, regulatory changes and conditions and other factors. These assumptions are subject to various risks, uncertainties and other factors, including, without limitation those set forth in "Item 1A. Risk Factors" within the Annual Report on Form 10-K for the year ended December 31, 2020 and Part II within this report. Actual results could differ materially from those expressed in, or implied by, these forward looking statements. We assume no obligation to update any such statements. You should review the various risks, uncertainties and other factors listed from time to time in our Securities and Exchange Commission filings.

OVERVIEW

RLI Corp. is a U.S.-based, specialty insurance company that underwrites select property and casualty insurance through major subsidiaries collectively known as RLI Insurance Group (Group). Our focus is on niche markets and developing unique products that are tailored to customers' needs. We hire underwriters and claim examiners with deep expertise and provide exceptional customer service and support. We maintain a highly diverse product portfolio and underwrite for profit in all market conditions. In 2020, we achieved our 25th consecutive year of underwriting profitability. Over the 25-year period, we averaged an 88.4 combined ratio. This drives our ability to provide shareholder returns in three different ways: the underwriting income itself, net investment income from our investment portfolio and long-term appreciation in our equity portfolio.

We measure the results of our insurance operations by monitoring growth and profitability across three distinct business segments: casualty, property and surety. Growth is measured in terms of gross premiums written, and profitability is analyzed through combined ratios, which are further subdivided into their respective loss and expense components.

The property and casualty insurance business is cyclical and influenced by many factors, including price competition, economic conditions, natural or man-made disasters (for example, earthquakes, hurricanes, pandemics and terrorism), interest rates, state regulations, court decisions and changes in the law. One of the unique and challenging features of the property and casualty insurance business is that coverages must be priced before costs have fully developed, because premiums are charged before claims are incurred. This requires that liabilities be estimated and recorded in recognition of future loss and settlement obligations. Due to the inherent uncertainty in estimating these liabilities, there can be no assurance that actual liabilities will not be more or less than recorded amounts; if actual liabilities differ from recorded amounts, there will be an adverse or favorable effect on net earnings.

The casualty portion of our business consists largely of commercial excess, personal umbrella, general liability, transportation and executive products coverages, as well as package business and other specialty coverages, such as professional liability and workers' compensation for office-based professionals. We also assume a limited amount of hard-to-place risks through a quota share reinsurance agreement. The casualty business is subject to the risk of estimating losses and related loss reserves because the ultimate settlement of a casualty claim may take several years to fully develop. The casualty segment is also subject to inflation risk and may be affected by evolving legislation and court decisions that define the extent of coverage and the amount of compensation due for injuries or losses.

Our property segment is comprised primarily of commercial fire, earthquake, difference in conditions and marine coverages. We also offer select personal lines policies, including homeowners' coverages. Property insurance results are subject to the variability introduced by perils such as earthquakes, fires, hurricanes and other storms. Our major catastrophe exposure is to losses caused by earthquakes, primarily on the West Coast. Our second largest catastrophe exposure is to losses caused by wind storms to commercial properties throughout the Gulf and East Coast, as well as to homes we insure in Hawaii. We limit our net aggregate exposure to a catastrophic event by minimizing the total policy limits written in a particular region, purchasing reinsurance and maintaining policy terms and conditions throughout insurance cycles. We also use computer-assisted modeling techniques to provide estimates that help the Company carefully manage the concentration of risks exposed to catastrophic events.

The surety segment specializes in writing small to large-sized commercial and contract surety coverages, including payment and performance bonds. We also offer miscellaneous bonds including license and permit, notary and court bonds. Often, our surety coverages involve a statutory requirement for bonds. While these bonds typically maintain a relatively low loss ratio, losses may fluctuate due to adverse economic conditions affecting the financial viability of our principals. The contract surety product guarantees the construction work of a commercial contractor for a specific project. Generally, losses occur due to the deterioration of a contractor's financial condition. This line has historically produced marginally higher loss ratios than other surety lines during economic downturns.

The insurance marketplace is competitive across all of our segments. However, we believe that our business model is built to create underwriting income by focusing on sound risk selection and discipline. Our primary focus will continue to be on underwriting profitability, with a secondary focus on premium growth where we believe underwriting profit exists, as opposed to general premium growth or market share measurements.

GAAP, non-GAAP and Performance Measures

Throughout this quarterly report, we include certain non-generally accepted accounting principles (non-GAAP) financial measures. Management believes that these non-GAAP measures further explain the Company's results of operations and allow for a more complete understanding of the underlying trends in the Company's business. These measures should not be viewed as a substitute for those determined in accordance with generally accepted accounting principles in the United States of America (GAAP). In addition, our definitions of these items may not be comparable to the definitions used by other companies.

The following is a list of non-GAAP measures found throughout this report with their definitions, relationships to GAAP measures and explanations of their importance to our operations.

Underwriting Income

Underwriting income or profit represents one measure of the pretax profitability of our insurance operations and is derived by subtracting losses and settlement expenses, policy acquisition costs and insurance operating expenses from net premiums earned, which are all GAAP financial measures. Each of these captions is presented in the statements of earnings but is not subtotaled. However, this information is available in total and by segment in note 6 to the unaudited condensed consolidated interim financial statements in this quarterly report on Form 10-Q, and in note 12 to the consolidated financial statements in our 2020 Annual Report on Form 10-K, regarding operating segment information. The nearest comparable GAAP measure is earnings before income taxes which, in addition to underwriting income, includes net investment income, net realized gains or losses, net unrealized gains or losses on equity securities, general corporate expenses, debt costs and our portion of earnings from unconsolidated investees. A reconciliation of net earnings to underwriting income follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(in thousands)	**2021**	**2020**	**2021**	**2020**
Net earnings	$ 29,243	$ 42,387	$ 184,070	$ 73,286
Income tax expense	6,194	9,122	43,222	13,738
Earnings before income taxes	$ 35,437	$ 51,509	$ 227,292	$ 87,024
Equity in earnings of unconsolidated investees	(9,043)	(8,745)	(29,407)	(18,359)
General corporate expenses	2,505	2,668	9,533	6,417
Interest expense on debt	1,906	1,901	5,711	5,701
Net unrealized (gains) losses on equity securities	2,592	(28,126)	(29,526)	27,564
Net realized gains	(1,829)	(1,512)	(52,442)	(14,555)
Net investment income	(17,844)	(16,543)	(50,929)	(51,238)
Net underwriting income	$ 13,724	$ 1,152	$ 80,232	$ 42,554

Combined Ratio

The combined ratio, which is derived from components of underwriting income, is a common industry performance measure of profitability for underwriting operations and is calculated in two components. First, the loss ratio is losses and settlement expenses divided by net premiums earned. The second component, the expense ratio, reflects the sum of policy acquisition costs and insurance operating expenses divided by net premiums earned. All items included in these components of the combined ratio are presented in our GAAP consolidated financial statements. The sum of the loss and expense ratios is the combined ratio. The difference between the combined ratio and 100 reflects the per-dollar rate of underwriting income or loss.

Critical Accounting Policies

In preparing the unaudited condensed consolidated interim financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ significantly from those estimates.

The most critical accounting policies involve significant estimates and include those used in determining the liability for unpaid losses and settlement expenses, investment valuation, recoverability of reinsurance balances, deferred policy acquisition costs and deferred taxes. For a detailed discussion of each of these policies, refer to our 2020 Annual Report on Form 10-K.

There have been no significant changes to critical accounting policies during the year.

IMPACT OF COVID-19

Our processes and controls continue to operate effectively and we have been able to maintain the highest service and support levels possible for our customers throughout the COVID-19 pandemic. While we have welcomed many of our team members back to our offices, a number of our associates are still working from home.

It is difficult to predict how and to what extent COVID-19, and its effects on the economy, will impact our revenues in the coming quarters. To date, the product line that has experienced the greatest impact has been public transportation. Many of our passenger transportation customers had been unable to effectively operate under social-distancing protocols and stay-at-home orders. Although transportation premium is up from pre-pandemic levels in the first nine months of 2021 in total, public transportation may be challenged until the use of public transportation increases. Additionally, a number of our products support the construction industry, and revenues may be impacted if disruption in this sector does not continue to ease.

The loss exposure arising out of the spread of COVID-19 and the resulting shutdown will take time to resolve. We do not offer event cancellation, travel, trade credit or pandemic-related coverages, which would be more directly impacted by the COVID-19 pandemic. The derivative implications that COVID-19 had on the economy may have negative implications on products that are correlated with the credit cycle, including, but not limited to, some of our surety and executive products offerings. Additionally, the professional services and executive product groups may be affected by claims made against companies who are reopening or returning to work.

Actuarial models base future emergence on historic experience, with adjustments for current trends, and the appropriateness of these assumptions involved greater uncertainty as of September 30, 2021. We expect there will be impacts to the timing of loss emergence and ultimate loss ratios for certain coverages. The industry experienced new issues, including the postponement of civil court cases, the extension of various statutes of limitations and changes in settlement trends. Our booked reserves include consideration of these factors, but the duration and degree to which these issues persist, along with potential legislative, regulatory or judicial actions, could result in loss reserve deficiencies and reduce earnings in future periods.

Investment yields decreased throughout 2020, which resulted in lower reinvestment rates and, in turn, lower investment income in the first nine months of 2021. Additionally, the fair value of the fixed income portfolio will decline as interest rates rise, as we observed with our $41.8 million of after-tax other comprehensive loss during the first nine months of 2021.

We produced solid operating results in the first nine months of 2021 and our financial position remains strong. We generated $280.4 million of net operating cash inflows and believe we have sufficient sources of liquidity to meet our anticipated needs over the next 12 to 24 months. Our revolving credit facility provides for a borrowing capacity of $60.0 million, which can be increased to $120.0 million under certain circumstances. Additionally, our membership in the Federal Home Loan Bank system provides a secured lending facility with an aggregate borrowing capacity of approximately $30.0 million.

Ultimately, the extent to which COVID-19 will affect our business will be influenced by its impact on the economy. We continue to evaluate all aspects of our operations and are making necessary adjustments to manage our business. Our diversified portfolio of products and financial strength have allowed us to remain on solid footing. We believe we have a strong and sustainable underwriting approach that will allow us to weather the economic environment and uncertainty we continue to experience.

RESULTS OF OPERATIONS

Nine Months Ended September 30, 2021 Compared to Nine Months Ended September 30, 2020

Consolidated revenue for the first nine months of 2021 increased $176.7 million from the first nine months of 2020. Net premiums earned for the Group increased 13 percent, driven by growth from our casualty and property segments, while performance in the equity portfolio varied significantly between the periods. Positive market performance resulted in $29.5 million of unrealized gains in our equity portfolio in 2021, while overall market declines resulted in $27.6 million of unrealized losses on equity securities in the first nine months of 2020. Investment income was down 1 percent compared to the prior year, as reinvestment rates were still recovering from the depressed rate environment seen over the previous 18 months. Realized gains during the first nine months of 2021 were comprised of $50.6 million of realized gains on equity securities, primarily due to rebalancing within our equity strategies, $1.7 million of realized gains on the fixed income portfolio and $0.1 million of other realized gains. This compares to $13.4 million of realized gains on the equity portfolio, $3.4 million of realized gains on the fixed income portfolio and $2.2 million of other realized losses for the same period in 2020.

Consolidated Revenues (in thousands)	For the Nine Months Ended September 30, 2021	2020
Net premiums earned	$ 722,984	$ 640,946
Net investment income	50,929	51,238
Net realized gains	52,442	14,555
Net unrealized gains (losses) on equity securities	29,526	(27,564)
Total consolidated revenue	$ 855,881	$ 679,175

Net earnings for the first nine months of 2021 totaled $184.1 million, compared to $73.3 million for the same period in 2020. The increase in earnings were driven by higher levels of underwriting income and improved results from our equity portfolio. Net after-tax realized and unrealized gains on equity securities were $63.3 million for the first nine months of 2021, compared to $11.2 million of after-tax realized and unrealized losses in 2020. Underwriting results for 2021 were impacted by $25.0 million of pretax storm losses and $34.0 million of hurricane losses. Comparatively, underwriting results for 2020 included $37.0 million of pretax losses and $2.0 million of reinstatement premium from Hurricanes Hanna, Isaias, Laura and Sally and $6.5 million of pretax losses from storms and civil unrest. Results for each period benefited from favorable development on prior years' loss reserves, which provided additional pretax earnings of $97.0 million in the first nine months of 2021, compared to $70.0 million in 2020. Pretax bonus and profit sharing-related expenses associated with the net impact of prior years' reserve development and catastrophe losses totaled $6.0 million in 2021, compared to $3.7 million in 2020. These performance-related expenses affected policy acquisition, insurance operating and general corporate expenses. Bonus and profit-sharing amounts earned by executives, managers and associates are predominantly influenced by corporate performance, including operating earnings, combined ratio and return on capital.

Underwriting income was $80.2 million on an 88.9 combined ratio for the first nine months of 2021, compared to $42.6 million on a 93.4 combined ratio in the same period of 2020. The loss ratio decreased to 49.2 from 53.0, due to improvements in the current accident year loss ratio, a higher level of favorable development in 2021 and the $14.9 million of reserves added in 2020 related to COVID-19 loss and defense costs. The Group's expense ratio decreased to 39.7 from 40.4, as growth in the earned premium base more than offset larger levels of expense from improved bonus and profit-sharing metrics.

Our equity in earnings of unconsolidated investees primarily relate to our investments in Maui Jim, Inc. (Maui Jim), a manufacturer of high-quality sunglasses, and Prime Holdings Insurance Services, Inc. (Prime), a specialty insurance company. In the first nine months of 2021, $19.7 million of investee earnings were recorded for Maui Jim and $11.7 million of investee earnings were recorded for Prime. Comparatively, the first nine months of 2020 reflected investee earnings of $11.4 million and $7.7 million from Maui Jim and Prime, respectively. Earnings from Maui Jim increased as sales improved with the recovery of the traditional retail sector.

Comprehensive earnings totaled $142.3 million for the first nine months of 2021, compared to $123.4 million for the first nine months of 2020. Other comprehensive earnings primarily included net after-tax unrealized gains and losses from the fixed income portfolio. Other comprehensive loss of $41.8 million in the first nine months of 2021 was attributable to increased interest rates, which decreased the fair value of securities held in the fixed income portfolio. Comparatively, $50.1 million of other comprehensive gain was recognized in 2020 as interest rates declined.

Premiums

Gross premiums written for the Group increased $174.3 million for the first nine months of 2021 when compared to the same period of 2020. Growth was achieved in all three segments, though the increase was driven by products in the casualty and property segments. Net premiums earned increased $82.0 million, also driven by products in our casualty and property segments.

	Gross Premiums Written			Net Premiums Earned		
	For the Nine Months Ended September 30,			For the Nine Months Ended September 30,		
(in thousands)	2021	2020	% Change	2021	2020	% Change
Casualty						
Commercial excess and personal umbrella	$ 212,709	$ 178,499	19 %	$ 161,287	$ 128,813	25 %
General liability	73,877	71,708	3 %	67,616	69,396	(3) %
Professional services	74,044	69,158	7 %	66,095	63,501	4 %
Commercial transportation	84,888	43,829	94 %	60,926	47,454	28 %
Small commercial	52,784	50,472	5 %	48,302	47,433	2 %
Executive products	97,018	82,314	18 %	15,785	20,693	(24) %
Other casualty	62,701	57,311	9 %	47,806	44,347	8 %
Total	$ 658,021	$ 553,291	19 %	$ 467,817	$ 421,637	11 %
Property						
Commercial property	$ 147,805	$ 104,290	42 %	$ 76,488	$ 58,371	31 %
Marine	84,750	71,861	18 %	72,737	59,976	21 %
Specialty personal	18,127	15,449	17 %	15,761	14,730	7 %
Other property	5,914	2,942	101 %	3,407	2,038	67 %
Total	$ 256,596	$ 194,542	32 %	$ 168,393	$ 135,115	25 %
Surety						
Commercial	$ 36,988	$ 32,956	12 %	$ 33,594	$ 32,287	4 %
Miscellaneous	35,866	33,326	8 %	32,604	31,562	3 %
Contract	22,654	21,733	4 %	20,576	20,345	1 %
Total	$ 95,508	$ 88,015	9 %	$ 86,774	$ 84,194	3 %
Grand Total	$ 1,010,125	$ 835,848	21 %	$ 722,984	$ 640,946	13 %

Casualty

Gross premiums written for the casualty segment were up $104.7 million in the first nine months of 2021. Gross premiums from commercial excess and personal umbrella increased $34.2 million, due to rate increases and an expanded distribution. Rate increases also led to an 18 percent increase in premiums for our executive products group.

Commercial transportation was meaningfully affected by the stay-at-home orders associated with COVID-19, which resulted in a significant decrease in premium in 2020. In the first nine months of 2021, transportation premiums were up $41.1 million, when compared to 2020, and were also up from pre-pandemic levels.

Property

Gross premiums written for the property segment were up $62.1 million in the first nine months of 2021. Our commercial property business was up $43.5 million, as rates on wind-prone and earthquake exposures continued to increase. Rate increases and improved retention, led to $12.9 million of growth for our marine product. Other property premium increased as a result of property-exposed General Binding Authority (GBA) business that continues to gain scale.

Surety

Gross premiums written for the surety segment were up $7.5 million for the first nine months of 2021. Commercial surety has benefited from growth within existing accounts and new business, while market disruption led to increased premium for miscellaneous surety.

Underwriting Income

	For the Nine Months Ended September 30, 2021	2020
Underwriting Income (Loss) (in thousands)		
Casualty	$ 74,254	$ 22,403
Property	(8,684)	(3,876)
Surety	14,662	24,027
Total	$ 80,232	$ 42,554
Combined Ratio		
Casualty	84.1	94.7
Property	105.2	102.9
Surety	83.1	71.5
Total	88.9	93.4

Casualty

The casualty segment recorded underwriting earnings of $74.3 million in the first nine months of 2021, compared to $22.4 million for the same period last year. Reserve releases reduced loss and settlement expenses for the casualty segment by $83.6 million, primarily on accident years 2018 through 2020. Favorable development was widespread, with notable amounts from general liability, transportation, professional services, small commercial, commercial excess and personal umbrella. In comparison, $49.5 million of reserves were released in the first nine months of 2020. Transportation, general liability and executive products were drivers of the favorable development. Offsetting the favorable development, hurricane and storm losses on casualty-oriented package policies that include property coverage resulted in $4.0 million of losses in 2021 and $3.6 million of losses in 2020.

The combined ratio for the casualty segment was 84.1 in 2021, compared to 94.7 in 2020. The segment's loss ratio was 48.9 in 2021, down from 59.3 in 2020 as a result of the increased level of favorable development and the addition of $10.3 million of reserves in 2020 related to COVID-19 loss and defense costs. The expense ratio for the casualty segment was 35.2, down from 35.4 for the same period last year.

Property

The property segment recorded an underwriting loss of $8.7 million for the first nine months of 2021, compared to an underwriting loss of $3.9 million for the same period last year. Underwriting results for 2021 included $10.8 million of favorable development on prior years' loss and catastrophe reserves across all products, $32.6 million of hurricane losses and $22.3 million of other storm losses. Comparatively, the 2020 underwriting results included $9.5 million of favorable development on prior years' loss and catastrophe reserves, primarily from the marine business, $5.3 million of storm and civil unrest losses and $2.0 million of reserves related to COVID-19 investigative and defense costs. Additionally, Hurricanes Hanna, Isaias, Laura and Sally resulted in $33.4 million of losses and $2.0 million of ceded reinstatement premium in 2020.

Underwriting results for the first nine months of 2021 translated into a combined ratio of 105.2, compared to 102.9 for the same period last year. The segment's loss ratio was 66.3 in 2021, up from 62.5 in 2020, due to higher levels of storm losses. The segment's expense ratio decreased to 38.9 in 2021 from 40.4 in the prior year, as growth in the earned premium base more than offset larger levels of bonus and profit-sharing expenses, which were influenced by overall corporate performance.

Surety

The surety segment recorded underwriting income of $14.7 million for the first nine months of 2021, compared to $24.0 million for the same period last year. Both periods reflected positive current accident year underwriting performance and benefited from favorable development on prior years' loss reserves. Results for 2021 included favorable development on prior accident years' reserves, which decreased loss and settlement expenses for the segment by $2.6 million. Comparatively, 2020 results included favorable development on prior accident years' loss reserves, which decreased the segment's loss and settlement expenses by $11.1 million, and offset $2.6 million in reserves established for COVID-19 related losses.

The combined ratio for the surety segment totaled 83.1 for the first nine months of 2021, compared to 71.5 for the same period in 2020. The segment's loss ratio was 17.4 in 2021, up from 6.5 in 2020 due to lower reserve releases and modestly higher current accident year losses. The expense ratio was 65.7, up from 65.0 in the prior year, as an increased level of bonus and profit-sharing expenses were incurred, which were influenced by overall corporate performance.

Investment Income

Our investment portfolio generated net investment income of $50.9 million during the first nine months of 2021, a decrease of 0.6 percent from that reported for the same period in 2020. The decrease in investment income was largely due to the decline in reinvestment rates during 2020.

Yields on our fixed income investments for the first nine months of 2021 and 2020 were as follows:

	2021	2020
Pretax Yield		
Taxable	2.78 %	3.15 %
Tax-Exempt	2.63 %	2.70 %
After-Tax Yield		
Taxable	2.20 %	2.49 %
Tax-Exempt	2.49 %	2.56 %

The following table depicts the composition of our investment portfolio at September 30, 2021 as compared to December 31, 2020:

(in thousands)	September 30, 2021		December 31, 2020	
Fixed income	$ 2,394,669	77.2 %	$ 2,196,626	77.4 %
Equity securities	565,238	18.2 %	524,006	18.5 %
Other invested assets	52,480	1.7 %	54,232	1.9 %
Cash	89,618	2.9 %	62,217	2.2 %
Total investments and cash	$ 3,102,005	100.0 %	$ 2,837,081	100.0 %

We believe our overall asset allocation best meets our strategy to preserve capital for policyholders, provide sufficient income to support insurance operations and effectively grow book value over a long-term investment horizon.

The fixed income portfolio increased by $198.0 million in the first nine months of 2021. The increase was due to the majority of operating cash flows being allocated to the fixed income portfolio. Average fixed income duration was 5.1 years at September 30, 2021, reflecting our current liability structure and sound capital position. The equity portfolio increased by $41.2 million during the first nine months of 2021, reflecting strong market returns.

Income Taxes

Our effective tax rate for the first nine months of 2021 was 19.0 percent, compared to 15.8 percent for the same period in 2020. Effective rates are dependent upon components of pretax earnings or losses and the related tax effects. The effective rate was higher for the first nine months of 2021, as lower pretax income was experienced in 2020, which increased the percentage impact of tax-favored adjustments.

Three Months Ended September 30, 2021 Compared to Three Months Ended September 30, 2020

Consolidated revenue for the third quarter of 2021 increased $7.7 million from the third quarter of 2020. Net premiums earned for the Group increased 17 percent, driven by growth from our casualty and property segments, while performance in the equity portfolio varied significantly between the periods. Flat market performance resulted in $2.6 million of unrealized losses in our equity portfolio in 2021, compared to $28.1 million of unrealized gains on equity securities in the third quarter of 2020, as the market continued to recover from pandemic lows. Investment income was up 8 percent compared to the prior year, due to a larger invested asset base. Realized gains during the third quarter of 2021 were comprised of $1.7 million of realized gains on equity securities, due primarily to rebalancing within our equity strategies, $0.2 million of realized gains on the fixed income portfolio and $0.1 million of other realized losses. This compares to $0.6 million of realized gains on the equity portfolio, $0.7 million of realized gains on the fixed income portfolio and $0.2 million of other realized gains for the same period in 2020.

Consolidated Revenues (in thousands)	For the Three Months Ended September 30, 2021	2020
Net premiums earned	$ 253,389	$ 216,630
Net investment income	17,844	16,543
Net realized gains	1,829	1,512
Net unrealized gains (losses) on equity securities	(2,592)	28,126
Total consolidated revenue	$ 270,470	$ 262,811

Net earnings for the third quarter of 2021 totaled $29.2 million, compared to $42.4 million of net earnings for the same period in 2020. The decrease in earnings was primarily attributed to $2.0 million of net after-tax unrealized losses on equity securities in 2021, compared to $22.2 million of net after-tax unrealized gains in 2020. Underwriting results for 2021 were impacted by $34.0 million of pretax losses from hurricanes and $1.0 million of pretax losses from other storms. Comparatively, underwriting results for 2020 included $37.0 million of pretax losses from hurricanes Hanna, Isaias, Laura and Sally. Results for each period benefited from favorable development on prior years' loss reserves, which provided additional pretax earnings of $29.5 million in the third quarter of 2021, compared to $29.2 million in 2020. Pretax bonus and profit sharing-related expenses associated with the net impact of prior years' reserve development and catastrophe losses resulted in a $0.8 million expense reduction in 2021, compared to a $1.5 million reduction in 2020. These performance-related expenses affected policy acquisition, insurance operating and general corporate expenses. Bonus and profit-sharing amounts earned by executives, managers and associates are predominately influenced by corporate performance, including operating earnings, combined ratio and return on capital.

Underwriting income was $13.7 million on a 94.6 combined ratio for the third quarter of 2021, compared to $1.2 million on a 99.5 combined ratio in the same period of 2020. The loss ratio decreased to 56.7 from 58.9, due to improvements in the current accident year loss ratio and the $4.1 million of reserves added in 2020 related to COVID-19 loss and defense costs. The Group's expense ratio decreased to 37.9 from 40.6, with 2021 benefiting from a larger earned premium base.

In the third quarter of 2021, $5.4 million of investee earnings were recorded for Maui Jim and $4.4 million of investee earnings were recorded for Prime. Comparatively, the third of 2020 reflected investee earnings of $6.2 million and $3.3 million from Maui Jim and Prime, respectively.

Comprehensive earnings totaled $17.0 million for the third quarter of 2021, compared to $51.9 million for the third quarter of 2020. Other comprehensive earnings primarily included net after-tax unrealized gains and losses from the fixed income portfolio. Other comprehensive loss of $12.2 million in the third quarter of 2021 was attributable to an increase in interest rates, which decreased the fair value of securities held in the fixed income portfolio. Comparatively, $9.6 million of other comprehensive gain was recognized in 2020.

Premiums

Gross premiums written for the Group increased $53.4 million for the third quarter of 2021 when compared to the same period of 2020. Growth was achieved in all three segments, though the increase was driven by products in the casualty and property segments. Net premiums earned increased $36.8 million, also driven by products in our property and casualty segments.

(in thousands)	Gross Premiums Written For the Three Months Ended September 30, 2021	2020	% Change	Net Premiums Earned For the Three Months Ended September 30, 2021	2020	% Change
Casualty						
Commercial excess and personal umbrella	$ 73,477	$ 62,966	17 %	$ 56,285	$ 46,404	21 %
General liability	21,573	20,351	6 %	23,156	22,747	2 %
Professional services	25,516	23,191	10 %	22,401	21,422	5 %
Commercial transportation	34,586	28,732	20 %	22,571	15,130	49 %
Small commercial	17,573	17,215	2 %	16,301	16,009	2 %
Executive products	40,113	34,355	17 %	5,461	6,387	(14) %
Other casualty	19,958	17,198	16 %	16,677	14,903	12 %
Total	$ 232,796	$ 204,008	14 %	$ 162,852	$ 143,002	14 %
Property						
Commercial property	$ 53,023	$ 37,200	43 %	$ 28,683	$ 20,168	42 %
Marine	28,618	24,936	15 %	25,416	19,687	29 %
Specialty personal	6,447	5,272	22 %	5,462	4,794	14 %
Other property	2,060	1,127	83 %	1,325	731	81 %
Total	$ 90,148	$ 68,535	32 %	$ 60,886	$ 45,380	34 %
Surety						
Commercial	$ 13,605	$ 12,054	13 %	$ 11,541	$ 10,543	9 %
Miscellaneous	11,899	11,066	8 %	11,124	10,547	5 %
Contract	7,798	7,200	8 %	6,986	7,158	(2) %
Total	$ 33,302	$ 30,320	10 %	$ 29,651	$ 28,248	5 %
Grand Total	$ 356,246	$ 302,863	18 %	$ 253,389	$ 216,630	17 %

Casualty

Gross premiums written for the casualty segment were up $28.8 million in the third quarter of 2021. Gross premiums from commercial excess and personal umbrella increased $10.5 million, due to rate increases and an expanded distribution base. Rate increases led to a 17 percent increase in premiums for our executive products group. Other casualty premium increased as a result of our GBA business that continues to gain scale and growth in the amount of business written by Prime, with whom we maintain a quota share reinsurance treaty.

Commercial transportation was meaningfully affected by the stay-at-home orders associated with COVID-19, which resulted in a significant decrease in premium in 2020. Transportation premiums were up $5.9 million in 2021, when compared to 2020, and were up from pre-pandemic levels.

Property

Gross premiums written for the property segment were up $21.6 million in the third quarter of 2021. Our commercial property business was up $15.8 million, as rates on wind-prone and earthquake exposures continued to increase and the marketplace provided an opportunity to increase market share. Rate increases and improved retention led to $3.7 million of growth for our marine product. Specialty personal, which is primarily composed of homeowners' insurance in Hawaii, grew as a result of continued investment in relationships and distribution. Other property premium increased as a result of property-exposed GBA business that continues to gain scale.

Surety

Gross premiums written for the surety segment were up $3.0 million in the third quarter of 2021. The expansion of existing accounts and new business resulted in increased premium for commercial surety. The increase in miscellaneous surety premium is attributable to growth in existing programs and new opportunities from market disruption. Contract surety benefited from new construction opportunities.

Underwriting Income

	For the Three Months Ended September 30, 2021	2020
Underwriting Income (Loss) (in thousands)		
Casualty	$ 22,949	$ 13,993
Property	(16,558)	(19,951)
Surety	7,333	7,110
Total	$ 13,724	$ 1,152
Combined Ratio		
Casualty	85.9	90.2
Property	127.2	144.0
Surety	75.3	74.8
Total	94.6	99.5

Casualty

The casualty segment recorded underwriting earnings of $22.9 million in the third quarter of 2021, compared to $14.0 million for the same period last year. Reserve releases reduced loss and settlement expenses for the casualty segment by $26.0 million, primarily on accident years 2018 through 2020. Favorable development was widespread, with notable amounts from transportation, general liability and commercial excess. In comparison, $22.0 million of reserves were released in the third quarter of 2020. Transportation, general liability, commercial excess, executive products and professional services were drivers of the favorable development. Offsetting the favorable development, hurricane and storm losses on casualty-oriented package policies that include property coverage resulted in $1.6 million of losses in 2021 and $3.6 million of losses in 2020.

The combined ratio for the casualty segment was 85.9 in 2021, compared to 90.2 in 2020. The segment's loss ratio was 51.7 in 2021, down from 54.6 in 2020 as a result of the increased level of favorable development, and the addition of $2.6 million of reserves in 2020 related to COVID-19 loss and defense costs. The expense ratio for the casualty segment was 34.2, down from 35.6 for the same period last year.

Property

The property segment recorded an underwriting loss of $16.6 million for the third quarter of 2021, compared to an underwriting loss of $20.0 million for the same period last year. Underwriting results for 2021 included $0.9 million of favorable development on prior years' loss and catastrophe reserves across all products, $32.6 million of hurricane losses and $0.7 million of storm losses. Comparatively, the 2020 underwriting results included $4.0 million of favorable development on prior years' loss and catastrophe reserves and $33.4 million of losses and $2.0 million of ceded reinstatement premium from Hurricanes Hanna, Isaias, Laura and Sally.

Underwriting results for the third quarter of 2021 translated into a combined ratio of 127.2, compared to 144.0 for the same period last year. The segment's loss ratio was 91.5 in 2021, down from 103.3 in 2020 due to higher reserve releases. The segment's expense ratio decreased to 35.7 in 2021 from 40.7 in the prior year, with 2021 benefiting from a larger earned premium base.

Surety

The surety segment recorded underwriting income of $7.3 million for the third quarter of 2021, compared to $7.1 million for the same period last year. Both periods reflected positive current accident year underwriting performance. Results for 2021 included $2.5 million of favorable development on prior accident years' reserves. Comparatively, 2020 results included favorable development on prior accident years' loss reserves, which decreased the segment's loss and settlement expenses by $3.2 million, and the addition of $1.5 million of reserves for COVID-19 related losses.

The combined ratio for the surety segment totaled 75.3 for the third quarter of 2021, compared to 74.8 for the same period in 2020. The segment's loss ratio was 12.9 in 2021, up from 9.4 in 2020, due to modestly higher current accident year losses. The expense ratio was 62.4, down from 65.4 in the prior year.

Investment Income

Our investment portfolio generated net investment income of $17.8 million during the third quarter of 2021, an increase of 7.9 percent from that reported for the same period in 2020. The increase in investment income was largely due to a larger invested asset base.

Yields on our fixed income investments for the third quarter of 2021 and 2020 were as follows:

	2021	2020
Pretax Yield		
Taxable	2.70 %	3.01 %
Tax-Exempt	2.64 %	2.58 %
After-Tax Yield		
Taxable	2.13 %	2.38 %
Tax-Exempt	2.50 %	2.44 %

Income Taxes

Our effective tax rate for the third quarter of 2021 was 17.5 percent, compared to 17.7 percent for the same period in 2020. Effective rates are dependent upon components of pretax earnings or losses and the related tax effects. Lower levels of pretax income and tax-favored adjustments in the third quarter of 2021 led to a similar effective tax rate as in the third quarter of 2020.

LIQUIDITY AND CAPITAL RESOURCES

We have three primary types of cash flows: (1) cash flows from operating activities, which consist mainly of cash generated by our underwriting operations and income earned on our investment portfolio, (2) cash flows from investing activities related to the purchase, sale and maturity of investments and (3) cash flows from financing activities that impact our capital structure, such as shareholder dividend payments and changes in debt and shares outstanding.

The following table summarizes cash flows provided by (used in) our activities for the nine-month periods ended September 30, 2021 and 2020:

(in thousands)	2021	2020
Operating cash flows	$ 280,441	$ 163,244
Investing cash flows	(220,265)	(114,707)
Financing cash flows	(32,775)	(24,151)
Total	$ 27,401	$ 24,386

Our largest source of cash is premiums received from customers and our largest cash outflow is claim payments on insured losses. Cash flows from operating activities can vary among periods due to the timing in which these payments are made or received. Operating cash flows in the first nine months of 2021 benefited from increased premium receipts relative to the first nine months of 2020.

We have $149.6 million in debt outstanding. On October 2, 2013, we completed a public debt offering, issuing $150.0 million in senior notes maturing September 15, 2023 (a 10-year maturity), and paying interest semi-annually at the rate of 4.875 percent per annum. The notes were issued at a discount resulting in proceeds, net of discount and commission, of $148.6 million. The estimated fair value for the senior notes at September 30, 2021 was $162.4 million. The fair value of our debt is estimated based on the limited observable prices that reflect thinly traded securities.

As of September 30, 2021, we had cash and other investments maturing within one year of approximately $163.5 million and an additional $628.5 million maturing between one to five years. Whereas our strategy is to be fully invested at all times, short-term investments in excess of demand deposit balances are considered a component of investment activities, and thus are classified as investments in our consolidated balance sheets.

We also maintain a revolving line of credit with Bank of Montreal, Chicago Branch, which permits us to borrow up to an aggregate principal amount of $60.0 million. This facility was entered into during the first quarter of 2020 and replaced the previous $50.0 million facility with JP Morgan Chase Bank N.A., which was set to expire on May 24, 2020. Under certain conditions, the line may be increased up to an aggregate principal amount of $120.0 million. The facility has a three-year term that expires on March 27, 2023. As of and during the nine-month period ended September 30, 2021, no amounts were outstanding on either facility.

Additionally, two of our insurance companies, RLI Insurance Company (RLI Ins.) and Mt. Hawley Insurance Company, are members of the Federal Home Loan Bank of Chicago (FHLBC). Membership in the Federal Home Loan Bank system provides both companies access to an additional source of liquidity via a secured lending facility. Our membership allows each insurance subsidiary to determine tenor and structure at the time of borrowing. As of and during the nine-month period ended September 30, 2021, there were no outstanding borrowing amounts with the FHLBC.

We believe that cash generated by operations and investments will provide sufficient sources of liquidity to meet our anticipated needs over the next 12 to 24 months. In the event they are not sufficient, we believe cash available from financing activities and other sources will provide sufficient additional liquidity.

We maintain a diversified investment portfolio representing policyholder funds that have not yet been paid out as claims, as well as the capital we hold for our shareholders. Invested assets at September 30, 2021 have increased $264.9 million from December 31, 2020. As of September 30, 2021, our investment portfolio had the following asset allocation breakdown:

(in thousands)	Cost or Amortized Cost	Fair Value	Unrealized Gain/(Loss)	% of Total Fair Value	Quality*
U.S. government	$ 139,441	$ 147,193	$ 7,752	4.7 %	AAA
U.S. agency	28,844	31,625	2,781	1.0 %	AAA
Non-U.S. government & agency	8,297	8,521	224	0.3 %	BBB+
Agency MBS	385,400	394,270	8,870	12.7 %	AAA
ABS/CMBS/MBS**	247,598	250,558	2,960	8.1 %	AA+
Corporate	896,178	938,270	42,092	30.3 %	BBB+
Municipal	604,556	624,232	19,676	20.1 %	AA
Total fixed income	$ 2,310,314	$ 2,394,669	$ 84,355	77.2 %	AA-
Equity	311,392	565,238	253,846	18.2 %	
Other invested assets	46,717	52,480	5,763	1.7 %	
Cash	89,618	89,618	—	2.9 %	
Total portfolio	$ 2,758,041	$ 3,102,005	$ 343,964	100.0 %	

* Quality ratings provided by Moody's, S&P and Fitch

** Non-agency asset-backed, commercial mortgage-backed and mortgage-backed securities

Quality is an average of each bond's credit rating, adjusted for its relative weighting in the portfolio. As of September 30, 2021, our fixed income portfolio had the following rating distribution:

AAA	**38.1 %**
AA	**21.6 %**
A	**20.3 %**
BBB	**13.8 %**
BB	**3.3 %**
B	**2.6 %**
CCC	**0.1 %**
NR	**0.2 %**
Total	**100.0 %**

As of September 30, 2021, the duration of the fixed income portfolio was 5.1 years. Our fixed income portfolio remained well diversified, with 1,549 individual issues.

Our investment portfolio has limited exposure to structured asset-backed securities. As of September 30, 2021, we had $134.4 million in ABS, which are pools of assets collateralized by cash flows from several types of loans, including home equity, credit cards, autos and structured bank loans in the form of collateralized loan obligations (CLOs).

As of September 30, 2021, we had $116.1 million in commercial mortgage-backed securities and $394.3 million in mortgage-backed securities backed by government sponsored enterprises (GSEs - Freddie Mac, Fannie Mae and Ginnie Mae). Excluding the GSE-backed MBS, our exposure to ABS and CMBS was 8.1 percent of our investment portfolio at quarter end.

We had $938.3 million in corporate fixed income securities as of September 30, 2021, which includes $109.8 million invested in a high-yield credit strategy. This high-yield portfolio consists of floating rate bank loans and bonds that are below investment grade in credit quality and offer incremental yield over our core fixed income portfolio.

The municipal portfolio includes approximately 52 percent taxable securities and 48 percent tax-exempt securities. Approximately 89 percent of our municipal bond portfolio maintains an ‘AA’ or better rating, while 99 percent of the municipal bond portfolio is rated ‘A’ or better.

The securities within the actively managed portion of the equity portfolio remain primarily invested in large-cap issues, with a focus on dividend income, and are a source of liquidity. This strategy remains one of value investing, with security selection taking precedence over market timing.

As of September 30, 2021, our equity portfolio had a dividend yield of 2.1 percent, compared to 1.4 percent for the S&P 500 index. Because of the corporate dividend-received-deduction applicable to our dividend income, we pay an effective tax rate of 13.1 percent on dividends, compared to 21.0 percent on taxable interest and 5.3 percent on municipal bond interest income. The equity portfolio is managed in a diversified and granular manner, with 81 individual securities and four ETF positions. No single company exposure in the equity portfolio represents more than 1 percent of invested assets.

Other invested assets include investments in low income housing tax credit partnerships, membership in the FHLBC and investments in private funds. As of September 30, 2021, $9.1 million of investments were pledged as collateral with the FHLBC to ensure timely access to the secured lending facility that ownership of FHLBC stock provides. As of and during the nine-month period ended September 30, 2021, there were no outstanding borrowings with the FHLBC.

Our investment portfolio does not have any exposure to derivatives.

Our capital structure is comprised of equity and debt outstanding. As of September 30, 2021, our capital structure consisted of $149.6 million in 10-year maturity senior notes maturing in 2023 (debt) and $1.3 billion of shareholders’ equity. Debt outstanding comprised 10.7 percent of total capital as of September 30, 2021. Interest and fees on debt obligations totaled $5.7 million during each of the first nine months of 2021 and 2020. We have incurred interest expense on debt at an average annual interest rate of 4.91 percent for the nine-month periods ended September 30, 2021 and 2020.

We paid a regular quarterly cash dividend of $0.25 per share on September 20, 2021, the same amount as the prior quarter. We have increased dividends in each of the last 46 years.

Our three insurance companies are subsidiaries of RLI Corp, with RLI Ins. as the first-level, or principal, insurance company. At the holding company (RLI Corp.) level, we rely largely on dividends from our insurance subsidiaries to meet our obligations for paying principal and interest on outstanding debt, corporate expenses and dividends to RLI Corp. shareholders. As discussed further below, dividend payments to RLI Corp. from our principal insurance subsidiary are restricted by state insurance laws as to the amount that may be paid without prior approval of the insurance regulatory authorities of Illinois. As a result, we may not be able to receive dividends from such subsidiary at times and in amounts necessary to pay desired dividends to RLI Corp. shareholders. On a GAAP basis, as of September 30, 2021, our holding company had $1.3 billion in equity. This includes amounts related to the equity of our insurance subsidiaries, which is subject to regulatory restrictions under state insurance laws. The unrestricted portion of holding company net assets is comprised primarily of investments and cash, including $89.0 million in liquid assets, which exceeds our normal annual holding company expenditures. Unrestricted funds at the holding company are available to fund debt interest, general corporate obligations and dividend payments to our shareholders. If necessary, the holding company also has other potential sources of liquidity that could provide for additional funding to meet corporate obligations or pay shareholder dividends, which include a revolving line of credit, as well as access to capital markets.

Ordinary dividends, which may be paid by our principal insurance subsidiary without prior regulatory approval, are subject to certain limitations based upon statutory income, surplus and earned surplus. The maximum ordinary dividend distribution from our principal insurance subsidiary in a rolling 12-month period is limited by Illinois law to the greater of 10 percent of RLI Ins. policyholder surplus, as of December 31 of the preceding year, or the net income of RLI Ins. for the 12-month period ending December 31 of the preceding year. Ordinary dividends are further restricted by the requirement that they be paid from earned surplus. Any dividend distribution in excess of the ordinary dividend limits is deemed extraordinary and requires prior approval from the Illinois Department of Insurance (IDOI). In the first nine months of 2021, RLI Ins. paid $70.0 million in ordinary dividends to RLI Corp. In 2020, our principal insurance subsidiary paid ordinary dividends totaling $110.0 million. As of September 30, 2021, $0.3 million of the net assets of our principal insurance subsidiary were not restricted and could be distributed to RLI Corp. as ordinary dividends without prior approval from the IDOI. Because the limitations are based upon a rolling 12-month period, the amount and impact of these restrictions vary over time. In addition to restrictions from our principal subsidiary's insurance regulator, we also consider internal models and how capital adequacy is defined by our rating agencies in determining amounts available for distribution.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk of economic losses due to adverse changes in the estimated fair value of a financial instrument as the result of changes in equity prices, interest rates, foreign currency exchange rates and commodity prices. Historically, our primary market risks have been equity price risk associated with investments in equity securities and interest rate risk associated with investments in fixed maturities. We have limited exposure to both foreign currency risk and commodity risk.

Credit risk is the potential loss resulting from adverse changes in an issuer's ability to repay its debt obligations. We monitor our portfolio to ensure that credit risk does not exceed prudent levels. We have consistently invested in high credit quality, investment grade securities. Our fixed maturity portfolio has an average rating of AA-, with 80 percent rated A or better by at least two nationally recognized rating organizations.

On an overall basis, our exposure to market risk has not significantly changed from that reported in our 2020 Annual Report on Form 10-K. The COVID-19 pandemic does present new and emerging uncertainty to the financial markets. See further discussion in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations of this Quarterly Report on Form 10-Q.

Item 4. Controls and Procedures

We maintain a system of controls and procedures designed to provide reasonable assurance as to the reliability of the financial statements and other disclosures included in this report, as well as to safeguard assets from unauthorized use or disposition. An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was performed, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective, as of the end of the period covered by this report.

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurances of achieving the desired control objective, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. We believe that our disclosure controls and procedures provide such reasonable assurance.

No changes were made to our internal control over financial reporting during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. **Legal Proceedings** – There were no material changes to report.

Item 1A. **Risk Factors** – There were no material changes to report.

Item 2. **Unregistered Sales of Equity Securities and Use of Proceeds -**

Items 2(a) and (b) are not applicable.

In 2010, our Board of Directors implemented a $100 million share repurchase program. We did not repurchase any shares during 2021. We have $87.5 million of remaining capacity from the repurchase program. The repurchase program may be suspended or discontinued at any time without prior notice.

Item 3. **Defaults Upon Senior Securities** - Not Applicable.

Item 4. **Mine Safety Disclosures -** Not Applicable.

Item 5. **Other Information** - Not Applicable.

Item 6. **Exhibits**

Exhibit No.	Description of Document	Reference
10.1	RLI Corp. Executive Deferred Compensation Plan, as amended*	Attached as Exhibit 10.1.
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Attached as Exhibit 31.1.
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Attached as Exhibit 31.2.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Attached as Exhibit 32.1.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Attached as Exhibit 32.2.
101	iXBRL-Related Documents	Attached as Exhibit 101.
104	Cover Page Interactive Data File	Embedded in Inline XBRL and contained in Exhibit 101.

* Management contract or compensatory plan.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RLI Corp.

/s/ Todd W. Bryant

Todd W. Bryant
Vice President, Chief Financial Officer
(Principal Financial and Chief Accounting Officer)

Date: October 22, 2021

RLI CORP. EXECUTIVES

DEFERRED COMPENSATION PLAN

Restated as of January 1, 2020
Amended as of September 27, 2021

RLI CORP. EXECUTIVES

DEFERRED COMPENSATION PLAN

ARTICLE 1

INTRODUCTION

1.1 Establishment. RLI Corp. established the RLI Corp. Executives Deferred Compensation Plan effective January 1, 2005. Prior to that date, RLI provided similar deferred compensation opportunities to a select group of executives under certain Prior Agreements. All obligations under the Prior Agreements (including any predecessor arrangements) will be satisfied under the Prior Agreements, rather than under this Plan. On April 10, 2007, RLI restated the Plan, effective January 1, 2009, to comply with the requirements of the final regulations issued under Section 409A of the Code ("Section 409A"). RLI thereafter amended the Plan effective May 4, 2017 to make clear how partial (or fractional) shares are paid in a single or final payment. On January 1, 2020, RLI further restated the Plan to expand the types of investment and distribution alternatives available to Participants.

This restatement applies to amounts deferred under the Plan on or after January 1, 2020 (the "Restatement Date"), and, to the extent permitted under Section 409A, to the payment of all amounts deferred under the Plan (whether such amounts were deferred before, on, or after the Restatement Date) that have not yet been distributed as of the Restatement Date. The Plan was amended effective September 27, 2021 to permit an assignment of benefits payable under the Plan, and accelerated payout, to comply with the terms of a Domestic Relations Order.

The obligation of RLI to make payments under the Plan constitutes an unsecured (but legally enforceable) promise of RLI to make such payments and no person, including any Participant or Beneficiary, shall have any lien, prior claim or other security interest in any property of RLI as a result of the Plan.

1.2 Purpose. The purpose of the Plan is to attract and retain qualified executives and to provide them with an opportunity to save on a pre-tax basis and accumulate tax-deferred income to achieve their financial goals.

1.3 Definitions. When the following terms are used herein with initial capital letters, they shall have the following meanings:

1.3.1. Account - the separate recordkeeping account (unfunded and unsecured) maintained for each Participant in connection with the Participant's participation in the Plan, which shall consist of separate subaccounts relating to the Deferral Eligible Amounts deferred by such Participant in each Year.

1.3.2. Affiliate - a business entity which is under a "common control" with RLI or which is a member of an "affiliated service group" that includes RLI, as those terms are defined in Code § 414(b), (c) and (m).

1.3.3. Base Salary - the Participant's total salary and wages from RLI and all Affiliates, including any amount that would be included in the definition of Base Salary but for the individual's election to defer some of such Participant's salary pursuant to the Plan or any other deferred compensation plan established by RLI or any Affiliate; but excluding disability pay and any other remuneration paid by RLI or its Affiliates, such as overtime, incentive compensation, stock options, distributions of compensation previously deferred, restricted stock, allowances for expenses (including moving, travel expenses, and automobile allowances), and fringe benefits whether payable in cash or in a form other than cash. In the case of an individual in a plan sponsored by RLI or an Affiliate that is described in Section 401(k), 125 or 132(f) of the Code, the term Base Salary shall include any amount that would be included in the definition of Base Salary but for the individual's election to reduce such individual's salary and have the amount of the reduction contributed to or used to purchase benefits under such plan.

1.3.4. Beneficiary - the person or persons designated as such under Section 5.2.

1.3.5. Board - the Board of Directors of RLI.

1.3.6. Chief Executive Officer - the Chief Executive Officer of RLI.

1.3.7. Code - the Internal Revenue Code of 1986, as the same may be amended from time to time.

1.3.8. Committee - the Executive Resources Committee of the Board.

1.3.9. Deferral Eligible Amounts - with respect to a Participant for any period, means the sum of such Participant's Base Salary and Incentive Compensation for such period.

1.3.10. Employee - a common-law employee of RLI or an Affiliate (while it is an Affiliate).

1.3.11. ERISA - the Employee Retirement Income Security Act of 1974, as the same may be amended from time to time.

1.3.12. Incentive Compensation - the total remuneration of the Participant of the Participant from RLI and all Affiliates under the various cash incentive compensation programs maintained by RLI and all Affiliates, including, but not limited to, amounts received under the Market Value Potential ("MVP") Executive Incentive Program and the Underwriting Profit Program ("UPP"), but excluding any other type of remuneration paid by RLI or its Affiliates, such as Base Salary, overtime, stock options, distributions of compensation previously deferred, restricted stock, allowances for expenses, and fringe benefits. The Committee, from time to time, shall designate those items of a Participant's Compensation deemed to be Incentive Compensation.

1.3.13. Measurement Fund - any mutual fund or other investment vehicle designated by RLI from time to time to be available to Participants for purposes of measuring the earnings to be credited to Accounts pursuant to Section 3.4 of the Plan.

1.3.14. **Participant** – an eligible Employee who enrolls as a Participant in the Plan under Section 2.3. An Employee who becomes a Participant shall remain a Participant in the Plan until the complete payment of the Participant's Account balance after the Participant's Termination of Employment or death.

1.3.15. **Performance-Based Compensation** – the Incentive Compensation of the Participant for a period where the amount of, or entitlement to, the Incentive Compensation is contingent on the satisfaction of pre-established organizational or individual performance criteria relating to a performance period of at least 12 consecutive months. Organizational or individual performance criteria are considered pre-established if established in writing by no later than 90 days of the commencement period of service to which the criteria relate, provided that the outcome is substantially uncertain at the time the criteria are established. Performance-Based Compensation may include payment based on performance criteria that are not approved by the Board or the Compensation Committee of the Board or by the stockholders of the Company. Performance-Based Compensation does not include any amount or portion of any amount that will be paid either regardless of performance, or based upon a level of performance that is substantially certain to be met at the time the criteria are established.

1.3.16. **Plan** - the unfunded deferred compensation plan that is set forth in this document, as the same may be amended from time to time. The name of the Plan is the "RLI Corp. Executives Deferred Compensation Plan."

1.3.17. **Prior Agreement** - an individual agreement entered into by an Employee and RLI to provide deferred compensation opportunities to the Employee.

1.3.18. **RLI** - RLI Corp. and any Successor Corporation.

1.3.19. **RLI Stock** - the common stock of RLI.

1.3.20. **Specified Employee** - means an employee of RLI or an Affiliate who is subject to the six-month delay rule described in Section 409A(2)(B)(i) of the Code. RLI shall establish a written policy for identifying Specified Employees in a manner consistent with Section 409A, which policy may be amended by RLI from time to time as permitted by Section 409A.

1.3.21. **Successor Corporation** - any entity that succeeds to the business of RLI through merger, consolidation, acquisition of all or substantially all of its assets, or any other means and which elects before or within a reasonable time after such succession, by appropriate action evidenced in writing, to continue the Plan.

1.3.22. **Termination of Employment -** with respect to a Participant, means the Participant's separation from service with RLI and all Affiliates, within the meaning of Section 409A(a)(2)(A)(i) of the Code and the regulations under such section. Solely for this purpose, a Participant who is an eligible Employee will be considered to have a Termination of Employment when the Participant dies, retires, or otherwise has a termination of employment with RLI and all Affiliates. The employment relationship is treated as continuing intact while the Participant is on military leave, sick leave, or other bona fide leave of absence if the period of such leave does not exceed six months, or if longer, so long as the individual retains a right to reemployment with RLI or an Affiliate under an applicable statute or by contract. For purposes hereof, a leave of absence constitutes a bona fide leave of absence only if there is a reasonable expectation that the Participant will return to perform services for RLI or an Affiliate. If the period of leave exceeds six months and the individual does not retain a right to reemployment under an applicable statute or by contract, the employment relationship is deemed to terminate on the first date immediately following such six-month period. Notwithstanding the foregoing, where a leave of absence is due to any medically determinable physical or mental impairment that can be expected to last for a continuous period of not less than six months, where such impairment causes the employee to be unable to perform the duties of such employee's position of employment or any substantially similar position of employment, RLI may substitute a 29-month period of absence for such six-month period.

Whether a termination of employment has occurred is determined based on whether the facts and circumstances indicate that RLI or its Affiliate and the Participant reasonably anticipated that no further services will be performed after a certain date or that the level of bona fide services the Participant will perform after such date will permanently decrease to no more than 49 percent of the average level of bona fide services performed over the immediately preceding 36-month period (or the full period of services if the Participant has been providing services for less than 36 months).

Notwithstanding anything in Section 1.3.22 to the contrary, in determining whether a Participant has had a Termination of Employment with RLI or an Affiliate, an entity's status as an "Affiliate" shall be determined substituting "50 percent" for "80 percent" each place it appears in Section 1563(a)(1),(2), and (3) and in Treasury Regulation Section 1.414(c)-2.

RLI shall have discretion to determine whether a Participant has experienced a Termination of Employment in connection with an asset sale transaction entered into by RLI or an Affiliate, provided that such determination conforms to the requirements of Section 409A and the regulations and other guidance issued under such section, in which case RLI's determination shall be binding on the Participant.

1.3.23. **Vested** – non-forfeitable.

1.3.24. **Year** - the calendar year.

1.4 **"Top-Hat" Plan**. The Plan is intended to be a "top-hat" plan – that is, an unfunded plan maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated individuals within the meaning of ERISA §§ 201(2), 301(a)(3) and 401(a)(1), which is exempt from Parts 2, 3 and 4 of Title I of ERISA. The Plan also is a nonqualified deferred compensation plan subject to Code § 409A. To the extent any provision of the Plan does not satisfy the requirements contained in Code § 409A or in any regulations or other guidance issued by the Treasury Department under Code § 409A, such provision will be applied in a manner consistent with such requirements, regulations or guidance, notwithstanding any contrary provision of the Plan or any inconsistent election made by a Participant.

ARTICLE 2

PARTICIPATION

2.1 **Eligibility and Selection**. The following Employees shall be eligible to enroll as Participants in the Plan:

(a) Employees with the titles: Chairman of the Board, Chief Executive Officer, President and Senior Vice President; and

(b) Such other Employees as the Committee, in its sole discretion, shall determine from time to time, provided that each such Employee must;

(1) Have the title of Vice President or above, and

(2) Be expected to have compensation in excess of the Code § 401(a)(17) limit in the Participant's initial Year of eligibility.

2.2 **Notification**. RLI shall provide each eligible Employee with (i) written notification of the Employee's eligibility to participate in the Plan, and (ii) either a copy of the Plan or written notification that such a copy is available upon request.

2.3 **Enrollment**. An eligible Employee will be allowed to enroll in the Plan during the thirty (30) day period coinciding with and following the date the Employee is notified of the Employee's initial eligibility to participate in accordance with Section 2.2. Such an enrollment will be effective as of the date it is made. Thereafter, an eligible Employee may elect to enroll for a Year during the enrollment period established by RLI for such Year, which enrollment period will be a period of not less than thirty (30) days that ends not later than the last day of the prior Year. Enrollment must be made in such manner and in accordance with such rules as may be prescribed for this purpose by RLI (including by means of a voice response or other electronic system under circumstances authorized by RLI).

2.4 **Elective Deferrals**.

2.4.1. **Elections**. A Participant may elect to reduce Deferral Eligible Amounts by any dollar amount or whole percent, but not more than one-hundred percent (100%). A separate reduction amount or percentage may apply to base compensation and to bonuses. In addition, a Participant may make a separate election to reduce his or her base compensation by an amount equal to the amount, if any, distributed to the Participant in the applicable Year under the RLI Corp. 401k Plan, or a successor thereto, and representing excess contributions for the previous Year under Section 415(c) of the Code. An election must be made in such manner and in accordance with such rules as may be prescribed for this purpose by RLI (including by means of a voice response or other electronic system under circumstances authorized by RLI). An election must be made as part of the enrollment described in Section 2.3.

2.4.2. **Elections Relate to Services Performed After the Election and Are Irrevocable**. An election will apply to all Deferral Eligible Amounts attributable to services performed in a given Year, regardless of when such Deferral Eligible Amounts would otherwise be payable to the Participant (for example, an election to defer a bonus attributable to services performed in a given Year but payable in the next Year, must be made as part of the enrollment election made prior to the Year in which the services are performed). However, an election will only be effective to defer Deferral Eligible Amounts earned after the election is made, and not before. For example, an election made in connection with a mid-year enrollment under Section 2.3 will only be effective for Deferral Eligible Amounts attributable to services performed on and after the effective date of the enrollment as provided in Section 2.3. An election will apply solely with respect to the given Year – that is, an election will not automatically be carried over and applied to the next Year.

Notwithstanding the foregoing, elections for Incentive Compensation that is Performance-Based Compensation must be completed and submitted to the Company not later than six months before the end of the performance period for the Incentive Compensation; provided, however, that in order for such an election to be valid, the Participant must perform services continuously from the beginning of the performance period (or the date the performance criteria are established, if later) through the date the election is entered into, and provided further, that in no event may an election be effective to defer Incentive Compensation after the Incentive Compensation has become reasonably ascertainable. For purposes hereof, if Incentive Compensation is a specific or calculable amount, the Incentive Compensation is readily ascertainable if and when the amount is first substantially certain to be paid. If Incentive Compensation is not a specific or calculable amount, the Incentive Compensation, or any portion thereof, is readily ascertainable when the amount is both calculable and substantially certain to be paid. Accordingly, in general, any minimum amount that is both calculable and substantially certain to be paid will be treated as readily ascertainable.

In general, an election shall become irrevocable as of the last day of the enrollment period applicable to it. However, if a Participant incurs an "unforeseeable emergency," as defined in Section 4.8(h), or becomes entitled to receive a hardship distribution pursuant to Treas. Reg. § 1.401(k)-1(d)(3) after the election otherwise becomes irrevocable, the election shall be cancelled as of the date on which the Participant is determined to have incurred the unforeseeable emergency or becomes eligible to receive the hardship distribution and no further deferrals will be made under it. In addition, if a Participant becomes "disabled" (as defined below), RLI may, in its discretion, cancel the Participant's election then in effect, provided that such cancellation is made no later than the end of the Plan Year, or if later, the 15th day of the third month following the date on which the Participant becomes disabled, and provided further that RLI does not allow the Participant a direct or indirect election regarding the cancellation. For purposes of the preceding sentence, "disability" means any medically determinable physical or mental impairment resulting in the Participant's inability to perform the duties required by the Participant's position or any substantially similar position, where such impairment can be expected to result in death or can be expected to last for a continuous period of not less than six months.

2.4.3. **Limits**. RLI may, in its sole discretion, limit the minimum or maximum amount of deferrals that are allowed under the Plan by any Participant or any group of Participants, provided that such limit is established prior to the beginning of the Year or prior to enrollment of the affected Participant.

ARTICLE 3

ACCOUNTS

3.1 Accounts. RLI shall establish and maintain a separate Account for each Participant. The Account shall be for recordkeeping purposes only and shall not represent a trust fund or other segregation of assets for the benefit of the Participant. A separate subaccount shall be established within each Account to represent the amount deferred by a Participant for each Year in which the Participant defers a Deferral Eligible Amount under the Plan.

3.2 Credits to Accounts. Each Participant's Account shall be credited from time to time as provided in this Article 3.

3.3 Elective Deferrals. Each Deferral Eligible Amount which the Participant has elected to defer under the Plan shall be credited to the Participant's Account on, or as soon as administratively practicable after, the date it would otherwise be paid to the Participant.

3.4 Hypothetical Investment Funds. A Participant shall have the right to direct the manner in which earnings are credited to the portion of such Participant's Account relating to amounts deferred on or after January 1, 2020 by electing to have the Account notionally invested, in percentages elected by the Participant, in hypothetical investment options, the value of which shall track either RLI Stock or any of the Measurement Funds. A Participant shall make such elections in such manner and in accordance with such rules as may be prescribed for this purpose by RLI (including by means of a voice response or other electronic system under circumstances authorized by RLI). The portion of each Participant's Account relating to amounts deferred prior to January 1, 2020 shall be notionally invested in RLI Stock.

3.4.1. To the extent a deferral is notionally invested in RLI Stock, the Participant's Account shall be credited with a hypothetical number of shares of RLI Stock equal to the number of full and fractional shares that could be purchased with such amount on, or as soon as administratively feasible after, the date such amount is credited to the Participant's Account. The Participant's Account shall be credited with additional RLI Stock credits, equal to the number of full and fractional shares of RLI Stock that could be purchased with any cash dividends which would be payable on the RLI Stock credited to the Participant's Account. For this purposes, the share price on, or as soon as administratively practicable after, the date the dividend is paid will be used. The Account also will be adjusted for any stock split, redemption or similar event, in a manner determined to be reasonable by RLI.

3.4.2. To the extent a deferral is notionally invested in a Measurement Fund, the Participant's Account shall be credited with a hypothetical number of shares of such Measurement Fund, equal to the number of full and fractional shares that could be purchased with such amount on, or as soon as administratively practicable after, the date such amount is credited to the Participant's Account.

3.4.3. Notwithstanding any other provision of this Plan that may be interpreted to the contrary, the RLI Stock and the Measurement Fund(s) are to be used for measurement purposes only, and the allocation of each Participant's Account to RLI Stock or to a Measurement Fund, the calculation of additional amounts, and the crediting or debiting of such additional amounts to such Participant's Account shall not be considered or construed in any manner as an actual investment of such Participant's Account in RLI Stock or any Measurement Fund.

3.5 Charges to Accounts. As of the date any Plan benefit measured by the Account is paid to the Participant or the Participant's Beneficiary, the Account shall be charged with the amount of such benefit payment.

ARTICLE 4

BENEFITS

4.1 Vesting. The Participant's Account shall be fully (100%) Vested.

4.2 Payment of Plan Benefits – Amounts Deferred Prior to January 1, 2020--General Rule. If the Participant has an Account balance that relates to amounts deferred in Years prior to January 1, 2020, RLI shall pay that balance to the Participant in five (5) annual installments, commencing after the Participant's Termination of Employment, as follows:

(a) Time. The first installment shall be paid on the January 1 following the Year in which the Participant's Termination of Employment occurs. The remaining installments shall be paid on each subsequent January 1.

(b) Amount. The amount of each installment shall be determined using a "fractional" method – by multiplying the Participant's Account balance immediately before the installment payment date by a fraction, the numerator of which is one and the denominator of which is the number of installments remaining (including the installment in question).

4.3 Payment of Plan Benefits – Amounts Deferred On or After January 1, 2020--General Rule. If the Participant has an Account balance that relates to amounts deferred in Years beginning on or after January 1, 2020, RLI shall pay that balance to the Participant as follows:

(a) Time. At the time the Participant elects to defer Deferral Eligible Amounts earned in a particular Year, the Participant shall elect to receive a distribution of the subaccount relating to such deferrals on or beginning on any of the following distribution dates (the applicable date, a "Distribution Date"): (i) January 1st of the Year following the Participant's Termination of Employment, (ii) January 1st of any Year designated by the Participant that is not less than two years and not more than 20 years after the beginning of the Year to which such deferral relates or (iii) the earlier of (A) January 1st of the Year following the Participant's Termination of Employment and (B) January 1st of any Year designated by the Participant that is not less than two years and not more than 20 years after the beginning of the Year to which such deferral relates.

(b) Form of Payment. At the time the Participant elects to defer Deferral Eligible Amounts earned in a particular Year, the Participant shall elect to receive the distribution of the subaccount relating to such deferrals in one of the following forms of distribution: (i) a lump sum payment or (ii) annual installments over a period of not less than five years and not more than 15 years.

(c) Payment of Installments. If the Participant elects to receive a distribution in the form of installments, the first installment shall be paid on the Distribution Date elected in accordance with Section 4.3(a), and the remaining installments shall be paid on January 1st of each subsequent Year until the applicable subaccount has been distributed in its entirety. A distribution that is paid in the form of installments shall be considered a single payment for purposes of Section 409A of the Code. The amount of each installment shall be determined using a "fractional" method – by multiplying the Participant's Account balance immediately before the installment payment date by a fraction, the numerator of which is one and the denominator of which is the number of installments remaining (including the installment in question). If the distribution is made in shares of RLI Stock pursuant to Section 4.6.1, the result shall be rounded down to the next lower full share of RLI Stock, except for the final installment, which shall distribute the final shares and pay cash in lieu of any partial share

4.4 Changing Payment Elections.

4.4.1. General Rule. A Participant may elect to change the Distribution Date or the form of distribution (i.e., from a lump sum to installments, from installments to a lump sum or the number of installments), subject to the rules below. Any such election must be made in such manner and in accordance with such rules as may be prescribed for this purpose by RLI (including by means of a voice response or other electronic system under circumstances authorized by RLI).

4.4.2. Subsequent Election. A Participant may change the Distribution Date or the form of distribution in accordance with the following rules:

(a) The election must be received by RLI in writing and in proper form and must not take effect for at least 12 months from the date on which it is submitted to RLI;

(b) The election must be submitted to RLI at least 12 months prior to the previously elected Distribution Date; and

(c) The Distribution Date must be delayed at least five (5) years from the previously elected Distribution Date.

4.5 Special Rules.

4.5.1. Specified Employee Exception. If a Participant is a Specified Employee and the Distribution Date occurs upon the Participant's Termination of Employment, the Distribution Date shall be delayed to the later of (i) the January 1 following the Year in which the Participant's Termination of Employment occurs or (ii) the first day of the seventh month following the Participant's Termination of Employment. This delay shall not apply in the event of the Participant's death. If the subaccount is paid in the form of installments, any subsequent annual installments shall be paid as described in Section 4.3(c).

4.5.2. Acceleration of Small Amounts. Any contrary provision or election notwithstanding, if the Participant's Account balance is less than one hundred thousand dollars ($100,000) as of the date installments are to commence, the Account shall be paid to the Participant in a single lump-sum, as full settlement of all benefits due under the Plan; provided that, for purposes of applying the one hundred thousand dollar ($100,000) acceleration limit, all nonqualified deferred compensation amounts payable to the Participant by RLI and its Affiliates shall be aggregated if and to the extent required under Code § 409A or any regulations or other guidance issued by the Treasury Department thereunder.

4.6 Medium of Payments.

4.6.1. RLI Stock. To the extent a Participant's Account is deemed to be invested in RLI Stock, the payment of the Account shall be made in whole shares of RLI Stock, except for a cash payment in lieu of a partial share as may be necessary. Unless the shares have been registered under the Securities Act of 1933 (the "Act"), are otherwise exempt from the registration requirements of the Act, are the subject of a favorable no action letter issued by the Securities and Exchange Commission, or are the subject of an opinion of counsel acceptable to RLI to the effect that such shares are exempt from the registration requirements of the Act, the transfer of such shares shall be subject to the provisions of Rule 144 of the Act, as the same may be amended from time to time.

4.6.2. Measurement Funds. To the extent a Participant's Account is deemed to be invested in a Measurement Fund, the payment of the Account shall be made in cash.

4.7 Delay in Distributions. A payment under the Plan may be delayed by RLI under any of the following circumstances so long as all payments to similarly situated Participants are treated on a reasonably consistent basis:

(a) RLI reasonably anticipates that the making of the payment will violate Federal securities laws or other applicable law, provided that the payment is made at the earliest date at which RLI reasonably anticipates that the making of the payment will not cause such violation.

(b) Upon such other events as determined by RLI and according to such terms as are consistent with Section 409A or are prescribed by the Commissioner of Internal Revenue.

4.8 Acceleration of Distributions. RLI may, in its discretion, distribute all or a portion of a Participant's Accounts at an earlier time and in a different form than specified as otherwise provided in this Article 4, under the circumstances described below:

(a) As may be necessary to fulfill a Domestic Relations Order. Distributions pursuant to a Domestic Relations Order shall be made according to administrative procedures established by RLI.

(b) To the extent reasonably necessary to avoid the violation of ethics laws or conflict of interest laws pursuant to Section 1.409A-3(j)(ii) of the Treasury regulations.

(c) To pay FICA on amounts deferred under the Plan and the income tax resulting from such payment.

(d) To pay the amount required to be included in income as a result of the Plan's failure to comply with Section 409A.

(e) If RLI determines, in its discretion, that it is advisable to liquidate the Plan in connection with a termination of the Plan subject to the requirements of Section 409A.

(f) As satisfaction of a debt of the Participant to RLI or an Affiliate, where such debt is incurred in the ordinary course of the service relationship between RLI or the Affiliate and the Participant, the entire amount of the reduction in any Plan Year does not exceed $5,000, and the reduction is made at the same time and in the same amount as the debt otherwise would have been due and collected from the Participant.

(g) To pay state, local or foreign tax obligations that may arise with respect to amounts deferred under the Plan and the income tax resulting from such payment.

(h) If the Participant has an unforeseeable emergency. For these purposes an "unforeseeable emergency" is a severe financial hardship to the Participant, resulting from an illness or accident of the Participant, the Participant's spouse, the Beneficiary, or the Participant's dependent (as defined in Section 152, without regard to Section 152(b)(1), (b)(2), and (d)(1)(B) of the Code); loss of the Participant's property due to casualty (including the need to rebuild a home following damage to a home not otherwise covered by insurance); or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. For example, the imminent foreclosure of or eviction from the Participant's primary residence may constitute an unforeseeable emergency. In addition, the need to pay for medical expenses, including non-refundable deductibles, as well as for the cost of prescription drug medication, may constitute an unforeseeable emergency. Finally, the need to pay for funeral expenses of a spouse, Beneficiary, or a dependent (as defined in Section 152, without regard to 152(b)(1), (b)(2), and (d)(1)(B) of the Code) may also constitute an unforeseeable emergency. Except as otherwise provided in this paragraph (h), the purchase of a home and the payment of college tuition are not unforeseeable emergencies. Whether a Participant is faced with an unforeseeable emergency permitting a distribution under this paragraph (h) is to be determined based on the relevant facts and circumstances of each case, but, in any case a distribution on account of an unforeseeable emergency may not be made to the extent that such emergency is or may be relieved through reimbursement or compensation from insurance or otherwise, by liquidation of the Participant's assets, to the extent the liquidation of such assets would not cause severe financial hardship, or by cessation of elective deferrals.

Distributions because of an unforeseeable emergency must be limited to the amount reasonably necessary to satisfy the emergency need (which may include amounts necessary to pay any Federal, state, local, or foreign income taxes or penalties reasonably anticipated to result from the distribution). A determination of the amounts reasonably necessary to satisfy the emergency need must take into account any additional compensation that is available due to cancellation of the Participant's election as a result of this paragraph (h).

Notwithstanding anything in this Section 4.8 to the contrary, except for a Participant's election to request a distribution due to an unforeseeable emergency under paragraph (h), above (which the Participant, in the Participant's discretion, may elect to make or not make), RLI shall not provide the Participant with discretion or a direct or indirect election regarding whether a payment is accelerated pursuant to this Section 4.8.

4.9 When a Payment is Deemed to be Made. Any payment that is due to be distributed as of a particular date pursuant to the provisions of the Plan, will be deemed to be distributed as of that date if it is distributed on such date or a later date within the same calendar year, or, if later, by the 15th day of the third calendar month following the date, and the Participant is not permitted, directly or indirectly, to designate the calendar year of payment. Further, a payment will be treated as made on a date if it is made no earlier than 30 days before the date, and the Participant is not permitted, directly or indirectly, to designate the calendar year of payment. For purposes of the foregoing, if the payment is required to be made during a period of time, the specified date is treated as the first day of the period of time.

ARTICLE 5

DEATH BENEFITS

5.1 Death Benefits.

5.1.1. Benefits When Participant Dies Before Commencement of Payments. If the Participant dies before payment of the Participant's Account has commenced, the Participant's Account balance shall be paid to the Participant's Beneficiary in a lump sum payment within 90 days after the date of death.

5.1.2. Benefits When Participant Dies After Commencement of Payments. If the Participant dies after installments commence and the Participant has an Account balance at death, the remaining Account balance shall be paid to the Participant's Beneficiary in a lump sum payment within 90 days after the date of death.

5.1.3. Medium of Payments. To the extent a Participant's Account is deemed to be invested in RLI Stock, the payment of the Account shall be made in whole shares of RLI

Stock, except for a cash payment in lieu of a partial share as may be necessary. To the extent a Participant's Account is deemed to be invested in a Measurement Fund, the payment of the Account shall be made in cash.

5.1.4. **Acceleration of Small Amounts**. Any contrary provision or election notwithstanding, if the amount payable to the Beneficiary is less than one hundred thousand dollars ($100,000) as of the date installments are to commence, the benefit shall be paid to the Beneficiary in a single lump-sum, as full settlement of all benefits due under the Plan, subject, however, to any limitation on such acceleration under Code § 409A or any regulations or other guidance issued by the Treasury Department thereunder.

5.2 **Designation of Beneficiary**.

5.2.1. **Persons Eligible to Designate**. Any Participant may designate a Beneficiary to receive any amount payable under the Plan as a result of the Participant's death, provided that the Beneficiary survives the Participant. The Beneficiary may be one or more persons, natural or otherwise. By way of illustration, but not by way of limitation, the Beneficiary may be an individual, trustee, executor, or administrator. A Participant may also change or revoke a designation previously made, without the consent of any Beneficiary named therein.

5.2.2. **Form and Method of Designation**. Any designation or a revocation of a prior designation of Beneficiary shall be in writing on a form acceptable to RLI and shall be filed with RLI. RLI and all other parties involved in making payment to a Beneficiary may rely on the latest Beneficiary designation on file with RLI at the time of payment or may make payment pursuant to Section 5.2.3 if an effective designation is not on file, shall be fully protected in doing so, and shall have no liability whatsoever to any person making claim for such payment under a subsequently filed designation of Beneficiary or for any other reason.

Notwithstanding any provision of this Section 5.2 to the contrary, any Beneficiary designation made under the Prior Agreements will continue in effect under this Plan until modified by the Participant pursuant to this Section 5.2.

5.2.3. **No Effective Designation**. If there is not on file with RLI an effective designation of Beneficiary by a deceased Participant, the Beneficiary shall be the person or persons surviving the Participant in the first of the following classes in which there is a survivor, share and share alike:

(a) The Participant's spouse. (A "spouse" is a person to whom the Participant is legally married, including a common-law spouse if the marriage was entered into in a state that recognizes common-law marriages and RLI has received acceptable proof and/or certification of common-law married status.)

(b) The Participant's then living descendants, per stirpes.

(c) The Participant's estate.

Determination of the identity of the Beneficiary in each case shall be made by RLI.

5.2.4. **Successor Beneficiary**. If a Beneficiary who survives the Participant subsequently dies before receiving the complete payment to which the Beneficiary was entitled, the successor Beneficiary, determined in accordance with the provisions of this section, shall be entitled to the payments remaining. The successor Beneficiary shall be the person or persons surviving the Beneficiary in the first of the following classes in which there is a survivor, share and share alike:

(a) The Participant's spouse. (A "spouse" is a person to whom the Participant is legally married, including a common-law spouse if the marriage was entered into in a state that recognizes common-law marriages and RLI has received acceptable proof and/or certification of common-law married status.)

(b) The Participant's then living descendants, per stirpes.

(c) The Participant's estate.

ARTICLE 6

CLAIMS AND REVIEW PROCEDURES

6.1 **Application for Benefits**. Benefits shall be paid to Participants automatically (without a written request) at the time and in the manner specified in the Plan. Benefits shall be paid to a Beneficiary upon RLI's receipt of a written request for the benefits, including appropriate proof of the Participant's death and the Beneficiary's identity and right to payment. This written request shall be considered a claim for the purposes of this article.

6.2 **Claims and Review Procedures**. The claims and review procedures set forth in this article shall be the mandatory claims and review procedures for the resolution of disputes and disposition of claims filed under the Plan.

6.2.1. **Initial Claim**. An individual may, subject to any applicable deadline, file with the Committee a written claim for benefits under the Plan in a form and manner prescribed by RLI.

(a) If the claim is denied in whole or in part, the Committee shall notify the claimant of the adverse benefit determination within ninety (90) days after receipt of the claim.

(b) The ninety (90) day period for making the claim determination may be extended for ninety (90) days if the Committee determines that special circumstances require an extension of time for determination of the claim, provided that the Committee notifies the claimant, prior to the expiration of the initial ninety (90) day period, of the special circumstances requiring an extension and the date by which a claim determination is expected to be made.

6.2.2. Notice of Initial Adverse Determination. A notice of an adverse determination shall set forth in a manner calculated to be understood by the claimant:

(a) The specific reasons for the adverse determination;

(b) References to the specific provisions of the Plan (or other applicable document) on which the adverse determination is based;

(c) A description of any additional material or information necessary to perfect the claim and an explanation of why such material or information is necessary; and

(d) A description of the claims review procedures, including the time limits applicable to such procedures.

6.2.3. Request for Review. Within ninety (90) days after receipt of an initial adverse benefit determination notice, the claimant may file with the Board a written request for a review of the adverse determination and may, in connection therewith submit written comments, documents, records and other information relating to the claim benefits. Any request for review of the initial adverse determination not filed within ninety (90) days after receipt of the initial adverse determination notice shall be untimely.

6.2.4. Claim on Review. If the claim, upon review, is denied in whole or in part, the Board shall notify the claimant of the adverse benefit determination within sixty (60) days after receipt of such a request for review.

(a) The sixty (60) day period for deciding the claim on review may be extended for sixty (60) days if the Board determines that special circumstances require an extension of time for determination of the claim, provided that the Board notifies the claimant, prior to the expiration of the initial sixty (60) day period, of the special circumstances requiring an extension and the date by which a claim determination is expected to be made.

(b) In the event that the time period is extended due to a claimant's failure to submit information necessary to decide a claim on review, the claimant shall have sixty (60) days within which to provide the necessary information and the period for making the claim determination on review shall be tolled from the date on which the notification of the extension is sent to the claimant until the date on which the claimant responds to the request for additional information or, if earlier, the expiration of sixty (60) days.

(c) The Board's review of a denied claim shall take into account all comments, documents, records, and other information submitted by the claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination.

6.2.5. Notice of Adverse Determination for Claim on Review. A notice of an adverse determination for a claim on review shall set forth in a manner calculated to be understood by the claimant:

(a) The specific reasons for the denial;

(b) References to the specific provisions of the Plan (or other applicable document) on which the adverse determination is based; and

(c) A statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits.

6.3 Claims Rules.

(a) No inquiry or question shall be deemed to be a claim or a request for a review of a denied claim unless made in accordance with the established claims and review procedures. RLI may require that any claim for benefits and any request for a review of a denied claim be filed on forms to be furnished by RLI upon request.

(b) All decisions on claims and on requests for a review of denied claims shall be made by RLI.

(c) Claimants may be represented by a lawyer or other representative at their own expense, but RLI reserves the right to (i) require the claimant to furnish written authorization and (ii) establish reasonable procedures for determining whether an individual has been authorized to act on behalf of a claimant. A claimant's representative shall be entitled to copies of all notices given to the claimant.

(d) The decision of RLI on a claim and on a request for a review of a denied claim may be provided to the claimant in electronic form instead of in writing at the discretion of RLI.

(e) In connection with the review of a denied claim, the claimant or the claimant's representative shall be provided, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits.

(f) The time period within which a benefit determination will be made shall begin to run at the time a claim or request for review is filed in accordance with the claims and review procedures, without regard to whether all the information necessary to make a benefit determination accompanies the filing.

(g) The claims and review procedures shall be administered with appropriate safeguards so that benefit claim determinations are made in accordance with governing Plan documents and, where appropriate, the Plan provisions have been applied consistently with respect to similarly situated claimants.

(h) For the purpose of this article, a document, record, or other information shall be considered "relevant" if such document, record, or other information: (i) was relied upon in making the benefit determination; (ii) was submitted, considered, or generated in the course of making the benefit determination, without regard to whether such document, record, or other information was relied upon in making the benefit determination; or (iii) demonstrates compliance with the administration processes and safeguards designed to ensure that the benefit claim determination was made in accordance with governing Plan documents and that, where appropriate, the Plan provisions have been applied consistently with respect to similarly situated claimants.

(i) RLI may, in its discretion, rely on any applicable statute of limitation or deadline as a basis for denial of any claim.

6.4 Deadline to File Claim. To be considered timely under the Plan's claims and review procedures, a claim must be filed with the Committee within one (1) year after the claimant knew or reasonably should have known of the principal facts upon which the claim is based.

6.5 Exhaustion of Administrative Remedies. The exhaustion of the claims and review procedures is mandatory for resolving every claim and dispute arising under the Plan. As to such claims and disputes no claimant shall be permitted to commence an arbitration action to recover Plan benefits or to enforce or clarify rights under the Plan or under any provision of the law, whether or not statutory, until the claims and review procedures set forth herein have been exhausted in their entirety.

6.6 Arbitration. Any claim, dispute or other matter in question of any kind relating to the Plan which is not resolved by the claims and review procedures shall be settled by arbitration in accordance with the Federal Arbitration Act 9 U.S.C. §1, et seq. Notice of demand for arbitration must be made in writing to the opposing party within the time period specified in Section 6.7. In no event will a demand for arbitration be made after the date when the applicable statute of limitations would bar the institution of a legal or equitable proceeding based on such claim, dispute or other matter in question. The decision of the arbitrator(s) will be final and may be enforced in any court of competent jurisdiction. The arbitrator(s) may award reasonable fees and expenses to the prevailing party in any dispute hereunder and will award reasonable fees and expenses in the event that the arbitrator(s) find that the losing party acted in bad faith or with intent to harass, hinder or delay the prevailing party in the exercise of its rights in connection with the matter under dispute. The arbitration will take place in Peoria, Illinois, unless otherwise agreed by the parties.

6.7 Deadline to File an Arbitration Action. No arbitration action to recover Plan benefits or to enforce or clarify rights under the Plan under or under any provision of the law, whether or not statutory, may be brought by any claimant on any matter pertaining to the Plan unless the action is commenced before the earlier of:

(a) Thirty (30) months after the claimant knew or reasonably should have known of the principal facts on which the claim is based, or

(b) Six (6) months after the claimant has exhausted the claims and review procedures.

6.8 Knowledge of Fact by Participant Imputed to Beneficiary. Knowledge of all facts that a Participant knew or reasonably should have known shall be imputed to every claimant who is or claims to be a Beneficiary of the Participant or otherwise claims to derive an entitlement by reference to the Participant for the purpose of applying the previously specified periods.

6.9 **Deferral of Payment**. If there is a dispute regarding a Plan benefit, RLI, in its sole discretion, may defer payment of the benefit until the dispute has been resolved.

ARTICLE 7

ADMINISTRATION

7.1 **Administrator**. RLI shall be the administrator of the Plan. RLI shall control and manage the administration and operation of the Plan and shall make all decisions and determinations incident thereto. Except with respect to the ordinary day-to-day administration of the Plan, action on behalf of RLI must be taken by one of the following:

(a) The Board; or

(b) The Committee.

7.1.1. **Delegation**. The ordinary day-to-day administration of the Plan may be delegated by the Chief Executive Officer to an individual or a committee. Such individual or committee shall have the authority to delegate or redelegate to one or more persons, jointly or severally, such functions assigned to such individual or committee as such individual or committee may from time to time deem advisable.

7.1.2. **Automatic Removal**. If any individual or committee member to whom responsibility under the Plan is allocated is a director, officer or employee of RLI when responsibility is so allocated, then such individual shall be automatically removed as a member of a committee at the earliest time such individual ceases to be a director, officer or employee of RLI. This removal shall occur automatically and without any requirement for action by RLI or any notice to the individual so removed.

7.1.3. **Conflict of Interest**. If any individual or committee member to whom responsibility under the Plan is allocated is also a Participant or Beneficiary, that individual or committee member shall have no authority as such member with respect to any matter specifically affecting such individual's interest hereunder (as distinguished from the interests of all Participants and Beneficiaries or a broad class of Participants and Beneficiaries), all such authority being reserved exclusively to the other members to the exclusion of such individual, and such Participant or Beneficiary shall act only in an individual capacity in connection with any such matter.

7.1.4. **Binding Effect**. The determination of the Board, the Committee or the Chief Executive Officer in any matter within its authority shall be binding and conclusive upon RLI and all persons having any right or benefit under the Plan.

7.1.5. **Third-Party Service Providers**. RLI may from time to time appoint or contract with an administrator, record keeper or other third-party service provider for the Plan. Any such administrator, record keeper or other third-party service provider will serve in a nondiscretionary capacity and will act in accordance with directions given and procedures established by RLI.

7.2 Benefits Not Transferable. No Participant or Beneficiary shall have the power to transmit, alienate, dispose of, pledge or encumber any benefit payable under the Plan before its actual payment to the Participant or Beneficiary. Any such effort by a Participant or Beneficiary to convey any interest in the Plan shall not be given effect under the Plan. No benefit payable under the Plan shall be subject to attachment, garnishment, execution following judgment or other legal process before its actual payment to the Participant or Beneficiary. Notwithstanding the foregoing, a benefit payable under the Plan may be assigned under the terms of a Domestic Relations Order, provided the distribution of the portion of the account so assigned shall be accelerated and distributed as soon as administratively practical after receipt by the Company of such Order.

7.3 Benefits Not Secured. The rights of each Participant and Beneficiary shall be solely those of an unsecured, general creditor of RLI. No Participant or Beneficiary shall have any lien, prior claim or other security interest in any property of RLI.

7.4 RLI's Obligations. RLI shall provide the benefits under the Plan. RLI's obligation may be satisfied by distributions from a trust fund created and maintained by RLI, in its sole discretion, for such purpose. However, the assets of any such trust fund shall be subject to claims by the general creditors of RLI in the event RLI is (i) unable to pay its debts as they become due, or (ii) is subject to a pending proceeding as a debtor under the United States Bankruptcy Code.

7.5 Withholding Taxes. RLI shall have the right to withhold (and transmit to the proper taxing authority) such federal, state or local taxes, including (but not limited to) FICA and FUTA taxes, as it may be required to withhold by applicable laws. Such taxes may be withheld from any benefits due under the Plan or from any other compensation to which the Participant is entitled from RLI and its Affiliates.

7.6 Service of Process. The Chief Executive Officer is designated as the appropriate and exclusive agent for the receipt of service of process directed to the Plan in any legal proceeding, including arbitration, involving the Plan.

7.7 Limitation on Liability. Neither RLI's officers nor any member of its Board nor any individual or committee to whom RLI delegates responsibility under the Plan in any way secures or guarantees the payment of any benefit or amount which may become due and payable hereunder to or with respect to any Participant. Each Participant and other person entitled at any time to payments hereunder shall look solely to the assets of RLI for such payments as an unsecured, general creditor. After benefits have been paid to or with respect to a Participant and such payment purports to cover in full the benefit hereunder, such former Participant or other person(s), as the case may be, shall have no further right or interest in the other assets of RLI in connection with the Plan. Neither RLI nor any of its officers nor any member of its Board nor any individual or committee to whom RLI delegates responsibility under the Plan shall be under any liability or responsibility for failure to effect any of the objectives or purposes of the Plan by reason of the insolvency of RLI.

ARTICLE 8

AMENDMENT AND TERMINATION

8.1 Amendment. RLI reserves the power to amend the Plan either prospectively or retroactively or both, in any respect, by action of its Board; provided that, no amendment shall be effective to reduce or divest benefits payable with respect to the Account of any Participant or Beneficiary without consent. No amendment of the Plan shall be effective unless it is in writing and signed on behalf of RLI by a person authorized to execute such writing. No oral representation concerning the interpretation or effect of the Plan shall be effective to amend the Plan.

8.2 Termination. RLI reserves the right to terminate the Plan at any time by action of its Board; provided that, the termination of the Plan shall not reduce or divest benefits payable with respect to the Account of any Participant or Beneficiary or negate the Participant's or Beneficiary's rights with respect to such benefits. Any such termination will be done in accordance with the requirements of Section 409A.

ARTICLE 9

MISCELLANEOUS

9.1 Effect on Other Plans. This Plan shall not alter, enlarge or diminish any person's rights or obligations under any other benefit plan maintained by RLI or any Affiliate.

9.2 Effect on Employment. Neither the terms of this Plan nor the benefits hereunder nor the continuance thereof shall be a term of the employment of any Employee. RLI shall not be obliged to continue the Plan. The terms of this Plan shall not give any Employee the right to be retained in the service of RLI or any Affiliate.

9.3 Disqualification. Notwithstanding any other provision of the Plan or any designation made under the Plan, any individual who feloniously and intentionally kills a Participant shall be deemed for all purposes of the Plan and all elections and designations made under the Plan to have died before such Participant. A final judgment of conviction of felonious and intentional killing is conclusive for this purpose. In the absence of a conviction of felonious and intentional killing, RLI shall determine whether the killing was felonious and intentional for this purpose.

9.4 Rules of Document Construction. Whenever appropriate, words used herein in the singular may be read in the plural, or words used herein in the plural may be read in the singular; and the words "hereof," "herein" or "hereunder" or other similar compounds of the word "here" shall mean and refer to the entire Plan and not to any particular article, section or paragraph of the Plan unless the context clearly indicates to the contrary. The titles given to the various articles and sections of the Plan are inserted for convenience of reference only and are not part of the Plan, and they shall not be considered in determining the purpose, meaning or intent of any provision hereof. Written notification under the Plan shall include such other methods (for example, facsimile or e-mail) as RLI, in its sole discretion, may authorize from time to time.

9.5 References to Laws. Any reference in the Plan to a statute shall be considered also to mean and refer to the applicable regulations for that statute. Any reference in the Plan to a statute or regulation shall be considered also to mean and refer to any subsequent amendment or replacement of that statute or regulation.

9.6 **Choice of Law**. The Plan has been executed in the State of Illinois and has been drawn in conformity to the laws of that state and shall, except to the extent that federal law is controlling, be construed and enforced in accordance with the laws of the State of Illinois (without regard to its conflict of law principles).

9.7 **Binding Effect**. The Plan shall be binding upon and inure to the benefit of the successors and assigns of RLI, and the Beneficiaries, personal representatives and heirs of the Participant.

IN WITNESS WHEREOF, RLI has caused the Plan to be executed by its duly authorized officers as of the 5th day of October, 2021.

RLI Corp.

/s/ Jonathan E. Michael

Its: Chairman & CEO

Exhibit 31.1

CERTIFICATION

Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Jonathan E. Michael, certify that:

I have reviewed this quarterly report on Form 10-Q of RLI Corp.;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 22, 2021

/s/ Jonathan E. Michael

Jonathan E. Michael
Chairman & CEO

Exhibit 31.2

CERTIFICATION

Chief Financial Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Todd W. Bryant, certify that:

I have reviewed this quarterly report on Form 10-Q of RLI Corp.;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 22, 2021

/s/ Todd W. Bryant

Todd W. Bryant
Vice President, Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of RLI Corp. (the "Company") on Form 10-Q for the period ending September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jonathan E. Michael, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jonathan E. Michael

Jonathan E. Michael
Chairman & CEO
October 22, 2021

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of RLI Corp. (the "Company") on Form 10-Q for the period ending September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Todd W. Bryant, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Todd W. Bryant

Todd W. Bryant
Vice President, Chief Financial Officer
October 22, 2021