UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 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 No.)
9025 North Lindbergh Drive, Peoria, Illinois	**61615**
(Address of principal executive offices)	(Zip Code)

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

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

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

The aggregate market value of the registrant's common stock held by non-affiliates of the Registrant as of June 30, 2021, based upon the closing sale price of the Common Stock on June 30, 2021 as reported on the New York Stock Exchange, was $4,592,962,657. Shares of Common Stock held directly or indirectly by each reporting officer and director along with shares held by the Company ESOP have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares outstanding of the Registrant's Common Stock, $0.01 par value, on February 2, 2022 was 45,289,337.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement for the 2022 annual meeting of shareholders are incorporated herein by reference into Part III of this document.

RLI Corp.
Index to Annual Report on Form 10-K

		Page
Part I		
Item 1.	Business	4
Item 1A.	Risk Factors	17
Item 1B.	Unresolved Staff Comments	25
Item 2.	Properties	25
Item 3.	Legal Proceedings	25
Item 4.	Mine Safety Disclosures	25
Part II		
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	26
Item 6.	Selected Financial Data	26
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	27
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	51
Item 8.	Financial Statements and Supplementary Data	53
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	92
Item 9A.	Controls and Procedures	92
Item 9B.	Other Information	92
Part III		
Items 10-14.		92
Part IV		
Item 15.	Exhibits and Financial Statement Schedules	93

PART I

Item 1. Business

RLI Corp. was founded in 1965. References to "the Company," "we," "our," "us" or like terms refer to the business of RLI Corp. and its subsidiaries. We underwrite select property and casualty insurance through major subsidiaries collectively known as RLI Insurance Group. We conduct operations principally through three insurance companies. RLI Insurance Company (RLI Ins.), a subsidiary of RLI Corp. and our principal insurance subsidiary, writes multiple lines of insurance on an admitted basis in all 50 states, the District of Columbia, Puerto Rico, the Virgin Islands and Guam. Mt. Hawley Insurance Company (Mt. Hawley), a subsidiary of RLI Ins., writes excess and surplus lines insurance on a non-admitted basis in all 50 states, the District of Columbia, Puerto Rico, the Virgin Islands and Guam. Contractors Bonding and Insurance Company (CBIC), a subsidiary of RLI Ins., writes multiple lines of insurance on an admitted basis in all 50 states and the District of Columbia. Each of our insurance companies is domiciled in Illinois. We have no material foreign operations.

As a specialty insurance company with a niche focus, we offer insurance coverages in the specialty admitted and excess and surplus markets. We distribute our property and casualty insurance through locations across the country that market to wholesale and retail brokers, independent agents and carrier partners. We offer limited coverages on a direct basis to select insureds, as well as various reinsurance coverages. In addition, from time to time, we write a limited amount of business under agreements with managing general agents under the direction of our product leadership.

We make our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed with or furnished to the Securities and Exchange Commission (SEC) available free of charge on our website (rlicorp.com). In addition, copies of our annual report are available without charge to any shareholder. Information contained on our website is not intended to be incorporated by reference in this annual report and you should not consider that information a part of this annual report. The SEC also maintains a website (http://www.sec.gov) that contains reports, proxy and information statements and other information regarding the Company.

In the ordinary course of business, we rely on other insurance companies to share risks through reinsurance. A large portion of the reinsurance is put into effect under contracts known as treaties and, in some instances, by negotiation on each individual risk (known as facultative reinsurance). We have quota share, excess of loss and catastrophe reinsurance contracts that protect against losses over stipulated amounts arising from any one occurrence or event. These arrangements allow the Company to pursue greater diversification of business and serve to limit the maximum net loss on catastrophes and large risks. Reinsurance is subject to certain risks, specifically market risk, which affect the cost of and the ability to secure these contracts, and credit risk, which is the risk that our reinsurers may not pay on losses in a timely fashion or at all. The following table illustrates the degree to which we have utilized reinsurance during the past three years. For an expanded discussion of the impact of reinsurance on our operations, see note 5 to the consolidated financial statements within Item 8, Financial Statements and Supplementary Data.

	Year Ended December 31,		
(in thousands)	2021	2020	2019
PREMIUMS WRITTEN			
Direct and Assumed	$ 1,347,354	$ 1,136,432	$ 1,065,002
Reinsurance ceded	(289,821)	(244,344)	(204,665)
Net	$ 1,057,533	$ 892,088	$ 860,337
PREMIUMS EARNED			
Direct and Assumed	$ 1,253,296	$ 1,090,259	$ 1,021,294
Reinsurance ceded	(272,393)	(224,512)	(182,183)
Net	$ 980,903	$ 865,747	$ 839,111

SPECIALTY INSURANCE MARKET OVERVIEW

The specialty insurance market differs significantly from the standard market. In the standard market, products and coverage are largely uniform with relatively predictable exposures and companies tend to compete for customers on the basis of price. In contrast, the specialty market provides coverage for risks that do not fit the underwriting criteria of the standard carriers. Competition tends to focus less on price and more on availability, coverage, service and other value-based considerations. While specialty market exposures may have higher insurance risks than their standard admitted market counterparts, we manage these risks to achieve higher financial returns. To reach our financial and operational goals, we must have extensive knowledge of, and expertise in, our markets. Many of our risks are underwritten on an individual basis and tailored coverages are employed in order to respond to distinctive risk characteristics. We operate in the specialty admitted insurance market, the excess and surplus insurance market and the specialty reinsurance markets.

SPECIALTY ADMITTED INSURANCE MARKET

We write business in the specialty admitted market. Many of these risks are unique and hard to place in the standard admitted market, but for marketing and regulatory reasons, they must remain with an admitted insurance company. The specialty admitted market is subject to greater state regulation than the excess and surplus market, particularly with regard to rate and form filing requirements, restrictions on the ability to exit lines of business, premium tax payments and membership in various state associations, such as state guaranty funds and assigned risk plans. For 2021, our specialty admitted operations produced gross premiums written of $845.3 million, representing approximately 63 percent of our total gross premiums for the year.

EXCESS AND SURPLUS INSURANCE MARKET

The excess and surplus market focuses on hard-to-place risks. Participating in this market allows the Company to underwrite non-standard risks with more flexible policy forms and unregulated premium rates. This typically results in coverages that are more restrictive and more expensive than in the standard admitted market. The excess and surplus lines regulatory environment and production model also effectively filter submission flow and match market opportunities to our expertise and appetite. According to AM Best, the excess and surplus market represents less than 10 percent of the entire domestic property and casualty industry, as measured by direct premiums written. Our excess and surplus operations wrote gross premiums of $469.6 million, or 35 percent, of our total gross premiums written in 2021.

SPECIALTY REINSURANCE MARKET

We write business in the specialty reinsurance market. This business is generally written on a portfolio (treaty) basis. We write contracts on an excess of loss and a proportional basis. Contract provisions are written and agreed upon between the company and its reinsurance clients. The business is typically more volatile as a result of unique underlying exposures and excess and aggregate attachments. For 2021, our specialty reinsurance operations wrote gross premiums of $32.5 million, representing approximately 2 percent of our total gross premiums written for the year.

BUSINESS SEGMENT OVERVIEW

The segments of our insurance operations are casualty, property and surety. For additional information, see note 12 to the consolidated financial statements within Item 8, Financial Statements and Supplementary Data.

CASUALTY SEGMENT

Commercial Excess and Personal Umbrella

Our commercial excess coverage is written in excess of primary liability insurance provided by other carriers and in excess of primary liability written by the Company. The personal umbrella coverage is generally written in excess of homeowners' and automobile liability coverage provided by other carriers. Net premiums earned from this business totaled $219.4 million, $178.2 million and $140.5 million, or 22 percent, 21 percent and 17 percent of total net premiums earned for 2021, 2020 and 2019, respectively.

General Liability

Our general liability business consists primarily of coverage for third-party liability of commercial insureds including manufacturers, contractors, apartments and mercantile. We also offer coverages for security guards and in the specialized areas of onshore energy-related businesses and environmental liability for underground storage tanks, contractors and asbestos and environmental remediation specialists. Net premiums earned from our general liability business totaled $90.9 million, $91.7 million and $98.9 million, or 9 percent, 11 percent and 12 percent of total net premiums earned for 2021, 2020 and 2019, respectively.

Professional Services

We offer professional liability coverages focused on providing errors and omission coverage to small to medium-sized design, technical, computer and other miscellaneous professionals. Our product suite for these customers also includes a full array of multi-peril package products including general liability, property, automobile, excess liability and workers' compensation coverages. This business primarily markets its products through specialty retail agents nationwide. Net premiums earned from the professional services group totaled $88.9 million, $85.2 million and $81.3 million, or 9 percent, 10 percent and 10 percent of total net premiums earned for 2021, 2020 and 2019, respectively.

Commercial Transportation

Our transportation insurance provides commercial automobile liability and physical damage insurance to local, intermediate and long haul truckers, public transportation entities and other types of specialty commercial automobile risks. We also offer incidental related insurance coverages including general liability, excess liability and motor truck cargo. We produce business through independent agents and brokers nationwide. Net premiums earned from this business totaled $83.4 million, $64.6 million and $83.2 million, or 8 percent, 7 percent and 10 percent of total net premiums earned for 2021, 2020 and 2019, respectively.

Small Commercial

Our small commercial business offers property and casualty insurance coverages to small contractors and other small to medium-sized retail businesses. The coverages included in these packages are predominantly general liability, but also have some inland marine coverages, as well as commercial automobile, property and umbrella coverage. These products are primarily marketed through retail agents. Net premiums earned from the small commercial business totaled $64.7 million, $63.4 million and $55.7 million, or 7 percent of total net premiums earned for 2021, 2020 and 2019, respectively.

Executive Products

We provide a suite of management liability coverages, such as directors and officers (D&O) liability insurance, fiduciary liability, employment practice liability and fidelity coverages, for a variety of risk classes, including both public and private businesses. Our publicly traded D&O appetite generally focuses on offering excess Side A D&O coverage (where corporations cannot indemnify the individual directors and officers) as well as excess full coverage D&O. Additionally, we offered excess cyber liability coverage to medium to large-sized public and private businesses, but exited this business on a runoff basis in 2021. Net premiums earned from the executive products business totaled $21.9 million, $26.5 million and $27.1 million, or 2 percent, 3 percent and 3 percent of total net premiums earned for 2021, 2020 and 2019, respectively.

Other Casualty

We offer a variety of other smaller products in our casualty segment, including home business insurance, which provides limited liability and property coverage for a variety of small business owners who work from their own home. We have a quota share reinsurance agreement with Prime Insurance Company and Prime Property and Casualty Insurance Inc., the two insurance subsidiaries of Prime Holdings Insurance Services, Inc. (Prime). We assume general liability, excess, commercial auto, property and professional liability coverages on hard-to-place risks that are written in the excess and surplus and admitted insurance markets. Additionally, we write mortgage reinsurance, which provides credit risk transfer on pools of mortgages, and offer general liability and package coverages through a general binding authority (GBA) group. Net premiums earned from these lines totaled $64.6 million, $59.9 million and $71.8 million, or 8 percent, 7 percent and 8 percent of total net premiums earned for 2021, 2020 and 2019, respectively.

PROPERTY SEGMENT

Commercial Property

Our commercial property coverage consists primarily of excess and surplus lines and specialty insurance such as fire, earthquake, wind and difference in conditions (DIC), which can include earthquake, flood and collapse coverages. We provide insurance for a wide range of commercial and industrial risks, such as office buildings, apartments, condominiums, builders' risks and certain industrial and mercantile structures. Net premiums earned from the commercial property business totaled $107.9 million, $79.4 million and $68.3 million, or 11 percent, 9 percent and 8 percent of total net premiums earned for 2021, 2020 and 2019, respectively.

Marine

Our marine coverages include cargo, hull, protection and indemnity, marine liability, as well as inland marine coverages including builders' risks and contractors' equipment. Although the predominant exposures are located within the United States, there is some incidental international exposure written within these coverages. Net premiums earned from the marine business totaled $97.7 million, $81.9 million and $74.9 million, or 10 percent, 10 percent and 9 percent of total net premiums earned for 2021, 2020 and 2019, respectively.

Specialty Personal

We offer specialized homeowners' insurance, primarily homeowners' and dwelling fire insurance through retail agents in Hawaii. Net premiums earned from specialty personal coverages totaled $21.4 million, $19.6 million and $19.3 million, or 2 percent, 2 percent and 3 percent of total net premiums earned for 2021, 2020 and 2019, respectively.

Other Property

Our other property coverages consist of newer product offerings, such as general binding authority, and lines which we have recently exited. Net premiums earned from these lines totaled $4.8 million, $2.8 million and $1.5 million, or less than 1 percent of total net premiums earned for 2021, 2020 and 2019, respectively.

SURETY SEGMENT

Miscellaneous

Our miscellaneous surety coverage includes small bonds for businesses and individuals written through independent insurance agencies throughout the United States. Examples of these types of bonds are license and permit, notary and court bonds. The underwriting and delivery of these bonds is highly automated. Net premiums earned from miscellaneous surety coverages totaled $44.0 million, $42.3 million and $44.7 million, or 5 percent of total net premiums earned for 2021, 2020 and 2019, respectively.

Commercial

We offer a large variety of commercial surety bonds for medium to large-sized businesses across a broad spectrum of industries, including the financial, healthcare and on and offshore energy, petrochemical and refining industries. These risks are underwritten on an account basis and coverage is marketed through a select number of regional and national brokers with surety expertise. Net premiums earned from commercial surety coverages totaled $43.7 million, $42.9 million and $43.6 million, or 4 percent, 5 percent and 5 percent of total net premiums earned for 2021, 2020 and 2019, respectively.

Contract

We offer bonds for small to medium-sized contractors throughout the United States, underwritten on an account basis. Typically, these are performance and payment bonds for individual construction contracts. These bonds are marketed through a select number of insurance agencies that have surety and construction expertise. We also offer bonds for small and emerging contractors that are reinsured through the Federal Small Business Administration. Net premiums earned from contract surety coverages totaled $27.7 million, $27.3 million and $28.3 million, or 3 percent of total net premiums earned for 2021, 2020 and 2019, respectively.

MARKETING AND DISTRIBUTION

We distribute our coverages across the country, from our network of branch offices, primarily through wholesale and retail brokers, independent agents and carrier partners.

BROKERS

The largest volume of broker-generated premium is in our commercial property, general liability, commercial surety, executive products, commercial excess and commercial transportation coverages. This business is produced through independent wholesale and retail brokers.

INDEPENDENT AGENTS

We target classes of insurance, such as homeowners' and dwelling fire, home business, surety and personal umbrella through independent agents. Several of these products involve detailed eligibility criteria, which are incorporated into strict underwriting guidelines and prequalification of each risk using a system accessible by the independent agent. The independent agent cannot bind the risk unless they receive approval from our underwriters or through our automated systems.

UNDERWRITING AGENTS

We contract with certain underwriting agencies, which have limited authority to bind or underwrite business on our behalf. The underwriting agreements involve strict underwriting guidelines and the agents are subject to regular audits.

CARRIER PARTNERS

We partner with other insurance carriers for home business and personal umbrella. The carriers place the business with us through their associated agencies when the underlying risk does not meet their underwriting appetite.

DIGITAL AND DIRECT

We utilize digital efforts to produce and efficiently process and service business including home businesses, general binding authority, small commercial and personal umbrella risks and surety bonding. On a direct basis, we also assume premium on various reinsurance treaties.

COMPETITION

Our specialty property and casualty insurance subsidiaries are part of a very competitive industry that is cyclical and historically characterized by periods of high premium rates and shortages of underwriting capacity followed by periods of severe competition and excess underwriting capacity. Within the United States alone, approximately 2,600 companies actively market property and casualty coverages. Our primary competitors in the casualty segment include Arch, Aspen, Berkley, Chubb, CNA, Great American, Great West, Hartford, Hudson, James River, Kinsale, Lancer, Markel, Protective, RSUI, Sompo, Travelers, USLI and Zurich. Primary competitors in the property segment include Arch, Aspen, Chubb, CNA, Crum and Forster, Golden Bear, Great American, Lexington, Liberty Mutual, Palomar, Sompo and Travelers. Primary competitors in the surety segment are AIG, Arch, AXA XL, Berkley, Chubb, CNA, Great American, Hartford, HCC, Sompo and Travelers. The combination of coverages, service, pricing and other methods of competition vary from line to line. Our principal methods of meeting this competition are innovative coverages, consistency and quality service to the agents and policyholders at a fair price. We compete favorably, in part, because of our sound financial condition and reputation, as well as our broad, geographic footprint in all 50 states, the District of Columbia, Puerto Rico, the Virgin Islands and Guam. In the casualty, property and surety areas, we have experienced underwriting and claim specialists in our branch and home offices. We continue to maintain our underwriting standards by not seeking market share at the expense of underwriting profit. We have a track record of withdrawing from markets when conditions become overly adverse and offering new coverages and programs where the opportunity exists to provide needed insurance coverage with exceptional service on a profitable basis.

FINANCIAL STRENGTH RATINGS

Financial strength ratings are an important factor in establishing the competitive position of insurance companies. Publications of AM Best, Standard & Poor's and Moody's indicate that A and A+ ratings are assigned to those companies that, in their opinion, have a superior ability to meet ongoing insurance obligations, a strong capacity to meet financial commitments or a low credit risk, respectively. The ratings are independent opinions of an insurer's financial strength and ability to meet ongoing insurance policy and contract obligations, based on a comprehensive quantitative and qualitative analysis of balance sheet strength, operating performance, business profile and enterprise risk management. These ratings are based on factors relevant to policyholders, agents, insurance brokers and intermediaries and are not specifically related to securities issued by the company.

At December 31, 2021, the following ratings were assigned to our insurance companies:

AM Best	
RLI Ins., Mt. Hawley and CBIC* (group-rated)	A+, Superior
Standard & Poor's	
RLI Ins. and Mt. Hawley	A, Strong
Moody's	
RLI Ins. and Mt. Hawley	A2

* CBIC is only rated by AM Best

For AM Best and Moody's, the financial strength ratings represented above are affirmations of previously assigned ratings. During 2021, Standard & Poor's lowered our rating to A from A+. In addition to assigning a financial strength rating, AM Best also assigns financial size categories. In November 2021, RLI Ins., Mt. Hawley and CBIC, which are collectively rated as a group, were assigned a financial size category of XII (adjusted policyholders' surplus of between $1 billion and $1.25 billion). As of December 31, 2021, the policyholders' statutory surplus of RLI Insurance Group totaled $1.2 billion, which continues to result in AM Best's financial size category of XII.

REINSURANCE

We reinsure a portion of our insurance exposure, paying or ceding to the reinsurer a portion of the premiums received on such policies. Earned premiums ceded to non-affiliated reinsurers totaled $272.4 million, $224.5 million and $182.2 million in 2021, 2020 and 2019, respectively. Insurance is ceded principally to reduce net liability on individual risks and to protect against catastrophic losses. We use reinsurance as an alternative to using our own capital to take risks and reduce volatility. Retention levels are evaluated each year to maintain a balance between the growth in surplus and the cost of reinsurance. Although reinsurance does not legally discharge an insurer from its primary liability for the full amount of the policies, it does make the assuming reinsurer liable to the insurer to the extent of the insurance ceded.

Reinsurance is subject to certain risks, specifically market risk, which affects the cost and ability to secure reinsurance contracts, and credit risk, which relates to the ability to collect from the reinsurer on our claims. We strive to purchase reinsurance from financially strong reinsurers. We evaluate reinsurers' ability to pay based on their financial results, level of surplus, financial strength ratings and other risk characteristics. A reinsurance committee, comprised of senior management, reviews and approves our security guidelines and reinsurer usage. More than 89 percent of our reinsurance recoverables are due from companies with financial strength ratings of A or better by AM Best and Standard & Poor's rating services.

We utilize both treaty and facultative reinsurance coverage for our risks. Treaty coverage refers to a reinsurance contract under which the company agrees to cede all risks within a defined class of business to the reinsurer, who agrees to provide coverage on all risks ceded without individual underwriting. Facultative coverage is applied to individual risks at the company's discretion and is subject to underwriting by the reinsurer. It is used for a variety of reasons, including supplementing the limits provided by the treaty coverage or covering risks or perils excluded from treaty reinsurance.

Much of our reinsurance is purchased on an excess of loss basis. Under an excess of loss arrangement, we retain losses on a risk up to a specified amount and the reinsurers assume any losses above that amount. We may choose to participate in the reinsurance layers purchased by retaining a percentage of the layer. It is common to find conditions in excess of loss covers such as occurrence limits, aggregate limits and reinstatement premium charges. Occurrence limits cap our recovery for multiple losses caused by the same event. Aggregate limits cap our recovery for all losses ceded during the contract term. We may be required to pay additional premium to reinstate or have access to use the reinsurance limits for potential future recoveries during the same contract year.

Excluding catastrophe (CAT) reinsurance, the table below summarizes the reinsurance treaty coverage currently in effect. We may purchase facultative coverage in excess of the per risk limits shown.

(in millions) Product Line(s) Covered	Contract Type	Renewal Date	Attachment Point	Per Risk Limit Purchased	Maximum Retention	*
General liability	Excess of Loss	1/1	$ 1.0	$ 9.0	$ 1.9	
Commercial excess	Excess of Loss	1/1	1.0	9.0	1.9	
Personal umbrella	Excess of Loss	1/1	1.0	9.0	1.9	
Commercial transportation	Excess of Loss	1/1	1.0	9.0	1.9	
Package - liability and workers' comp	Excess of Loss	1/1	1.0	10.0	2.4	
Workers' compensation catastrophe	Excess of Loss	1/1	11.0	14.0	—	**
Professional services - professional liability	Excess of Loss	4/1	1.0	9.0	3.3	
Executive products	Quota Share	7/1	N/A	25.0	6.3	
Property - risk cover	Excess of Loss	1/1	1.0	24.0	1.9	
Marine	Excess of Loss	6/1	2.5	27.5	2.5	
Surety	Excess of Loss	4/1	2.0	73.0	9.7	***

* Maximum retention includes first-dollar retention plus any co-participation we retain through the reinsurance tower.

** The workers' compensation catastrophe treaty responds after our package liability and workers' compensation excess of loss treaty with no additional retention.

*** A limited number of commercial surety accounts are permitted to exceed the $75.0 million limit. These accounts are subject to additional levels of review and are monitored on a monthly basis.

At each renewal, we consider any plans to change the underlying insurance coverage we offer, as well as updated loss activity, the level of RLI Insurance Group's surplus, changes in our risk appetite and the cost and availability of reinsurance treaties. In the last renewal cycle, we maintained similar retentions on most lines of business.

PROPERTY REINSURANCE — CATASTROPHE COVERAGE

Our property catastrophe reinsurance reduces the financial impact of a catastrophe event involving multiple claims and policyholders, including earthquakes, hurricanes, floods, convective storms, terrorist acts and other aggregating events. Reinsurance limits purchased fluctuate due to changes in the amount of exposure we insure, reinsurance costs, insurance company surplus levels and our risk appetite. In addition, we monitor the expected rate of return for each of our catastrophe lines of business. At high rates of return, we grow the book of business and may purchase additional reinsurance to increase our capacity. As the rate of return decreases, we may reduce exposure and may purchase less reinsurance as this capacity becomes unnecessary. Our reinsurance coverage for 2020 through 2022 are shown in the following table:

Catastrophe Coverages
(in millions)

	2022		2021		2020	
	First- Dollar Retention	Limit	First- Dollar Retention	Limit	First- Dollar Retention	Limit
California Earthquake	$ 25	$ 600	$ 25	$ 500	$ 25	$ 500
Non-California Earthquake	25	625	25	525	25	525
Other Perils	25	475	25	375	25	375

These catastrophe limits are in addition to the per-occurrence coverage provided by facultative and other treaty coverages. We have participated in the catastrophe layers purchased by retaining a percentage of each layer throughout this period. Our participation has varied based on price and the amount of risk transferred by each layer. All layers of the treaty include one prepaid reinstatement.

Our property catastrophe program continues to be applied on an excess of loss basis. It attaches after all other reinsurance has been considered. Although covered in one program, limits and attachment points differ for California earthquakes and all other perils. The following charts use information from our catastrophe modeling software to illustrate our pre-tax net retention resulting from particular events that would generate the gross losses.

California Earthquake

(in millions)

Modeled Gross Loss	Modeled Net Loss
$ 50	$ 21
100	27
200	36
300	43
400	50
500	56
625	64

Earthquake outside of California, Wind, Other Perils

(in millions)

Modeled Gross Loss	Modeled Net Loss
$ 50	$ 26
100	36
200	46
300	55
400	58
500	65

In the above tables, projected losses for 2022 were estimated based on our exposure as of December 31, 2021, utilizing the treaty structure in place as of January 1, 2022. The tables were generated using theoretical probabilities of events occurring in areas where our portfolio of in-force policies could generate the level of loss illustrated. Actual results could vary significantly from these tables as the actual nature or severity of a particular event cannot be predicted with any reasonable degree of accuracy. Reinsurance limits are purchased based on the anticipated losses from large events. The largest losses shown above are possible, but have a lower probability of actually occurring. However, there is a remote chance that a larger event could occur. If the actual event losses are larger than anticipated, we could retain additional losses above the limit of our catastrophe reinsurance.

We regularly monitor and quantify our exposure to catastrophes. In the normal course of business, we manage our concentrations of exposures to catastrophic events, primarily by limiting concentrations of locations insured to acceptable levels and by purchasing reinsurance. Exposure and coverage detail is recorded for each risk location. We quantify and monitor the total policy limit insured in each geographical region. In addition, we use third-party catastrophe exposure models and an internally developed analysis to assess each risk to ensure we include an appropriate charge for assumed catastrophe risks.

Catastrophe exposure modeling is inherently uncertain due to the model's reliance on an infrequent observation of actual events, increasing the importance of capturing accurate policy coverage data. The model results are used both in the underwriting analysis of individual risks and at a corporate level for the aggregate book of catastrophe-exposed business. From both perspectives, we consider the potential loss produced by individual events that represent moderate-to-high loss potential at varying probabilities and magnitudes. In calculating potential losses, we use assumptions including, but not limited to, loss amplification and loss adjustment expense. We establish risk tolerances at the portfolio level based on market conditions, the level of reinsurance available, changes to the assumptions in the catastrophe models, rating agency capital constraints, underwriting guidelines and coverages and internal preferences. Our risk tolerances for each type of catastrophe, and for all perils in aggregate, change over time as these internal and external conditions change.

We are required to report to the rating agencies estimated loss to a single event that could include all potential earthquakes and hurricanes contemplated by the catastrophe modeling software. This reported loss includes the impact of insured losses based on the estimated frequency and severity of potential events, loss adjustment expense, reinstatements paid after the loss, reinsurance recoveries and taxes. Based on the catastrophe reinsurance treaty purchased on January 1, 2022, there is a 99.6 percent likelihood that the net loss will be less than 4.6 percent of policyholders' statutory surplus as of December 31, 2021. The exposure levels are within our tolerances for this risk.

OPERATING RATIOS

PREMIUMS TO SURPLUS RATIO

The following table shows, for the periods indicated, our insurance subsidiaries' statutory ratios of net premiums written to policyholders' surplus. While there is no statutory requirement applicable to the Company that establishes a permissible net premiums written to surplus ratio, guidelines established by the National Association of Insurance Commissioners (NAIC) provide that this ratio should generally be no greater than 3 to 1. While the NAIC provides this general guideline, rating agencies often require a more conservative ratio to maintain strong or superior ratings.

	Year Ended December 31,				
(dollars in thousands)	**2021**	**2020**	**2019**	**2018**	**2017**
Statutory net premiums written	$ 1,057,533	$ 892,088	$ 860,337	$ 823,175	$ 749,854
Policyholders' surplus	1,240,649	1,121,592	1,029,671	829,775	864,554
Ratio	0.9 to 1	0.8 to 1	0.8 to 1	1.0 to 1	0.9 to 1

COMBINED RATIO AND STATUTORY COMBINED RATIO

Our underwriting experience is best indicated by our combined ratio, which is the sum of (a) the ratio of incurred losses and settlement expenses to net premiums earned (loss ratio) and (b) the ratio of policy acquisition costs and other operating expenses to net premiums earned (expense ratio). The difference between the combined ratio and 100 reflects the per dollar rate of underwriting income or loss, with ratios below 100 indicating underwriting profit and ratios above 100 indicating underwriting loss.

	Year Ended December 31,				
	2021	**2020**	**2019**	**2018**	**2017**
Loss ratio	46.5	51.2	49.3	54.1	54.4
Expense ratio	40.3	40.8	42.6	40.6	42.0
Combined ratio	86.8	92.0	91.9	94.7	96.4

We also calculate the statutory combined ratio, which is not indicative of underwriting income due to accounting for policy acquisition costs differently for statutory accounting purposes. The statutory combined ratio is the sum of (a) the ratio of statutory loss and settlement expenses incurred to statutory net premiums earned (loss ratio) and (b) the ratio of statutory policy acquisition costs and other underwriting expenses to statutory net premiums written (expense ratio).

	Year Ended December 31,				
Statutory	**2021**	**2020**	**2019**	**2018**	**2017**
Statutory loss ratio	46.5	51.0	49.3	54.1	54.4
Statutory expense ratio	38.8	40.8	41.8	39.9	41.8
Statutory combined ratio	85.3	91.8	91.1	94.0	96.2
P&C industry combined ratio	102.7 *	98.8 **	98.9 **	99.2 **	103.9 **

* Source: Conning (2021). *Property-Casualty Forecast & Analysis: By Line of Insurance, Fourth Quarter 2021.* Estimated for the year ended December 31, 2021.

** Source: AM Best (2021). *Aggregate & Averages – Property/Casualty, United States & Canada*. 2017 – 2020.

INVESTMENTS

Our investment portfolio serves as the primary resource for loss payments and secondly as a source of income to support operations. Our investment strategy is based on preservation of capital as the first priority, with a secondary focus on growing book value through total return. Investments of the highest quality and marketability are critical for preserving our claims-paying ability. In addition, we have a diversified investment portfolio that distributes credit risk across many issuers and a policy that limits aggregate credit exposure. Despite periodic fluctuations in market value, our equity portfolio is part of a long-term asset allocation strategy and has contributed significantly to our growth in book value. Our portfolio does not contain derivatives.

Investment portfolios are managed both internally and externally by experienced portfolio managers. We follow an investment policy that is reviewed quarterly and revised periodically, with oversight conducted by our senior officers and board of directors.

Our investments include fixed income debt securities, common stock equity securities, exchange traded funds (ETFs) and a small number of limited partnership interests. The fixed income portfolio was 76 percent of the total portfolio, down 1% from the

prior year, while the equity allocation was 19 percent of the overall portfolio, the same as the previous year. Other invested assets represented 2 percent of the total portfolio and include investments in low income housing tax credit partnerships, membership stock in the Federal Home Loan Bank of Chicago and investments in private funds. The remaining 3 percent was made up of cash and cash equivalents. As of December 31, 2021, 79 percent of the fixed income portfolio was rated A or better and 59 percent was rated AA or better.

We classify all of the securities in our fixed income portfolio as available-for-sale, which are carried at fair value. Beyond available operating cash flow, the portfolio provides an additional source of liquidity and can be used to address potential future changes in our asset/liability structure. Aggregate maturities for the fixed income portfolio as of December 31, 2021, are as follows:

(in thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 57,625	$ 58,134
Due after one year through five years	626,953	647,068
Due after five years through 10 years	537,777	560,653
Due after 10 years	496,778	512,791
ABS/CMBS/MBS*	627,134	631,241
Total available-for-sale	$ 2,346,267	$ 2,409,887

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

We had cash and fixed income securities maturing within one year of $146.9 million at year-end 2021. This total represented 5 percent of cash and investments, a slight decrease from year-end 2020.

REGULATION

STATE REGULATION

As an insurance holding company, we and our insurance company subsidiaries, are subject to regulation by the states and territories in which the insurance subsidiaries are domiciled or transact business. Registration in each insurer's state of domicile requires periodic reporting to such state's insurance regulatory authority of the financial, operational and management information regarding the insurers within the holding company system. All transactions within a holding company system affecting insurers must have fair and reasonable terms, and the insurers' policyholders' surplus following any transaction must be both reasonable in relation to its outstanding liabilities and adequate for its needs. Notice to and, in some cases, consent from regulators is required prior to the completion of certain transactions affecting insurance company subsidiaries of the holding company system. Each state and territory individually regulates the insurance operations of both insurance companies and insurance agents/brokers. Most insurance regulations are designed to protect the interests of policyholders rather than shareholders and other investors.

The primary focus of state regulation of insurance companies is financial solvency and market conduct practices. Regulations designed to ensure the financial solvency of insurers are enforced by various filing, reporting and examination requirements. Marketplace oversight is conducted by monitoring and periodically examining trade practices, approving policy forms, licensing of agents and brokers and requiring the filing and, in some cases, approval of premiums and commission rates to ensure they are fair and adequate.

Because our insurance company subsidiaries operate in all 50 states, the District of Columbia, Puerto Rico, the Virgin Islands and Guam, we must comply with the individual insurance laws, regulations, rules and case law of each state and territory, including those regulating the filing of insurance rates and forms. Each of our three insurance company subsidiaries is domiciled in Illinois, with the Illinois Department of Insurance (IDOI) as its principal insurance regulator.

As a holding company, the amount of dividends we are able to pay depends upon the funds available for distribution, including dividends or distributions from our subsidiaries. The Illinois insurance laws applicable to our insurance company subsidiaries impose certain restrictions on their ability to pay dividends. The Illinois insurance holding company laws require that ordinary dividends paid by an insurance company be reported to the IDOI prior to payment of the dividend, and that extraordinary dividends may not be paid without such regulator's prior approval (or the absence of disapproval). An extraordinary dividend is generally defined under Illinois law as a dividend that, together with all other dividends made within the past 12 months, exceeds the greater of 100 percent of the insurer's statutory net income for the 12-month period ending as of December 31 of the preceding year, or 10 percent of the insurer's statutory policyholders' surplus as of the preceding year-end. The IDOI has broad authority to prevent the reduction of statutory surplus to inadequate levels, and there is no assurance that extraordinary dividend payments would be permitted.

In addition, changes to the state insurance regulatory requirements are frequent, including changes caused by state legislation, regulations by the state insurance departments and court rulings. State insurance regulators are members of the National Association

of Insurance Commissioners (NAIC). The NAIC is a non-governmental regulatory support organization that seeks to promote uniformity and enhance state regulation of insurance through various activities, initiatives and programs. Among other regulatory and insurance company support activities, the NAIC maintains a state insurance department accreditation program and proposes model laws, regulations and guidelines for adoption by state legislatures and insurance regulators. Such proposed laws and regulations cover areas including risk assessments, corporate governance and financial and accounting rules. To the extent such proposed model laws and regulations are adopted by states, they will apply to insurance carriers.

Illinois has adopted the Amended Holding Company Model Act, which imposes reporting obligations on parents and other affiliates of licensed insurers or reinsurers, with the purpose of protecting the licensed companies from enterprise risk. The Amended Holding Company Model Act requires the ultimate controlling person (in our case RLI Corp.) to file an annual enterprise risk report identifying the material risks within the insurance holding company system that could pose enterprise risk to the licensed companies. An enterprise risk is generally defined as an activity or event involving affiliates of an insurer that could have a material adverse effect on the insurer or the insurer's holding company system. We report on these risks on an annual basis and are in compliance with this law.

Illinois has adopted the Own Risk and Solvency Assessment (ORSA) model act. ORSA is applicable to Illinois domiciled insurance companies that meet certain size requirements, including ours. The ORSA program is a key component of an insurance company's overall enterprise risk management (ERM) framework, and is the process by which organizations identify, measure, monitor and manage key risks affecting the entire enterprise. The Company files an ORSA summary report with the IDOI each year, which includes an internal identification, description and assessment of the risks associated with our business plan and the sufficiency of capital resources to support those risks.

The NAIC uses a risk-based capital (RBC) model to monitor and regulate the solvency of licensed property and casualty insurance companies. Illinois has adopted a version of the NAIC's model law. The RBC calculation is used to measure an insurer's capital adequacy with respect to: the risk characteristics of the insurer's premiums written and unpaid losses and loss adjustment expenses, rate of growth and quality of assets, among other measures. Depending on the results of the RBC calculation, insurers may be subject to varying degrees of regulatory action. RBC is calculated annually by insurers, as of December 31 of each year. As of December 31, 2021, each of our insurance company subsidiaries had RBC levels significantly in excess of the company action level RBC, defined as being 200 percent of the authorized control level RBC, which would prompt corrective action under Illinois law. RLI Ins., our principal insurance company subsidiary, had an authorized control level RBC of $225.1 million compared to actual statutory capital and surplus of $1.2 billion as of December 31, 2021, resulting in statutory capital that is more than five times the authorized control level. The calculation of RBC requires certain judgments to be made, and, accordingly, each of our insurance company subsidiaries' current RBC may be greater or less than the RBC calculated as of any date of determination.

Each of our insurance company subsidiaries is required to file detailed annual reports, including financial statements, in accordance with prescribed statutory accounting rules, with regulatory officials in the jurisdictions in which they conduct business. The quarterly and annual financial reports filed with the states utilize statutory accounting principles (SAP) that are different from generally accepted accounting principles in the United States of America (GAAP). As a basis of accounting, SAP was developed to monitor and regulate the solvency of insurance companies. In developing SAP, insurance regulators were primarily concerned with assuring an insurer's ability to pay all its current and future obligations to policyholders. As a result, statutory accounting focuses on conservatively valuing the assets and liabilities of insurers, generally in accordance with standards specified by the insurer's domiciliary state. The values for assets, liabilities and equity reflected in financial statements prepared in accordance with GAAP are usually different from those reflected in financial statements prepared under SAP.

As part of their routine regulatory oversight process, state insurance departments conduct periodic detailed examinations, generally once every three to five years, of the books, records, accounts and operations of insurance companies that are domiciled in their states. Examinations are generally carried out in cooperation with the insurance departments of other, non-domiciliary states under guidelines promulgated by the NAIC. The most recent examination report of our insurance company subsidiaries completed by the IDOI was issued on November 27, 2018, for the five-year period ending December 31, 2017. The examination report is available to the public.

Each of our insurance company subsidiaries is subject to Illinois laws and regulations that impose restrictions on the amount and type of investments our insurance company subsidiaries may have. Such laws and regulations generally require diversification of the insurer's investment portfolio and limit the amounts of investments in certain asset categories, such as below investment grade fixed income securities, real estate-related equity, other equity investments and derivatives. Failure to comply with these laws and regulations would generally cause investments that exceed regulatory limitations to be treated as non-admitted assets for measuring statutory surplus and, in some instances, could require the divestiture of such non-qualifying investments.

Many jurisdictions have laws and regulations that limit an insurer's ability to withdraw from a particular market. For example, states may limit an insurer's ability to cancel or non-renew policies. Furthermore, certain states prohibit an insurer from withdrawing one or more lines of business from the state, except pursuant to a plan that is approved by the state insurance department. The state

insurance department may disapprove a withdrawal plan that may lead to marketplace disruption. Laws and regulations that limit cancellation and non-renewal, and that subject program withdrawals to prior approval requirements, may restrict our ability to exit unprofitable marketplaces in a timely manner.

Virtually all states require licensed insurers to participate in various forms of guaranty associations in order to bear a portion of the loss suffered by qualified policyholders of insurance companies that become insolvent. Depending upon state law, licensed insurers can be assessed a small percentage of the annual premiums written for the relevant lines of insurance in that state to contribute to paying the claims of insolvent insurers. These assessments may increase or decrease in the future, depending upon the rate of insurance company insolvencies. In some states, these assessments may be wholly or partially recovered through policy fees paid by insureds. We cannot predict the amount and timing of future assessments. Therefore, the liabilities we have currently established for these potential assessments may not be adequate and an assessment may materially impact our financial condition.

In addition, the insurance holding company laws require advance approval by state insurance commissioners of any change in control of an insurance company that is domiciled, or in some cases, having such substantial business that it is deemed to be commercially domiciled in that state. “Control” is generally presumed to exist through the ownership of 10 percent or more of the voting securities of a domestic insurance company or of any company that controls a domestic insurance company. In addition, insurance laws in many states contain provisions that require pre-notification to the insurance commissioners of a change in control of a non-domestic insurance company licensed in those states. Any future transactions that would constitute a change in control of our insurance company subsidiaries, including a change of control of RLI Ins., would generally require the party acquiring control to obtain the prior approval by the insurance departments of the insurance company subsidiaries’ state of domicile (Illinois) or commercial domicile, if applicable. It may also require pre-acquisition notification in applicable states that have adopted pre-acquisition notification provisions. Obtaining these approvals could result in a material delay of, or deter, any such transaction.

In light of the number and severity of U.S. company data breaches, some states have enacted new insurance laws that require certain regulated entities to implement and maintain comprehensive information security programs to safeguard the personal information of insureds. In 2017, the New York State Department of Financial Services (NYDFS) enacted a cybersecurity regulation. This regulation requires banks, insurance companies and other financial services institutions regulated by the NYDFS to establish and maintain a cybersecurity program “designed to protect consumers and ensure the safety and soundness of New York State’s financial services industry.” We have implemented the requirements of the regulation and are in compliance with it. We anticipate that the NYDFS will examine the cybersecurity programs of financial institutions in the future and that may result in additional regulatory scrutiny, expenditure of resources and possible regulatory actions and reputational harm.

In October 2017, the NAIC adopted a new Insurance Data Security Model Law. The law is intended to establish the standards for data security and standards for the investigation and notification of data breaches applicable to insurance companies domiciled in states adopting such law, with provisions that are generally consistent with the NYDFS cybersecurity regulation discussed above. As with all NAIC model laws, this model law must be adopted by a state before becoming law in the state. Illinois has not adopted a version of the Insurance Data Security Model Law. We expect cybersecurity risk management, prioritization and reporting to continue to be an area of significant regulatory focus by such regulatory bodies and self-regulatory organizations.

The NAIC adopted the Insurer Climate Risk Disclosure Data Survey to provide regulators with information about the assessment of risks posed by climate change to insurers and the actions insurers are taking in response to their understanding of climate change risks. In 2021, the Company provided responses for reporting year 2020 which may be accessed on the California Department of Insurance’s website.

The rates, policy terms and conditions of reinsurance agreements generally are not subject to regulation by any regulatory authority. However, the ability of a ceding insurer to take credit for the reinsurance purchased from reinsurance companies is a significant component of reinsurance regulation. Typically, a ceding insurer will only enter into a reinsurance agreement if it can obtain credit against its reserves on its statutory basis financial statements for the reinsurance ceded to the reinsurer. With respect to U.S. domiciled ceding companies, credit is usually granted when the reinsurer is licensed or accredited in the state where the ceding company is domiciled. States also generally permit ceding insurers to take credit for reinsurance if the reinsurer is: (1) domiciled in a state with a credit for reinsurance law that is substantially similar to the credit for reinsurance law in the primary insurer’s state of domicile and (2) meets certain financial requirements. Credit for reinsurance purchased from a reinsurer that does not meet the foregoing conditions is generally allowed to the extent that such reinsurer secures its obligations with qualified collateral.

Insurers are also subject to state laws regulating claim handling practices. The NAIC created a model unfair claims practices law which most states have fully or partially adopted. These laws and regulations set the standards by which insurers must investigate and resolve claims; however, a private cause of action for violation is not available to claimants. These laws typically prohibit: (1) misrepresentation of policy provisions, (2) failing to adopt and act promptly when claims are presented and (3) refusing to pay claims without an investigation. Market conduct examinations or insurance regulator investigations may be prompted through annual reviews or excessive numbers of complaints against an insurer. After an investigation or market conduct review by an insurance regulator,

insurers found to be in violation of these laws and regulations face potential fines, cease and desist orders, remediation orders or loss of authority to write business in the particular state.

FEDERAL LEGISLATION AND REGULATION

The U.S. insurance industry is not currently subject to any significant federal regulation and instead is regulated principally at the state level. However, the federal Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley Act), the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) and creation of the Federal Insurance Office (summarized below) include elements that affect the insurance industry, insurance companies and public companies such as ours.

The Sarbanes-Oxley Act established several significant corporate governance-related laws and SEC regulations applicable to public companies. The Dodd-Frank Act created significant changes in regulatory structures of banking and other financial institutions, created new governmental agencies (while merging and removing others), increased oversight of financial institutions and enhanced regulation of capital markets. The legislation also mandates new rules affecting executive compensation and corporate governance for public companies such as ours. Federal agencies have been given significant discretion in drafting the rules and regulations that implement the Dodd-Frank Act. We will continue to monitor, implement and comply with all Dodd-Frank Act-related changes to our regulatory environment. Changes in general political, economic or market conditions, including U.S. presidential and congressional elections, could affect the scope, timing and final implementation of the Dodd-Frank Act.

In addition, the Dodd-Frank Act contains insurance industry-specific provisions, including establishment of the Federal Insurance Office (FIO) and streamlining the regulation and taxation of surplus lines insurance and reinsurance among the states. The FIO, part of the U.S. Department of the Treasury, has limited authority and no direct regulatory authority over the business of insurance. The FIO's principal mandates include monitoring the insurance industry, monitoring the extent to which traditionally underserved communities and consumers have access to affordable non-health insurance products, collecting insurance industry information and data and representing the U.S. with international insurance regulators. Although the FIO does not provide substantive regulation of the insurance industry at this time, we will monitor its activities carefully for any regulatory impact on our company.

Furthermore, the Dodd-Frank Act authorized the U.S. Treasury Secretary and the Office of the U.S. Trade Representative to negotiate covered agreements. A covered agreement is an agreement between the U.S. and one or more foreign governments, authorities or regulatory entities, regarding prudential measures with respect to insurance or reinsurance. Pursuant to this authority, in September 2017, the U.S. and the European Union (EU) signed a covered agreement to address, among other things, reinsurance collateral requirements.

As part of the passage of the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) in January 2015, the National Association of Registered Agents and Brokers (NARAB) was established by federal law, which is expected to streamline insurance agent/broker licensing. There has been little progress in implementing the provisions of NARAB to date.

Other federal laws and regulations apply to many aspects of our company and its business operations. This federal regulation includes, without limitation, laws affecting privacy and data security and credit reporting — examples of which include the Gramm-Leach-Bliley Act, Fair Credit Reporting Act and Fair and Accurate Credit Transactions Act. It also includes international economic and trade sanctions — examples of which include the Office of Foreign Asset Control (OFAC) and the Iran Threat Reduction and Syrian Human Rights Act (ITR/SHR). ITR/SHR generally prohibits U.S. companies from engaging in certain transactions with the government of Iran or certain Iranian businesses, including the provision of insurance or reinsurance. Under ITR/SHR, we must disclose whether RLI Corp. or any of its affiliates knowingly engaged in certain specified activities identified in that law. For the year 2021, neither RLI Corp. nor its affiliates have knowingly engaged in any transaction or dealing reportable under Section 13(r) of the Exchange Act, as required by the ITR/SHR.

LICENSES AND TRADEMARKS

We hold a U.S. federal service mark registration of our corporate name "RLI" and several other company service marks and trademarks with the U.S. Patent and Trademark Office. Such registrations protect our intellectual property nationwide from deceptively similar use. The duration of these registrations is 10 years, unless renewed. We monitor our trademarks and service marks and protect them from unauthorized use as necessary.

HUMAN CAPITAL

RLI is a specialty underwriting company whose achievement emanates from our entrepreneurial and ownership culture. We strive to hire top underwriting and claim talent, who work closely with our customers throughout the United States. Underwriters have the resources and authority to operate within established underwriting guidelines and share in the rewards when they succeed. Compensation plans are designed to reward profitability and shareholder value creation to better align compensation with the longer-

term nature of insurance products and stakeholder expectations. We solicit employee feedback to help ensure employees are engaged, feel valued and are contributing to our success.

As of December 31, 2021, the Company employed 913 associates throughout the United States, 890 of whom were full time, and the average employee tenure was 10.2 years. We prefer to utilize our own underwriting, claims and support staff, given the complex nature of our products. The niche markets we operate within require unique experience and deep knowledge to select appropriate risks and serve our customers. Ensuring a seamless transfer of knowledge as employees retire and developing newer talent continues to be a focus of the Company. We enable employees to maintain and expand industry knowledge and technical expertise through education and training, as well as memberships in industry and trade associations. We leverage the services of a limited number of third-party contractors when it is difficult to hire employees that address a needed skill set outside of our core insurance functions or when efficiencies can be gained.

Human Capital Oversight

At the Board of Directors level, oversight of human capital is provided by the Human Capital and Compensation Committee (HCCC). Executive oversight for human capital is provided by the Company's Vice President of Human Resources, who reports to the President & CEO. Key responsibilities of the Vice President of Human Resources include providing effective programs related to staffing and succession planning, employee recruiting and development, compensation and benefits, and compliance, which are monitored by the HCCC.

Compensation and Benefits

We compensate employees through a competitive compensation (Total Rewards) program that includes a base salary or hourly wage, annual incentives for all full-time employees, long-term incentives for management, retirement benefits, as well as health, disability and life insurance. We utilize various information sources, including local, regional and national compensation surveys, to establish competitive pay targets for each position in the company to ensure our Total Rewards program attracts and retains a talented workforce.

An important element of the Total Rewards program is to promote alignment of employee and shareholder interests, which is achieved through the Company's Employee Stock Ownership Plan (ESOP) and long-term incentive plan (LTIP). The ESOP is a qualified retirement plan that provides shares of RLI Corp. stock to employees based on the profitability of the Company, while management is granted stock options and restricted stock units through the LTIP. Management, at the level of vice president and above, is subject to stock ownership guidelines requiring them to hold Company shares valued at a multiple of their base salary, depending on their role. As of December 31, 2021, 9 percent of RLI Corp. shares were owned by insiders.

Diversity and Inclusion

We strive to cultivate an exceptional workforce to perpetuate our ownership culture, deliver excellent customer service and continue to achieve superior business results. Our goal is to attract, develop and retain the best talent from diverse backgrounds, while promoting a culture where different viewpoints are valued and individuals feel respected, are treated fairly and have an opportunity to excel in their chosen careers.

FORWARD LOOKING STATEMENTS

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 and are subject to various risks, uncertainties and other factors, including, without limitation those set forth below in "Item 1A Risk Factors." 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.

Item 1A. Risk Factors

Insurance Industry

Our results of operations and revenues may fluctuate as a result of many factors, including cyclical changes in the insurance industry, which may cause the price of our securities to be volatile.

The results of operations of companies in the property and casualty insurance industry historically have been subject to significant fluctuations and uncertainties. Our profitability can be affected significantly by:

- Competitive pressures impacting our ability to write new business or retain existing business at an adequate rate,
- Rising levels of loss costs that we cannot anticipate at the time we price our coverages, including inflation in cost of materials, delays that cause increased business interruption losses and social inflation,
- Volatile and unpredictable developments, including man-made, weather-related and other natural CATs, terrorist attacks or significant price changes of the commodities we insure,
- Changes in the availability and level of reinsurance capacity,
- Changes in the amount of losses resulting from new types of claims and new or changing judicial interpretations relating to the scope of insurers' liabilities and
- The ability of our underwriters to accurately select and price risk and our claim personnel to appropriately deliver fair outcomes.

In addition, the demand for property and casualty insurance, both admitted and excess and surplus lines, can vary significantly, rising as the overall level of economic activity increases and falling as that activity decreases, causing our revenues to fluctuate. These fluctuations in results of operations and revenues may not reflect long-term results and may cause the price of our securities to be volatile.

Our business is concentrated in several key states and a change in our business in one of those states could disproportionately affect our financial condition or results of operations.

Although we operate in all 50 states, 50 percent of our direct premiums earned were generated in four states in 2021: California – 17 percent; New York – 12 percent: Florida – 11 percent; and Texas – 10 percent. An interruption in our operations, or a negative change in the business environment, insurance market or regulatory environment in one or more of these states could have a disproportionate effect on our business and direct premiums earned.

We compete with a large number of companies in the insurance industry to underwrite premium and their actions could ultimately impact our overall results.

We compete with a large number of other companies in our selected lines of business. We are vulnerable to the actions of other companies who may seek to write business without the appropriate regard for risk and profitability, especially during periods of intense competition for premium. During these times, it is very difficult to grow or maintain premium volume without sacrificing underwriting discipline and income.

We face competition from specialty insurance companies, underwriting agencies and intermediaries, as well as diversified financial services companies that are significantly larger than we are, and that have significantly greater financial, marketing, management and other resources. We may also face competition from new sources of capital such as institutional investors seeking access to the insurance market, sometimes referred to as alternative capital, which may depress pricing or limit our opportunities to write business. Some of these competitors also have stronger brand awareness than we do. We may incur increased costs in competing for premium. If we are unable to compete effectively in the markets we operate in or are not successful expanding our operations into new markets, the amount of premium we write may decline, as well as overall business results.

A number of new, proposed or potential legislative or industry developments could further increase competition in our industry, including:

- An increase in capital-raising by companies in our lines of business, which could result in new entrants to our markets and an excess of capital in the industry,

- The deregulation of commercial insurance lines in certain states and the possibility of federal regulatory reform of the insurance industry, which could increase competition from standard carriers for our excess and surplus lines of insurance business,
- Programs in which state-sponsored entities provide property insurance in CAT-prone areas or other alternative markets types of coverage,
- Changing practices, which may lead to greater competition in the insurance business and
- The emergence of Insurtech companies and the development of new technologies, which may lead to disruption of current business models and the insurance value chain.

New competition from these developments could cause the supply and/or demand for insurance or reinsurance to change, which could affect our ability to price our coverages at attractive rates and thereby adversely affect our underwriting results.

A downgrade in our ratings from AM Best, Standard & Poor's or Moody's could negatively affect our business.

Financial strength ratings are an important factor in establishing the competitive position of insurance companies. Our insurance companies are rated for overall financial strength by AM Best, Standard & Poor's and Moody's. AM Best, Standard & Poor's and Moody's ratings are independent opinions of an insurer's financial strength and ability to meet ongoing insurance policy and contract obligations, based on a comprehensive quantitative and qualitative analysis of balance sheet strength, operating performance, business profile and enterprise risk management. These financial strength ratings are based on factors relevant to policyholders, agents, insurance brokers and intermediaries and are not specifically related to securities issued by the company. The view of required capital may differ between rating agencies, as well as from RLI Corp.'s own view of desired capital. Our ratings are subject to periodic review by such firms, and the criteria used in the rating methodologies is subject to change. As such, we cannot assure the continued maintenance of our current ratings.

All of our ratings were reviewed during 2021. AM Best reaffirmed its A+, Superior rating for the combined entity of RLI Ins., Mt. Hawley and CBIC (group-rated). Standard & Poor's lowered our rating for the group of RLI Ins. and Mt. Hawley to A from A+. Moody's reaffirmed our group rating of A2 for RLI Ins. and Mt. Hawley. If our ratings are significantly reduced from their current levels by AM Best, Standard & Poor's or Moody's, our competitive position in the industry, and therefore our business, could be adversely affected. A significant downgrade could result in a substantial loss of business, as policyholders might move to other companies with greater financial strength ratings.

We are subject to extensive governmental regulation, which may adversely affect our ability to achieve our business objectives. Moreover, if we fail to comply with these regulations, we may be subject to penalties, including fines and suspensions, which may adversely affect our financial condition, results of operations and reputation.

Most insurance regulations are designed to protect the interests of policyholders rather than shareholders and other stakeholders. These regulations, generally administered by a department of insurance in each state and territory in which we do business, relate to, among other things:

- Approval of policy forms and premium rates,
- Standards of solvency, including risk-based capital measurements,
- Licensing of insurers and their producers,
- Restrictions on agreements with our large revenue-producing agents,
- Cancellation and non-renewal of policies,
- Restrictions on the nature, quality and concentration of investments,
- Restrictions on the ability of our insurance company subsidiaries to pay dividends to the Company,
- Restrictions on transactions between insurance company subsidiaries and their affiliates,
- Restrictions on the size of risks insurable under a single policy,

- Requiring deposits for the benefit of policyholders,
- Requiring certain methods of accounting,
- Periodic examinations of our operations and finances,
- Prescribing the form and content of records of financial condition required to be filed and
- Requiring reserves for unearned premium, losses and other purposes.

These regulatory requirements may adversely affect or inhibit our ability to achieve some or all of our business objectives.

In addition, regulatory authorities have relatively broad discretion to deny or revoke licenses for various reasons, including the violation of regulations. In some instances, we follow practices based on our interpretations of regulations or practices that we believe may be generally followed by the industry. These practices may turn out to be different from the interpretations of regulatory authorities. If we do not have the requisite licenses and approvals or do not comply with applicable regulatory requirements, insurance regulatory authorities could initiate investigations or other proceedings, fine the Company, preclude or temporarily suspend the Company from carrying on some or all of its activities or otherwise penalize the Company. This could adversely affect our ability to operate our business. Further, changes in the level of regulation of the insurance industry or changes in laws or regulations themselves or interpretations by regulatory authorities could adversely affect our ability to operate our business as currently conducted.

In addition to regulations specific to the insurance industry, including the insurance laws of our principal state regulator (Illinois), as a public company we are also subject to the rules and regulations of the U.S. Securities and Exchange Commission and the New York Stock Exchange (NYSE), each of which regulate many areas such as financial and business disclosures, corporate governance and shareholder matters. We are also subject to the corporation laws of Delaware, where we are incorporated. At the federal level, among other laws, we are subject to the Sarbanes-Oxley Act and the Dodd-Frank Act, each of which regulate corporate governance, executive compensation and other areas, as well as laws relating to federal trade restrictions, privacy/data security and terrorism risk insurance laws. We monitor these laws, regulations and rules on an ongoing basis to ensure compliance and make appropriate changes as necessary. Implementing such changes may require adjustments to our business methods, increases to our costs and other changes that could cause the Company to be less competitive in the industry.

Our loss reserves are based on estimates and may be inadequate to cover our actual insured losses, which would negatively impact our profitability.

Significant periods of time often elapse between the occurrence of an insured loss, the reporting of the loss to the Company and the payment of that loss. To recognize liabilities for unpaid losses, we establish reserves as balance sheet liabilities representing estimates of amounts needed to pay reported and unreported losses and the related loss adjustment expenses. Loss reserves are estimates of the ultimate cost of claims and do not represent an exact calculation of liability. These estimates are based on historical information and on estimates of future trends that may affect the frequency and severity of claims that may be reported in the future.

Estimating loss reserves is a difficult, complex and inherently uncertain process involving many variables and subjective judgments. Changes in industry practices, and in legal, legislative, regulatory, judicial, social and other conditions under which we operate may require us to pay claims we did not intend to cover when we wrote the policies. These changes may serve to extend the time for making claims, extend coverage and increase damages. These changes may not become apparent until after we have issued policies or bonds that are affected by the changes and, consequently, we may not know the extent of our liability and the impact to our financial performance until many years after a policy or bond was issued. The effects of these and other coverage issues are difficult to predict and could have a materially adverse effect on our financial performance.

As part of the reserving process, we review historical data and consider the impact of various factors such as:

- Loss emergence and cedant reporting patterns,
- Underlying policy terms and conditions,
- Business and exposure mix,
- Emerging coverage issues,
- Trends in claim frequency and severity,
- Changes in operations,

- Emerging economic and social trends,
- State reviver statutes that permit claims after a statute of limitation has expired,
- Inflation in amounts awarded by courts and juries and
- Changes in the regulatory and litigation environments.

This process assumes that past experience, adjusted for the effects of current developments and anticipated trends, is an appropriate basis for predicting future events. It also assumes adequate historical or other data exists upon which to make these judgments. For more information on the estimates used in the establishment of loss reserves, see the Loss and Settlement Expenses section of our Critical Accounting Policies contained within Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations. However, there is no precise method for evaluating the impact of any specific factor on the adequacy of reserves and actual results are likely to differ from original estimates. If the actual amount of insured losses is greater than the amount we have reserved for these losses, our profitability could suffer.

Catastrophic losses are unpredictable and could cause the Company to suffer material financial losses.

Our insurance coverages include exposure to catastrophic events, particularly earthquakes on the West Coast and hurricanes and tropical storms affecting the continental U.S. or Hawaii. Weather-related catastrophes may include meteorological events such as hurricanes, severe convective storms and winter weather; and climatological events such as drought, wildfires and heatwaves. In addition, catastrophe losses can occur from events such as lava flows in Hawaii and terrorist events in the U.S.

The incidence and severity of catastrophes are inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured values in the area affected by the event and the severity of the event. Most catastrophes are restricted to fairly specific geographic areas. However, hurricanes and earthquakes may produce significant damage in large, heavily populated areas. It is possible that a catastrophic event or multiple catastrophic events could cause the Company to suffer material financial losses. In addition, catastrophe claim costs may be higher than we originally estimate and could cause substantial volatility in our financial results for any fiscal quarter or year.

We use models to help assess exposure to catastrophic events against established thresholds. Models include underlying assumptions based on a limited set of actual events and cannot contemplate all possible catastrophe scenarios. The losses we might incur from an actual catastrophe could be higher than our expectation of losses generated from modeled catastrophe scenarios, which could have a materially adverse effect on our results of operations and financial condition. To address uncertainty related to catastrophe models, we also monitor against thresholds using non-modeled scenarios.

Changing climate and weather conditions may adversely affect our financial condition or profitability.

Climate change is a complex and evolving issue and we cannot predict the cumulative impact it may have on our results of operations or financial condition at this time. The effects on the Company could include:

- Changes in the frequency, severity and location of weather-related catastrophes, which may result in higher levels of losses,
- Additional uncertainty in third party catastrophe models, which could impair our ability to asses exposure and adequately price the catastrophe risks we insure,
- Flooding of coastal property, resulting from rising sea levels, making certain geographic areas uninhabitable, reducing demand for insurance products we offer in those areas,
- Increased losses from weather-related catastrophes may make it more difficult to obtain reinsurance at desired levels, or more expensive to acquire reinsurance coverage, which may reduce the amount of business we write and the revenues we generate,
- A transition from carbon-based energy to other sources of energy may decrease demand for insurance coverage we provide to the industries that produce or use carbon-based energy, or increase claims and losses related to those industries, affecting our profitability,
- Changes in legislation, regulation and court decisions could increase our compliance costs, impose liability on policyholders that we did not contemplate when we underwrote policies, or limit our ability to sell insurance coverage to certain policyholders and

- Losses on our invested assets that could have a material adverse impact on our results of operations and financial condition.

Our reinsurers may not pay on losses in a timely fashion, or at all, which may increase our costs and have an adverse effect on our business.

We purchase reinsurance to transfer part of the risk we have assumed (known as ceding) to a reinsurance company in exchange for part of the premium we receive in connection with the risk. Although reinsurance makes the reinsurer liable to the Company to the extent the risk is transferred or ceded to the reinsurer, it does not relieve the Company (the reinsured) of its liability to its policyholders. Accordingly, we bear credit risk with respect to our reinsurers. That is, our reinsurers may not pay claims made by the Company on a timely basis, or they may not pay some or all of these claims for a variety of reasons. Either of these events would increase our costs and could have a material adverse effect on our business.

If we cannot obtain adequate reinsurance protection for the risks we have underwritten or at prices we deem acceptable, we may be exposed to greater losses from these risks or we may reduce the amount of business we underwrite, which would reduce our revenues.

Market conditions beyond our control determine the availability and cost of the reinsurance protection that we purchase. In addition, the historical results of reinsurance programs and the availability of capital also affect the availability of reinsurance. Our reinsurance agreements are generally subject to annual renewal. We cannot be sure that we can maintain our current reinsurance protection, obtain other reinsurance facilities in adequate amounts and at favorable rates, or diversify our exposure among an adequate number of high-quality reinsurance partners. If we are unable to renew our expiring facilities or obtain new reinsurance facilities on terms we deem acceptable, either our net exposures would increase, which could increase the volatility of our results, or we would have to reduce the level of our underwriting commitments when possible, which would reduce our revenues.

Financial and Investment

Adverse changes in the economy could lower the demand for our insurance products and could have an adverse effect on the revenue and profitability of our operations.

Factors such as business revenue, construction spending, government spending, the volatility and strength of the capital markets and inflation can all affect the business and economic environment. These same factors affect our ability to generate revenue and profits. Insurance premiums in our markets are heavily dependent on our customer revenues, payroll, value of goods transported, miles traveled and number of new projects initiated. In an economic downturn characterized by higher unemployment, declines in construction spending and reduced corporate revenues, the demand for insurance products is adversely affected. Adverse changes in the economy may lead our customers to have less need or desire for insurance coverage, to cancel existing insurance policies, to modify coverage or to not renew with the Company, all of which affect our ability to generate revenue. In addition, as approximately a third of our business relates to the construction industry, our results of operations could be significantly impacted in an economic downturn if the construction industry is affected disproportionally.

Access to capital and market liquidity may adversely affect our ability to take advantage of business opportunities as they arise.

Our ability to grow our business depends, in part, on our ability to access capital when needed. We cannot predict capital market liquidity or the availability of capital. We also cannot predict the extent and duration of future economic and market disruptions, the impact of government interventions into the market to address these disruptions and their combined impact on our industry, business and investment portfolios. If our company needs capital but cannot raise it, our business and future growth could be adversely affected.

We are an insurance holding company and therefore may not be able to receive adequate or timely dividends from our insurance subsidiaries.

RLI Corp. is the holding company for our three insurance operating companies. At the holding company level, our principal assets are the shares of capital stock of our insurance company subsidiaries. We rely largely on dividends from our insurance company subsidiaries to meet our obligations for paying principal and interest on outstanding debt, corporate expenses and dividends to RLI Corp. shareholders. 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 IDOI. As a result, we may not be able to receive dividends from such subsidiary at times and in amounts necessary to pay RLI Corp. obligations and desired dividends to shareholders. Ordinary dividends, which may be paid by our principal insurance subsidiary without prior regulatory approval, are subject to certain limitations based upon 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 (or non-disapproval) from the IDOI. Because the limitations are based upon a rolling 12-month period, the presence, amount and impact of these restrictions vary over time.

We may not be able to, or might not choose to, continue paying dividends on our common stock.

We have a history of paying regular, quarterly dividends and in recent years have paid special dividends. Any determination to pay either type of dividend to our stockholders in the future will be at the discretion of our board of directors and will depend on our results of operations, financial condition and other factors deemed relevant by our board of directors. Our ability to pay dividends depends largely on our subsidiaries' earnings and operating capital requirements, and is subject to the regulatory, contractual and other constraints of our subsidiaries, including the effect of any such dividends or distributions on the AM Best rating or other ratings of our insurance subsidiaries. In addition, we may choose to retain capital to support growth or further mitigate risk, instead of returning excess capital to our shareholders.

Our investment results and, therefore, our financial condition may be impacted by changes in the business, financial condition or operating results of the entities in which we invest, as well as changes in interest rates, government monetary policies, general economic conditions, liquidity and overall market conditions.

We invest the premiums we receive from customers until they are needed to pay expenses or policyholder claims. Funds remaining after paying expenses and claims remain invested and are included in retained earnings. The value of our investment portfolio can fluctuate as a result of changes in the business, financial condition or operating results of the entities in which we invest. In addition, fluctuations can result from changes in interest rates, credit risk, government monetary policies, liquidity of holdings and general economic conditions. The equity portfolio will fluctuate with movements in the overall stock market. While the equity portfolio has been constructed to have lower downside risk than the market, the portfolio is positively correlated with movements in domestic stocks. The bond portfolio is affected by interest rate changes and movement in credit spreads. We attempt to mitigate our interest rate and credit risks by constructing a well-diversified portfolio of high-quality securities with varied maturities. These fluctuations may negatively impact our financial condition.

Operational

Our success will depend on our ability to maintain and enhance effective operating procedures and manage risks on an enterprise wide basis.

Operational risk and losses can result from, among other things, fraud, errors, failure to document transactions properly, failure to obtain proper internal authorization, failure to comply with regulatory requirements, information technology failures or external events. We continue to enhance our operating procedures and internal controls to effectively support our business and our regulatory and reporting requirements. The NAIC and state legislatures have increased their focus on risks within an insurer's holding company system that may pose enterprise risk to insurers. The Illinois legislature has adopted the Risk Management and Own Risk and Solvency Assessment (ORSA) Law, which requires domestic insurers to maintain a risk management framework and establishes a legal requirement for domestic insurers to conduct an ORSA in accordance with the NAIC's ORSA Guidance Manual. The ORSA Law also provides that, no less than annually, an insurer must submit an ORSA summary report. Under the Illinois insurance holding company laws, on an annual basis, we are also required to file an enterprise risk report with the IDOI, which is intended to identify the material risks within our insurance holding company system that could pose enterprise risk to our insurance company subsidiaries. We operate within an enterprise risk management (ERM) framework designed to assess and monitor our risks. However, assurance that we can effectively review and monitor all risks or that all of our employees will operate within the ERM framework cannot be guaranteed. Assurances that our ERM framework will result in the Company accurately identifying all risks and accurately limiting our exposures based on our assessments also cannot be guaranteed.

We may not be able to effectively start up or integrate new product opportunities.

Our ability to grow our business depends, in part, on our creation, implementation or acquisition of new insurance products that are profitable and fit within our business model. Our ability to grow profitably requires that we identify market opportunities, which may include acquisitions, and that we attract and retain underwriting and claims expertise to support that growth. New product launches, as well as resources to integrate business acquisitions are subject to many obstacles, including ensuring we have sufficient business and systems processes, determining appropriate pricing, obtaining reinsurance, assessing opportunity costs and regulatory burdens and planning for internal infrastructure needs. If we cannot effectively or accurately assess and overcome these obstacles, or we improperly implement new insurance products, our ability to grow profitably could be impaired.

We may be unable to attract and retain qualified key employees.

We depend on our ability to attract and retain experienced underwriting and claim talent, who have deep knowledge of the niche business we write, and other skilled employees. If we cannot attract or retain top-performing executive officers, underwriters and other

employees, the quality of their performance decreases or we fail to implement succession plans for our key employees, we may be unable to maintain our current competitive position in the markets in which we operate or expand our operations into new markets.

We rely on third-party vendors for a number of key components of our business.

We contract with a number of third-party vendors to support our business. For example, we have license agreements for software that we use to model natural catastrophes, process claims, and manage policies, producers and financial processes. The vendors range from large national companies, who are dominant in their area of expertise and would be difficult to quickly replace, to smaller or start-up vendors with leading technology, but with shorter operating histories and fewer financial resources. Failures of certain vendors to provide services could adversely affect our ability to deliver products and services to our customers, disrupting our business and causing the Company to incur significant expense. If one or more of our vendors fail to protect personal information of our customers, claimants or employees, we may incur operational impairments, or could be exposed to litigation, compliance costs or reputation damage. We maintain a vendor management program to establish procurement policies and to monitor vendor risk, including the security and stability of our critical vendors.

Any significant interruption in the operation of our facilities, systems and business functions could adversely affect our financial condition and results of operations.

We rely on multiple computer systems to interact with producers and customers, issue policies, pay claims, run modeling functions, assess insurance risks and complete various important internal processes including accounting and bookkeeping. Our business is highly dependent on our ability to access these systems to perform necessary business functions. Additionally, some of these systems may include or rely upon third-party systems not located on our premises. Any of these systems may be exposed to unplanned interruption, unreliability or intrusion from a variety of causes, including among others, storms and other natural disasters, terrorist attacks, utility outages or complications encountered as existing systems are replaced or upgraded.

Any such issues could materially impact our company including the impairment of information availability, compromise of system integrity/accuracy, misappropriation of confidential information, reduction of our volume of transactions and interruption of our general business. Although we believe our computer systems are secure and continue to take steps to ensure they are protected against such risks, we cannot guarantee such problems will not occur. If they do, interruption to our business and damage to our reputation and related costs, could be significant, which could impair our profitability.

Epidemics, pandemics and public health outbreaks, including the ongoing coronavirus (COVID-19) pandemic, could adversely affect our business, including revenues, profitability, results of operations and/or cash flows, in a manner and to a degree that could be material.

Epidemics, pandemics and other public health outbreaks generally result in significant disruptions in economic activity and financial markets. The cumulative effects on the Company could include, without limitation:

- Reduced demand for our insurance policies due to reduced economic activity, which could negatively impact our revenues,
- Reduced cash flows from our policyholders, delaying premium payments,
- Increased costs and disruption of operations due to employees working remotely or unavailability of our employees,
- Increased claims, losses, litigation and related expenses,
- Legislative, regulatory and judicial actions in response to the public health outbreak, including, but not limited to, actions prohibiting us from cancelling insurance policies in accordance with our policy terms, requiring us to cover losses when our underwriting intent in those policies was not to provide coverage or was to exclude coverage, ordering us to provide premium refunds, granting extended grace periods for payment of premiums and providing for extended periods of time to pay premiums that are past due,
- Policyholder losses from pandemic-related claims could be greater than our reserves for those losses,
- Volatility and declines in financial markets could reduce the fair market value, or result in the impairment, of invested assets held by the Company and
- Changes in interest rates, which could reduce future investment results.

Although we have investigated and closed a substantial number of COVID-19-related claims without payment, state and federal courts could rule that such claims are covered under our policies. Court decisions upholding our position that these COVID-19 related

claims are not covered under our policies could also be overturned on appeal. These actions could result in an increase in claims and paid losses, which could have a materially adverse effect on our financial performance. Such appellate court decisions may take several years to become final and their ultimate outcome is uncertain at this time.

We experienced declines in premium in select product lines and established loss and defense reserves for others at the onset of the COVID-19 pandemic. While other impacts that could result from pandemics have not manifested to a significant degree for RLI through the end of 2021, circumstances continue to change and we could be affected in different ways in the future. To the extent the COVID-19 pandemic adversely affects our business and financial results, it may also heighten many of the other risks described herein.

If we are unable to keep pace with the technological advancements in the insurance industry, our ability to compete effectively could be impaired.

Our operations rely upon complex and expensive information technology systems for interacting with policyholders, brokers and other business partners. The pace at which information systems must be upgraded is continually increasing, requiring an ongoing commitment of significant resources to maintain or upgrade to current standards and serve our customers. If we are unable to keep pace with the advancements being made in technology, our ability to compete with other insurance companies who have advanced technological capabilities will be negatively affected. Furthermore, if we are unable to effectively update or replace our key legacy technology systems as they become obsolete or as emerging technology renders them competitively inefficient, our competitive position, security and our cost structure could be adversely affected.

Technology breaches or failures, including but not limited to cyber security incidents, could disrupt our operations, result in the loss of critical and confidential information and expose us to additional liabilities, which could adversely impact our reputation and results of operations.

Global cyber security threats can range from uncoordinated individual attempts to gain unauthorized access to our information technology systems, and those of our business or service providers, to sophisticated and targeted measures known as advanced persistent threats. Like other companies, RLI Corp. is also subject to insider threats that may impact the confidentiality, integrity or availability of our data. We, as well as our business partners and service providers, employ measures to prevent, detect, address and mitigate these threats (including access controls, data encryption, vulnerability assessments, continuous monitoring of information technology networks and systems and maintenance of backup and protective systems). However, cyber security incidents, depending on their nature and scope, could potentially result in the misappropriation, destruction, corruption or unavailability of critical data and confidential or proprietary information (our own or that of third parties) and the disruption of business operations. Security breaches could expose the Company to a risk of loss or misuse of our or our customers' information, litigation and potential liability. In addition, cyber incidents that impact the availability, reliability, speed, accuracy or other proper functioning of our technology systems could impact our operations. We may not have the resources or technical sophistication to anticipate or prevent every type of cyber attack. A significant cyber incident, including system failure, security breach, disruption by malware or other damage could interrupt or delay our operations, result in a violation of applicable privacy and other laws, damage our reputation, cause a loss of customers or give rise to remediation costs, monetary fines and other penalties, which could be significant. We have cyber insurance, but it is possible that the coverage we have in place would not entirely protect the Company in the event that we experienced a cyber security incident, interruption or widespread failure of our information technology systems.

We may suffer losses from litigation, which could materially and adversely affect our financial condition and business operations.

We continually face risks associated with litigation of various types, including general commercial and corporate litigation, and disputes relating to bad faith allegations that could result in the Company incurring losses in excess of policy limits. We are party to a variety of litigation matters throughout the year. Litigation is subject to inherent uncertainties, and if there were an unfavorable outcome, there exists the possibility of a material adverse impact on our results of operations and financial position in the period in which the outcome occurs. Even if an unfavorable outcome does not materialize, we still may face substantial expense and disruption associated with the litigation.

Anti-takeover provisions affecting the Company could prevent or delay a change of control that is beneficial to you.

Provisions of our certificate of incorporation and by-laws, as well as applicable Delaware law, federal and state regulations and insurance company regulations may discourage, delay or prevent a merger, tender offer or other change of control that holders of our securities may consider favorable. Some of these provisions impose various procedural and other requirements that could make it more difficult for shareholders to affect certain corporate actions. These provisions could:

- Have the effect of delaying, deferring or preventing a change in control of the Company,
- Discourage bids for our securities at a premium over the market price,

- Adversely affect the market price, the voting and other rights of the holders of our securities or
- Impede the ability of the holders of our securities to change our management.

In particular, we are subject to Section 203 of the Delaware General Corporation Law which, under certain circumstances, restricts our ability to engage in a business combination, such as a merger or sale of assets, with any stockholder that, together with affiliates, owns 15 percent or more of our common stock, which similarly could prohibit or delay the accomplishment of a change of control transaction.

Item 1B. Unresolved Staff Comments - None.

Item 2. Properties

We own five commercial buildings totaling 173,000 square feet on our 23-acre campus that serves as our corporate headquarters in Peoria, Illinois. All of our branch offices and other company operations lease office space throughout the country. Management considers our office facilities suitable and adequate for our current levels of operations.

Item 3. Legal Proceedings

Information on our legal proceedings is set forth in note 10 to the Consolidated Financial Statements included under Item 8, Financial Statements and Supplementary Data.

Item 4. Mine Safety Disclosures - Not applicable.

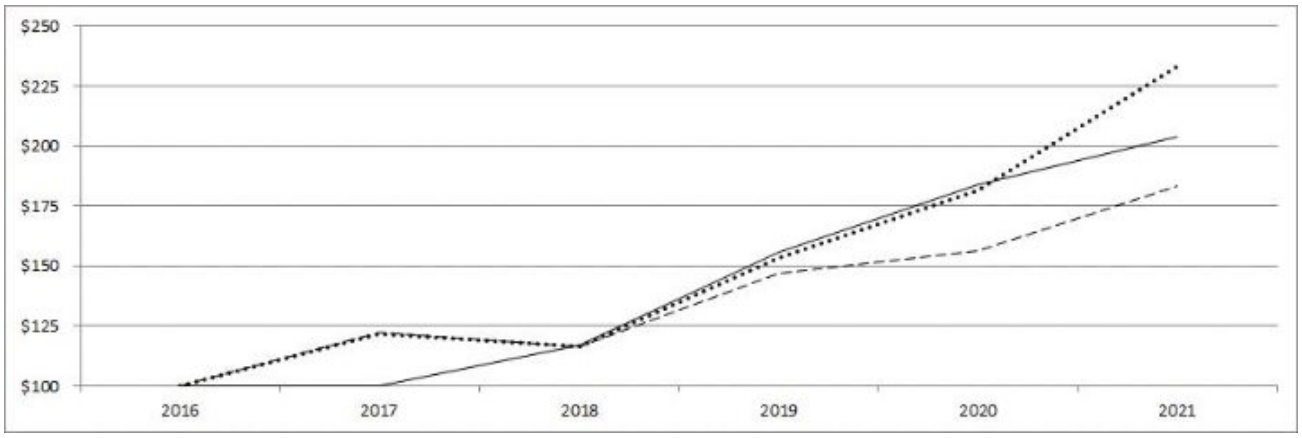
PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

RLI Corp. common stock trades on the New York Stock Exchange under the symbol RLI. RLI Corp. has paid dividends for 182 consecutive quarters and increased quarterly dividends in each of the last 46 years. In December 2021 and 2020, RLI Corp. paid special cash dividends of $2.00 and $1.00 per share to shareholders, respectively. As of February 2, 2022, there were 919 registered holders of the Company's common stock.

Performance

The following graph provides a five-year comparison of RLI Corp.'s total return to shareholders compared to that of the S&P 500 and S&P 500 P&C Index:



		2016	2017	2018	2019	2020	2021
RLI	----------	$ 100	$ 100	$ 117	$ 156	$ 184	$ 204
S&P 500	··········	100	122	116	153	181	233
S&P 500 P&C Index	— — —	100	122	117	147	156	183

Assumes $100 invested on December 31, 2016, in RLI, S&P 500 and S&P 500 P&C Index, with reinvestment of dividends. Comparison of five-year annualized total return — RLI: 15.3%, S&P 500: 18.4% and S&P 500 P&C Index: 12.9%.

Securities Authorized for Issuance under Equity Compensation Plans

Refer to Part III, Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters," of this document for information on securities authorized for issuance under our equity compensation plan.

Recent Sales of Unregistered Securities; Uses of Proceeds from Registered Securities - Not applicable.

Equity Repurchases

In 2010, our board of directors implemented a $100 million share repurchase program. We last repurchased shares in 2011. 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 6. Selected Financial Data – Not applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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 2021, we achieved our 26th consecutive year of underwriting profitability. Over the 26-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.

GAAP, NON-GAAP AND PERFORMANCE MEASURES

Throughout this annual 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.

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 12 to the consolidated financial statements within Item 8, Financial Statements and Supplementary Data. 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:

	Year ended December 31,	
(in thousands)	2021	2020
Net earnings	$ 279,354	$ 157,091
Income tax expense	64,967	32,750
Earnings before income taxes	$ 344,321	$ 189,841
Equity in earnings of unconsolidated investees	(37,060)	(20,233)
General corporate expenses	13,330	10,265
Interest expense on debt	7,677	7,603
Net unrealized gains on equity securities	(65,258)	(32,101)
Net realized gains	(64,222)	(17,885)
Net investment income	(68,862)	(67,893)
Underwriting income	$ 129,926	$ 69,597

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 consolidated 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 consolidated 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.

LOSSES AND SETTLEMENT EXPENSES

Overview

Loss and loss adjustment expense (LAE) reserves represent our best estimate of ultimate payments for losses and related settlement expenses from claims that have been reported but not paid, and those losses that have been incurred but not yet reported (IBNR) to the Company. Loss reserves do not represent an exact calculation of liability, but instead represent our estimates, generally utilizing individual claim estimates, actuarial expertise and estimation techniques at a given accounting date. The loss reserve estimates are expectations of what ultimate settlement and administration of claims will cost upon final resolution. These estimates are based on facts and circumstances then known to the Company, review of historical settlement patterns, estimates of trends in claims frequency and severity, projections of loss costs, expected interpretations of legal theories of liability and many other factors. In establishing reserves, we also take into account estimated recoveries from reinsurance, salvage and subrogation.

We record two categories of loss and LAE reserves: case-specific reserves and IBNR reserves.

Within a reasonable period of time after a claim is reported, our claim department completes an initial investigation and establishes a case reserve. This case-specific reserve is an estimate of the ultimate amount we will have to pay for the claim, including related legal expenses and other costs associated with resolving and settling it. The estimate reflects all of the current information available regarding the claim, the informed judgment of our professional claim personnel regarding the nature and value of the specific type of claim and our reserving practices. During the life cycle of a particular claim, as more information becomes available, we may revise the estimate of the ultimate value of the claim either upward or downward. We may determine that it is appropriate to pay portions of the reserve to the claimant or related settlement expenses before final resolution of the claim. The amount of the individual case reserve will be adjusted accordingly and is based on the most recent information available.

We establish IBNR reserves to estimate the amount we will have to pay for claims that have occurred, but have not yet been reported to the Company, claims that have been reported to the Company that may ultimately be paid out differently than reflected in our case-specific reserves and claims that have been closed but may reopen and require future payment.

LAE represents the cost involved in adjusting and administering losses from policies we issued. The LAE reserves are frequently separated into two components: allocated and unallocated. Allocated loss adjustment expense (ALAE) reserves represent an estimate of claims settlement expenses that can be identified with a specific claim or case. Examples of ALAE would be the hiring of an outside adjuster to investigate a claim or an outside attorney to defend our insured. The claim adjuster typically estimates this cost separately from the loss component in the case reserve. Unallocated loss adjustment expense (ULAE) reserves represent an estimate of claims settlement expenses that cannot be identified with a specific claim. An example of ULAE would be the cost of an internal claim examiner to manage or investigate claims.

The process of estimating loss reserves involves a high degree of judgment and is subject to a number of variables. These variables can be affected by both internal and external events, such as changes in claim handling procedures, claim personnel, economic inflation, legal trends and legislative changes, among others. The impact of many of these items on ultimate costs for loss and LAE is difficult to estimate. Loss reserve estimations also differ significantly by coverage due to differences in claim complexity, the volume of claims, the policy limits written, the terms and conditions of the underlying policies, the potential severity of individual claims, the determination of occurrence date for a claim and reporting lags (the time between the occurrence of the policyholder event and when it is actually reported to the insurer). Informed judgment is applied throughout the process. We continually refine our loss reserve estimates as historical loss experience develops and additional claims are reported and settled. We rigorously attempt to consider all significant facts and circumstances known at the time loss reserves are established.

Following is a table of significant risk factors involved in estimating losses grouped by major product line. We distinguish between loss ratio risk and reserve estimation risk. Loss ratio risk refers to the possible dispersion of loss ratios from year to year due to inherent volatility in the business, such as high severity or aggregating exposures. Reserve estimation risk recognizes the difficulty

in estimating a given year's ultimate loss liability. As an example, our property catastrophe business (included below in other property) has significant variance in year over year results; however, its reserving estimation risk is relatively moderate.

Product line	Length of reserve tail	Emergence patterns relied upon	Other risk factors	Expected loss ratio variability	Reserve estimation variability
Commercial excess	Long	Internal	Low frequency High severity Loss trend volatility Exposure growth Unforeseen tort potential Exposure changes/mix	High	High
Personal umbrella	Medium	Internal	Low frequency High severity Loss trend volatility Exposure growth Unforeseen tort potential	Medium	Medium
General liability	Long	Internal	Exposure changes/mix Unforeseen tort potential	Medium	High
Professional services	Medium	Internal & external	Highly varied exposures Loss trend volatility Unforeseen tort potential	Medium	Medium
Commercial transportation	Medium	Internal	High severity Exposure change/mix Loss trend volatility Unforeseen tort potential	Medium	Medium
Small commercial	Long	Internal	Exposure growth/mix Unforeseen tort potential Small volume	Medium	Medium
Executive products	Long	Internal & significant external	Low frequency High severity Loss trend volatility Economic volatility Unforeseen tort potential Exposure growth/mix Heavily reinsured	High	High
Other casualty	Medium	Internal & external	Small volume	Medium	Medium
Marine	Medium	Internal & external	Exposure growth/mix	High	High
Other property	Short	Internal	CAT aggregation exposure Low frequency High severity	High	Medium
Surety	Medium	Internal	Economic volatility Unique exposures	Medium	Medium
Runoff including asbestos & environmental	Long	Internal & external	Loss trend volatility Mass tort/latent exposure	High	High

Due to inherent uncertainty underlying loss reserve estimates, including, but not limited to, the future settlement environment, final resolution of the estimated liability may be different from that anticipated at the reporting date. Therefore, actual paid losses in the future may yield a significantly different amount than currently reserved — favorable or unfavorable.

The amount by which current estimated losses differ from those estimated for a period at a prior valuation date is known as development. Development is unfavorable when the losses ultimately settle for more than the levels at which they were reserved or subsequent estimates indicate a basis for reserve increases on unresolved claims. Development is favorable when losses ultimately settle for less than the amount reserved or subsequent estimates indicate a basis for reducing loss reserves on unresolved claims. We reflect favorable or unfavorable development of loss reserves in the results of operations in the period the estimates are changed.

Our IBNR reserving process involves three steps: (1) an initial IBNR generation process that is prospective in nature, (2) a loss and LAE reserve estimation process that occurs retrospectively and (3) a subsequent discussion and reconciliation between our prospective and retrospective IBNR estimates, which includes changes in our provisions for IBNR where deemed appropriate.

Initial IBNR Generation Process

Initial carried IBNR reserves are determined through a reserve generation process. The intent of this process is to establish an initial total reserve that will provide a reasonable provision for the ultimate value of all unpaid loss and ALAE liabilities. For most casualty and surety products, this process involves the use of an initial loss and ALAE ratio that is applied to the earned premium for a given period. The result is our best initial estimate of the expected amount of ultimate loss and ALAE for the period by product. Payments and case reserves are subtracted from this initial estimate of ultimate loss and ALAE to determine a carried IBNR reserve.

For certain property products, we use an alternative method of determining an appropriate provision for initial IBNR. Since this segment is characterized by a shorter period of time between claim occurrence and claim settlement, the IBNR reserves are determined by IBNR percentages applied to premium earned. The percentages are determined based on expected loss ratios and loss development assumptions. The loss development assumptions are typically based on historical reporting patterns but could consider alternative sources of information. The IBNR percentages are reviewed and updated periodically. No deductions for paid or case reserves are made. This alternative method of determining initial IBNR allows incurred losses and ALAE to react more rapidly to the actual emergence, and is more appropriate for our property products where final claim resolution occurs over a shorter period of time.

We do not reserve for natural or man-made catastrophes until an event has occurred. Shortly after such occurrence, we review insured locations exposed to the event and industry loss estimates of the event. We also consider our knowledge of frequency and severity from early claim reports to determine an appropriate reserve for the catastrophe. These reserves are reviewed frequently to consider actual losses reported and appropriate changes to our estimates are made to reflect the new information.

The initial loss and ALAE ratios that are applied to earned premium are reviewed at least semi-annually. Prospective estimates are made based on historical loss experience adjusted for exposure mix, price change and loss cost trends. The initial loss and ALAE ratios also reflect our judgment as to estimation risk. We consider estimation risk by product and coverage within product, if applicable. A product with greater volatility and uncertainty has greater estimation risk. Products or coverages with higher estimation risk include, but are not limited to, the following characteristics:

- Significant changes in underlying policy terms and conditions,
- A new business or one experiencing significant growth and/or high turnover,
- Small volume or lacking internal data requiring significant utilization of external data,
- Unique reinsurance features including those with aggregate stop-loss, reinstatement clauses, commutation provisions or clash protection,
- Longer emergence patterns with exposures to latent unforeseen mass tort,
- Assumed reinsurance businesses where there is an extended reporting lag and/or a heavier utilization of ceding company data and claims and product expertise,
- High severity and/or low frequency,
- Operational processes undergoing significant change and/or
- High sensitivity to significant swings in loss trends, economic change or judicial change.

The historical and prospective loss and ALAE estimates, along with the risks listed, are the basis for determining our initial and subsequent carried reserves. Adjustments in the initial loss ratio by product and segment are made where necessary and reflect updated assumptions regarding loss experience, loss trends, price changes and prevailing risk factors.

Loss and LAE Reserve Estimation Process

Estimates of the expected value of the unpaid loss and LAE are derived using standard actuarial methodologies on a quarterly basis. In addition, an emergence analysis is completed quarterly to determine if further adjustments are necessary. These estimates are then compared to the carried loss reserves to determine the appropriateness of the current reserve balance.

The process of estimating ultimate payment for claims and claim expenses begins with the collection and analysis of current and historical claim data. Data on individual reported claims, including paid amounts and individual claim adjuster estimates, are grouped by common characteristics. There is judgment involved in this grouping. Considerations when grouping data include the volume of the data available, the credibility of the data available, the homogeneity of the risks in each cohort and both settlement and payment pattern consistency. We use this data to determine historical claim reporting and payment patterns, which are used in the analysis of ultimate claim liabilities. In some analyses, including business without sufficiently large numbers of policies or that have not accumulated sufficient historical statistics, our own data is supplemented with external or industry average data as available and when appropriate. For liabilities arising out of directors and officers, management liability, workers' compensation and medical errors and omissions exposures, we utilize external data extensively.

We also incorporate estimated losses relative to premium (loss ratios) by year into the analysis. The expected loss ratios are based on a review of historical loss performance, trends in frequency and severity and price level changes. The estimates are subject to judgment including consideration given to available internal and industry data, growth and policy turnover, changes in policy limits, changes in underlying policy provisions, changes in legal and regulatory interpretations of policy provisions and changes in reinsurance structure. For the most current year, these are equivalent with the ratios used in the initial IBNR generation process. Increased recognition is given to actual emergence as the years age.

We use historical development patterns, expected loss ratios and standard actuarial methods to derive an estimate of the ultimate level of loss and LAE payments necessary to settle all the claims occurring as of the end of the evaluation period.

Our reserve processes include multiple standard actuarial methods for determining estimates of IBNR reserves. Other supplementary methodologies are incorporated as necessary. Mass tort and latent liabilities are examples of exposures for which supplementary methodologies are used. Each method produces an estimate of ultimate loss by accident year. We review all of these various estimates and assign weights to each based on the characteristics of the product being reviewed.

The methodologies we have chosen to incorporate are a function of data availability and are reflective of our own book of business. From time to time, we evaluate the need to add supplementary methodologies. New methods are incorporated if it is believed they improve the estimate of our ultimate loss and LAE liability. All of the actuarial methods eventually converge to the same estimate as an accident year matures. Our core methodologies are listed below with a short description and their relative strengths and weaknesses:

Paid Loss Development — Historical payment patterns for prior claims are used to estimate future payment patterns for current claims. These patterns are applied to current payments by accident year to yield an expected ultimate loss.

Strengths: The method reflects only the claim dollars that have been paid and is not subject to case-basis reserve changes or changes in case reserve practices.

Weaknesses: External claims environment changes can impact the rate at which claims are settled and losses paid (e.g. increase in attorney involvement or change in legal precedent). Adjustments to reflect changes in payment patterns on a prospective basis are difficult to quantify. For losses that have occurred recently, payments can be minimal and thus early estimates are subject to significant instability.

Incurred Loss Development — Historical case-incurred patterns (paid losses plus case reserves) for past claims are used to estimate future case-incurred amounts for current claims. These patterns are applied to current case-incurred losses by accident year to yield an expected ultimate loss.

Strengths: Losses are reported more quickly than paid, therefore, the estimates stabilize sooner. The method reflects more information in the analysis than the paid loss development method.

Weaknesses: Method involves additional estimation risk if significant changes to case reserving practices have occurred.

Case Reserve Development — Patterns of historical development in reported losses relative to historical case reserves are determined. These patterns are applied to current case reserves by accident year and the result is combined with paid losses to yield an expected ultimate loss.

Strengths: Like the incurred development method, this method benefits from using the additional information available in case reserves that is not available from paid losses only. It also can provide a more reasonable estimate than other methods when the proportion of claims still open for an accident year is unusually high or low.

Weaknesses: It is subject to the risk of changes in case reserving practices or philosophy. It may provide unstable estimates when an accident year is immature and more of the IBNR is expected to come from unreported claims rather than development on reported claims and when accident years are very mature with infrequent case reserves.

Expected Loss Ratio — Historical loss ratios, in combination with projections of frequency and severity trends, as well as estimates of price and exposure changes, are analyzed to produce an estimate of the expected loss ratio for each accident year. The expected loss ratio is then applied to the earned premium for each year to estimate the expected ultimate losses. The current accident year expected loss ratio is also the prospective loss and ALAE ratio used in our initial IBNR generation process.

Strengths: Reflects an estimate independent of how losses are emerging on either a paid or a case reserve basis. This method is particularly useful in the absence of historical development patterns or where losses take a long time to emerge.

Weaknesses: Ignores how losses are actually emerging and thus produces the same estimate of ultimate loss regardless of favorable/unfavorable emergence.

Paid and Incurred Bornhuetter/Ferguson (BF) — This approach blends the expected loss ratio method with either the paid or incurred loss development method. In effect, the BF methods produce weighted average indications for each accident year. As an example, if the current accident year for commercial automobile liability is estimated to be 20 percent paid, then the paid loss development method would receive a weight of 20 percent and the expected loss ratio method would receive an 80 percent weight. Over time, this method will converge with the ultimate estimated by the respective loss development method.

Strengths: Reflects actual emergence that is favorable/unfavorable, but assumes remaining emergence will continue as previously expected. Does not overreact to the early emergence (or lack of emergence) where patterns are most unstable.

Weaknesses: Could potentially understate favorable or unfavorable development by putting weight on the expected loss ratio.

In most cases, multiple estimation methods will be valid for the particular facts and circumstances of the claim liabilities being evaluated. Each estimation method has its own set of assumption variables and its own advantages and disadvantages, with no single estimation method being better than the others in all situations, and no one set of assumption variables being meaningful for all product line components. The relative strengths and weaknesses of the particular estimation methods, when applied to a particular group of claims, can also change over time. Therefore, the weight given to each estimation method will likely change by accident year and with each evaluation.

The actuarial central estimates typically follow a progression that places significant weight on the BF methods when accident years are younger and claim emergence is immature. As accident years mature and claims emerge over time, increasing weight is placed on the incurred development method, the paid development method and the case reserve development method. For product lines with faster loss emergence, the progression to greater weight on the incurred and paid development methods occurs more quickly.

For our long and medium-tail products, the BF methods are typically given the most weight for more evaluation periods than the short-tailed lines. These methods are also predominant for the first 12 months of evaluation for short-tail lines. Beyond these time periods, our actuaries apply their professional judgment when weighting the estimates from the various methods deployed, but place significant reliance on the expected stage of development in normal circumstances.

Judgment can supersede this natural progression if risk factors and assumptions change, or if a situation occurs that amplifies a particular strength or weakness of a methodology. Extreme projections are critically analyzed and may be adjusted, given less credence or discarded altogether. Internal documentation is maintained that records any substantial changes in methods or assumptions from one loss reserve study to another.

Our estimates of ultimate loss and LAE reserves are subject to change as additional data emerges. This could occur as a result of change in loss development patterns, a revision in expected loss ratios, the emergence of exceptional loss activity, a change in weightings between actuarial methods, the addition of new actuarial methodologies, new information that merits inclusion or the emergence of internal variables or external factors that would alter our view.

There is uncertainty in the estimates of ultimate losses. Significant risk factors to the reserve estimate include, but are not limited to, unforeseen or unquantifiable changes in:

- Loss payment patterns,
- Loss reporting patterns,

- Frequency and severity trends,
- Underlying policy terms and conditions,
- Business or exposure mix,
- Operational or internal processes affecting the timing of loss and LAE transactions,
- Regulatory and legal environment and/or
- Economic environment.

Our actuaries engage in discussions with senior management, underwriters and the claim department on a regular basis to ascertain any substantial changes in operations or other assumptions that are necessary to consider in the reserving analysis.

A considerable degree of judgment in the evaluation of all these factors is involved in the analysis of reserves. The human element in the application of judgment is unavoidable when faced with uncertainty. Different experts will choose different assumptions based on their individual backgrounds, professional experiences and areas of focus. Hence, the estimates selected by various qualified experts may differ significantly from each other. We consider this uncertainty by examining our historic reserve accuracy and through an internal and external review process.

Given the substantial impact of the reserve estimates on our financial statements, we subject the reserving process to significant diagnostic testing and reasonability checks. In addition, there are data validity checks and balances in our front-end processes. Data anomalies are researched and explained to reach a comfort level with the data and results. Leading indicators such as actual versus expected emergence and other diagnostics are also incorporated into the reserving processes.

Determination of Our Best Estimate

Our best estimate of ultimate loss and LAE reserves are proposed by our lead reserving actuary and then discussed and approved by our Loss Reserve Committee (LRC). The LRC is made up of various members of the management team including the lead reserving actuary, chief executive officer, chief operating officer, chief financial officer, chief legal officer and other selected executives. As part of the discussion with the LRC, the analysis supporting the actuarial central estimate of the IBNR reserve by product is reviewed. The actuaries also present explanations supporting any changes to the underlying assumptions used to calculate the indicated central estimate. A review of the resulting variance between the indicated reserves and the carried reserves takes place. Our actuaries make a recommendation to management in regards to booked reserves that reflect both their analytical assessment and relevant qualitative factors, such as their view of estimation risk. After discussion of these analyses, recommendations and all relevant risk factors, the LRC determines whether the reserve balances require adjustment. Resulting reserve balances have always fallen within our actuaries' reasonable range of estimates.

As a predominantly excess and surplus lines and specialty admitted insurer serving niche markets, we believe we are subject to above-average variation in estimates and that this variation is not symmetrical around the actuarial central estimate.

One reason for the variation is the above-average policyholder turnover and changes in the underlying mix of exposures typical of an excess and surplus lines business. This constant change can cause estimates based on prior experience to be less reliable than estimates for more stable, admitted books of business. Also, as a niche market insurer, there is little industry-level information for direct comparisons of current and prior experience and other reserving parameters. These unknowns create greater-than-average variation in the actuarial central estimates.

Actuarial methods attempt to quantify future outcomes. However, insurance companies are subject to unique exposures that are difficult to foresee when coverage is initiated. Judicial and regulatory bodies involved in interpretation of insurance contracts have increasingly found opportunities to expand coverage beyond that which was intended or contemplated at the time the policy was issued. Many of these policies offer broad coverages (with named exclusion) and are issued on an occurrence basis. Claimants have at times sought coverage beyond the insurer's original intent, including seeking to void or limit exclusionary language.

Because of the variation and the likelihood that there are unforeseen and under-quantified liabilities absent from the actuarial estimate, we believe there are circumstances where it is prudent to enhance our normal reserving process. Generally, these are circumstances where we have qualitative information and knowledge of increased risk, but those circumstances have not occurred within the history of our quantitative data. In these situations, we will rely on that qualitative information, usually from our claim team or underwriting staff, and make an enhancement to our normal process. In general, these enhancements will result in an increased overall reserve level compared to reserves based only on quantitative information. In the cases where these risks fail to materialize,

favorable loss development will likely occur in subsequent periods. It is also possible that the risks materialize above the enhanced reserve level, in which case unfavorable loss development will likely occur in subsequent periods.

Our best estimate of loss and LAE reserves may change as a result of a revision in the actuarial central estimate, the actuary's certainty in the estimates and processes and our overall view of the underlying risks. From time to time, we benchmark our reserving policies and procedures and refine them by adopting industry best practices where appropriate. A detailed, ground-up analysis of the reserve estimation risks associated with each of our products and segments, including an assessment of industry information, is performed annually. This information is used when determining management's best estimate of booked reserves.

We do not use discounting (recognition of the time value of money) in reporting our estimated reserves for losses and settlement expenses.

Loss reserve estimates are subject to a high degree of variability due to the inherent uncertainty of ultimate settlement values. Periodic adjustments to these estimates will likely occur as the actual loss emergence reveals itself over time. Our loss reserving processes reflect accepted actuarial practices and our methodologies result in a reasonable provision for reserves as of December 31, 2021.

Reserve Sensitivities

There are three major parameters that have significant influence on our actuarial estimates of ultimate liabilities by product. They are the actual losses that are reported, the expected loss emergence pattern and the expected loss ratios used in the analyses. If the actual losses reported do not emerge as expected, it may cause the Company to challenge all or some of our previous assumptions. We may change expected loss emergence patterns, the expected loss ratios used in our analysis and/or the weights we place on a given actuarial method. The impact will be much greater and more leveraged for products with longer emergence patterns. Our general liability product is an example of a product with a relatively long emergence pattern. The following chart illustrates the sensitivity of our general liability reserve estimates to these key parameters. We believe the scenarios to be reasonable, as similar favorable variations have occurred in recent years. For example, our general liability emergence has ranged from 16 percent to 22 percent favorable and our management liability emergence has ranged from 34 percent adverse to 61 percent favorable over the last three years, while our overall emergence for all products combined has ranged from 27 percent to 33 percent favorable. The numbers below are the changes in estimated ultimate loss and ALAE in millions of dollars as of December 31, 2021, resulting from the change in the parameters shown. These parameters were applied to a general liability net loss and LAE reserve balance of $227.7 million, in addition to associated ULAE and latent liability reserves, at December 31, 2021.

(in millions)	Result from favorable change in parameter	Result from unfavorable change in parameter
+/-5 point change in expected loss ratio for all accident years	$ (12.6)	$ 13.0
+/-10% change in expected emergence patterns	$ (5.9)	$ 6.0
+/-30% change in actual loss emergence over a calendar year	$ (8.0)	$ 8.4
Simultaneous change in expected loss ratio (5pts), expected emergence patterns (10%) and actual loss emergence (30%).	$ (26.6)	$ 27.4

There are often significant interrelationships between our reserving assumptions that have offsetting or compounding effects on the reserve estimate. Thus, in almost all cases, it is impossible to discretely measure the effect of a single assumption or construct a meaningful sensitivity expectation that holds true in all cases. The scenario above is representative of general liability, one of our largest and longest-tailed products. It is unlikely that all of our products would have variations as wide as illustrated in the example. It is also unlikely that all of our products would simultaneously experience favorable or unfavorable loss development in the same direction or at their extremes during a calendar year. Because our portfolio is made up of a diversified mix of products, there would ordinarily be some offsetting favorable and unfavorable emergence by product as actual losses start to emerge and our loss estimates become more reliable.

INVESTMENT VALUATION

Throughout each year, we and our investment managers buy and sell securities to achieve investment objectives in accordance with investment policies established and monitored by our board of directors and executive officers.

Equity securities are carried at fair value with unrealized gains and losses recorded within net earnings. We classify our investments in fixed income securities into one of three categories: trading, held-to-maturity or available-for-sale. We do not hold any securities classified as trading or held-to-maturity. Available-for-sale securities are carried at fair value with unrealized gains and losses recorded as a component of comprehensive earnings and shareholders' equity, net of deferred income taxes.

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.

RECOVERABILITY OF REINSURANCE BALANCES

Ceded unearned premiums and reinsurance balances recoverable on paid and unpaid losses and settlement expenses are reported separately as assets, rather than being netted with the related liabilities, since reinsurance does not relieve the Company of its 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 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. Additionally, we perform an in-depth reinsurer financial condition analysis prior to the renewal of our reinsurance placements.

Once regulatory action (such as receivership, finding of insolvency, order of conservation or order of liquidation) is taken against a reinsurer, the paid and unpaid balance recoverable from the reinsurer are specifically identified and charged to earnings in the form of an allowance for uncollectible amounts. We subject our remaining reinsurance balances receivable to detailed recoverability tests, including a segment-based analysis using the average default rating percentage by S&P rating, and record an additional allowance for unrecoverable amounts from reinsurers. This credit 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.

DEFERRED POLICY ACQUISITION COSTS

We defer incremental direct costs that relate to the successful acquisition of new or renewal insurance contracts, including commissions and premium taxes. Acquisition-related costs may be deemed ineligible for deferral when they are based on contingent or performance criteria beyond the basic acquisition of the insurance contract, or when efforts to obtain or renew the insurance contract are unsuccessful. All eligible costs are capitalized and charged to expense in proportion to premium revenue recognized. The method followed in computing deferred policy acquisition costs limits the amount of such deferred costs to their estimated realizable value. This process contemplates the premiums to be earned, anticipated losses and settlement expenses and certain other costs expected to be incurred, but does not consider investment income. Judgments as to the ultimate recoverability of such deferred costs are reviewed on a segment basis and are highly dependent upon estimated future loss costs associated with the premiums written. This deferral methodology applies to both gross and ceded premiums and acquisition costs.

DEFERRED TAXES

We record deferred tax assets and liabilities to the extent that temporary differences between the tax basis and GAAP basis of an asset or liability result in future taxable or deductible amounts. Our deferred tax assets relate to expected future tax deductions arising from claim reserves and future taxable income related to changes in our unearned premium. We also have a significant amount of deferred tax liabilities from unrealized gains on the investment portfolio and deferred acquisition costs.

Periodically, management reviews our deferred tax positions to determine if it is more likely than not that the assets will be realized. These reviews include, among other things, the nature and amount of the taxable income and expense items, the expected timing of when assets will be used or liabilities will be required to be reported, as well as the reliability of historical profitability of businesses expected to provide future earnings. Furthermore, management considers tax planning strategies it can use to increase the likelihood that the tax assets will be realized. After conducting the periodic review, if management determines that the realization of the tax asset does not meet the more likely than not criteria, an offsetting valuation allowance is recorded, thereby reducing net earnings and the deferred tax asset in that period. In addition, management must make estimates of the tax rates expected to apply in the periods in which future taxable items are realized. Such estimates include determinations and judgments as to the expected manner in which certain temporary differences, including deferred amounts related to our equity method investment, will be recovered. These estimates enter into the determination of the applicable tax rates and are subject to change based on the circumstances.

We consider uncertainties in income taxes and recognize those in our financial statements as required. As it relates to uncertainties in income taxes, our unrecognized tax benefits, including interest and penalty accruals, are not considered material to the consolidated financial statements. Also, no tax uncertainties are expected to result in significant increases or decreases to unrecognized tax benefits within the next 12-month period. Penalties and interest related to income tax uncertainties, should they occur, would be included in income tax expense in the period in which they are incurred.

Additional discussion of other significant accounting policies may be found in note 1 to the consolidated financial statements within Item 8, Financial Statements and Supplementary Data.

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. 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. In 2020, the product line that experienced the greatest impact was public transportation. Many of our passenger transportation customers were unable to effectively operate under social-distancing protocols and stay-at-home orders. Although transportation premium was up from pre-pandemic levels in total in 2021, public transportation may continue to be challenged. 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 December 31, 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 through most of 2021. As investment yields rise, the fair value of the fixed income portfolio will decline, as we observed with our $58.9 million of after-tax other comprehensive loss during 2021.

We produced solid operating results in 2021 and our financial position remains strong. We generated $384.9 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. Furthermore, our membership in the Federal Home Loan Bank system provides a secured lending facility with additional borrowing capacity.

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

This section of this Form 10-K generally discusses 2021 and 2020 items and year-to-year comparisons between 2021 and 2020. Discussions of 2019 items and year-to-year comparisons between 2020 and 2019 that are not included in this Form 10-K can be found in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2020, incorporated herein by reference.

Consolidated revenue for 2021 increased $195.6 million from 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 also surpassed the return generated in 2020. Net investment income increased by 1 percent in 2021, primarily due to a larger asset base. Additionally, in the normal course of portfolio rebalancing, we recorded net realized gains on our investment portfolio in both 2021 and 2020.

CONSOLIDATED REVENUE

(in thousands)	Year ended December 31, 2021	2020
Net premiums earned	$ 980,903	$ 865,747
Net investment income	68,862	67,893
Net realized gains	64,222	17,885
Net unrealized gains on equity securities	65,258	32,101
Total consolidated revenue	$ 1,179,245	$ 983,626

Net earnings for 2021 totaled $279.4 million, up from $157.1 million in 2020. Improved underwriting income was bolstered by an increase in unrealized gains on equity securities.

NET EARNINGS

(in thousands)	Year ended December 31, 2021	2020
Underwriting income	$ 129,926	$ 69,597
Net investment income	68,862	67,893
Net realized gains	64,222	17,885
Net unrealized gains on equity securities	65,258	32,101
Interest expense on debt	(7,677)	(7,603)
General corporate expenses	(13,330)	(10,265)
Equity in earnings of unconsolidated investees	37,060	20,233
Earnings before income taxes	$ 344,321	$ 189,841
Income tax expense	(64,967)	(32,750)
Net earnings	$ 279,354	$ 157,091

UNDERWRITING RESULTS

Gross premiums written increased $210.9 million, or 19 percent, in 2021 when compared to 2020. Growth was achieved in all three segments, though the increase was driven by products in the casualty and property segments. Positive rate movement across most of the casualty and property portfolio and expanded distribution provided for growth opportunities in established lines. Net premiums earned increased $115.2 million, or 13 percent, in 2021 when compared to 2020.

Underwriting results for 2021 included $33.6 million of pretax losses and $0.4 million of reinstatement premium from hurricanes, as well as $25.0 million of other storm losses. Comparatively, 2020 included $51.5 million of pretax losses and $1.5 million of reinstatement premium from hurricanes, as well as $6.5 million of other storm and civil unrest losses. Additionally, $18.3 million of COVID-19 related loss and defense reserves were established in 2020. Results for each period benefited, however, from favorable development on prior years' loss reserves, which provided additional pretax earnings of $125.5 million in 2021, compared to $101.1 million in 2020. Further discussion of reserve development can be found in note 6 to the consolidated financial statements within Item 8, Financial Statements and Supplementary Data.

Incentive and profit-sharing amounts earned by executives, managers and associates are predominately influenced by corporate performance including operating return on equity, combined ratio and Market Value Potential (MVP). MVP is a compensation model that measures components of comprehensive earnings against a minimum required return on capital. MVP is the primary measure of executive bonus achievement and a significant component of manager and associate incentive targets. Incentive and profit-sharing related expenses attributable to the favorable reserve developments totaled $18.3 million and $14.2 million for 2021 and 2020, respectively. These performance-related expenses impact policy acquisition, insurance operating and general corporate expenses line items in the financial statements. Partially offsetting the 2021 and 2020 increases were $8.5 million and $11.2 million, respectively, in reductions to incentive and profit-sharing amounts earned due to losses associated with catastrophe activity, as well as the reserves that were established for COVID-19 in 2020.

In total, underwriting income was $129.9 million on an 86.8 combined ratio in 2021, compared to $69.6 million on a 92.0 combined ratio in 2020. The loss ratio was 46.5 in 2021, compared to 51.2 in 2020. The expense ratio decreased to 40.3 in 2021, from 40.8 in 2020. While higher levels of underwriting income and net earnings led to larger levels of bonus and profit-sharing expenses, the expense ratio declined as a result of a larger earned premium base.

We achieved our 26th consecutive year of underwriting profit in 2021. Our ability to continue to produce underwriting income, and to do so at margins which have consistently outperformed the broader industry, is a testament to our underwriters' discipline throughout the insurance cycle and our continued commitment to underwriting for a profit. We believe our underwriting discipline can differentiate the Company from the broader insurance market by ensuring sound risk selection and appropriate pricing.

The following tables and narrative provide a more detailed look at individual segment performance over the last two years.

GROSS PREMIUMS WRITTEN AND NET PREMIUMS EARNED

(in thousands)	Gross Premiums Written 2021	2020	% Change	Net Premiums Earned 2021	2020	% Change
CASUALTY						
Commercial excess and personal umbrella	$ 283,242	$ 237,239	19 %	$ 219,437	$ 178,214	23 %
General liability	99,017	94,307	5 %	90,853	91,653	(1) %
Professional services	96,735	91,300	6 %	88,855	85,196	4 %
Commercial transportation	106,432	63,345	68 %	83,352	64,624	29 %
Small commercial	68,475	65,843	4 %	64,660	63,357	2 %
Executive products	136,078	121,653	12 %	21,873	26,509	(17) %
Other casualty	81,605	75,722	8 %	64,609	59,968	8 %
Total casualty	$ 871,584	$ 749,409	16 %	$ 633,639	$ 569,521	11 %
PROPERTY						
Commercial property	$ 202,855	$ 145,371	40 %	$ 107,941	$ 79,406	36 %
Marine	112,721	98,027	15 %	97,745	81,852	19 %
Specialty personal	24,672	20,962	18 %	21,385	19,596	9 %
Other property	7,618	4,409	73 %	4,766	2,866	66 %
Total property	$ 347,866	$ 268,769	29 %	$ 231,837	$ 183,720	26 %
SURETY						
Miscellaneous	$ 46,599	$ 43,174	8 %	$ 43,982	$ 42,292	4 %
Commercial	51,529	46,426	11 %	43,738	42,872	2 %
Contract	29,776	28,654	4 %	27,707	27,342	1 %
Total surety	$ 127,904	$ 118,254	8 %	$ 115,427	$ 112,506	3 %
Grand total	$ 1,347,354	$ 1,136,432	19 %	$ 980,903	$ 865,747	13 %

Casualty

Gross premiums written for the casualty segment were up $122.2 million for 2021. Gross premiums from commercial excess and personal umbrella increased $46.0 million, due to rate increases and an expanded distribution base. Rate increases led to a 12 percent increase in premiums for our executive products group. Growth in the amount of business written by Prime, with whom we maintain a quota share reinsurance treaty, led to an increase in other casualty premium.

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 $43.1 million in 2021, when compared to 2020, and were up from pre-pandemic levels.

Property

Gross premiums written from our property segment were up $79.1 million in 2021. Our commercial property business was up $57.5 million, as rates on wind and earthquake exposures continued to increase, building valuations rose and market disruption provided an opportunity to increase market share. Rate increases and improved retention led to $14.7 million of growth for our marine product. Other property premium increased as a result of property-exposed GBA business that continued to gain scale.

Surety

Gross premiums written from our surety segment were up $9.7 million in 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

(in thousands)	2021	2020
Casualty	$ 95,519	$ 44,427
Property	11,300	(3,182)
Surety	23,107	28,352
Total	$ 129,926	$ 69,597

COMBINED RATIO	2021	2020
Casualty	84.9	92.2
Property	95.1	101.7
Surety	80.0	74.8
Total	86.8	92.0

Casualty

Underwriting income for the casualty segment was $95.5 million on an 84.9 combined ratio in 2021, compared to $44.4 million on a 92.2 combined ratio in 2020. The improvement is the result of increased favorable development on prior accident years' reserves and improved current accident year performance.

Favorable development on prior accident years' loss reserves contributed to underwriting earnings in each of the past two years. The total benefit from favorable development on prior years' reserves was $108.6 million for 2021, which was experienced across accident years 2014 through 2020. Products which generated the majority of the favorable development include general liability, transportation, professional services, commercial excess and personal umbrella. No product experienced significant adverse development. Comparatively, results for the casualty segment in 2020 included favorable development of $75.1 million, with the bulk of the development attributable to transportation, general liability, commercial excess and professional services across accident years 2016 through 2019. Hurricane and storm losses on casualty-oriented package policies that include property coverage resulted in $4.1 million of losses in 2021. Comparatively, $4.4 million of hurricane losses were incurred in 2020 and $12.9 million of reserves were established for COVID-19 loss and defense costs on financial-related product lines.

The segment's loss ratio was 49.2 in 2021, compared to 56.6 in 2020. The lower loss ratio in 2021 was due to the higher amounts of favorable development on prior years' reserves. The expense ratio for the casualty segment was 35.7 in 2021, compared to 35.6 in 2020.

Property

Underwriting income from the property segment was $11.3 million on a 95.1 combined ratio in 2021, compared to $3.2 million of underwriting loss on a 101.7 combined ratio in 2020. Underwriting results for 2021 included $11.0 million of favorable development on prior years' loss and catastrophe reserves, primarily from the marine business, $32.2 million of hurricane losses and $22.3 million of other storm losses. Comparatively, results for 2020 included $13.0 million of favorable development in prior years' reserves, largely from marine, $5.0 million of storm and civil unrest losses and $2.0 million of reserves related to COVID-19 investigative and defense costs. Additionally, hurricane activity resulted in $47.2 million of losses and $1.5 million of ceded reinstatement premium.

A larger earned premium base resulted in higher levels of underwriting income as well as lower loss and expense ratios. The segment's loss ratio was 56.0 in 2021, compared to 60.6 in 2020. Catastrophe losses added 24 points to the loss ratio in 2021, compared to 30 points of impact from catastrophe losses in 2020. The expense ratio for the property segment declined to 39.1 in 2021, from 41.1 in 2020.

Surety

Underwriting income for the surety segment totaled $23.1 million on an 80.0 combined ratio in 2021, compared to $28.4 million on a 74.8 combined ratio in 2020. Underwriting performance for each year reflects a combination of positive current accident year results and favorable development in prior accident years' loss reserves. The current accident year combined ratio for each period has been in the low to mid 80s. Results for 2021 included favorable development on prior accident years' reserves, which decreased loss and settlement expenses for the segment by $5.9 million. Comparatively, 2020 results included favorable development on prior accident years' loss reserves, which decreased the segment's loss and settlement expenses by $13.0 million, and offset $3.4 million in reserves established for COVID-19 related losses.

The segment's loss ratio was 13.0 in 2021, compared to 8.4 in 2020. A decreased amount of favorable development on prior years' reserves in 2021 led to a higher loss ratio. The expense ratio for the surety segment was 67.0 in 2021, compared to 66.4 in 2020.

NET INVESTMENT INCOME AND REALIZED INVESTMENT GAINS

During 2021, net investment income increased by 1 percent. The increase was primarily due to a larger asset base. The average annual yields on our investments were as follows for 2021 and 2020:

	2021	2020
PRETAX YIELD		
Taxable (on book value)	2.76 %	3.10 %
Tax-exempt (on book value)	2.63 %	2.69 %
Equities (on fair value)	2.07 %	2.33 %
AFTER-TAX YIELD		
Taxable (on book value)	2.18 %	2.45 %
Tax-exempt (on book value)	2.49 %	2.55 %
Equities (on fair value)	1.80 %	2.02 %

The after-tax yield reflects the different tax rates applicable to each category of investment. Our taxable fixed income securities were subject to a corporate tax rate of 21.0 percent, our tax-exempt municipal securities were subject to a tax rate of 5.3 percent and our dividend income was generally subject to a tax rate of 13.1 percent. During 2021, the average after-tax yield on the taxable fixed income portfolio was 2.2 percent, a decrease from 2.5 percent in the prior year. The average after-tax yield on the tax-exempt portfolio declined slightly to 2.5 percent.

The fixed income portfolio increased by $213.3 million during the year, as the majority of operating cash flows were allocated to the fixed income portfolio. The tax-adjusted total return on a mark-to-market basis was -0.3 percent. Our equity portfolio increased by $89.8 million to $613.8 million in 2021 as a result of the strong equity market returns during the year. The total return for the year on the equity portfolio was 26.4 percent.

Our investment results for the last five years are shown in the following table:

(in thousands)	Average Invested Assets (1)	Net Investment Income (2)(3)	Net Realized Gains (3)	Change in Unrealized Appreciation (3)(4)	Pre-tax Annualized Return on Avg. Invested Assets	Tax Equivalent Annualized Return on Avg. Invested Assets
2017	$ 2,081,309	$ 54,876	$ 4,411	$ 53,719	5.4 %	5.8 %
2018	2,167,510	62,085	63,407	(140,513)	(0.7) %	(0.6) %
2019	2,377,295	68,870	17,520	161,848	10.4 %	10.5 %
2020	2,698,721	67,893	17,885	99,451	6.9 %	6.9 %
2021	3,000,025	68,862	64,222	(6,280)	4.2 %	4.3 %
5-yr Avg.	$ 2,464,972	$ 64,517	$ 33,489	$ 33,645	5.2 %	5.4 %

(1) Average amounts at beginning and end of year (inclusive of cash and short-term investments).
(2) Investment income, net of investment expenses.
(3) Before income taxes.
(4) Relates to available-for-sale fixed income and equity securities.

In 2021, we recognized $62.5 million in net realized gains in the equity portfolio, $1.9 million in net realized gains in the fixed income portfolio and $0.2 million in other net realized losses. In 2020, we recognized $15.8 million in net realized gains in the equity portfolio, $3.9 million in net realized gains in the fixed income portfolio and $1.8 million in other net realized losses.

INVESTMENTS

We maintain a diversified investment portfolio with a prudent mix of fixed income and risk assets. We continually monitor economic conditions, our capital position and the insurance market to determine our tactical allocation. As of December 31, 2021, the portfolio had a fair value of $3.2 billion, an increase of $325.9 million from the end of 2020.

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. For additional information, see notes 1 and 2 to the consolidated financial statements within Item 8, Financial Statements and Supplementary Data.

As of December 31, 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	$ 127,752	$ 134,554	$ 6,802	4.3 %	AAA
U.S. agency	30,403	32,760	2,357	1.0 %	AAA
Non-U.S. government & agency	8,297	8,481	184	0.3 %	BBB+
Agency MBS	362,861	367,187	4,326	11.6 %	AAA
ABS/CMBS/MBS**	264,273	264,054	(219)	8.3 %	AA
Corporate	925,394	957,095	31,701	30.3 %	BBB+
Municipal	627,287	645,756	18,469	20.4 %	AA
Total fixed income	$ 2,346,267	$ 2,409,887	$ 63,620	76.2 %	AA-
Equities	324,501	613,776	289,275	19.4 %	
Other invested assets	44,435	50,501	6,066	1.6 %	
Cash	88,804	88,804	—	2.8 %	
Total portfolio	$ 2,804,007	$ 3,162,968	$ 358,961	100.0 %	

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

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

Quality in the previous table and in all subsequent tables is an average of each bond's credit rating, adjusted for its relative weighting in the portfolio.

Fixed income represented 76 percent of our total 2021 portfolio, down from 77 percent in 2020. As of December 31, 2021, the fair value of our fixed income portfolio consisted of 36 percent AAA-rated securities, 23 percent AA-rated securities, 20 percent A-rated securities, 13 percent BBB-rated securities and 8 percent non-investment grade or non-rated securities. This compares to 44 percent AAA-rated securities, 19 percent AA-rated securities, 21 percent A-rated securities, 10 percent BBB-rated securities and 6 percent non-investment grade or non-rated securities in 2020.

In selecting the maturity of securities in which we invest, we consider the relationship between the duration of our fixed income investments and the duration of our liabilities, including the expected ultimate payout patterns of our reserves. We believe that both liquidity and interest rate risk can be minimized by such asset/liability management. As of December 31, 2021, our fixed income portfolio's duration was 5.0 years.

Consistent underwriting income allows a portion of our investment portfolio to be invested in equity securities and other risk asset classes. Equities comprised 19 percent of our total 2021 portfolio, the same as 2020. Securities within the equity portfolio are well diversified and are primarily invested in broad index exchange traded funds (ETFs). Our actively managed equity strategy has a preference for dividend income and value oriented security selection with low turnover which minimizes transaction costs and taxes throughout our long investment horizon.

FIXED INCOME PORTFOLIO

As of December 31, 2021, our fixed income portfolio had the following rating distributions:

FAIR VALUE

(in thousands)	AAA	AA	A	BBB	Below Investment Grade	No Rating	Fair Value
Bonds:							
U.S. government & agency (GSE)	$ 156,604	$ 10,710	$ —	$ —	$ —	$ —	$ 167,314
Non-U.S. government & agency	—	—	1,940	6,541		—	8,481
Corporate - industrial	21,126	43,343	124,150	195,645	41,606	—	425,870
Corporate - financial	3,133	38,750	215,804	68,119	11,370	—	337,176
Corporate - utilities	1,281	1,039	28,909	30,443	4,246	—	65,918
Corporate industrial - private placements	—	—		2,937	73,992	19,564	96,493
Corporate financial - private placements	—		—		6,899	22,797	29,696
Corporate utilities - private placements	—	—			784	1,158	1,942
Municipal	169,426	414,360	59,842	—	—	2,128	645,756
Structured:							
GSE - RMBS	283,607	—	—	—	—	—	283,607
Non-GSE RMBS	62,488	16,009		—	—	—	78,497
CLO	27,362	7,000	—	—	—	—	34,362
ABS - credit cards	567	—	21,289	—	—	—	21,856
ABS - auto loans	9,187	4,293	4,011		—	—	17,491
All other ABS/MBS	21,381	7,430	18,813	—	—	8,632	56,256
GSE - CMBS	83,580	—	—	—	—	—	83,580
CMBS	38,435	3,647	13,510	—	—	—	55,592
Total	$ 878,177	$ 546,581	$ 488,268	$ 303,685	$ 138,897	$ 54,279	$ 2,409,887

Mortgage-Backed, Asset-Backed and Commercial Mortgage-Backed Securities

We believe mortgage-backed securities (MBS), asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS) add diversification, liquidity, credit quality and additional yield to our portfolio. The following table summarizes the distribution of our mortgage-backed securities (MBS) portfolio by investment type, as of December 31:

(in thousands)	Amortized Cost	Fair Value	% of Total
2021			
Pass-throughs	$ 187,456	$ 190,512	51.9 %
Planned amortization class	95,182	93,095	25.3 %
Sequential	80,223	83,580	22.8 %
Total	$ 362,861	$ 367,187	100.0 %
2020			
Pass-throughs	$ 220,516	$ 230,610	57.3 %
Planned amortization class	67,185	67,377	16.8 %
Sequential	96,314	104,084	25.9 %
Total	$ 384,015	$ 402,071	100.0 %

Agency MBS represented 15 percent of the fixed income portfolio, compared to 18 percent as of December 31, 2020. Our objective for the agency MBS portfolio is to provide reasonable cash flow stability where we are compensated for the call risk associated with residential refinancing. The agency MBS portfolio includes mortgage-backed pass-through securities and collateralized mortgage obligations (CMO), which include planned amortization classes (PACs) and sequential pay structures. As of December 31, 2021, all of the securities in our agency MBS portfolio were rated AAA and issued by Government Sponsored Enterprises (GSEs) such as the Governmental National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC).

Variability in the average life of principal repayment is an inherent risk of owning mortgage-related securities. However, we reduce our portfolio's exposure to prepayment risk by seeking characteristics that tighten the probable scenarios for expected cash flows. As of December 31, 2021, the agency MBS portfolio contained 52 percent of pure pass-throughs, compared to 57 percent as of December 31, 2020. An additional 23 percent of the MBS portfolio was invested in sequential payer, down from 26 percent in 2020.

The following table summarizes the distribution of our asset-backed and commercial mortgage-backed securities portfolio as of December 31:

(in thousands)	Amortized Cost	Fair Value	% of Total
2021			
Non-GSE RMBS	$ 79,281	$ 78,497	29.7 %
CMBS	55,293	55,592	21.1 %
CLO	34,305	34,362	13.0 %
Equipment	22,134	21,856	8.3 %
Auto	17,401	17,491	6.6 %
Consumers	12,242	12,442	4.7 %
Railcars	10,066	10,037	3.8 %
Credit card	4,919	5,135	1.9 %
Other	28,632	28,642	10.8 %
Total	$ 264,273	$ 264,054	100.0 %
2020			
Non-GSE RMBS	$ 54,271	$ 55,074	25.2 %
CMBS	23,927	25,941	11.9 %
CLO	39,315	39,244	18.0 %
Equipment	9,348	9,448	4.3 %
Auto	28,093	28,739	13.2 %
Consumers	6,502	6,912	3.2 %
Railcars	3,601	3,741	1.7 %
Credit card	24,218	24,746	11.3 %
Other	23,948	24,528	11.2 %
Total	$ 213,223	$ 218,373	100.0 %

An ABS, CMBS or non-agency residential mortgage-backed security (RMBS) is a securitization collateralized by the cash flows from a specific pool of underlying assets. These asset pools can include items such as credit card payments, auto loans, structured bank loans in the form of collateralized loan obligations (CLOs) and residential or commercial mortgages. As of December 31, 2021, ABS/CMBS/RMBS investments were 11 percent of the fixed income portfolio, compared to 10 percent as of December 31, 2020. Sixty percent of the securities in the ABS/CMBS/RMBS portfolio were rated AAA as of December 31, 2021, while 97 percent were rated A or better. We believe that ABS/CMBS investments often add superior cash flow stability over mortgage pass-throughs or CMOs.

When making investments in MBS/ABS/CMBS, we evaluate the quality of the underlying collateral, the structure of the transaction, which dictates how any losses in the underlying collateral will be distributed, and prepayment risks. We had $7.3 million in unrealized losses in these asset classes as of December 31, 2021.

Municipal Fixed Income Securities

As of December 31, 2021, municipal bonds composed 27 percent of our fixed income portfolio, compared to 24 percent as of December 31, 2020. We believe municipal fixed income securities can provide diversification and additional tax-advantaged yield to our portfolio. Our objective for the municipal fixed income portfolio is to provide reasonable cash flow stability and increased after-tax yield.

Our municipal fixed income portfolio is comprised of general obligation (GO) and revenue securities. The revenue sources include sectors such as sewer and water, public improvement, school, transportation and colleges and universities. As of December 31, 2021, approximately 48 percent of the municipal fixed income securities in the investment portfolio were GO and the remaining 52 percent were revenue based. The municipal portfolio is diversified amongst 336 issues with the largest single issuer representing less than 1 percent of invested assets.

Ninety percent of our municipal fixed income securities were rated AA or better, while 99 percent were rated A or better. The municipal portfolio includes 55 percent taxable and 45 percent tax-exempt securities.

Corporate Debt Securities

As of December 31, 2021, our corporate debt portfolio comprised 40 percent of the fixed income portfolio, compared to 37 percent as of December 31, 2020. The corporate allocation includes floating rate bank loans and bonds that are below investment grade in credit quality and offer incremental yield over our core fixed income portfolio. Non-investment grade bonds totaled $123.4 while non-rated Regulation D securities totaled $43.5 million at the end of 2021. The corporate debt portfolio has an overall quality rating of BBB+ diversified among 776 issues.

The table below illustrates our corporate debt exposure as of December 31, 2021. Private placements include bank loan and Regulation D securities.

(in thousands)	Amortized Cost	Fair Value	% of Total
Bonds:			
Corporate - industrial	$ 409,056	$ 425,870	44.5 %
Corporate - financial	324,652	337,176	35.2 %
Corporate - utilities	63,913	65,918	6.9 %
Corporate industrial - private placements	96,056	96,493	10.1 %
Corporate financial - private placements	29,830	29,696	3.1 %
Corporate utilities - private placements	1,887	1,942	0.2 %
Total	$ 925,394	$ 957,095	100.0 %

We believe corporate debt investments add diversification and additional yield to our portfolio. Because corporates make up a large portion of the fixed income opportunity set, the corporate debt investments will continue to be a significant part of our investment program.

EQUITY SECURITIES

As of December 31, 2021, our equity portfolio comprised 19 percent of the investment portfolio, the same as the previous year. The securities within the equity portfolio are well diversified and are primarily invested in broad index ETFs that represent market indexes similar to the Russell 1000 Index, Russell 3000 Index, S&P 500 Index and S&P 600 Index. The ETF portfolio is congruent with the actively managed equity portfolios and solves for exposures that line up with our overall benchmark index, the Russell 3000. In total, the equity portfolio is comprised of 87 securities with the largest single company exposure representing less than 1 percent of invested assets.

INTEREST AND GENERAL CORPORATE EXPENSE

We incurred $7.7 million of interest expense on outstanding debt during 2021 and $7.6 million in 2020. At December 31, 2021 and 2020, our long-term debt consisted of $150.0 million in senior notes maturing September 15, 2023 and paying interest semi-annually at a rate of 4.875 percent. Additionally, RLI Ins. borrowed $50.0 million from the Federal Home Loan Bank of Chicago on November 10, 2021. The borrowing matures on November 10, 2023 and interest is paid monthly at an annualized rate of 0.84 percent.

As discussed previously, general corporate expenses tend to fluctuate relative to our incentive compensation plans. Our compensation model measures components of comprehensive earnings against a minimum required return on our capital. Bonuses are earned as we generate earnings in excess of this required return. In 2021 and 2020, we exceeded the required return, resulting in the accrual of executive bonuses. Increased levels of net earnings in 2021 resulted in higher variable compensation earned than in 2020.

INVESTEE EARNINGS

We maintain a 40 percent equity interest in Maui Jim, a manufacturer of high-quality sunglasses. As a private company, the market for Maui Jim's stock is limited. Our investment in Maui Jim is carried at the RLI Corp. holding company level, as it is not core to our insurance operations. While we have certain rights under our shareholder agreement with Maui Jim as a minority shareholder, we are subject to the decisions of the controlling shareholder, which may impact the value of our investment. In 2021, we recorded $22.8 million in earnings from this investment, compared to $10.4 million in 2020. Sales recovered from the shutdown the traditional retail sector experienced during 2020.

As of December 31, 2021, we had a 23 percent interest in the equity and earnings of Prime. Prime writes business through two Illinois domiciled insurance carriers, Prime Insurance Company, an excess and surplus lines company, and Prime Property and

Casualty Insurance Inc., an admitted insurance company. As a private company, the market for Prime's stock is limited. While we have certain rights under our shareholder agreement, we are subject to the decisions of the controlling shareholder, which may impact the value of our investment. In 2021, we recorded $17.0 million in investee earnings for Prime, compared to $10.8 million in 2020, reflective of their growth in revenue. Additionally, we maintain a quota share reinsurance treaty with Prime, which contributed $22.2 million of gross premiums written and $19.1 million of net premiums earned during 2021, compared to $15.7 million of gross premiums written and $14.3 million of net premiums earned during 2020.

We did not receive a dividend from our equity method investments in 2021, but received a dividend from Prime in 2020. Dividends from Maui Jim and Prime have been irregular in nature and while they provide added liquidity when received, we do not rely on those dividends to meet our liquidity needs. While these dividends do not flow through the investee earnings line, they do result in the recognition of a tax benefit, which is discussed in the income tax section that follows.

INCOME TAXES

Our effective tax rates were 18.9 percent and 17.3 percent for 2021 and 2020, respectively. Effective rates are dependent upon components of pretax earnings, which is impacted by the volatility of unrealized gains and losses, and the related tax effects. The effective rate was higher in 2021 due to higher levels of pretax earnings, which decreased the impact of tax-favored adjustments on a percentage basis.

Our net earnings include equity in earnings of unconsolidated investees, Maui Jim and Prime. The investees do not have a policy or pattern of paying dividends. As a result, we record a deferred tax liability on the earnings at the corporate capital gains rate of 21 percent in anticipation of recovering our investments through means other than through the receipt of dividends, such as a sale. We received a $4.7 million dividend from Prime in 2020 and recognized a $0.5 million tax benefit from applying the lower tax rate applicable to affiliated dividends paid to an insurance company (10.8 percent in 2020), as compared to the corporate capital gains rate on which the deferred tax liabilities were based. Standing alone, the dividend resulted in a 0.2 percent reduction to the 2020 effective tax rate. No dividends were declared from unconsolidated investees in 2021, therefore having no impact to the 2021 effective tax rate.

Dividends paid to our Employee Stock Ownership Plan (ESOP) also result in a tax deduction. Dividends paid to the ESOP in 2021 and 2020 resulted in tax benefits of $1.6 million and $1.1 million, respectively. These tax benefits reduced the effective tax rate for 2021 and 2020 by 0.5 percent and 0.6 percent, respectively.

NET UNPAID LOSSES AND SETTLEMENT EXPENSES

The primary liability on our balance sheet relates to unpaid losses and settlement expenses, which represents our estimated liability for losses and related settlement expenses before considering offsetting reinsurance balances recoverable. The largest asset on our balance sheet, outside of investments, is the reinsurance balances recoverable on unpaid losses and settlement expenses, which serves to offset this liability. The liability can be split into two parts: (1) case reserves representing estimates of losses and settlement expenses on known claims and (2) IBNR reserves representing estimates of losses and settlement expenses on claims that have occurred but have not yet been reported to the Company. Our gross liability for both case and IBNR reserves is reduced by reinsurance balances recoverable on unpaid losses and settlement expenses to calculate our net reserve balance. This net reserve balance increased to $1.4 billion at December 31, 2021, from $1.3 billion as of December 31, 2020. This reflects incurred losses of $456.6 million in 2021 offset by paid losses of $327.5 million, compared to incurred losses of $442.9 million offset by $325.1 million paid in 2020. For more information on the changes in loss and LAE reserves by segment, see note 6 to the consolidated financial statements within Item 8, Financial Statements and Supplementary Data.

Gross reserves (liability) and the reinsurance balances recoverable (asset) are generally subject to the same influences that affect net reserves, though changes to our reinsurance agreements can cause reinsurance balances recoverable to behave differently. Total gross loss and LAE reserves increased to $2.0 billion at December 31, 2021, from $1.8 billion at December 31, 2020, while ceded loss and LAE reserves increased to $608.1 million from $443.7 million over the same period.

LIQUIDITY AND CAPITAL RESOURCES

OVERVIEW

We have three primary types of cash flows: (1) operating cash flows, which consist mainly of cash generated by our underwriting operations and income earned on our investment portfolio, (2) investing cash flows related to the purchase, sale and

maturity of investments and (3) financing cash flows that impact our capital structure, such as changes in debt, issuance of common stock and dividend payments. The following table summarizes these three cash flows over the last two years:

(in thousands)	2021	2020
Operating cash flows	$ 384,905	$ 263,259
Investing cash flows (uses)	(274,826)	(167,987)
Financing cash flows (uses)	(83,492)	(79,258)

We have posted positive operating cash flow in the last two years. Variations in operating cash flow between periods are largely driven by the volume and timing of premium receipt, claim payments, reinsurance and taxes. In addition, fluctuations in insurance operating expenses impact operating cash flow. During 2021, the majority of cash flow uses were related to financing and investing activities and associated with the payments of dividends and net purchases of investments, respectively.

We have entered into certain contractual obligations that require the Company to make recurring payments. The following table summarizes our contractual obligations as of December 31, 2021:

	Payments due by period				
(in thousands)	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
Loss and settlement expense reserves	$ 580,730	$ 735,027	$ 391,900	$ 335,898	$ 2,043,555
Long-term debt	—	200,000	—	—	200,000
Interest on long-term debt	7,733	5,546	—	—	13,279
Operating leases	5,353	7,670	2,365	2,283	17,671
Other invested assets and equity method investees	13,135	6,762	131	103	20,131
Total	$ 606,951	$ 955,005	$ 394,396	$ 338,284	$ 2,294,636

Loss and settlement expense reserves represent our best estimate of the ultimate cost of settling reported and unreported claims and related expenses. As discussed previously, the estimation of loss and loss expense reserves is based on various complex and subjective judgments. Actual losses and settlement expenses paid may deviate, perhaps substantially, from the reserve estimates reflected in our financial statements. Similarly, the timing for payment of our estimated losses is not fixed and is not determinable on an individual or aggregate basis. The assumptions used in estimating the payments due by periods are based on our historical claims payment experience. Due to the uncertainty inherent in the process of estimating the timing of such payments, there is a risk that the amounts paid in any period can be significantly different than the amounts disclosed above. Amounts disclosed above are gross of anticipated amounts recoverable from reinsurers. Reinsurance balances recoverable on unpaid loss and settlement reserves are reported separately as assets, instead of being netted with the related liabilities, since reinsurance does not discharge the Company of our liability to policyholders. Reinsurance balances recoverable on unpaid loss and settlement reserves totaled $608.1 million at December 31, 2021, compared to $443.7 million in 2020.

The next largest contractual obligation relates to long-term debt outstanding. On October 2, 2013, we completed a public debt offering of $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. The notes were issued at a discount resulting in proceeds, net of discount and commission, of $148.6 million. Additionally, RLI Ins. borrowed $50.0 million from the Federal Home Loan Bank of Chicago on November 10, 2021. The borrowing matures on November 10, 2023 and has an option to pay off the debt early on November 10, 2022. Interest is paid monthly at an annualized rate of 0.84 percent. We are not party to any off-balance sheet arrangements. See note 4 to the consolidated financial statements within Item 8, Financial Statements and Supplementary Data for more information on our long-term debt. Additionally, see note 2 to the consolidated financial statements within Item 8, Financial Statements and Supplementary Data for information on our obligations for other invested assets.

Our primary objective in managing our capital is to preserve and grow shareholders' equity and statutory surplus to improve our competitive position and allow for expansion of our insurance operations. Our insurance subsidiaries must maintain certain minimum capital levels in order to meet the requirements of the states in which we are regulated. Our insurance companies are also evaluated by rating agencies that assign financial strength ratings that measure our ability to meet our obligations to policyholders over an extended period of time.

We have historically grown our total capital as a result of three sources of funds: (1) earnings on underwriting and investing activities, (2) appreciation in the value of our investments and (3) the issuance of common stock and debt.

At December 31, 2021, we had cash, short-term investments and other investments maturing within one year of approximately $146.9 million and an additional $672.9 million of investments maturing between 1 to 5 years. We 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. 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. This facility replaced the previous $50.0 million facility with JP Morgan Chase Bank N.A., which was set to expire on May 24, 2020. As of and during the year ended December 31, 2021, no amounts were outstanding on these facilities.

Additionally, two of our insurance companies, RLI Ins. and Mt. Hawley, are members of the Federal Home Loan Bank of Chicago (FHLBC). Membership in the Federal Home Loan Bank system provides both companies with access to an additional source of liquidity via a secured lending facility. Based on qualifying assets and the $50.0 million borrowing outstanding at year-end, additional aggregate borrowing capacity is approximately $14.9 million. However, under certain circumstances, that capacity may be increased based on additional FHLBC stock purchased and available collateral. Our membership allows each insurance subsidiary to determine tenor and structure at the time of borrowing.

We believe that cash generated by operations, cash generated by investments and cash available from financing activities will provide sufficient sources of liquidity to meet our anticipated needs over the next 12 to 24 months. We have consistently generated positive operating cash flow. The primary factor in our ability to generate positive operating cash flow is underwriting profitability, which we have achieved for 26 consecutive years.

OPERATING ACTIVITIES

The following list highlights some of the major sources and uses of cash flow from operating activities:

Sources	**Uses**
Premiums received	Claims
Loss payments from reinsurers	Ceded premium to reinsurers
Investment income (interest and dividends)	Commissions paid
Unconsolidated investee dividends from affiliates	Operating expenses
Funds held	Interest expense
	Income taxes
	Funds held

Our largest source of cash is from premiums received from our customers, which we receive at the beginning of the coverage period for most policies. Our largest cash outflow is for claims that arise when a policyholder incurs an insured loss. Because the payment of claims occurs after the receipt of the premium, often years later, we invest the cash in various investment securities that earn interest and dividends. We use cash to pay commissions to brokers and agents, as well as to pay for ongoing operating expenses such as salaries, rent, taxes and interest expense. We also utilize reinsurance to manage the risk that we take on our policies. We cede, or pay out, part of the premiums we receive to our reinsurers and collect cash back when losses subject to our reinsurance coverage are paid.

The timing of our cash flows from operating activities can vary among periods due to the timing by which payments are made or received. Some of our payments and receipts, including loss settlements and subsequent reinsurance receipts, can be significant, so their timing can influence cash flows from operating activities in any given period. We are subject to the risk of incurring significant losses on catastrophes, both natural (such as earthquakes and hurricanes) and man-made (such as terrorism). If we were to incur such losses, we would have to make significant claims payments in a relatively concentrated period of time.

INVESTING ACTIVITIES

The following list highlights some of the major sources and uses of cash flow from investing activities:

Sources	**Uses**
Proceeds from sale, call or maturity of bonds	Purchase of bonds
Proceeds from sale of stocks	Purchase of stocks
Proceeds from sale of other invested assets	Purchase of other invested assets
	Acquisitions
	Purchase of property and equipment

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. As of December 31, 2021, our portfolio had a carrying value of $3.2 billion. Portfolio assets at December 31, 2021, increased by $325.9 million, or 11 percent, from December 31, 2020.

Our overall investment philosophy is designed to first protect policyholders by maintaining sufficient funds to meet corporate and policyholder obligations and then generate long-term growth in shareholders' equity. Because our existing and projected liabilities

are sufficiently funded by the fixed income portfolio, we can improve returns by investing a portion of the surplus (within limits) in a risk assets portfolio largely made up of equities. As of December 31, 2021, 50 percent of our shareholders' equity was invested in equities, an increase from 46 percent at December 31, 2020.

The fixed income portfolio is structured to meet policyholder obligations and optimize the generation of after-tax investment income and total return.

FINANCING ACTIVITIES

In addition to the previously discussed operating and investing activities, we also engage in financing activities to manage our capital structure. The following list highlights some of the major sources and uses of cash flow from financing activities:

Sources	Uses
Proceeds from stock offerings	Shareholder dividends
Proceeds from debt offerings	Debt repayment
Short-term borrowing	Share buy-backs
Shares issued under stock option plans	

Our capital structure is comprised of equity and debt obligations. As of December 31, 2021, our capital structure consisted of $199.7 million in long-term debt and $1.2 billion of shareholders' equity. Debt outstanding comprised 14 percent of total capital as of December 31, 2021.

At the holding company (RLI Corp.) level, we rely largely on dividends from our insurance company 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 December 31, 2021, our holding company had $1.2 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 $87.9 million in liquid investment assets, which exceeds our normal annual holding company expenditures. Unrestricted funds at the holding company level are available to fund debt interest, general corporate obligations and regular 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 the 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. In 2021 and 2020, our principal insurance subsidiary paid ordinary dividends totaling $70.0 million and $110.0 million, respectively, to RLI Corp. Any dividend distribution in excess of the ordinary dividend limits is deemed extraordinary and requires prior approval from the IDOI. In 2021, our principal insurance subsidiary sought and received regulatory approval prior to the payment of extraordinary dividends totaling $110.0 million. No extraordinary dividends were paid in 2020. As of December 31, 2021, $26.1 million of the net assets of our principal insurance subsidiary are not restricted and could be distributed to RLI Corp. as ordinary dividends. 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.

Our 183rd consecutive dividend payment was declared in February 2022 and will be paid on March 18, 2022, in the amount of $0.25 per share. Since the inception of cash dividends in 1976, we have increased our annual dividend every year.

OUTLOOK FOR 2022

The pandemic's impact on the industry was more moderate in 2021, and it was a year of transition, with broad-based momentum fueling growth across most business lines. The current hard market cycle is being sustained by several factors, including: resurgent core inflation, significant catastrophe activity, continued low interest rates and higher reinsurance costs. Market participants are acting rationally by reducing capacity in more volatile segments and the persistent uncertainty of the frequency and severity of losses remains, especially for longer tailed exposures. Our diverse portfolio of specialty products and focus on surplus lines has afforded us the flexibility to meet the needs of insureds and navigate changing market environments.

GDP growth should be a foundation for our industry over time, with commercial coverages expanding alongside the economy. The property and casualty industry is expected to exceed GDP growth, as market conditions continue to make up for the soft cycle in the mid-2010s. With positive rate increases entering a third or fourth year, the compounding effects for our industry are significant, and likely a reason that many carriers are citing rate in excess of loss costs. Growth through positive rate momentum should benefit industry loss ratios, and scale is an important contributor to helping absorb the fixed costs of embedded expenses.

RLI experienced a transition in 2021 as well, with leadership changes that ushered in Craig Kliethermes as Chief Executive Officer, the third such conferment in our 56-year history. For RLI however, a change in leadership does not mean a change in philosophy and our underwriting discipline remains a cornerstone of our ownership culture.

Our underwriting team continues to focus on improving the experience with our distribution partners, making it easier and more efficient for brokers and agents to do business with us. We recognize the importance of maintaining strong personal relationships with producers, especially in light of significant consolidation among our distribution partners and the virtual nature of today's business interactions. As we invest in technology to enhance the submission and binding of new business, we would expect written premium to increase alongside expenses. We anticipate that this would minimize any increase, and should eventually result in a decrease, to our expense ratio.

Capital markets were rational in 2021, with accommodative monetary policy and fiscal stimulus supporting asset prices and consumers respectively. The prospect of continued inflation will likely require the Federal Reserve to change course in 2022, an expectation that led to higher bond yields at year-end. We anticipate that yields will continue to move up throughout 2022, which will offer support to investment income, especially when coupled with a larger invested asset base. As of February 2022, equity prices may be in a transition of their own, as tighter financial conditions and a higher discount rate may impact future earnings. Absent a recession, those earnings should be supportive over the long term, but we expect bouts of volatility in the new year.

The economy is stable with strong demand for labor, household balance sheets in a de-levered state and consumers poised to re-engage the service sector as the country continues to re-open. Supply chain issues, labor shortages and inflation in the cost of materials may offer a challenging backdrop for industries like construction, where activity might be stunted. About one third of RLI's business lines touch the construction industry, and we are watching the trends in this market closely.

CASUALTY

The casualty segment remains highly influenced by long term trends, inflation and the prospect for increasing damage awards for liability losses. We have seen continued momentum in rates across nearly all casualty businesses, a trend we expect to continue into 2022. The growth rate was particularly robust for our transportation and personal umbrella products in 2021, but is expected to be more temperate and closer to the growth rate of the rest of our casualty business moving forward. Supportive environments will depend on the broader capacity for risk transfer from the industry and the cadence and magnitude of loss activity. Economic activity can be correlated with more frequent losses, especially for commercial auto coverages, and we expect this trend to play out over the course of the year. Social inflation has been less prominent in recent quarters, but we are watchful for resurgent influence on court outcomes. We believe our balance sheet and underwriting model have the strength and flexibility to navigate the nuanced nature of the casualty business and growth should continue for most lines in 2022.

PROPERTY

The industry has experienced elevated property losses, with significant levels of catastrophe activity in the last several years. This has restrained some capacity and created opportunity for RLI to continue growing. Reinsurance cost increases, wage and materials inflation, and rising building valuations have increased the probability of continued growth and rate improvement into 2022. Storm activity will be the primary driver of profitability in the near term. The industry will continue to evaluate the impacts of climate change on the frequency and severity of weather-based events. However, our approach of mitigating climate and catastrophe-related risks through aggregation management, reinsurance and pricing will remain unchanged.

SURETY

In 2021, our surety business experienced meaningful growth, largely attributable to investments in technology and a growing economy. Several recession-related industry losses resulted in disruption to the market, allowing for greater opportunity in the commercial space. In contrast, smaller miscellaneous exposure remains very competitive and we expect continued demand for higher commissions in this market segment over the course of the next year. The construction industry is a large part of our surety business, and labor and materials shortages are significantly impacting the market. As the economy normalizes, these constraints should improve and we anticipate continued growth will occur.

***

We marked our 26th consecutive year of underwriting profitability in 2021. The consistent results and value that we have delivered to our stakeholders is directly correlated to our customer focus, hallmark underwriting discipline and ownership culture. We believe this is a market we can thrive in, as rates are still moving up broadly. Achieving strong results for 2022 will require deep expertise and knowledge of the markets and insured that we serve. We believe the strong collaboration between our underwriters, claims and analytical teams will result in risk selection advantages in our favor.

PROSPECTIVE ACCOUNTING STANDARDS

Prospective accounting standards are those which we have not implemented because the implementation date has not yet occurred. For a discussion of relevant prospective accounting standards, see note 1.D. to the consolidated financial statements within Item 8, Financial Statements and Supplementary Data.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

MARKET RISK DISCLOSURE

Market risk is a general term describing the potential economic loss associated with adverse changes in the fair value of financial instruments. Management of market risk is a critical component of our investment decisions and objectives. We manage our exposure to market risk by using the following tools:

- Monitoring the fair value of all financial assets on a constant basis,
- Changing the character of future investment purchases as needed and
- Maintaining a balance between existing asset and liability portfolios.

FIXED INCOME AND INTEREST RATE RISK

The most significant short-term influence on our fixed income portfolio is a change in interest rates. Because there is intrinsic difficulty predicting the direction and magnitude of interest rate moves, we attempt to minimize the impact of interest rate risk on the balance sheet by matching the duration of assets to that of our liabilities. Furthermore, the diversification of sectors and given issuers is core to our risk management process, increasing the granularity of individual credit risk. Liquidity and call risk are elements of fixed income that we regularly evaluate to ensure we are receiving adequate compensation. Our fixed income portfolio has a meaningful impact on financial results and is a key component in our enterprise risk simulations.

Interest rate risk can also affect our consolidated statement of earnings due to its impact on interest expense. As of December 31, 2021, we had no short-term debt obligations. We maintain debt that is long-term in nature and carries a fixed interest rate. As such, our interest expense on these obligations is not subject to changes in interest rates. As this debt is not due until 2023, we will not assume additional interest rate risk in our ability to refinance these debts for more than eighteen months.

EQUITY PRICE RISK

Equity price risk is the potential that we will incur economic loss due to the decline of common stock prices. Beta analysis is used to measure the sensitivity of our equity portfolio to changes in the value of the S&P 500 Index (an index representative of the broad equity market). Our current equity portfolio has a beta of 0.9 in comparison to the S&P 500 with a beta of 1.0. This lower beta statistic reflects our long-term emphasis on maintaining a value-oriented, dividend-driven investment philosophy for our equity portfolio.

SENSITIVITY ANALYSIS

The tables that follow detail information on the market risk exposure for our financial investments as of December 31, 2021. Listed on each table is the December 31, 2021 fair value for our assets and the expected pretax reduction in fair value given the stated hypothetical events. This sensitivity analysis assumes the composition of our assets remains constant over the period being measured and also assumes interest rate changes are reflected uniformly across the yield curve. For example, our ability to hold non-trading securities to maturity mitigates price fluctuation risks. For purposes of this disclosure, market risk sensitive instruments are all classified as held for non-trading purposes, as we do not hold any trading securities. The examples given are not predictions of future market events, but rather illustrations of the effect such events may have on the fair value of our investment portfolio.

As of December 31, 2021, our fixed income portfolio had a fair value of $2.4 billion. The sensitivity analysis uses scenarios of interest rates increasing 100 and 200 basis points from their December 31, 2021, levels with all other variables held constant. Such scenarios would result in modeled decreases in the fair value of the fixed income portfolio of $126.9 million and $246.8 million, respectively. Comparatively, our fixed income portfolio had a fair value of $2.2 billion as of December 31, 2020 and scenarios of interest rates increasing 100 and 200 basis points would have resulted in modeled decreases of $113.6 million and $219.9 million, respectively.

As of December 31, 2021, our equity portfolio had a fair value of $613.8 million. The base sensitivity analysis uses market scenarios of the S&P 500 Index declining both 10 percent and 20 percent. These scenarios would result in approximate decreases in the equity fair value of $56.4 million and $112.9 million, respectively. Comparatively, our equity portfolio had a fair value of $524.0 million as of December 31, 2020 and scenarios of the S&P 500 Index declining by 10 percent and 20 percent would have resulted in approximate decreases of $46.9 million and $93.8 million, respectively.

While the declines in market value outlined below are modeled as instantaneous changes, we would expect movements in capital markets to occur over time, with investment income offering an offset to any decrease in prices.

Under the assumptions of rising interest rates and a decreasing S&P 500 Index, the fair value of our assets will decrease from their present levels by the indicated amounts.

Effect of a 100 basis-point increase in interest rates and a 10 percent decline in the S&P 500:

(in thousands)	12/31/21 Fair Value	Interest Rate Risk	Equity Risk
Held for non-trading purposes:			
Fixed income securities	$ 2,409,887	$ (126,935)	$ —
Equity securities	613,776	—	(56,438)
Total	$ 3,023,663	$ (126,935)	$ (56,438)

Effect of a 200 basis-point increase in interest rates and a 20 percent decline in the S&P 500:

(in thousands)	12/31/21 Fair Value	Interest Rate Risk	Equity Risk
Held for non-trading purposes:			
Fixed income securities	$ 2,409,887	$ (246,792)	$ —
Equity securities	613,776	—	(112,876)
Total	$ 3,023,663	$ (246,792)	$ (112,876)

Comparatively, under the assumptions of falling interest rates and an increasing S&P 500 Index, the fair value of our assets will increase from their present levels by the indicated amounts.

Effect of a 100 basis-point decrease in interest rates and a 10 percent increase in the S&P 500:

(in thousands)	12/31/21 Fair Value	Interest Rate Risk	Equity Risk
Held for non-trading purposes:			
Fixed income securities	$ 2,409,887	$ 134,953	$ —
Equity securities	613,776	—	56,438
Total	$ 3,023,663	$ 134,953	$ 56,438

Effect of a 200 basis-point decrease in interest rates and 20 percent increase in the S&P 500:

(in thousands)	12/31/21 Fair Value	Interest Rate Risk	Equity Risk
Held for non-trading purposes:			
Fixed income securities	$ 2,409,887	$ 280,315	$ —
Equity securities	613,776	—	112,876
Total	$ 3,023,663	$ 280,315	$ 112,876

Item 8. Financial Statements and Supplementary Data

Index to Financial Statements	Page
Consolidated Balance Sheets	54
Consolidated Statements of Earnings and Comprehensive Earnings	55
Consolidated Statements of Shareholders' Equity	56
Consolidated Statements of Cash Flows	57
Notes to Consolidated Financial Statements	58-88
Reports of Independent Registered Public Accounting Firms	89

RLI Corp.
Consolidated Balance Sheets

(in thousands, except per share data)	December 31, 2021	December 31, 2020
ASSETS		
Investments and cash:		
Fixed income:		
Available-for-sale, at fair value	$ 2,409,887	$ 2,196,626
(amortized cost of $2,346,267 and allowance for credit losses of $441 in 2021)		
(amortized cost of $2,061,467 and allowance for credit losses of $397 in 2020)		
Equity securities, at fair value (cost - $324,501 in 2021 and $293,190 in 2020)	613,776	524,006
Other invested assets	50,501	54,232
Cash	88,804	62,217
Total investments and cash	$ 3,162,968	$ 2,837,081
Accrued investment income	17,505	16,126
Premiums and reinsurance balances receivable, net of allowances for uncollectible amounts of $18,067 in 2021 and $17,658 in 2020	167,279	174,628
Ceded unearned premiums	130,916	113,488
Reinsurance balances recoverable on unpaid losses and settlement expenses, net of allowances for uncollectible amounts of $11,188 in 2021 and $8,634 in 2020	608,086	443,729
Deferred policy acquisition costs	103,553	88,425
Property and equipment, at cost, net of accumulated depreciation of $75,236 in 2021 and $68,682 in 2020	52,161	51,406
Investment in unconsolidated investees	171,311	128,382
Goodwill and intangibles	53,562	53,719
Other assets	40,961	31,501
TOTAL ASSETS	$ 4,508,302	$ 3,938,485
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Unpaid losses and settlement expenses	$ 2,043,555	$ 1,750,049
Unearned premiums	680,444	586,386
Reinsurance balances payable	42,851	42,265
Funds held	89,773	81,747
Income taxes - deferred	83,509	80,235
Long-term debt	199,676	149,489
Accrued expenses	98,274	75,925
Other liabilities	40,859	36,411
TOTAL LIABILITIES	$ 3,278,941	$ 2,802,507
SHAREHOLDERS' EQUITY		
Common stock ($0.01 par value)		
(Shares authorized - 200,000,000)		
(68,219,551 shares issued and 45,289,337 shares outstanding in 2021)		
(68,072,794 shares issued and 45,142,580 shares outstanding in 2020)	$ 682	$ 681
Paid-in capital	343,742	335,365
Accumulated other comprehensive earnings	49,826	108,714
Retained earnings	1,228,110	1,084,217
Deferred compensation	9,642	8,292
Treasury stock, at cost (22,930,214 shares in 2021 and 2020)	(402,641)	(401,291)
TOTAL SHAREHOLDERS' EQUITY	$ 1,229,361	$ 1,135,978
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 4,508,302	$ 3,938,485

See accompanying notes to consolidated financial statements.

RLI Corp.
Consolidated Statements of Earnings and Comprehensive Earnings

(in thousands, except per share data)	Years ended December 31, 2021	2020	2019
Net premiums earned	$ 980,903	$ 865,747	$ 839,111
Net investment income	68,862	67,893	68,870
Net realized gains	64,222	17,885	17,520
Net unrealized gains on equity securities	65,258	32,101	78,090
Consolidated revenue	$ 1,179,245	$ 983,626	$ 1,003,591
Losses and settlement expenses	456,602	442,884	413,416
Policy acquisition costs	317,468	286,438	288,697
Insurance operating expenses	76,907	66,828	69,430
Interest expense on debt	7,677	7,603	7,588
General corporate expenses	13,330	10,265	12,686
Total expenses	$ 871,984	$ 814,018	$ 791,817
Equity in earnings of unconsolidated investees	37,060	20,233	20,960
Earnings before income taxes	$ 344,321	$ 189,841	$ 232,734
Income tax expense:			
Current	46,040	24,174	26,426
Deferred	18,927	8,576	14,666
Income tax expense	$ 64,967	$ 32,750	$ 41,092
Net earnings	$ 279,354	$ 157,091	$ 191,642
Other comprehensive earnings (loss), net of tax	(58,888)	56,219	67,045
Comprehensive earnings	$ 220,466	$ 213,310	$ 258,687
Basic net earnings per share	$ 6.18	$ 3.49	$ 4.28
Diluted net earnings per share	$ 6.11	$ 3.46	$ 4.23
Weighted average number of common shares outstanding:			
Basic	45,230	45,000	44,734
Diluted	45,712	45,376	45,257

See accompanying notes to consolidated financial statements.

RLI Corp.
Consolidated Statements of Shareholders' Equity

(in thousands, except per share data)	Common Shares	Total Shareholders' Equity	Common Stock	Paid-in Capital	Accumulated Other Comprehensive Earnings (Loss)	Retained Earnings	Deferred Compensation	Treasury Stock at Cost
Balance, January 1, 2019	44,504,043	$ 806,842	$ 674	$ 305,660	$ (14,572)	$ 908,079	$ 8,354	$ (401,353)
Net earnings	—	191,642	—	—	—	191,642	—	—
Other comprehensive earnings (loss), net of tax	—	67,045	—	—	67,045	—	—	—
Deferred compensation	—	—	—	—	—	—	(374)	374
Share-based compensation	364,972	15,534	4	15,530	—	—	—	—
Dividends and dividend equivalents ($1.91 per share)	—	(85,675)	—	—	—	(85,675)	—	—
Balance, December 31, 2019	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	—	157,091	—	—	—	157,091	—	—
Other comprehensive earnings (loss), net of tax	—	56,219	—	—	56,219	—	—	—
Deferred compensation	—	—	—	—	—	—	312	(312)
Share-based compensation	273,565	14,178	3	14,175	—	—	—	—
Dividends and dividend equivalents ($1.95 per share)	—	(87,993)	—	—	—	(87,993)	—	—
Balance, December 31, 2020	45,142,580	$ 1,135,978	$ 681	$ 335,365	$ 108,714	$ 1,084,217	$ 8,292	$ (401,291)
Net earnings	—	279,354	—	—	—	279,354	—	—
Other comprehensive earnings (loss), net of tax	—	(58,888)	—	—	(58,888)	—	—	—
Deferred compensation	—	—	—	—	—	—	1,350	(1,350)
Share-based compensation	146,757	8,378	1	8,377	—	—	—	—
Dividends and dividend equivalents ($2.99 per share)	—	(135,461)	—	—	—	(135,461)	—	—
Balance, December 31, 2021	45,289,337	$ 1,229,361	$ 682	$ 343,742	$ 49,826	$ 1,228,110	$ 9,642	$ (402,641)

See accompanying notes to consolidated financial statements.

RLI Corp.
Consolidated Statements of Cash Flows

(in thousands)	Years ended December 31, 2021	2020	2019
Cash flows from operating activities:			
Net earnings	$ 279,354	$ 157,091	$ 191,642
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Net realized gains	(64,222)	(17,885)	(17,520)
Net unrealized gains on equity securities	(65,258)	(32,101)	(78,090)
Depreciation	7,394	7,432	8,164
Deferred income tax expense	18,927	8,576	14,666
Other items, net	14,141	10,460	25,341
Change in:			
Accrued investment income	(1,379)	(1,539)	(552)
Premiums and reinsurance balances receivable (net of direct write-offs and commutations)	7,349	(14,259)	(7,793)
Reinsurance balances payable	586	16,574	3,100
Funds held	8,026	(1,611)	11,049
Ceded unearned premiums	(17,428)	(19,832)	(22,482)
Reinsurance balances recoverable on unpaid losses and settlement expenses	(164,357)	(59,212)	(19,518)
Deferred policy acquisition costs	(15,128)	(3,381)	(110)
Accrued expenses	22,349	9,299	21,502
Unpaid losses and settlement expenses	293,506	175,697	113,004
Unearned premiums	94,058	46,173	43,708
Current income taxes payable	4,047	(2,665)	(1,434)
Changes in investment in unconsolidated investees:			
Undistributed earnings	(37,060)	(20,233)	(20,960)
Dividends received	—	4,675	13,200
Net cash provided by operating activities	$ 384,905	$ 263,259	$ 276,917
Cash flows from investing activities:			
Purchase of:			
Fixed income securities, available-for-sale	$ (733,811)	$ (518,362)	$ (539,726)
Equity securities	(140,721)	(77,863)	(89,486)
Property and equipment	(8,310)	(5,768)	(6,955)
Investment in equity method investee	(8,978)	(4,533)	—
Other	(11,428)	(12,851)	(22,751)
Proceeds from sale of:			
Fixed income securities, available-for-sale	63,811	84,587	196,558
Equity securities	180,256	79,368	62,172
Other	7,605	4,328	2,502
Proceeds from call or maturity of:			
Fixed income, available-for-sale	376,750	283,107	201,383
Net proceeds from sale of short-term investments	—	—	11,550
Net cash used in investing activities	$ (274,826)	$ (167,987)	$ (184,753)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	$ 50,000	$ —	$ —
Proceeds from stock option exercises	1,838	8,648	9,490
Cash dividends paid	(135,330)	(87,906)	(85,591)
Net cash used in financing activities	$ (83,492)	$ (79,258)	$ (76,101)
Net increase in cash	$ 26,587	$ 16,014	$ 16,063
Cash at beginning of year	62,217	46,203	30,140
Cash at end of year	$ 88,804	$ 62,217	$ 46,203

See accompanying notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF BUSINESS

RLI Corp. is an insurance holding company. References to "the Company," "we," "our," "us" or like terms refer to the business of RLI Corp. and its subsidiaries. We underwrite select property and casualty insurance coverages through major subsidiaries collectively known as RLI Insurance Group. We conduct operations principally through three insurance companies. RLI Insurance Company (RLI Ins.), a subsidiary of RLI Corp. and our principal insurance subsidiary, writes multiple lines of insurance on an admitted basis in all 50 states, the District of Columbia, Puerto Rico, the Virgin Islands and Guam. Mt. Hawley Insurance Company (Mt. Hawley), a subsidiary of RLI Ins., writes excess and surplus lines insurance on a non-admitted basis in all 50 states, the District of Columbia, Puerto Rico, the Virgin Islands and Guam. Contractors Bonding and Insurance Company (CBIC), a subsidiary of RLI Ins., writes multiple lines of insurance on an admitted basis in all 50 states and the District of Columbia.

B. PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION

The accompanying consolidated financial statements were prepared in conformity with generally accepted accounting principles in the United States of America (GAAP), which differ in some respects from those followed in reports to insurance regulatory authorities. The consolidated financial statements include the accounts of our holding company and our subsidiaries. Intercompany balances and transactions have been eliminated. The Company has evaluated subsequent events through the date these consolidated financial statements were issued. There were no subsequent events requiring adjustment to the financial statements or disclosure.

C. ADOPTED ACCOUNTING STANDARDS

No new accounting standards applicable in 2021 materially impacted our financial statements.

D. PROSPECTIVE ACCOUNTING STANDARDS

There are no prospective accounting standards which would have a material impact on our financial statements as of December 31, 2021.

E. INVESTMENTS

Equity securities are carried at fair value with unrealized gains and losses recorded within net earnings. Investments in fixed income securities are classified into one of three categories: trading, held-to-maturity or available-for-sale. All of our fixed income securities are classified as available-for-sale and reported at fair value. Unrealized gains and losses on these securities are excluded from net earnings but are recorded as a separate component of comprehensive earnings and shareholders' equity, net of deferred income taxes.

Interest on fixed maturities and short-term investments is credited to earnings on an accrual basis. Premiums and discounts are amortized or accreted over the lives of the related fixed maturities. Dividends on equity securities are credited to earnings on the ex-dividend date. Realized gains and losses on disposition of investments are based on specific identification of the investments sold on the settlement date.

F. CASH AND OTHER INVESTED ASSETS

Cash consists of uninvested balances in bank accounts. 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 cash, the LIHTCs 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.

G. 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 reinsurers' annual financial statements and SEC filings for those 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 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 its allowance. Additionally, we perform an in-depth reinsurer financial condition analysis prior to the renewal 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, the paid and unpaid recoverable for the reinsurer are specifically identified and written off through the use of our allowance for estimated unrecoverable amounts from reinsurers. When we write-off such a balance, it is done in full. We then re-evaluate the remaining allowance and determine whether the balance is sufficient and, if needed, an additional allowance is recognized.

H. POLICY ACQUISITION COSTS

We defer incremental direct costs that relate to the successful acquisition of new or renewal insurance contracts, including commissions and premium taxes. Acquisition-related costs may be deemed ineligible for deferral when they are based on contingent or performance criteria beyond the basic acquisition of the insurance contract or when efforts to obtain or renew the insurance contract are unsuccessful. All eligible costs are capitalized and charged to expense in proportion to premium revenue recognized. The method followed in computing deferred policy acquisition costs limits the amount of such deferred costs to their estimated realizable value. This process contemplates the premiums to be earned, anticipated losses and settlement expenses and certain other costs expected to be incurred, but does not consider investment income. Judgments as to the ultimate recoverability of such deferred costs are reviewed on a segment basis and are highly dependent upon estimated future loss costs associated with the premiums written. This deferral methodology applies to both gross and ceded premiums and acquisition costs.

I. PROPERTY AND EQUIPMENT

Property and equipment are presented at cost less accumulated depreciation and are depreciated on a straight-line basis for financial statement purposes over periods ranging from 3 to 10 years for equipment and up to 30 years for buildings and improvements.

J. INVESTMENTS IN UNCONSOLIDATED INVESTEES

Our investments accounted for under the equity method are primarily related to Maui Jim, Inc. (Maui Jim) and Prime Holdings Insurance Services, Inc. (Prime). We maintain a 40 percent interest in the equity and earnings of Maui Jim, a manufacturer of high-quality sunglasses, and a minority representation on their board of directors. Maui Jim's chief executive officer owns a controlling majority of the outstanding shares of Maui Jim. We carry this investment at the holding company level as it is not core to our insurance operations. Our investment in Maui Jim was $113.1 million at December 31, 2021 and $90.9 million at December 31, 2020. In 2021, we recorded $22.8 million in investee earnings for Maui Jim, compared to $10.4 million in 2020 and $13.6 million in 2019.

As of December 31, 2021, we had a 23 percent interest in the equity and earnings of Prime. Prime writes business through two Illinois domiciled insurance carriers, Prime Insurance Company, an excess and surplus lines company, and Prime Property and Casualty Insurance Inc., an admitted insurance company. Our investment in Prime was $47.2 million at December 31, 2021 and $32.7 million at December 31, 2020. In 2021, we recorded $17.0 million in investee earnings for Prime, compared to $10.8 million in 2020 and $7.4 million in 2019. Additionally, we maintain a quota share reinsurance treaty with Prime, which contributed $22.2 million of gross premiums written and $19.1 million of net premiums earned during 2021, compared to $15.7 million of gross premiums written and $14.3 million of net premiums earned during 2020 and $13.1 million of gross premiums written and $28.7 million of net premiums earned during 2019. The increase in net premiums earned in 2021 from 2020 reflected growth in written premium from Prime, while the decrease in net premiums earned in 2020 from 2019 reflected a reduction in our quota share participation with Prime.

Our equity method investments recorded net income of $125.3 million in 2021, $70.4 million in 2020 and $77.3 million in 2019. Additional summarized financial information for our equity method investments as of 2021 and 2020 is outlined in the following table:

(in millions)	2021	2020
Total assets	$ 1,172.6	$ 837.2
Total liabilities	687.8	473.2
Total equity	484.8	364.0

Approximately $145.8 million of undistributed earnings from our equity method investees were included in our retained earnings as of December 31, 2021. We did not receive any dividends from our equity method investees during 2021, compared to $4.7 million and $13.2 million of dividends received in 2020 and 2019, respectively.

We perform annual impairment reviews of our investments in unconsolidated investees, which take into consideration current valuation and operating results. Based upon the most recent reviews, the assets were not impaired.

K. GOODWILL AND INTANGIBLE ASSETS

The composition of goodwill and intangibles at December 31, 2021 and 2020, is detailed in the following table:

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

As the amortization of goodwill and indefinite-lived intangible assets is not permitted, the assets are tested for impairment on an annual basis, or earlier if there is reason to suspect that their values may have been diminished or impaired. Annual impairment testing was performed on each of our goodwill and indefinite-lived intangible assets during 2021. Based upon these reviews, our goodwill and state insurance license indefinite-lived intangible asset were not impaired. In addition, as of December 31, 2021, there were no triggering events on goodwill and intangible assets that would suggest an updated review was necessary.

The definite-lived intangible assets are amortized against future operating results based on their estimated useful lives. Amortization of intangible assets was $0.2 million for 2021 and $0.4 million for 2020 and 2019.

L. UNPAID LOSSES AND SETTLEMENT EXPENSES

The liability for unpaid losses and settlement expenses represents estimates of amounts needed to pay reported and unreported claims and related expenses. The estimates are based on certain actuarial and other assumptions related to the ultimate cost to settle such claims. Such assumptions are subject to occasional changes due to evolving economic, social and political conditions. All estimates are periodically reviewed and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments are reflected in the results of operations in the period in which they are determined. Due to the inherent uncertainty in estimating reserves for losses and settlement expenses, there can be no assurance that the ultimate liability will not exceed recorded amounts. If actual liabilities do exceed recorded amounts, there will be an adverse effect. Furthermore, we may determine that recorded reserves are more than adequate to cover expected losses, which would lead to a reduction in our reserves.

M. INSURANCE REVENUE RECOGNITION

Insurance premiums are recognized ratably over the term of the contracts, net of ceded reinsurance. Unearned premiums are calculated on a monthly pro rata basis.

N. INCOME TAXES

We file a consolidated federal income tax return. Federal income taxes are accounted for using the asset and liability method under which deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities, operating losses and tax credit carry forwards. The effect on deferred taxes for a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that all or some of the deferred tax assets will not be realized.

We consider uncertainties in income taxes and recognize those in our financial statements as required. As it relates to uncertainties in income taxes, our unrecognized tax benefits, including interest and penalty accruals, are not considered material to the consolidated financial statements. Also, no tax uncertainties are expected to result in significant increases or decreases to

unrecognized tax benefits within the next 12-month period. Penalties and interest related to income tax uncertainties, should they occur, would be included in income tax expense in the period in which they are incurred.

As an insurance company, we are subject to minimal state income tax liabilities. Since the majority of our income on a state basis is from insurance operations, we pay premium taxes which are calculated as a percentage of gross premiums written in lieu of state income taxes. Premium taxes are a component of policy acquisition costs.

O. 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 consolidated financial statements:

(in thousands, except per share data)	Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
For the year ended December 31, 2021			
Basic EPS			
Income available to common shareholders	$ 279,354	45,230	$ 6.18
Stock options	—	482	
Diluted EPS			
Income available to common shareholders and assumed conversions	$ 279,354	45,712	$ 6.11
Anti-dilutive options excluded from diluted EPS		214	
For the year ended December 31, 2020			
Basic EPS			
Income available to common shareholders	$ 157,091	45,000	$ 3.49
Stock options	—	376	
Diluted EPS			
Income available to common shareholders and assumed conversions	$ 157,091	45,376	$ 3.46
Anti-dilutive options excluded from diluted EPS		384	
For the year ended December 31, 2019			
Basic EPS			
Income available to common shareholders	$ 191,642	44,734	$ 4.28
Stock options	—	523	
Diluted EPS			
Income available to common shareholders and assumed conversions	$ 191,642	45,257	$ 4.23
Anti-dilutive options excluded from diluted EPS		65	

P. 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 income (loss), as shown in the consolidated statements of earnings and comprehensive earnings, is net of tax expense (benefit) of $(15.7) million, $14.9 million and $17.8 million for 2021, 2020 and 2019, respectively.

The table below illustrates the changes in the balance of each component of accumulated other comprehensive earnings for each period presented in the consolidated financial statements. The changes in accumulated other comprehensive earnings also reflect adjustments from the adoption of accounting standards. The adoption of ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* necessitated a cumulative-effect adjustment in the beginning of 2020, which moved less than $0.1 million of net unrealized losses on fixed income securities from accumulated other comprehensive earnings to retained earnings.

Unrealized Gains/Losses on Available-for-Sale Securities

(in thousands)	For the Year Ended December 31, 2021	2020	2019
Beginning balance	$ 108,714	$ 52,473	$ (14,572)
Cumulative-effect adjustment of ASU 2016-13	—	22	—
Adjusted beginning balance	$ 108,714	$ 52,495	$ (14,572)
Other comprehensive earnings before reclassifications	(57,454)	58,986	69,560
Amounts reclassified from accumulated other comprehensive earnings	(1,434)	(2,767)	(2,515)
Net current period other comprehensive earnings (loss)	$ (58,888)	$ 56,219	$ 67,045
Ending balance	$ 49,826	$ 108,714	$ 52,473
Balance of securities for which an allowance for credit losses has not been recognized in net earnings	$ 124	$ 470	$ —

In 2021 and 2020, credit losses or the sale of an available-for-sale security resulted in amounts being reclassified from accumulated other comprehensive earnings to current period net earnings. In 2019, the sale or other-than-temporary impairment of an available-for-sale security resulted in amounts being reclassified from accumulated other comprehensive earnings to 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.

Amount Reclassified from Accumulated Other Comprehensive Earnings

(in thousands)

Component of Accumulated Other Comprehensive Earnings	For the Year Ended December 31, 2021	2020	2019	Affected line item in the Consolidated Statement of Earnings
Unrealized gains and losses on available-for-sale securities	$ 1,859	$ 3,872	$ 3,184	Net realized gains
	(44)	(369)	—	Credit losses presented within net realized gains
	$ 1,815	$ 3,503	$ 3,184	Earnings before income taxes
	(381)	(736)	(669)	Income tax expense
	$ 1,434	$ 2,767	$ 2,515	Net earnings

Q. FAIR VALUE DISCLOSURES

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, Agencies, Government and Municipal securities are deemed Level 2.

Mortgage-backed Securities (MBS)/Collateralized 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 (nonvolatile, 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: 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. All Regulation D privately-placed bonds are classified as corporate securities and deemed Level 3.

For all of our fixed income securities, 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. In our comparisons, if discrepancies are found, 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 fixed income securities provided by our pricing services are reasonable.

Common Stock: As of December 31, 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 equity securities not traded on an exchange is provided by a third-party pricing source and is 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. The fair value of our long-term debt is discussed further in note 4.

R. STOCK-BASED COMPENSATION

We expense the estimated fair value of employee stock options and similar awards. We measure compensation cost for awards of equity instruments to employees based on the grant-date fair value of those awards and recognize compensation expense over the service period that the awards are expected to vest. The tax effects related to share-based payments are made through net earnings. See note 8 for further discussion and related disclosures regarding stock options.

S. RISKS AND UNCERTAINTIES

Certain risks and uncertainties are inherent in our day-to-day operations and in the process of preparing our consolidated financial statements. The more significant risks and uncertainties, as well as our attempt to mitigate, quantify and minimize such risks, are presented below and throughout the notes to the consolidated financial statements.

Insurance Risks

We compete with a large number of other companies in our selected lines of business. During periods of intense competition for premium, we are vulnerable to the actions of other companies who may seek to write business without the appropriate regard for risk and profitability. The insurance industry is often highly competitive, which can make it difficult to grow or maintain premium volume without sacrificing underwriting discipline and income. Our profitability can be significantly affected by the ability of our underwriters to accurately select and price risk and our claim personnel to appropriately deliver fair outcomes. We attempt to mitigate this risk by incentivizing our underwriters to maximize underwriting profit and remain disciplined in pricing and selecting risks. If we are unable to compete effectively in the markets in which we operate or expand our operations into new markets, our underwriting revenues may decline, as well as overall business results.

Our loss reserves are based on estimates and may be inadequate to cover our actual insured losses, which would negatively impact our profitability. As of December 31, 2021, we had $2.0 billion of gross loss and LAE reserves. Significant periods of time often elapse between the occurrence of an insured loss, the reporting of the loss to the Company and our payment of that loss. As part

of the reserving process, we review historical data and consider the impact of various factors such as trends in claim frequency and severity, emerging economic and social trends, inflation and changes in the regulatory and litigation environments. If the actual amount of insured losses is greater than the amount we have reserved for these losses, our profitability would suffer.

Catastrophe Exposures

Our insurance coverages include exposure to catastrophic events. We monitor all catastrophe exposures by quantifying our exposed policy limits in each region and by using computer-assisted modeling techniques. Additionally, we limit our risk to such catastrophes through restraining the total policy limits written in each region and by purchasing reinsurance. Our major catastrophe exposure is to losses caused by earthquakes, primarily on the West Coast. In 2021, we had reinsurance protection of $500 million in excess of $25 million first-dollar retention for earthquakes in California and $525 million in excess of a $25 million first-dollar retention for earthquakes outside of California. These amounts are subject to certain co-participations by the Company on losses in excess of the $25 million retentions. Our second largest catastrophe exposure is to losses caused by wind storms to commercial properties throughout the Gulf and East Coasts, as well as to homes we insure in Hawaii. In 2021, these coverages were supported by $375 million in excess of a $25 million first-dollar retention in traditional catastrophe reinsurance protection, subject to certain co-participations by the Company in the excess layers. In addition, we have incidental exposure to international catastrophic events.

Our catastrophe reinsurance treaty renewed on January 1, 2022. We purchased reinsurance protections of $600 million in excess of $25 million first-dollar retention for earthquakes in California and $625 million in excess of a $25 million first-dollar retention for earthquakes outside of California. For other catastrophe events, such as hurricanes, we purchased reinsurance protection of $475 in excess of a $25 million first dollar retention. These amounts are subject to certain co-participations by the Company on losses in excess of the $25 million retentions. We actively manage our catastrophe program to keep our net retention in line with risk tolerances and to optimize the risk/return trade off.

Environmental Exposures

We are subject to environmental claims and exposures primarily through our commercial excess, general liability and discontinued assumed casualty reinsurance lines of business. Although exposure to environmental claims exists in these lines of business, we seek to mitigate or control the extent of this exposure on the vast majority of this business. Our policies include pollution exclusions that have been continually updated to further strengthen them and our policies primarily cover moderate hazard risks.

We offer coverage for low to moderate environmental liability exposures for small contractors and asbestos and mold remediation specialists. We also provide limited coverage for individually underwritten underground storage tanks. The overall exposure is mitigated by focusing on smaller risks with low to moderate exposures. Risks that have large-scale exposures are avoided including petrochemical, chemical, mining, manufacturers and other risks that might be exposed to superfund sites. This business is covered under our casualty ceded reinsurance treaties.

We made loss and settlement expense payments on environmental liability claims and have loss and settlement expense reserves for others. We include this historical environmental loss experience with the remaining loss experience in the applicable line of business to project ultimate incurred losses and settlement expenses as well as related incurred but not reported (IBNR) loss and settlement expense reserves.

Although historical experience on environmental claims may not accurately reflect future environmental exposures, we used this experience to record loss and settlement expense reserves in the exposed lines of business. See further discussion of environmental exposures in note 6.

Reinsurance

Reinsurance does not discharge the Company from our primary liability to policyholders, and to the extent that a reinsurer is unable to meet its obligations, we would be liable. We continuously monitor the financial condition of prospective and existing reinsurers. As a result, we purchase reinsurance from a number of financially strong reinsurers. We provide an allowance for reinsurance balances deemed uncollectible. See further discussion of reinsurance exposures in note 5.

Investment Risk

Our investment portfolio is subject to market, credit and interest rate risks. The equity portfolio will fluctuate with movements in the overall stock market. While the equity portfolio has been constructed to have lower downside risk than the market, the portfolio is positively correlated with movements in domestic stocks. The bond portfolio is affected by interest rate changes and movement in credit spreads. We attempt to mitigate our interest rate and credit risks by constructing a well-diversified portfolio with high-quality securities with varied maturities. Downturns in the financial markets could have a negative effect on our portfolio. However, we attempt to manage this risk through asset allocation, duration and security selection.

Liquidity Risk

Liquidity is essential to our business and a key component of our concept of asset-liability matching. Our liquidity may be impaired by an inability to collect premium receivable or reinsurance recoverable balances in a timely manner, an inability to sell assets or redeem our investments, an inability to access funds from our insurance subsidiaries, unforeseen outflows of cash or large claim payments or an inability to access debt or equity capital markets. This situation may arise due to circumstances that we may be unable to control, such as a general market disruption, an operational problem that affects third parties or the Company, or even by the perception among market participants that we, or other market participants, are experiencing greater liquidity risk.

Our credit ratings are important to our liquidity. A reduction in our credit ratings could adversely affect our liquidity and competitive position by increasing our borrowing costs or limiting our access to the capital markets.

Financial Statements

The preparation of the accompanying consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities and reported amounts of revenues and expenses. The most significant of these amounts is the liability for unpaid losses and settlement expenses. Other estimates include investment valuation, the allowance for credit losses on fixed income securities, the collectability of reinsurance balances, recoverability of deferred tax assets and deferred policy acquisition costs. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. We adjust such estimates and assumptions when facts and circumstances dictate. Although recorded estimates are supported by actuarial computations and other supportive data, the estimates are ultimately based on our expectations of future events. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the consolidated financial statements in future periods.

External Factors

Our insurance subsidiaries are highly regulated by the state in which they are incorporated and by the states in which they do business. Such regulations, among other things, limit the amount of dividends, impose restrictions on the amount and types of investments and regulate rates insurers may charge for various coverages. We are also subject to insolvency and guaranty fund assessments for various programs designed to ensure policyholder indemnification. We generally accrue an assessment during the period in which it becomes probable that a liability has been incurred from an insolvency and the amount of the related assessment can be reasonably estimated.

The National Association of Insurance Commissioners (NAIC) has developed Property and Casualty Risk-Based Capital (RBC) standards that relate an insurer's reported statutory surplus to the risks inherent in its overall operations. The RBC formula uses the statutory annual statement to calculate the minimum indicated capital level to support investment and underwriting risk. The NAIC model law calls for various levels of regulatory action based on the magnitude of an indicated RBC capital deficiency, if any. We regularly monitor our subsidiaries' internal capital requirements and the NAIC's RBC developments. As of December 31, 2021, we determined that our capital levels are well in excess of the minimum capital requirements for all RBC action levels and that our capital levels are sufficient to support the level of risk inherent in our operations. See note 9 for further discussion of statutory information and related insurance regulatory restrictions.

In addition, ratings are a critical factor in establishing the competitive position of insurance companies. Our insurance companies are rated by AM Best, S&P and Moody's. Their ratings reflect their opinions of an insurance company's and an insurance holding company's financial strength, operating performance, strategic position and ability to meet its obligations to policyholders.

2. INVESTMENTS

Our investments are primarily composed of fixed income debt securities and common stock equity securities. All of our debt securities are classified as available-for-sale, which are carried at fair value. Our equity portfolio consists of common stocks and exchange traded funds (ETF), which are carried at fair value.

A summary of net investment income is as follows:

(in thousands)	2021	2020	2019
Interest on fixed income securities	$ 60,624	$ 59,755	$ 60,364
Dividends on equity securities	11,787	9,728	9,950
Interest on cash, short-term investments and other invested assets	2,639	3,379	3,674
Gross investment income	$ 75,050	$ 72,862	$ 73,988
Less investment expenses	(6,188)	(4,969)	(5,118)
Net investment income	$ 68,862	$ 67,893	$ 68,870

Pretax net realized gains (losses) and net changes in unrealized gains (losses) on investments for the years ended December 31 are summarized below.

(in thousands)	2021	2020	2019
Net realized gains (losses):			
Fixed income:			
Available-for-sale	$ 1,859	$ 3,872	$ 3,184
Equity securities	62,512	15,796	14,445
Other	(149)	(1,783)	(109)
Total net realized gains (losses)	$ 64,222	$ 17,885	$ 17,520
Net changes in unrealized gains (losses) on investments:			
Equity securities	$ 58,459	$ 32,317	$ 78,389
Other invested assets	6,799	(216)	(299)
Total unrealized gains (losses) on equity securities recognized in net earnings	$ 65,258	$ 32,101	$ 78,090
Fixed income:			
Available-for-sale	$ (71,538)	$ 67,350	$ 83,758
Investment in unconsolidated investees	(3,047)	3,444	1,109
Other	44	369	—
Total unrealized gains (losses) recognized in other comprehensive earnings	$ (74,541)	$ 71,163	$ 84,867
Net realized gains (losses) and changes in unrealized gains (losses) on investments	$ 54,939	$ 121,149	$ 180,477

The change in unrealized gain (loss) position was due to an increase in interest rates, decreasing the fair value of fixed income securities, as well as strong equity market returns.

The following is a summary of the disposition of fixed income securities and equities for the years ended December 31, with separate presentations for sales and calls/maturities:

SALES (in thousands)	Proceeds	Gross Realized Gains	Gross Realized Losses	Net Realized Gain (Loss)
2021				
Available-for-sale	$ 65,262	$ 2,161	$ (815)	$ 1,346
Equities	180,256	64,298	(1,786)	62,512
2020				
Available-for-sale	$ 84,697	$ 5,454	$ (1,777)	$ 3,677
Equities	79,368	25,338	(9,542)	15,796
2019				
Available-for-sale	$ 196,799	$ 4,368	$ (2,167)	$ 2,201
Equities	62,172	16,938	(2,493)	14,445

CALLS/MATURITIES

(in thousands)	Proceeds	Gross Realized Gains	Gross Realized Losses	Net Realized Gain (Loss)
2021				
Available-for-sale	$ 376,751	$ 638	$ (125)	$ 513
2020				
Available-for-sale	$ 283,107	$ 821	$ (27)	$ 794
2019				
Available-for-sale	$ 201,698	$ 1,004	$ (21)	$ 983

FAIR VALUE MEASUREMENTS

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

	2021			
(in thousands)	Quoted 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	$ —	$ 134,554	$ —	$ 134,554
U.S. agency	—	32,760	—	32,760
Non-U.S. government & agency	—	8,481	—	8,481
Agency MBS	—	367,187	—	367,187
ABS/CMBS/MBS*	—	264,054	—	264,054
Corporate	—	913,577	43,518	957,095
Municipal	—	645,756	—	645,756
Total fixed income securities - available-for-sale	$ —	$ 2,366,369	$ 43,518	$ 2,409,887
Equity securities	613,712	64	—	613,776
Other invested assets	—	—	—	—
Total	$ 613,712	$ 2,366,433	$ 43,518	$ 3,023,663

	2020			
(in thousands)	Quoted 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	(53)
Net realized gains	(367)
Included in other comprehensive earnings	(170)
Total net realized and unrealized gains (losses)	$ (590)
Purchases	26,310
Balance as of December 31, 2021	$ 43,518
Change in unrealized gains (losses) during the period for Level 3 assets held at period-end - included in net realized gains	$ (367)
Change in unrealized gains (losses) during the period for Level 3 assets held at period-end - included in other comprehensive earnings	$ (170)

The amortized cost and estimated fair value of fixed income securities at December 31, 2021, by contractual maturity, are shown as follows:

(in thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 57,625	$ 58,134
Due after one year through five years	626,953	647,068
Due after five years through 10 years	537,777	560,653
Due after 10 years	496,778	512,791
ABS/CMBS/MBS*	627,134	631,241
Total available-for-sale	$ 2,346,267	$ 2,409,887

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

Expected maturities may differ from contractual maturities due to call provisions on some existing securities.

The amortized cost and fair value of available-for-sale securities at December 31, 2021 and 2020 are presented in the tables below. Amortized cost does not include the $16.4 million and $14.9 million of accrued interest receivable as of December 31, 2021 and 2020, respectively.

	2021				
(in thousands)	Amortized Cost	Allowance for Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government	$ 127,752	$ —	$ 6,846	$ (44)	$ 134,554
U.S. agency	30,403	—	2,374	(17)	32,760
Non-U.S. government & agency	8,297	—	338	(154)	8,481
Agency MBS	362,861	—	9,277	(4,951)	367,187
ABS/CMBS/MBS*	264,273	—	2,120	(2,339)	264,054
Corporate	925,394	(441)	37,247	(5,105)	957,095
Municipal	627,287	—	22,750	(4,281)	645,756
Total fixed income	$ 2,346,267	$ (441)	$ 80,952	$ (16,891)	$ 2,409,887

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

	2020				
(in thousands)	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

Asset-Backed, Commercial Mortgage-Backed and Mortgage-Backed Securities

Eighty-three percent of our collateralized securities carry the highest credit rating by one or more major rating agencies and continue to pay according to contractual terms.

For all fixed income securities at an unrealized loss at December 31, 2021, we believe it is probable that we will receive all contractual payments in the form of principal and interest. In addition, we are not required to, nor do we intend to, sell these investments prior to recovering the entire amortized cost basis of each security, which may be at maturity.

Municipal Bonds

As of December 31, 2021, approximately 48 percent of the municipal fixed income securities in the investment portfolio were general obligations of state and local governments and the remaining 52 percent were revenue based. Ninety percent of our municipal fixed income securities were rated AA or better while 99 percent were rated A or better.

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 reversible 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 fair value is below amortized cost. As of December 31, 2021, the discounted cash flow analysis resulted in an allowance for credit losses on 7 securities. The following table presents changes in the allowance for expected credit losses on available-for-sale securities:

(in thousands)	2021	2020
Beginning balance	$ 397	$ —
Adoption impact of ASU 2016-13	-	$ 28
Increase to allowance from securities for which credit losses were not previously recorded	4	369
Reduction from securities sold during the period	(4)	-
Net increase (decrease) from securities that had an allowance at the beginning of the period	44	-
Ending balance	$ 441	$ 397

No net realized losses were recognized on fixed income securities during 2021 in relation to securities for which we no longer had the intent to hold until recovery and for which the cost basis was written down to fair value, compared to $0.6 million in 2020. All fixed income securities continue to pay the expected coupon payments. We believe we will recover the amortized cost basis of available-for-sale securities that remain in an unrealized loss position.

As of December 31, 2021, in addition to the securities included in the allowance for credit losses, the fixed income portfolio contained 443 securities with an unrealized loss position for which an allowance for credit losses had not been recorded. The $16.9 million in associated unrealized losses represents 0.7 percent of the fixed income portfolio's cost basis and 0.5 percent of total invested assets. Isolated to these securities, unrealized losses at the end of 2021 increased compared to the previous year due to increasing interest rates which reduce the fair value of fixed income securities. Of the total 443 securities, 76 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 December 31, 2021 and 2020. 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)	December 31, 2021			December 31, 2020		
	< 12 Mos.	12 Mos. & Greater	Total	< 12 Mos.	12 Mos. & Greater	Total
U.S. government						
Fair value	$ 2,942	$ —	$ 2,942	$ 5,680	$ —	$ 5,680
Amortized cost	2,986	—	2,986	5,937	—	5,937
Unrealized loss	$ (44)	$ —	$ (44)	$ (257)	$ —	$ (257)
U.S. agency						
Fair value	$ 1,498	$ —	$ 1,498	$ —	$ —	$ —
Amortized cost	1,515	—	1,515	—	—	—
Unrealized loss	$ (17)	$ —	$ (17)	$ —	$ —	$ —
Non-U.S. government & agency						
Fair value	$ 4,346	$ —	$ 4,346	$ —	$ —	$ —
Amortized cost	4,500	—	4,500	—	—	—
Unrealized loss	$ (154)	$ —	$ (154)	$ —	$ —	$ —
Agency MBS						
Fair value	$ 102,145	$ 62,669	$ 164,814	$ 43,999	$ —	$ 43,999
Amortized cost	104,336	65,429	169,765	44,732	—	44,732
Unrealized loss	$ (2,191)	$ (2,760)	$ (4,951)	$ (733)	$ —	$ (733)
ABS/CMBS/MBS*						
Fair value	$ 150,997	$ 3,935	$ 154,932	$ 32,771	$ 16,161	$ 48,932
Amortized cost	153,235	4,036	157,271	33,094	16,251	49,345
Unrealized loss	$ (2,238)	$ (101)	$ (2,339)	$ (323)	$ (90)	$ (413)
Corporate						
Fair value	$ 217,791	$ 53,818	$ 271,609	$ 52,655	$ 6,235	$ 58,890
Amortized cost	221,010	55,704	276,714	53,440	6,383	59,823
Unrealized loss	$ (3,219)	$ (1,886)	$ (5,105)	$ (785)	$ (148)	$ (933)
Municipal						
Fair value	$ 162,998	$ 15,037	$ 178,035	$ 25,676	$ —	$ 25,676
Amortized cost	166,602	15,714	182,316	25,894	—	25,894
Unrealized loss	$ (3,604)	$ (677)	$ (4,281)	$ (218)	$ —	$ (218)
Total fixed income						
Fair value	$ 642,717	$ 135,459	$ 778,176	$ 160,781	$ 22,396	$ 183,177
Amortized cost	654,184	140,883	795,067	163,097	22,634	185,731
Unrealized loss	$ (11,467)	$ (5,424)	$ (16,891)	$ (2,316)	$ (238)	$ (2,554)

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

Other Invested Assets

We had $50.5 million of other invested assets at December 31, 2021, compared to $54.2 million at the end of 2020. Other invested assets include investments in low income housing tax credit (LIHTC) partnerships, membership stock 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 investments' net asset value.

Our LIHTC interests had a balance of $16.6 million at December 31, 2021, compared to $20.3 million at December 31, 2020, and recognized a total tax benefit of $3.6 million during 2021, compared to $3.5 million during 2020 and $2.5 million during 2019. Our unfunded commitment for our LIHTC investments totaled $1.4 million at December 31, 2021 and will be paid out in installments through 2035.

Our investments in private funds totaled $28.6 million at December 31, 2021, compared to $32.1 million at December 31, 2020, and we had $8.8 million of associated unfunded commitments at December 31, 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 2021, our investment in this security became unrestricted and the investment was included in our equity portfolio as of December 31, 2021.

Restricted Assets

As of December 31, 2021, $64.1 million of investments were pledged as collateral with the FHLBC to ensure timely access to the secured lending facility that ownership of the FHLBC stock provides. On November 10, 2021 RLI Insurance Company borrowed $50.0 million from the FHLBC, which was outstanding as of December 31, 2021.

As of December 31, 2021, fixed income securities with a carrying value of $86.2 million were on deposit with regulatory authorities as required by law.

3. POLICY ACQUISITION COSTS

Policy acquisition costs deferred and amortized to income for the years ended December 31 are summarized as follows:

(in thousands)	2021	2020	2019
Deferred policy acquisition costs (DAC), beginning of year	$ 88,425	$ 85,044	$ 84,934
Deferred:			
Direct commissions	$ 236,145	$ 200,917	$ 185,164
Premium taxes	17,012	14,783	14,395
Ceding commissions	(47,592)	(42,115)	(31,140)
Net deferred	$ 205,565	$ 173,585	$ 168,419
Amortized	190,437	170,204	168,309
DAC, end of year	$ 103,553	$ 88,425	$ 85,044
Policy acquisition costs:			
Amortized to expense - DAC	$ 190,437	$ 170,204	$ 168,309
Period costs:			
Ceding commission - contingent	(4,303)	(4,053)	(3,034)
Other underwriting expenses	131,334	120,287	123,422
Total policy acquisition costs	$ 317,468	$ 286,438	$ 288,697

4. DEBT

As of December 31, 2021, outstanding debt balances totaled $199.7 million, net of unamortized discount and debt issuance costs.

On October 2, 2013, we completed a public debt offering, issuing $150.0 million in senior notes maturing September 15, 2023, and paying interest semi-annually at the rate of 4.875 percent. The notes were issued at a discount resulting in proceeds, net of discount and commission, of $148.6 million. The amount of the discount is being charged to income over the life of the debt on an effective yield basis. The carrying value of the senior note was $149.7 million and the estimated fair value was $159.3 million as of December 31, 2021. The fair value of our long-term debt is based on the limited observable prices that reflect thinly traded securities and is therefore classified as a Level 2 liability within the fair value hierarchy.

On November 10, 2021, RLI Ins. borrowed $50.0 million from the Federal Home Loan Bank of Chicago. The borrowing matures on November 10, 2023 and has an option pay off the debt early on November 10, 2022. Interest is paid monthly at an annualized rate of 0.84 percent.

We paid $7.3 million of interest on our debt in each of the last three years. The average rate on debt was 4.77 percent in 2021 and 4.91 percent in 2020 and 2019.

We maintain a revolving line of credit with Bank of Montreal, Chicago Branch, which permits the Company to borrow up to an aggregate principal amount of $60.0 million. This facility was entered into during 2020 and replaced the previous $50.0 million facility with JP Morgan Chase Bank N.A. Under certain conditions, the line may be increased up to an aggregate principal amount of $120.0 million. This facility has a three-year term that expires on March 27, 2023. As of and during the years ended December 31, 2021, 2020 and 2019, no amounts were outstanding on these facilities.

5. REINSURANCE

In the ordinary course of business, our insurance subsidiaries assume and cede premiums and selected insured risks with other insurance companies, known as reinsurance. A large portion of the reinsurance is put into effect under contracts known as treaties and, in some instances, by negotiation on each individual risk (known as facultative reinsurance). In addition, there are several types of

treaties including quota share, excess of loss and catastrophe reinsurance contracts that protect against losses over stipulated amounts arising from any one occurrence or event. The arrangements allow the Company to pursue greater diversification of business and serve to limit the maximum net loss to a single event, such as a catastrophe. Through the quantification of exposed policy limits in each region and the extensive use of computer-assisted modeling techniques, we monitor the concentration of risks exposed to catastrophic events.

Through the purchase of reinsurance, we also limit our net loss on any individual risk to a maximum of $9.7 million, although retentions can vary.

Premiums written and earned along with losses and settlement expenses incurred for the years ended December 31 are summarized as follows:

(in thousands)	2021	2020	2019
WRITTEN			
Direct	$ 1,313,093	$ 1,107,303	$ 1,039,955
Reinsurance assumed	34,261	29,129	25,047
Reinsurance ceded	(289,821)	(244,344)	(204,665)
Net	$ 1,057,533	$ 892,088	$ 860,337
EARNED			
Direct	$ 1,222,346	$ 1,062,608	$ 981,121
Reinsurance assumed	30,950	27,651	40,173
Reinsurance ceded	(272,393)	(224,512)	(182,183)
Net	$ 980,903	$ 865,747	$ 839,111
LOSSES AND SETTLEMENT EXPENSES INCURRED			
Direct	$ 703,903	$ 608,638	$ 521,055
Reinsurance assumed	18,087	18,783	21,951
Reinsurance ceded	(265,388)	(184,537)	(129,590)
Net	$ 456,602	$ 442,884	$ 413,416

More than 89 percent of our reinsurance recoverables are due from companies with financial strength ratings of A or better by AM Best and S&P rating services. The following table displays net reinsurance balances recoverable, after consideration of collateral, from our top reinsurers as of December 31, 2021. These reinsurers all have financial strength ratings of A or better by AM Best and S&P's ratings services. Also shown are the amounts of written premium ceded to these reinsurers during the calendar year 2021.

(dollars in thousands)	AM Best Rating	S&P Rating	Net Reinsurer Exposure as of 12/31/2021	Percent of Total	Ceded Premiums Written	Percent of Total
Munich Re / HSB	A+, Superior	AA-, Very Strong	$ 102,632	14.5 %	$ 34,462	11.9 %
Renaissance Re	A+, Superior	A+, Strong	58,417	8.3 %	25,001	8.6 %
Endurance Re	A+, Superior	A+, Strong	47,136	6.7 %	9,865	3.4 %
Scor Re	A+, Superior	AA-, Very Strong	37,160	5.3 %	13,398	4.6 %
Aspen UK Ltd.	A, Excellent	A-, Strong	36,164	5.1 %	9,402	3.2 %
Berkley Insurance Co.	A+, Superior	A+, Strong	36,033	5.1 %	12,950	4.5 %
Hannover Ruckversicherung	A+, Superior	AA-, Very Strong	33,125	4.7 %	12,942	4.5 %
Safety National	A++, Superior	A+, Strong	32,196	4.6 %	15,544	5.4 %
Nationwide Mutual	A+, Superior	A+, Strong	29,818	4.2 %	17,738	6.1 %
Liberty Mutual	A, Excellent	A, Strong	23,236	3.3 %	7,240	2.5 %
All other reinsurers*			270,331	38.2 %	131,279	45.3 %
Total ceded exposure			$ 706,248	100.0 %	$ 289,821	100.0 %

* All other reinsurance balances recoverable, when considered by individual reinsurer, are less than 2 percent of shareholders' equity.

The allowances for uncollectible amounts on paid and unpaid recoverables were $16.1 million and $11.2 million, respectively, at December 31, 2021. At December 31, 2020, the amounts were $15.9 million and $8.6 million, respectively. Changes in the allowances during 2021 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 2021 and $0.2 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.

6. HISTORICAL LOSS AND LAE DEVELOPMENT

The following table is a reconciliation of our unpaid losses and settlement expenses (LAE) for the years 2021, 2020 and 2019:

(in thousands)	2021	2020	2019
Unpaid losses and LAE at beginning of year:			
Gross	$ 1,750,049	$ 1,574,352	$ 1,461,348
Ceded	(443,729)	(384,517)	(364,999)
Net	$ 1,306,320	$ 1,189,835	$ 1,096,349
Adoption impact of ASU 2016-13 on reinsurance balances recoverable	$ —	$ (1,345)	$ —
Increase (decrease) in incurred losses and LAE:			
Current accident year	$ 582,065	$ 543,937	$ 488,700
Prior accident years	(125,463)	(101,053)	(75,284)
Total incurred	$ 456,602	$ 442,884	$ 413,416
Loss and LAE payments for claims incurred:			
Current accident year	$ (101,590)	$ (93,077)	$ (80,055)
Prior accident year	(225,863)	(231,977)	(239,875)
Total paid	$ (327,453)	$ (325,054)	$ (319,930)
Net unpaid losses and LAE at end of year	$ 1,435,469	$ 1,306,320	$ 1,189,835
Unpaid losses and LAE at end of year:			
Gross	$ 2,043,555	$ 1,750,049	$ 1,574,352
Ceded	(608,086)	(443,729)	(384,517)
Net	$ 1,435,469	$ 1,306,320	$ 1,189,835

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 previously 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.

Loss development occurs when our current estimate of ultimate losses, established through our reserve analysis processes, differs from the initial reserve estimate. The recognition of the changes in initial reserve estimates occurred over time as claims were reported, initial case reserves were established, initial reserves were reviewed in light of additional information and ultimate payments were made on the collective set of claims incurred as of that evaluation date. The new information on the ultimate settlement value of claims is continually updated until all claims in a defined set are settled. As a small specialty insurer with a diversified product portfolio, our experience will ordinarily exhibit fluctuations from period to period. While we attempt to identify and react to changes in the loss environment, we also must consider the volume of claim experience directly available to the Company and interpret any particular period's indications with a realistic technical understanding of the reliability of those observations.

The following is information about incurred and paid loss development as of December 31, 2021, net of reinsurance, as well as cumulative claim frequency, the total of IBNR liabilities included within the net incurred loss amounts and average historical claims duration as of December 31, 2021. The loss information has been disaggregated so that only losses that are expected to develop in a similar manner are grouped together. This has resulted in the presentation of loss information for our property and surety segments at the segment level, while information for our casualty segment has been separated in four groupings: primary occurrence, excess occurrence, claims made and transportation. Primary occurrence includes select lines within the professional services product along with general liability, small commercial and other casualty products. Excess occurrence encompasses commercial excess and personal umbrella, while claims made includes select lines within the professional services product, executive products and other casualty. Reported claim counts represent claim events on a specified policy rather than individual claimants and includes claims that did not or are not expected to result in an incurred loss. The information about incurred and paid claims development for the years ended December 31, 2012 to 2020 is presented as unaudited required supplementary information.

Casualty - Primary Occurrence
(in thousands, except number of claims)

	Incurred Losses and Loss Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,										As of December 31, 2021	
AY	2012*	2013*	2014*	2015*	2016*	2017*	2018*	2019*	2020*	2021	Total IBNR	Cumulative Number of Reported Claims
2012	$ 91,807	$ 78,406	$ 65,893	$ 61,072	$ 59,028	$ 59,488	$ 60,328	$ 60,465	$ 60,591	$ 60,155	$ 1,589	5,192
2013		80,823	67,297	62,882	60,329	60,162	59,556	59,116	57,106	57,519	2,096	4,324
2014			88,092	79,497	71,592	67,237	66,389	66,702	65,636	63,727	3,034	4,295
2015				94,835	84,975	83,579	78,675	76,398	75,470	75,438	6,644	4,406
2016					101,950	96,753	90,611	85,449	83,374	79,440	10,352	4,315
2017						119,741	111,391	102,583	95,513	90,759	15,999	4,491
2018							141,513	130,281	125,731	115,076	32,268	4,822
2019								146,011	135,209	120,570	62,738	5,175
2020									145,171	137,439	88,880	4,394
2021										142,797	112,702	3,678
									Total	$ 942,920		

	Cumulative Paid Loss and Loss Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,									
AY	2012*	2013*	2014*	2015*	2016*	2017*	2018*	2019*	2020*	2021
2012	$ 5,897	$ 14,539	$ 23,889	$ 33,822	$ 43,276	$ 47,970	$ 51,611	$ 54,391	$ 55,679	$ 56,660
2013		6,334	13,021	22,366	34,786	40,609	45,753	47,783	49,411	50,597
2014			11,436	18,771	29,545	40,270	47,343	52,387	55,965	56,784
2015				10,157	19,902	33,020	45,056	54,270	58,866	62,997
2016					10,142	24,186	35,764	48,042	56,152	60,349
2017						13,154	25,933	38,783	52,823	62,236
2018							15,066	32,365	48,424	63,980
2019								15,698	30,673	41,911
2020									17,096	30,596
2021										14,428
	* Presented as unaudited required supplementary information.								Total	$ 500,538
									All outstanding liabilities before 2012, net of reinsurance	10,760
									Liabilities for losses and loss adjustment expenses, net of reinsurance	$ 453,142

	Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance*									
Years	1	2	3	4	5	6	7	8	9	10
	12.8%	13.3%	14.8%	16.5%	11.6%	7.2%	5.2%	2.9%	2.1%	1.6%

Casualty - Excess Occurrence
(in thousands, except number of claims)

	Incurred Losses and Loss Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,										As of December 31, 2021	
AY	2012*	2013*	2014*	2015*	2016*	2017*	2018*	2019*	2020*	2021	Total IBNR	Cumulative Number of Reported Claims
2012	$ 29,042	$ 21,558	$ 21,021	$ 21,885	$ 21,231	$ 22,433	$ 23,020	$ 25,286	$ 26,129	$ 26,848	$ 783	867
2013		39,984	34,824	26,857	25,425	25,599	24,922	25,496	25,073	24,836	1,396	949
2014			50,889	39,095	35,119	32,274	33,372	33,458	35,128	35,683	2,622	923
2015				53,672	50,857	47,392	42,840	43,328	42,446	41,690	5,439	699
2016					56,341	49,385	37,676	33,125	30,251	29,671	11,023	646
2017						62,863	55,868	48,363	44,737	43,249	16,698	631
2018							69,362	62,646	54,626	51,023	26,824	590
2019								88,078	89,691	79,083	47,276	603
2020									107,579	98,409	74,182	471
2021										136,433	93,982	371
									Total	$ 566,925		

	Cumulative Paid Loss and Loss Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,									
AY	2012*	2013*	2014*	2015*	2016*	2017*	2018*	2019*	2020*	2021
2012	$ 1,315	$ 3,573	$ 8,843	$ 15,380	$ 16,879	$ 17,747	$ 19,310	$ 21,993	$ 22,202	$ 22,246
2013		1,060	5,701	10,967	14,545	16,967	17,956	18,524	21,229	22,154
2014			1,899	4,006	11,002	18,852	22,541	23,376	26,068	28,963
2015				2,048	10,127	19,571	23,184	28,756	31,352	32,752
2016					1,068	3,396	7,441	10,054	12,703	14,400
2017						17	5,679	9,275	15,441	18,470
2018							2,506	5,823	10,801	17,294
2019								4,213	19,044	25,389
2020									2,901	13,856
2021										5,317
	* Presented as unaudited required supplementary information.								Total	$ 200,841
									All outstanding liabilities before 2012, net of reinsurance	18,495
									Liabilities for losses and loss adjustment expenses, net of reinsurance	$ 384,579

	Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance*									
Years	1	2	3	4	5	6	7	8	9	10
	4.0%	12.2%	15.4%	15.0%	9.2%	4.3%	4.8%	9.7%	2.3%	0.2%

Casualty - Claims Made
(in thousands, except number of claims)

	Incurred Losses and Loss Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,										As of December 31, 2021	
AY	2012*	2013*	2014*	2015*	2016*	2017*	2018*	2019*	2020*	2021	Total IBNR	Cumulative Number of Reported Claims
2012	$ 27,576	$ 26,144	$ 20,727	$ 19,590	$ 18,022	$ 17,612	$ 17,569	$ 20,785	$ 22,325	$ 22,236	$ 207	804
2013		40,095	41,488	44,054	40,288	38,473	37,959	38,352	37,974	37,950	767	1,042
2014			53,929	55,386	58,152	55,350	51,554	53,841	53,783	52,619	1,504	1,305
2015				55,006	47,831	42,206	39,906	39,653	39,619	38,609	2,759	1,338
2016					59,992	67,760	69,493	67,728	64,730	65,078	4,808	1,507
2017						60,572	62,450	62,714	57,450	59,907	9,039	1,648
2018							66,128	62,416	56,468	48,457	17,399	1,391
2019								62,918	61,712	52,224	26,387	1,508
2020									60,278	56,785	43,408	1,287
2021										51,219	42,451	1,112
									Total	$ 485,084		

	Cumulative Paid Loss and Loss Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,									
AY	2012*	2013*	2014*	2015*	2016*	2017*	2018*	2019*	2020*	2021
2012	$ 433	$ 4,086	$ 6,898	$ 9,218	$ 10,968	$ 14,378	$ 15,621	$ 16,450	$ 16,892	$ 17,148
2013		792	7,073	18,425	26,121	29,678	32,789	34,535	35,476	36,078
2014			1,705	9,775	27,923	35,755	40,080	44,127	46,122	50,714
2015				2,215	10,738	16,774	20,920	28,795	32,241	33,529
2016					2,060	14,558	27,465	39,370	47,999	52,846
2017						2,455	11,350	22,728	36,522	42,918
2018							1,964	11,965	18,840	24,918
2019								1,839	8,123	14,117
2020									1,488	5,687
2021										999
	* Presented as unaudited required supplementary information.								Total	$ 278,954
									All outstanding liabilities before 2012, net of reinsurance	3,575
									Liabilities for losses and loss adjustment expenses, net of reinsurance	$ 209,705

	Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance*									
Years	1	2	3	4	5	6	7	8	9	10
	3.2%	16.1%	19.6%	15.7%	11.6%	9.5%	4.3%	5.0%	1.8%	1.2%

Casualty - Transportation
(in thousands, except number of claims)

	Incurred Losses and Loss Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,										As of December 31, 2021	
AY	2012*	2013*	2014*	2015*	2016*	2017*	2018*	2019*	2020*	2021	Total IBNR	Cumulative Number of Reported Claims
2012	$ 21,452	$ 22,203	$ 22,924	$ 23,511	$ 23,689	$ 23,620	$ 23,305	$ 23,731	$ 23,845	$ 23,955	$ 74	2,287
2013		32,742	32,853	32,989	37,673	38,811	39,974	39,309	39,183	39,586	118	2,853
2014			38,361	33,015	36,452	38,590	40,202	40,508	41,156	41,974	297	3,099
2015				38,561	46,258	47,021	46,395	45,162	45,525	45,807	708	3,186
2016					50,430	53,519	54,105	52,277	52,818	53,915	1,235	3,943
2017						55,640	53,641	45,017	43,764	45,351	2,257	3,639
2018							57,597	54,592	38,719	36,468	4,946	3,402
2019								58,297	56,129	43,976	9,024	3,313
2020									43,573	35,524	16,243	1,637
2021										51,322	9,745	2,161
									Total	$ 417,878		

	Cumulative Paid Loss and Loss Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,									
AY	2012*	2013*	2014*	2015*	2016*	2017*	2018*	2019*	2020*	2021
2012	$ 4,466	$ 8,533	$ 12,394	$ 17,318	$ 20,931	$ 22,566	$ 22,730	$ 23,180	$ 23,181	$ 23,181
2013		5,306	11,978	19,761	28,220	33,480	35,923	37,327	37,915	38,172
2014			7,125	13,933	19,676	27,457	33,190	38,282	40,006	40,427
2015				6,984	20,709	29,554	37,222	39,339	41,345	42,626
2016					8,923	18,354	30,354	38,001	43,564	47,488
2017						7,979	17,070	24,090	30,260	36,141
2018							6,980	12,827	19,216	24,503
2019								7,148	15,852	21,120
2020									3,986	7,876
2021										5,341
	* Presented as unaudited required supplementary information.								Total	$ 286,875
									All outstanding liabilities before 2012, net of reinsurance	528
									Liabilities for losses and loss adjustment expenses, net of reinsurance	$ 131,531

	Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance*									
Years	1	2	3	4	5	6	7	8	9	10
	15.5%	18.3%	17.0%	17.1%	11.7%	7.4%	2.8%	1.5%	0.3%	0.0%

Property
(in thousands, except number of claims)

	Incurred Losses and Loss Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,										As of December 31, 2021	
AY	2012*	2013*	2014*	2015*	2016*	2017*	2018*	2019*	2020*	2021	Total IBNR	Cumulative Number of Reported Claims
2012	$ 85,485	$ 80,155	$ 79,181	$ 77,569	$ 79,175	$ 78,125	$ 78,161	$ 78,002	$ 77,924	$ 77,883	$ 7	2,640
2013		63,864	62,090	62,173	62,114	61,914	61,834	61,776	61,623	61,400	36	2,996
2014			56,587	49,441	48,801	48,761	49,217	49,444	49,479	49,520	52	4,562
2015				59,863	56,103	53,958	52,720	53,111	52,781	52,878	96	4,075
2016					62,900	55,594	55,384	55,930	55,424	55,383	177	3,377
2017						90,803	83,273	84,961	82,671	82,319	1,321	2,893
2018							89,091	83,457	79,961	80,470	3,642	2,337
2019								71,232	65,189	61,116	3,193	2,446
2020									118,247	110,466	17,071	2,837
2021										135,447	45,890	2,616
									Total	$ 766,882		

	Cumulative Paid Loss and Loss Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,									
AY	2012*	2013*	2014*	2015*	2016*	2017*	2018*	2019*	2020*	2021
2012	$ 39,074	$ 66,509	$ 72,057	$ 73,705	$ 75,640	$ 76,152	$ 77,159	$ 77,323	$ 77,347	$ 77,360
2013		32,208	50,840	57,407	59,259	60,520	61,195	61,325	61,335	61,188
2014			30,550	43,380	46,148	46,528	47,799	49,027	49,259	49,317
2015				32,184	49,348	50,197	51,290	52,078	52,342	52,400
2016					33,134	46,921	51,371	53,006	54,328	54,747
2017						41,314	66,818	74,415	78,360	80,581
2018							37,048	68,264	72,357	75,253
2019								30,703	51,740	55,092
2020									43,192	79,660
2021										57,272
	* Presented as unaudited required supplementary information.								Total	$ 642,870
									All outstanding liabilities before 2012, net of reinsurance	640
									Liabilities for losses and loss adjustment expenses, net of reinsurance	$ 124,652

	Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance*									
Years	1	2	3	4	5	6	7	8	9	10
	51.3%	31.8%	6.6%	2.8%	2.3%	1.1%	0.5%	0.1%	-0.1%	0.0%

Surety
(in thousands, except number of claims)

	Incurred Losses and Loss Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,										As of December 31, 2021	
AY	2012*	2013*	2014*	2015*	2016*	2017*	2018*	2019*	2020*	2021	Total IBNR	Cumulative Number of Reported Claims
2012	$ 17,114	$ 11,452	$ 8,667	$ 8,180	$ 7,867	$ 7,471	$ 7,099	$ 7,082	$ 6,985	$ 7,131	$ 2	1,480
2013		16,080	7,516	6,170	5,399	5,271	5,231	5,209	5,107	5,046	10	1,409
2014			16,450	8,106	5,225	4,427	4,267	4,319	4,266	4,227	8	1,355
2015				16,958	12,957	11,113	10,456	9,792	9,521	9,275	59	1,242
2016					18,928	11,062	9,351	8,895	8,391	7,948	125	1,381
2017						16,127	8,641	8,798	8,116	8,034	306	1,790
2018							16,765	7,227	4,564	3,947	713	1,323
2019								14,785	7,205	5,053	2,047	1,112
2020									19,241	14,840	7,212	748
2021										18,540	15,647	444
									Total	$ 84,041		

	Cumulative Paid Loss and Loss Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,									
AY	2012*	2013*	2014*	2015*	2016*	2017*	2018*	2019*	2020*	2021
2012	$ 1,883	$ 6,680	$ 6,726	$ 7,416	$ 7,536	$ 7,406	$ 7,065	$ 6,996	$ 6,941	$ 7,083
2013		1,116	2,856	4,701	4,911	5,098	5,150	5,128	5,061	5,029
2014			722	4,283	4,166	4,059	4,131	4,234	4,214	4,197
2015				3,192	6,719	7,695	9,436	9,183	9,186	9,168
2016					3,087	5,817	6,299	7,640	8,086	7,673
2017						979	2,862	7,062	7,221	7,362
2018							1,835	2,588	2,368	2,536
2019								336	2,433	2,765
2020									835	2,719
2021										1,197
	* Presented as unaudited required supplementary information.								Total	$ 49,729
									All outstanding liabilities before 2012, net of reinsurance	(68)
									Liabilities for losses and loss adjustment expenses, net of reinsurance	$ 34,244

	Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance*									
Years	1	2	3	4	5	6	7	8	9	10
	21.6%	39.5%	13.0%	7.6%	2.0%	-0.7%	-1.5%	-0.9%	-0.7%	2.0%

The following is a reconciliation of the net incurred and paid loss development tables to the liability for unpaid losses and settlement expenses in the consolidated balance sheet:

(in thousands)	December 31, 2021	December 31, 2020
Net outstanding liabilities:		
Casualty - Primary Occurrence	$ 453,142	$ 432,823
Casualty - Excess Occurrence	384,579	312,827
Casualty - Claims Made	209,705	214,103
Casualty - Transportation	131,531	129,852
Property	124,652	103,383
Surety	34,244	27,009
Unallocated loss adjustment expenses	59,391	54,954
Allowance for uncollectible reinsurance balances recoverable on unpaid losses and settlement expenses	11,188	8,634
Other	27,037	22,735
Liabilities for unpaid loss and settlement expenses, net of reinsurance	$ 1,435,469	$ 1,306,320
Reinsurance recoverable on unpaid claims:		
Casualty - Primary Occurrence	$ 43,688	$ 35,202
Casualty - Excess Occurrence	122,092	88,528
Casualty - Claims Made	271,259	223,020
Casualty - Transportation	66,283	53,251
Property	65,098	40,257
Surety	50,743	4,017
Allowance for uncollectible reinsurance balances recoverable on unpaid losses and settlement expenses	(11,188)	(8,634)
Other	111	8,088
Total reinsurance balances recoverable on unpaid losses and settlement expenses	$ 608,086	$ 443,729
Total gross liability for unpaid loss and settlement expenses	$ 2,043,555	$ 1,750,049

DETERMINATION OF IBNR

Initial carried IBNR reserves are determined through a reserve estimation process. For most casualty and surety products, this process involves the use of an initial loss and allocated loss adjustment expense (ALAE) ratio that is applied to the earned premium for a given period. Payments and case reserves are subtracted from this initial estimate of ultimate loss and ALAE to determine a carried IBNR reserve. For most property products, the IBNR reserves are determined by IBNR percentages applied to premium earned. The percentages are determined based on historical reporting patterns and are updated periodically. No deductions for paid or case reserves are made. Shortly after natural or man-made catastrophes, we review insured locations exposed to the event and model losses based on our own exposures and industry loss estimates of the event. We also consider our knowledge of frequency and severity from early claim reports to determine an appropriate reserve for the catastrophe. Adjustments to the initial loss ratio by product and segment are made where necessary and reflect updated assumptions regarding loss experience, loss trends, price changes and prevailing risk factors.

Actuaries perform a ground-up reserve study of the expected value of the unpaid loss and LAE derived using multiple standard actuarial methodologies on a quarterly basis. Each method produces an estimate of ultimate loss by accident year. We review all of these various estimates and assign weights to each based on the characteristics of the product being reviewed. These estimates are then compared to the carried loss reserves to determine the appropriateness of the current reserve balance. In addition, an emergence analysis is completed quarterly to determine if further adjustments are necessary.

Upon completion of our loss and LAE estimation analysis, a review of the resulting variance between the indicated reserves and the carried reserves takes place. Our actuaries make a recommendation to management in regards to booked reserves that reflect their analytical assessment and view of estimation risk. After discussion of these analyses and all relevant risk factors, the Loss Reserve Committee, a panel of management including the lead reserving actuary, chief executive officer, chief operating officer, chief financial officer and other executives, confirms the appropriateness of the reserve balances.

Actuarial models base future emergence on historic experience, with adjustments for current trends, and the appropriateness of these assumptions involved more uncertainty as of December 31, 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.

DEVELOPMENT OF IBNR RESERVES

The following table summarizes our prior accident years' loss reserve development by segment for 2021, 2020 and 2019:

(in thousands)	2021	2020	2019
Casualty	$ (108,632)	$ (75,075)	$ (62,497)
Property	(10,981)	(13,019)	(4,461)
Surety	(5,850)	(12,959)	(8,326)
Total	$ (125,463)	$ (101,053)	$ (75,284)

A discussion of significant components of reserve development for the three most recent calendar years follows:

2021. We experienced favorable emergence relative to prior years' reserve estimates in all of our segments during 2021. Development from the casualty segment totaled $108.6 million, inclusive of ULAE. Favorable development was experienced across accident years 2014 through 2020, with the largest amounts attributable to accident years 2018 through 2020. We continued to experience emergence that was generally better than previously estimated. We attribute the favorable emergence to loss trends in most lines outperforming our long-term expectations, our underwriters' ability to select risk and an increasing rate environment. Within the primary occurrence grouping, the general liability product contributed $25.3 million to our favorable development and small commercial was favorable by $7.5 million. Within the excess occurrence grouping, commercial excess was favorable by $10.5 million and personal umbrella developed favorably by $10.4 million. Within the claims made grouping, professional services coverages developed favorably by $14.2 million and executive products developed favorably by $5.9 million. Transportation had $20.1 million of favorable development.

Our marine product was the predominant driver of the favorable development in the property segment, accounting for $6.6 million of the $11.0 million total favorable development for the segment, inclusive of ULAE. Accident years 2019 and 2020 made the largest contribution. Commercial property was favorable by $2.0 million.

The surety segment experienced $5.9 million of favorable development, inclusive of ULAE. The majority of the favorable development came from the 2019 and 2020 accident years. Contract surety was the main contributor with favorable development of $4.6 million.

2020. We experienced favorable emergence relative to prior years' reserve estimates in all of our segments during 2020. The casualty segment contributed $75.1 million in favorable development, inclusive of ULAE. Accident years 2017 through 2019 contributed significantly to the favorable development. This was predominantly caused by favorable frequency and severity trends that continued to be better than our long-term expectations. In addition, we believe this to be the result of our underwriters' ability to select risk as well as an increasing rate environment within many of our casualty sublines. Nearly all of our casualty products contributed to the favorable development. Transportation contributed $19.1 million for the year. Within the primary occurrence grouping, the general liability product contributed $17.9 million to our favorable development. Within the excess occurrence grouping, commercial excess developed favorably by $12.5 million. Within the claims made grouping, professional services coverages developed favorably by $7.8 million and medical professional liability had $6.1 million of favorable development.

The marine product was the primary driver of the favorable development in the property segment. Marine contributed $6.5 million of the $13.0 million total favorable property development, inclusive of ULAE, primarily in accident years 2017 and 2018. Commercial property was favorable by $5.2 million.

The surety segment experienced favorable development of $13.0 million, inclusive of ULAE. The majority of the favorable development was from accident year 2019. Contract and commercial surety products were the main contributors with favorable development of $5.9 million and $3.8 million, respectively.

2019. We experienced favorable emergence relative to prior years' reserve estimates in all of our segments during 2019. The casualty segment contributed $62.5 million in favorable development, inclusive of unallocated loss and adjustment expenses (ULAE), which is excluded from the incurred loss and loss adjustment expense tables above. Accident years 2017 and 2018 contributed the majority of the favorable development, with earlier years developing favorably in aggregate to a lesser extent. Risk selection by our underwriters continued to provide better results than estimated in our reserving process. Within the primary occurrence grouping, the general liability product contributed $11.8 million to our favorable development. Small commercial products were favorable by $6.3 million. Within the excess occurrence grouping, commercial excess was favorable by $6.8 million and our personal umbrella product developed favorably by $7.8 million. Within the claims made grouping, professional services coverages developed favorably by $10.2 million, which was offset

by adverse development of $7.3 million on executive products and $2.3 million on medical professional liability coverages. Transportation experienced favorable development of $**16.6** million, primarily on accident years 2016 through 2018.

Marine contributed $2.4 million of the $4.5 million total favorable property development, inclusive of ULAE. Accident years 2017 and 2018 contributed to the marine products' favorable development. Homeowners' contributed $1.1 million of favorable development with other commercial property insurance and assumed reinsurance products contributing the balance.

The surety segment experienced favorable development of $8.3 million, inclusive of ULAE. The majority of the favorable development was from accident year 2018, while earlier accident years developed slightly adversely. The commercial surety product was the main contributor with favorable development of $5.8 million. Contract surety had favorable development of $4.2 million, which offset $1.7 million of adverse development on miscellaneous surety.

ENVIRONMENTAL, ASBESTOS AND MASS TORT EXPOSURES

We are subject to environmental site cleanup, asbestos removal and mass tort claims and exposures through our commercial excess, general liability and discontinued assumed casualty reinsurance lines of business. The majority of the exposure is in the excess layers of our commercial excess and assumed reinsurance books of business.

The following table represents paid and unpaid environmental, asbestos and mass tort claims data (including incurred but not reported losses) as of December 31, 2021, 2020 and 2019:

(in thousands)	2021	2020	2019
Loss and LAE Payments (Cumulative):			
Gross	$ 141,768	$ 139,804	$ 137,485
Ceded	(69,576)	(69,219)	(68,849)
Net	$ 72,192	$ 70,585	$ 68,636
Unpaid Losses and LAE at End of Year:			
Gross	$ 25,747	$ 22,485	$ 22,616
Ceded	(5,718)	(4,619)	(5,149)
Net	$ 20,029	$ 17,866	$ 17,467

Our environmental, asbestos and mass tort exposure is limited, relative to other insurers, as a result of entering the affected liability lines after the insurance industry had already recognized environmental and asbestos exposure as a problem and adopted appropriate coverage exclusions. The majority of our reserves are associated with products that went into runoff at least two decades ago. Some are for assumed reinsurance, some are for excess liability business and some followed from the acquisition of Underwriters Indemnity Company in 1999.

During 2021, RLI experienced modest emergence of asbestos, environmental and mass tort losses and we increased our IBNR reserves for these exposures.

While our environmental exposure is limited, the ultimate liability for this exposure is difficult to assess because of the extensive and complicated litigation involved in the settlement of claims and evolving legislation on issues such as joint and several liability, retroactive liability and standards of cleanup. Additionally, we participate primarily in the excess layers of coverage, where accurate estimates of ultimate loss are more difficult to derive than for primary coverage.

7. INCOME TAXES

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are summarized below.

(in thousands)	2021	2020
Deferred tax assets:		
Tax discounting of unpaid losses and settlement expenses	$ 22,637	$ 21,096
Unearned premium offset	23,080	19,862
Deferred compensation	3,469	2,829
Stock option expense	3,089	2,749
Lease liability	3,796	3,971
Other	367	389
Deferred tax assets before allowance	$ 56,438	$ 50,896
Less valuation allowance	—	—
Total deferred tax assets	$ 56,438	$ 50,896
Deferred tax liabilities:		
Net unrealized appreciation of securities	$ 76,533	$ 77,639
Deferred policy acquisition costs	21,746	18,569
Lease asset	3,101	3,402
Discounting of unpaid losses and settlement expenses - Tax Cuts and Jobs Act (TCJA) implementation offset	2,545	3,181
Fixed assets	3,518	3,439
Intangible assets	1,537	1,558
Undistributed earnings of unconsolidated investees	29,515	21,813
Other	1,452	1,530
Total deferred tax liabilities	$ 139,947	$ 131,131
Net deferred tax liability	$ (83,509)	$ (80,235)

Income tax expense (benefit) attributable to income from operations for the years ended December 31, 2021, 2020 and 2019, differed from the amounts computed by applying the U.S. federal tax rate of 21 percent to pretax income from continuing operations as demonstrated in the following table:

(in thousands)	2021		2020		2019	
Provision for income taxes at the statutory federal tax rates	$ 72,307	21.0 %	$ 39,867	21.0 %	$ 48,874	21.0 %
Increase (reduction) in taxes resulting from:						
Excess tax benefit on share-based compensation	(3,090)	(0.9) %	(3,537)	(1.8) %	(3,958)	(1.7) %
Tax-exempt interest income	(1,219)	(0.3) %	(1,293)	(0.7) %	(1,238)	(0.5) %
Dividends received deduction	(891)	(0.3) %	(883)	(0.5) %	(823)	(0.4) %
Investment tax credit	(3,491)	(1.0) %	(2,435)	(1.3) %	—	— %
ESOP dividends paid deduction	(1,566)	(0.5) %	(1,083)	(0.6) %	(1,122)	(0.5) %
Unconsolidated investee dividends	—	— %	(479)	(0.2) %	(1,802)	(0.8) %
Nondeductible expenses	3,834	1.1 %	1,878	1.0 %	1,649	0.7 %
Other items, net	(917)	(0.2) %	715	0.4 %	(488)	(0.1) %
Total	$ 64,967	18.9 %	$ 32,750	17.3 %	$ 41,092	17.7 %

Effective rates are dependent upon components of pretax earnings and the related tax effects. The effective rate was higher in 2021 due to higher levels of pretax income, which decreased the impact of tax-favored adjustments on a percentage basis.

Our net earnings include equity in earnings of unconsolidated investees, Maui Jim and Prime. The investees do not have a policy or pattern of paying dividends. As a result, we record a deferred tax liability on the earnings at the corporate capital gains rate of 21 percent in anticipation of recovering our investments through means other than through the receipt of dividends, such as a sale. We received a $4.7 million dividend from Prime in 2020 and recognized a $0.5 million tax benefit from applying the lower tax rate applicable to affiliated dividends paid to insurance companies (10.8 percent in 2020), as compared to the corporate capital gains rate on which the deferred tax liabilities were based. In 2019, we received a $13.2 million dividend from Maui Jim and recognized a $1.8 million tax benefit from applying the lower tax rate applicable to affiliated dividends paid to non-insurance companies (7.4 percent in 2019), as compared to the corporate capital gains rate on which the deferred tax liabilities were based. Standing alone, the dividends resulted in a 0.2 percent and 0.8 percent reduction to the 2020 and 2019 effective tax rates, respectively. No dividends were declared from unconsolidated investees in 2021, therefore having no impact to the 2021 effective tax rate.

Dividends paid to our Employee Stock Ownership Plan (ESOP) also result in a tax deduction. Dividends paid to the ESOP in 2021, 2020 and 2019 resulted in tax benefits of $1.6 million, $1.1 million and $1.1 million, respectively. These tax benefits reduced the effective tax rate for 2021, 2020 and 2019 by 0.5 percent, 0.6 percent and 0.5 percent and, respectively.

We have recorded our deferred tax assets and liabilities using the statutory federal tax rate of 21 percent. We believe it is more likely than not that all deferred tax assets will be recovered, given the carry back availability as well as the results of future operations, which will generate sufficient taxable income to realize the deferred tax asset. In addition, we believe when these deferred items reverse in future years, our taxable income will be taxed at an effective rate of 21 percent.

Federal and state income taxes paid in 2021, 2020 and 2019 amounted to $38.6 million, $23.7 million and $25.6 million, respectively.

Although we are not currently under audit by the IRS, tax years 2018 through 2021 remain open and are subject to examination.

8. EMPLOYEE BENEFITS

EMPLOYEE STOCK OWNERSHIP, 401(K) AND INCENTIVE PLANS

We maintain ESOP, 401(k) and incentive plans covering executives, managers and associates. Funding of these plans is primarily dependent upon reaching predetermined levels of operating return on equity, combined ratio and Market Value Potential (MVP). MVP is a compensation model that measures components of comprehensive earnings against a minimum required return on our capital. Bonuses are earned as we generate earnings in excess of this required return. While some management incentive plans may be affected somewhat by other performance factors, the larger influence of corporate performance ensures that the interests of our executives, managers and associates align with those of our shareholders.

Our 401(k) plan allows voluntary contributions by employees and permits ESOP diversification transfers for employees meeting certain age and service requirements. We provide a basic 401(k) contribution of 3 percent of eligible compensation. Participants are 100 percent vested in both voluntary and basic contributions. Additionally, an annual discretionary profit-sharing contribution may be made to the ESOP and 401(k), subject to the achievement of certain overall financial goals and board approval. Profit-sharing contributions vest after three years of plan service.

Our ESOP and 401(k) cover all employees meeting eligibility requirements. ESOP and 401(k) profit-sharing contributions are approved annually by our board of directors and are expensed in the year earned. ESOP and 401(k)-related expenses (basic and profit-sharing) were $18.0 million, $14.4 million and $15.7 million for 2021, 2020 and 2019, respectively.

During 2021, the ESOP purchased 65,815 shares of RLI Corp. stock on the open market at an average price of $107.95 ($7.1 million) relating to the contribution for plan year 2020. Shares held by the ESOP as of December 31, 2021, totaled 2,495,777 and are treated as outstanding in computing our earnings per share. During 2020, the ESOP purchased 94,194 shares of RLI Corp. stock on the open market at an average price of $82.67 ($7.8 million) relating to the contribution for plan year 2019. During 2019, the ESOP purchased 60,768 shares of RLI Corp. stock on the open market at an average price of $69.99 ($4.3 million) relating to the contribution for plan year 2018. The above-mentioned ESOP purchases relate only to our annual contributions to the plan and do not include amounts or shares resulting from the reinvestment of dividends.

Annual awards are provided to executives, managers and associates through our incentive plans, provided certain strategic and financial goals are met. Annual expenses for these incentive plans totaled $39.1 million, $26.6 million and $30.1 million for 2021, 2020 and 2019, respectively.

DEFERRED COMPENSATION

We maintain rabbi trusts for deferred compensation plans for directors, key employees and executive officers through which contributions can be invested in RLI Corp. stock or mutual funds. The employer stock in the plan cannot be diversified and is accounted for as equity, in a manner consistent with the accounting for treasury stock. At December 31, 2021, the trusts' assets were valued at $51.4 million.

STOCK PLANS

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 2,900,420 awards under the 2015 LTIP, including 277,051 in 2021.

Compensation expense is based on the probable number of awards expected to vest. The total compensation expense related to equity awards was $6.4 million, $5.4 million and $6.0 million for 2021, 2020 and 2019, respectively. The total income tax benefit was $1.0 million for 2021 and $0.9 million for 2020 and 2019. Total unrecognized compensation expense relating to outstanding and unvested awards was $6.0 million, which will be recognized over the weighted average vesting period of 2.33 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, including 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 table summarize option activity in 2021:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (in 000's)
Outstanding as of January 1, 2021	1,632,334	$ 70.67		
Granted	260,271	109.67		
Exercised	(215,065)	55.50		
Cancelled or forfeited	(8,215)	84.29		
Outstanding as of December 31, 2021	1,669,325	$ 78.63	4.90	$ 56,018
Exercisable at December 31, 2021	784,768	$ 67.14	3.66	$ 35,282

The intrinsic value, which is the difference between the fair value and the exercise price, of options exercised was $12.2 million, $15.5 million and $20.0 million during 2021, 2020 and 2019, respectively.

The fair value of options were estimated using a Black-Scholes based option pricing model with the following weighted-average grant-date assumptions and weighted-average fair values as of December 31:

	2021	2020	2019
Weighted-average fair value of grants	$ 17.11	$ 13.24	$ 13.49
Risk-free interest rates	0.75 %	0.39 %	2.26 %
Dividend yield	2.06 %	2.30 %	2.69 %
Expected volatility	22.73 %	22.67 %	22.71 %
Expected option life	4.97 years	4.96 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, $1.5 million and $0.7 million during 2021, 2020 and 2019, respectively.

	RSUs	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2021	47,658	$ 81.53
Granted	16,780	113.02
Reinvested	1,233	108.00
Vested	(19,725)	72.53
Forfeited	(878)	94.28
Nonvested at December 31, 2021	45,068	$ 97.67

9. STATUTORY INFORMATION AND DIVIDEND RESTRICTIONS

The statutory financial statements of our three insurance companies are presented on the basis of accounting practices prescribed or permitted by the Illinois Department of Insurance (IDOI), which has adopted the NAIC's statutory accounting principles (SAP). We do not use any permitted SAP that differ from NAIC prescribed SAP. In converting from SAP to GAAP, typical adjustments include deferral of policy acquisition costs, the inclusion of statutory non-admitted assets and the inclusion of net unrealized holding gains or losses in shareholders' equity relating to fixed income securities.

The NAIC has risk-based capital (RBC) requirements for insurance companies to calculate and report information under a risk-based formula, which measures statutory capital and surplus needs based upon a regulatory definition of risk relative to the company's balance sheet and mix of products. As of December 31, 2021, each of our insurance subsidiaries had an RBC amount in excess of the authorized control level RBC, as defined by the NAIC. RLI Insurance Company (RLI Ins.), our principal insurance company subsidiary, had an authorized control level RBC of $225.1 million, $203.9 million and $191.0 million as of December 31, 2021, 2020 and 2019, respectively, compared to actual statutory capital and surplus of $1.2 billion, $1.1 billion and $1.0 billion, respectively, for these same periods.

Year-end statutory surplus for 2021 presented in the table below includes $271.2 million of RLI Corp. stock (cost basis of $64.6 million) held by Mt. Hawley Insurance Company, compared to $238.0 million and $190.9 million in 2020 and 2019, respectively. The Securities Valuation Office provides specific guidance for valuing this investment, which is eliminated in our GAAP consolidated financial statements.

The following table includes selected information for our insurance subsidiaries for the year ended and as of December 31:

(in thousands)	2021	2020	2019
Consolidated net income, statutory basis	$ 207,550	$ 120,329	$ 129,625
Consolidated surplus, statutory basis	$ 1,240,649	$ 1,121,592	$ 1,029,671

As discussed in note 1.A., our three insurance companies are subsidiaries of RLI Corp., with RLI Ins. as the first-level, or principal, insurance subsidiary. At the holding company (RLI Corp.) level, we rely largely on dividends from our insurance company 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 December 31, 2021, our holding company had $1.2 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 $87.9 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

regular 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. In 2021, 2020 and 2019, our principal insurance subsidiary paid ordinary dividends totaling $70.0 million, $110.0 million and $59.0 million, respectively, to RLI Corp. Any dividend distribution in excess of the ordinary dividend limits is deemed extraordinary and requires prior approval from the IDOI. In 2021, our principal insurance subsidiary sought and received regulatory approval prior to the payment of extraordinary dividends totaling $110.0 million. No extraordinary dividends were paid in 2020 or 2019. As of December 31, 2021, $26.1 million of the net assets of our principal insurance subsidiary are not restricted and could be distributed to RLI Corp. as ordinary dividends. 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.

10. COMMITMENTS AND CONTINGENT LIABILITIES

COMMITMENTS

As of December 31, 2021, we had $20.1 million of unfunded commitments related to our investments in private funds, low income housing tax credit investments and equity method investees. See note 2 for more information on our investments in private funds and low income housing tax credits.

LITIGATION

We are party to numerous claims, loss and litigation matters that arise in the normal course of our business. Many of such claims, loss or litigation matters involve claims under policies that we underwrite as an insurer. We believe that the resolution of these claims and losses is not reasonably likely to have a material adverse effect on our financial condition, results of operations or cash flows. From time to time, we are also involved in various other legal proceedings and litigation unrelated to our insurance business that arise in the ordinary course of business operations. Management believes that any liabilities that may arise as a result of these legal matters is not reasonably likely to have a material adverse effect on our financial condition, results of operations or cash flows.

11. 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 components of lease expense and other lease information as of and during the years ended December 31, 2021, 2020 and 2019 are as follows:

(in thousands)	2021	2020	2019
Operating lease cost	$ 5,131	$ 5,504	$ 5,772
Variable lease cost	1,433	1,346	1,850
Sublease income	(508)	(262)	—
Total lease cost	$ 6,056	$ 6,588	$ 7,622
Cash paid for amounts included in measurement of lease liabilities			
Operating cash flows from operating leases	$ 5,738	$ 5,963	$ 5,711
ROU assets obtained in exchange for new operating lease liabilities	$ 4,828	$ 81	$ 1,388
Reduction to ROU assets resulting from reduction to lease liabilities	$ 1,042	$ 18	$ 1,279
Other non-cash reductions to ROU assets	$ 48	$ 1,192	$ —

(in thousands)	2021	2020
Operating lease ROU assets	$ 14,765	$ 16,200
Operating lease liabilities	$ 16,905	$ 19,072
Weighted-average remaining lease term - operating leases	4.52 years	3.87 years
Weighted-average discount rate - operating leases	2.02 %	2.32 %

Future minimum lease payments under non-cancellable leases as of December 31, 2021 were as follows:

(in thousands)	2021
2022	$ 5,353
2023	4,826
2024	2,844
2025	1,481
2026	884
Thereafter	2,283
Total future minimum lease payments	$ 17,671
Less imputed interest	(766)
Total operating lease liability	$ 16,905

12. OPERATING SEGMENT INFORMATION

The segments of our insurance operations include casualty, property and surety. 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 and hurricanes. 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 market 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 insureds. 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.

Net investment income consists of the interest and dividend income streams from our investments in fixed income and equity securities. Interest and general corporate expenses include the cost of debt, other director and shareholder relations costs and other compensation-related expenses incurred for the benefit of the corporation, but not attributable to the operations of our insurance segments. Investee earnings represent our share in Maui Jim and Prime earnings. We own 40 percent of Maui Jim, a privately-held company which operates in the sunglass and optical goods industries, and 23 percent of Prime Holdings Insurance Services, Inc., a privately-held insurance company which specializes in hard-to-place risks. Our investment in Maui Jim, which is carried at the holding company, is unrelated to our core insurance operations.

The following table summarizes our segment data based on the internal structure and reporting of information as it is used by management. The net earnings of each segment are before taxes and include revenues (if applicable), direct product or segment costs (such as commissions and claims costs), as well as allocated costs from various support departments. Assets are not managed at the segment level and therefore are not allocated to segments.

REVENUES

(in thousands)	2021	2020	2019
Casualty	$ 633,639	$ 569,521	$ 558,458
Property	231,837	183,720	164,022
Surety	115,427	112,506	116,631
Net premiums earned	$ 980,903	$ 865,747	$ 839,111
Net investment income	68,862	67,893	68,870
Net realized gains	64,222	17,885	17,520
Net unrealized gains on equity securities	65,258	32,101	78,090
Total	$ 1,179,245	$ 983,626	$ 1,003,591

INSURANCE EXPENSES

(in thousands)	2021	2020	2019
Loss and settlement expenses:			
Casualty	$ 311,627	$ 322,099	$ 330,156
Property	129,924	111,356	73,614
Surety	15,051	9,429	9,646
Total loss and settlement expenses	$ 456,602	$ 442,884	$ 413,416
Policy acquisition costs:			
Casualty	$ 179,354	$ 162,058	$ 166,499
Property	72,008	59,926	55,986
Surety	66,106	64,454	66,212
Total policy acquisition costs	$ 317,468	$ 286,438	$ 288,697
Other insurance expenses:			
Casualty	$ 47,139	$ 40,937	$ 41,202
Property	18,605	15,620	16,279
Surety	11,163	10,271	11,949
Total other insurance expenses	$ 76,907	$ 66,828	$ 69,430
Total	$ 850,977	$ 796,150	$ 771,543

NET EARNINGS

(in thousands)	2021	2020	2019
Casualty	$ 95,519	$ 44,427	$ 20,601
Property	11,300	(3,182)	18,143
Surety	23,107	28,352	28,824
Net underwriting income	$ 129,926	$ 69,597	$ 67,568
Net investment income	68,862	67,893	68,870
Net realized gains	64,222	17,885	17,520
Net unrealized gains on equity securities	65,258	32,101	78,090
Interest on debt	(7,677)	(7,603)	(7,588)
General corporate expense	(13,330)	(10,265)	(12,686)
Equity in earnings of unconsolidated investees	37,060	20,233	20,960
Total earnings before incomes taxes	$ 344,321	$ 189,841	$ 232,734
Income tax expense	64,967	32,750	41,092
Net earnings	$ 279,354	$ 157,091	$ 191,642

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

NET PREMIUMS EARNED

	Year ended December 31,		
(in thousands)	2021	2020	2019
CASUALTY			
Commercial excess and personal umbrella	$ 219,437	$ 178,214	$ 140,483
General liability	90,853	91,653	98,880
Professional services	88,855	85,196	81,329
Commercial transportation	83,352	64,624	83,213
Small commercial	64,660	63,357	55,701
Executive products	21,873	26,509	27,088
Other casualty	64,609	59,968	71,764
Total	$ 633,639	$ 569,521	$ 558,458
PROPERTY			
Commercial property	$ 107,941	$ 79,406	$ 68,310
Marine	97,745	81,852	74,887
Specialty personal	21,385	19,596	19,316
Other property	4,766	2,866	1,509
Total	$ 231,837	$ 183,720	$ 164,022
SURETY			
Miscellaneous	$ 43,982	$ 42,292	$ 44,721
Commercial	43,738	42,872	43,553
Contract	27,707	27,342	28,357
Total	$ 115,427	$ 112,506	$ 116,631
Grand total	$ 980,903	$ 865,747	$ 839,111

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of RLI Corp.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of RLI Corp. and subsidiaries (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of earnings and comprehensive earnings, shareholders' equity, and cash flows, for the years then ended, and the related notes and the schedules listed in the Index at Item 15 (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flow for each of years then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control — Integrated Framework (2013) issued by COSO.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Controls Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which they relate.

Unpaid losses and settlement expenses — Refer to Notes 1 and 6 to the financial statements

Critical Audit Matter Description

The liability for unpaid losses and settlement expenses represents estimates of amounts needed to pay reported and unreported claims and related expenses. The estimates are based on certain actuarial and other assumptions related to the ultimate cost to settle such claims.

We identified the assessment of the Company's estimate of unpaid losses and settlement expenses as a critical audit matter. Specialized actuarial skills and knowledge were required to assess the methodologies and assumptions used to estimate unpaid losses and settlement expenses. The assumptions used by the Company to estimate unpaid losses and settlement expenses included expected loss ratios, loss development patterns, qualitative factors, and the weighting of actuarial methodologies. These assumptions included a range of potential inputs and changes to these assumptions could affect the estimate of unpaid losses and settlement expenses recorded by the Company.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to unpaid losses and settlement expenses included the following, among others:

- We tested the effectiveness of controls related to unpaid losses and settlement expenses, including those controls over the inputs, methods, and assumptions used in the Company's estimation processes.
- We tested the underlying data, including historical claims, that served as the basis for the actuarial analyses, to test that the inputs to the actuarial estimates were accurate and complete.
- With the assistance of our actuarial specialists, we evaluated the methods and assumptions used by the Company to estimate the unpaid losses and settlement expenses by:
    - Developing a range of independent estimates of unpaid losses and settlement expenses for certain lines of business and comparing our estimates to the recorded reserves.
    - We compared our prior year estimates of expected incurred losses to actual experience during the current year to identify potential management bias in the determination of the unpaid losses and settlement expenses.

/s/ Deloitte & Touche LLP

Chicago, Illinois
February 18, 2022

We have served as the Company's auditor since 2020.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of RLI Corp.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of earnings and comprehensive earnings, shareholders' equity, and cash flows of RLI Corp. and subsidiaries (the Company) for the year ended December 31, 2019, and the related notes and financial statement schedules I to VI (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the results of operations of the Company and its cash flows for the year ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ KPMG LLP

We served as the Company's auditor from 1983 to 2020.

Chicago, Illinois
February 21, 2020

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Deloitte & Touche LLP (Deloitte) was engaged as the new independent registered public accounting firm of RLI Corp. (the Company) to perform independent audit services for the Company for the fiscal years ending December 31, 2021 and December 31, 2020. Deloitte's engagement was approved by the Audit Committee of the Company's Board of Directors. The appointment of Deloitte was the result of a competitive request for proposal process undertaken by the Audit Committee.

KPMG's audit reports on the Company's consolidated financial statements for the fiscal year ended December 31, 2019 did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles.

During the fiscal years ended December 31, 2019, there were (i) no disagreements (as that term is defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) between the Company and KPMG on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to the satisfaction of KPMG would have caused KPMG to make reference thereto in its reports on the consolidated financial statements of the Company for such years, and (ii) no reportable events (as that term is defined in Item 304(a)(1)(v) of Regulation S-K).

During the fiscal years ended December 31, 2019, neither the Company, nor any party on behalf of the Company, consulted with Deloitte with respect to either (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of the audit opinion that might be rendered with respect to the Company's consolidated financial statements, and no written report or oral advice was provided to the Company by Deloitte that was an important factor considered by the Company in reaching a decision as to any accounting, auditing or financial reporting issue, or (ii) any matter that was subject to any disagreement (as that term is defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) or a reportable event (as that term is defined in Item 304(a)(1)(v) of Regulation S-K).

Item 9A. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2021.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control — Integrated Framework (2013)*, our management concluded that our internal control over financial reporting was effective as of December 31, 2021.

Our internal control over financial reporting as of December 31, 2021 has been audited by Deloitte & Touche LLP (PCAOB ID No. 34), an independent registered public accounting firm, as stated in their report on page 89 of this report.

There was no change in our internal control over financial reporting during our fourth fiscal quarter ended December 31, 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information – None.

PART III

Items 10 to 14.

Items 10 through 14 (inclusive) of this Part III are not included herein because the Company will file a definitive Proxy Statement with the SEC that will include the information required by such Items, and such information is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) (l-2) See Item 8 for Consolidated Financial Statements included in this report.

(3) Exhibits. See Exhibit Index on pages 104-105.

(b) Exhibits. See Exhibit Index on pages 104-105.

(c) Financial Statement Schedules. See Index to Financial Statement Schedules on page 94.

INDEX TO FINANCIAL STATEMENT SCHEDULES

	Reference (Page)
Data Submitted Herewith:	
Schedules:	
I. Summary of Investments - Other than Investments in Related Parties at December 31, 2021.	95
II. Condensed Financial Information of Registrant, as of and for the three years ended December 31, 2021.	96-98
III. Supplementary Insurance Information, as of and for the three years ended December 31, 2021.	99-100
IV. Reinsurance for the three years ended December 31, 2021.	101
V. Valuation and Qualifying Accounts for the three years ended December 31, 2021.	102
VI. Supplementary Information Concerning Property-Casualty Insurance Operations for the three years ended December 31, 2021.	103

Schedules other than those listed are omitted for the reason that they are not required, are not applicable or that equivalent information has been included in the financial statements, and notes thereto, or elsewhere herein.

RLI CORP. AND SUBSIDIARIES

SCHEDULE I—SUMMARY OF INVESTMENTS—OTHER THAN INVESTMENTS IN RELATED PARTIES

December 31, 2021

Column A	Column B	Column C	Column D
(in thousands) Type of Investment	Cost (1)	Fair Value	Amount at which shown in the balance sheet
Fixed maturities:			
Bonds:			
Available-for-sale:			
U.S. government	$ 127,752	$ 134,554	$ 134,554
U.S. agency	30,403	32,760	32,760
Non-U.S. government & agency	8,297	8,481	8,481
Agency MBS	362,861	367,187	367,187
ABS/CMBS/MBS*	264,273	264,054	264,054
Corporate	925,394	957,095	957,095
Municipal	627,287	645,756	645,756
Total available-for-sale	$ 2,346,267	$ 2,409,887	$ 2,409,887
Total fixed maturities	$ 2,346,267	$ 2,409,887	$ 2,409,887
Equity securities:			
Common stock:			
Ind Misc and all other	$ 103,261	$ 190,735	$ 190,735
ETFs (Ind/misc)	221,240	423,041	423,041
Total equity securities	$ 324,501	$ 613,776	$ 613,776
Cash and short-term investments	88,804	88,804	88,804
Other invested assets	44,435	50,501	50,501
Total investments and cash	$ 2,804,007	$ 3,162,968	$ 3,162,968

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

Note: See notes 1E and 2 of Notes to Consolidated Financial Statements. See also the accompanying reports of independent registered public accounting firms starting on page 89 of this report.

(1) Original cost of equity securities and, as to fixed maturities, original cost reduced by repayments and adjusted for amortization of premiums or accrual of discounts.

RLI CORP. AND SUBSIDIARIES

SCHEDULE II—CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(PARENT COMPANY)
CONDENSED BALANCE SHEETS

December 31,

(in thousands, except share data)	2021	2020
ASSETS		
Cash	$ 1,433	$ 381
Accounts receivable, affiliates	848	—
Investments in subsidiaries	1,197,997	1,148,342
Investments in unconsolidated investee	113,052	90,893
Fixed income:		
Available-for-sale, at fair value	86,483	64,211
(amortized cost of $84,823 and allowance for credit losses of $0 in 2021)		
(amortized cost of $60,657 and allowance for credit losses of $0 in 2020)		
Property and equipment, at cost, net of accumulated depreciation of $1,697 in 2021 and $1,629 in 2020	1,711	1,779
Income taxes receivable - current	211	1,500
Other assets	2,907	895
TOTAL ASSETS	$ 1,404,642	$ 1,308,001
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Accounts payable, affiliates	$ —	$ 2,556
Income taxes - deferred	21,067	16,988
Bonds payable, long-term debt	149,676	149,489
Interest payable, long-term debt	2,153	2,153
Other liabilities	2,385	837
TOTAL LIABILITIES	$ 175,281	$ 172,023
SHAREHOLDERS' EQUITY		
Common stock ($0.01 par value)		
(Shares authorized - 200,000,000)		
(68,219,551 shares issued and 45,289,337 shares outstanding in 2021)		
(68,072,794 shares issued and 45,142,580 shares outstanding in 2020)	$ 682	$ 681
Paid-in capital	343,742	335,365
Accumulated other comprehensive earnings	49,826	108,714
Retained earnings	1,228,110	1,084,217
Deferred compensation	9,642	8,292
Treasury stock, at cost (22,930,214 shares in 2021 and 2020)	(402,641)	(401,291)
TOTAL SHAREHOLDERS' EQUITY	$ 1,229,361	$ 1,135,978
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,404,642	$ 1,308,001

See Notes to Consolidated Financial Statements. See also the accompanying reports of independent registered public accounting firms starting on page 89 of this report.

RLI CORP. AND SUBSIDIARIES

SCHEDULE II—CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(PARENT COMPANY)—(continued)
CONDENSED STATEMENTS OF EARNINGS AND COMPREHENSIVE EARNINGS

Years ended December 31,

(in thousands)	2021	2020	2019
Net investment income	$ 2,102	$ 1,412	$ 1,656
Net realized gains (losses)	(625)	501	463
Equity in earnings of unconsolidated investee	22,786	10,368	13,592
Selling, general and administrative expenses	(13,330)	(10,265)	(12,686)
Interest expense on debt	(7,616)	(7,603)	(7,588)
Earnings (loss) before income taxes	$ 3,317	$ (5,587)	$ (4,563)
Income tax benefit	(1,585)	(2,885)	(4,989)
Net earnings (loss) before equity in net earnings of subsidiaries	$ 4,902	$ (2,702)	$ 426
Equity in net earnings of subsidiaries	274,452	159,793	191,216
Net earnings	$ 279,354	$ 157,091	$ 191,642
Other comprehensive earnings (loss), net of tax			
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	$ (1,996)	$ 994	$ 1,727
Less: reclassification adjustment for (gains) losses included in net earnings	500	(390)	(365)
Other comprehensive earnings (loss) - parent only	$ (1,496)	$ 604	$ 1,362
Equity in other comprehensive earnings (loss) of subsidiaries/investees	(57,392)	55,615	65,683
Other comprehensive earnings (loss)	$ (58,888)	$ 56,219	$ 67,045
Comprehensive earnings	$ 220,466	$ 213,310	$ 258,687

See Notes to Consolidated Financial Statements. See also the accompanying reports of independent registered public accounting firms starting on page 89 of this report.

RLI CORP. AND SUBSIDIARIES

SCHEDULE II—CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(PARENT COMPANY)—(continued)
CONDENSED STATEMENTS OF CASH FLOWS

Years ended December 31,

(in thousands)	2021	2020	2019
Cash flows from operating activities			
Earnings (loss) before equity in net earnings of subsidiaries	$ 4,902	$ (2,702)	$ 426
Adjustments to reconcile net losses to net cash provided by (used in) operating activities:			
Net realized (gains) losses	625	(501)	(463)
Depreciation	68	67	68
Other items, net	3,966	2,270	2,487
Change in:			
Affiliate balances receivable/payable	(3,404)	1,246	1,180
Federal income taxes	5,901	1,399	(1,673)
Changes in investment in unconsolidated investee:			
Undistributed earnings	(22,786)	(10,368)	(13,592)
Dividends received	—	—	13,200
Net cash provided by (used in) operating activities	$ (10,728)	$ (8,589)	$ 1,633
Cash flows from investing activities			
Purchase of:			
Fixed income, available-for-sale	$ (33,373)	$ (24,950)	$ (2,507)
Other	(2,904)	(346)	—
Sale of:			
Fixed income, available-for-sale	5,306	3,767	14,273
Other	1,245	—	—
Call or maturity of:			
Fixed income, available-for-sale	2,878	3,492	29,501
Cash dividends received-subsidiaries	180,000	110,000	34,003
Net cash provided by investing activities	$ 153,152	$ 91,963	$ 75,270
Cash flows from financing activities			
Proceeds from stock option exercises	$ 1,838	$ 8,648	$ 9,490
Cash dividends paid	(147,422)	(95,793)	(93,315)
Other	4,212	3,802	4,058
Net cash used in financing activities	$ (141,372)	$ (83,343)	$ (79,767)
Net increase (decrease) in cash	$ 1,052	$ 31	$ (2,864)
Cash at beginning of year	381	350	3,214
Cash at end of year	$ 1,433	$ 381	$ 350

Interest paid on outstanding debt amounted to $7.3 million for 2021, 2020 and 2019, respectively. See Notes to Consolidated Financial Statements. See also the accompanying reports of independent registered public accounting firms starting on page 89 of this report.

RLI CORP. AND SUBSIDIARIES

SCHEDULE III—SUPPLEMENTARY INSURANCE INFORMATION

As of and for the years ended December 31, 2021, 2020 and 2019

(in thousands)	Deferred policy acquisition costs	Unpaid losses and settlement expenses, gross	Unearned premiums, gross	Net premiums earned	Incurred losses and settlement expenses current year
Year ended December 31, 2021					
Casualty segment	$ 55,760	$ 1,760,469	$ 438,248	$ 633,639	$ 420,259
Property segment	25,764	196,369	168,209	231,837	140,905
Surety segment	22,029	86,717	73,987	115,427	20,901
RLI Insurance Group	$ 103,553	$ 2,043,555	$ 680,444	$ 980,903	$ 582,065
Year ended December 31, 2020					
Casualty segment	$ 48,255	$ 1,567,544	$ 385,736	$ 569,521	$ 397,174
Property segment	19,655	150,008	131,274	183,720	124,375
Surety segment	20,515	32,497	69,376	112,506	22,388
RLI Insurance Group	$ 88,425	$ 1,750,049	$ 586,386	$ 865,747	$ 543,937
Year ended December 31, 2019					
Casualty segment	$ 47,805	$ 1,435,619	$ 354,118	$ 558,458	$ 392,653
Property segment	17,057	100,000	116,624	164,022	78,075
Surety segment	20,182	38,733	69,471	116,631	17,972
RLI Insurance Group	$ 85,044	$ 1,574,352	$ 540,213	$ 839,111	$ 488,700

NOTE 1: Investment income is not allocated to the segments, therefore, net investment income has not been provided.

See the accompanying reports of independent registered public accounting firms starting on page 89 of this report.

RLI CORP. AND SUBSIDIARIES

SCHEDULE III—SUPPLEMENTARY INSURANCE INFORMATION
(continued)

As of and for the years ended December 31, 2021, 2020 and 2019

(in thousands)	Incurred losses and settlement expenses prior year	Policy acquisition costs	Other operating expenses	Net premiums written
Year ended December 31, 2021				
Casualty segment	$ (108,632)	$ 179,354	$ 47,139	$ 674,709
Property segment	(10,981)	72,008	18,605	262,816
Surety segment	(5,850)	66,106	11,163	120,008
RLI Insurance Group	$ (125,463)	$ 317,468	$ 76,907	$ 1,057,533
Year ended December 31, 2020				
Casualty segment	$ (75,075)	$ 162,058	$ 40,937	$ 583,244
Property segment	(13,019)	59,926	15,620	196,603
Surety segment	(12,959)	64,454	10,271	112,241
RLI Insurance Group	$ (101,053)	$ 286,438	$ 66,828	$ 892,088
Year ended December 31, 2019				
Casualty segment	$ (62,497)	$ 166,499	$ 41,202	$ 564,979
Property segment	(4,461)	55,986	16,279	181,974
Surety segment	(8,326)	66,212	11,949	113,384
RLI Insurance Group	$ (75,284)	$ 288,697	$ 69,430	$ 860,337

See the accompanying reports of independent registered public accounting firms starting on page 89 of this report.

RLI CORP. AND SUBSIDIARIES

SCHEDULE IV—REINSURANCE

Years ended December 31, 2021, 2020 and 2019

(in thousands)	Direct amount	Ceded to other companies	Assumed from other companies	Net amount	Percentage of amount assumed to net
2021					
Casualty segment	$ 788,741	$ 185,433	$ 30,331	$ 633,639	4.8 %
Property segment	310,630	79,094	301	231,837	0.1 %
Surety segment	122,975	7,866	318	115,427	0.3 %
RLI Insurance Group premiums earned	$ 1,222,346	$ 272,393	$ 30,950	$ 980,903	3.2 %
2020					
Casualty segment	$ 690,718	$ 148,271	$ 27,074	$ 569,521	4.8 %
Property segment	253,781	70,398	337	183,720	0.2 %
Surety segment	118,109	5,843	240	112,506	0.2 %
RLI Insurance Group premiums earned	$ 1,062,608	$ 224,512	$ 27,651	$ 865,747	3.2 %
2019					
Casualty segment	$ 641,159	$ 122,452	$ 39,751	$ 558,458	7.1 %
Property segment	217,657	53,810	175	164,022	0.1 %
Surety segment	122,305	5,921	247	116,631	0.2 %
RLI Insurance Group premiums earned	$ 981,121	$ 182,183	$ 40,173	$ 839,111	4.8 %

See the accompanying reports of independent registered public accounting firms starting on page 89 of this report.

RLI CORP. AND SUBSIDIARIES

SCHEDULE V—VALUATION AND QUALIFYING ACCOUNTS

Years ended December 31, 2021, 2020 and 2019

(in thousands)	Balance at beginning of period	Amounts charged to expense	Amounts recovered (written off)	Balance at end of period
2021 Allowance for uncollectible reinsurance	$ 24,539	$ 2,863	$ (159)	$ 27,243
2020 Allowance for uncollectible reinsurance	$ 25,066	$ (522)	$ (5)	$ 24,539
2019 Allowance for uncollectible reinsurance	$ 25,911	$ (647)	$ (198)	$ 25,066

See the accompanying reports of independent registered public accounting firms starting on page 89 of this report.

RLI CORP. AND SUBSIDIARIES

SCHEDULE VI—SUPPLEMENTARY INFORMATION CONCERNING PROPERTY-CASUALTY INSURANCE OPERATIONS

Years ended December 31, 2021, 2020 and 2019

(in thousands) Affiliation with Registrant (1)	Deferred policy acquisition costs	Claims and claim adjustment expense reserves	Unearned premiums, gross	Net premiums earned	Net investment income
2021	$ 103,553	$ 2,043,555	$ 680,444	$ 980,903	$ 68,862
2020	$ 88,425	$ 1,750,049	$ 586,386	$ 865,747	$ 67,893
2019	$ 85,044	$ 1,574,352	$ 540,213	$ 839,111	$ 68,870

	Claims and claim adjustment expenses incurred related to:		Amortization of deferred acquisition costs	Paid claims and claim adjustment expenses	Net premiums written
	Current year	Prior year			
2021	$ 582,065	$ (125,463)	$ 317,468	$ 327,453	$ 1,057,533
2020	$ 543,937	$ (101,053)	$ 286,438	$ 325,054	$ 892,088
2019	$ 488,700	$ (75,284)	$ 288,697	$ 319,930	$ 860,337

(1) Consolidated property-casualty insurance operations.

See the accompanying reports of independent registered public accounting firms starting on page 89 of this report.

EXHIBIT INDEX

Exhibit No.	Description of Document	Reference (page)
3.1	Amended and Restated Certificate of Incorporation	Incorporated by reference to the Company's Form 8-K filed May 8, 2020.
3.2	By-Laws	Incorporated by reference to the Company's Form 8-K filed May 8, 2018.
4.1	Senior Indenture	Incorporated by reference to the Company's Form 8-K filed October 2, 2013.
4.2	Supplemental Indenture	Incorporated by reference to the Company's Form 8-K filed May 8, 2018.
4.3	Description of Securities	Attached as Exhibit 4.3.
10.1	RLI Corp. Nonqualified Agreement*	Incorporated by reference to the Company's Form 10-K filed on February 21, 2020.
10.2	RLI Corp. Nonemployee Directors' Deferred Compensation Plan, as amended*	Incorporated by reference to the Company's Form 10-K filed on February 21, 2020.
10.3	RLI Corp. Executive Deferred Compensation Plan, as amended*	Attached as Exhibit 10.3.
10.4	Key Employee Excess Benefit Plan, as amended*	Incorporated by reference to the Company's Form 10-K filed February 25, 2009.
10.5	RLI Corp. 2010 Long-Term Incentive Plan*	Incorporated by reference to the Company's Form 8-K filed on May 6, 2010.
10.6	RLI Corp. Annual Incentive Compensation Plan, as amended*	Incorporated by reference to the Company's Form 10-Q filed July 24, 2020.
10.7	Market Value Potential (MVP), Executive Incentive Program Guideline*	Attached as Exhibit 10.7.
10.8	RLI Corp. 2015 Long-Term Incentive Plan, as amended*	Incorporated by reference to the Company's Form 10-Q filed on July 24, 2020.
10.9	Management Incentive Program Guideline*	Attached as Exhibit 10.9.
10.10	RLI Underwriting Profit Program Guideline*	Attached as Exhibit 10.10.
10.11	Advances, Collateral Pledge, and Security Agreement (Federal Home Loan Bank of Chicago)	Incorporated by reference to the Company's Form 8-K filed September 26, 2014.
10.12	Credit Agreement (Bank of Montreal, Chicago Branch.)	Incorporated by reference to the Company's Form 8-K filed March 31, 2020.
10.13	RLI Corp. Director and Officer Indemnification Agreement	Incorporated by reference to the Company's Form 10-Q filed October 24, 2018.
10.14	Shareholders Agreement by and among RLI Corp., Walter F. Hester III, and the Walter F. Hester III Revocable Trust	Incorporated by reference to the Company's Form 8-K filed on August 21, 2018.
11.0	Statement re: computation of per share earnings	Refer to Note 1.O., "Earnings per share," on page 61.

* Management contract or compensatory plan.

EXHIBIT INDEX

Exhibit No.	Description of Document	Reference Page
21.1	Subsidiaries of the Registrant	Attached as Exhibit 21.1.
23.1	Consent of Deloitte & Touche LLP	Attached as Exhibit 23.1.
23.2	Consent of KPMG LLP	Attached as Exhibit 23.2.
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.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.
(Registrant)

By: /s/ Todd W. Bryant
Todd W. Bryant
Vice President, Chief Financial Officer

Date: February 18, 2022

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Craig W. Kliethermes
Craig W. Kliethermes, President & CEO
(Principal Executive Officer)

Date: February 18, 2022

By: /s/ Todd W. Bryant
Todd W. Bryant, Vice President,
Chief Financial Officer (Principal Financial
Officer and Principal Accounting Officer)

Date: February 18, 2022

By: /s/ Kaj Ahlmann
Kaj Ahlmann, Director

Date: February 18, 2022

By: /s/ Jordan W. Graham
Jordan W. Graham, Director

Date: February 18, 2022

By: /s/ Michael E. Angelina
Michael E. Angelina, Director

Date: February 18, 2022

By: /s/ Craig W. Kliethermes
Craig W. Kliethermes, Director

Date: February 18, 2022

By: /s/ John T. Baily
John T. Baily, Director

Date: February 18, 2022

By: /s/ Jonathan E. Michael
Jonathan E. Michael, Director

Date: February 18, 2022

By: /s/ Calvin G. Butler, Jr.
Calvin G. Butler, Jr., Director

Date: February 18, 2022

By: /s/ Robert P. Restrepo, Jr.
Robert P. Restrepo, Jr., Director

Date: February 18, 2022

By: /s/ David B. Duclos
David B. Duclos, Director

Date: February 18, 2022

By: /s/ Debbie S. Roberts
Debbie S. Roberts, Director

Date: February 18, 2022

By: /s/ Susan S. Fleming
Susan S. Fleming, Director

Date: February 18, 2022

By: /s/ Michael J. Stone
Michael J. Stone, Director

Date: February 18, 2022

DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

RLI Corp. (the "Company," "we," "us" or "our") has one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"): our common stock.

The Company's authorized capital stock consists of 205,000,000 shares, of which 200,000,000 shares are common stock, par value $0.01 per share ("common stock"), and 5,000,000 shares are preferred stock, par value $0.01 per share. By resolution of the Board of Directors (the "Board"), the Company may, without any further vote by its shareholders, authorize and issue shares of preferred stock. The Board may by resolution fix the voting rights, if any, designations, powers, preferences and the relative, participation, optional or other rights, if any, and the qualification, limitations or restrictions thereof, of any unissued series and/or class of preferred stock, and may fix the number of shares constituting such series and/or class, and may increase or decrease the number of shares of any such series and/or class (but not below the number of shares thereof then outstanding). The rights of the holders of common stock are subject to the rights and preferences of any series of preferred stock that the Company may issue. There are currently no shares of preferred stock outstanding.

The following description of our common stock and of certain provisions of Delaware law are summaries, do not purport to be complete and are subject to and qualified in their entirety by reference to our Certificate of Incorporation and our Bylaws, each of which is an exhibit to the Annual Report on Form 10-K to which this description is an exhibit and are incorporated herein by reference. Please also refer to the applicable provisions of the Delaware General Corporation Law ("DGCL") for additional information.

Description of Common Stock

Market Listing

Our common stock trades on the New York Stock Exchange under the symbol "RLI."

Dividends; Liquidation

The DGCL permits a corporation to declare and pay dividends upon its shares out of (i) surplus or, (ii) if there is no surplus, out of net profits for the fiscal year in which the dividend is declared and/or for the preceding fiscal year as long as the amount of capital of the corporation following the declaration and payment of the dividend is not less than the aggregate amount of the capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets.

Subject to the preferences of any outstanding shares of preferred stock, holders of common stock have equal ratable rights to dividends (payable in cash, stock or property) out of funds legally available for that purpose, when, as and if dividends are declared by the Board. Holders of common stock are entitled to share ratably, as a single class, in all of the assets of the Company available for distribution to holders of shares of common stock upon the liquidation or dissolution of the Company or the winding up of the affairs of the Company, after payment of the Company's liabilities and any amounts to holders of outstanding shares of preferred stock.

Voting Rights

Generally, holders of our common stock will vote together as a single class on every matter acted upon by the shareholders. Holders of common stock are entitled to one vote per share on all matters submitted to a vote of shareholders. Shareholders are not be entitled to cumulate votes in voting for directors. The holders of a majority in voting power of the outstanding shares of stock entitled to vote on a matter, represented in person or by proxy, will constitute a quorum at any meeting of shareholders. If a quorum is present, the affirmative vote of the majority of the votes cast on a matter will be the act of the shareholders, unless the vote of a minimum or other number or amount is provided for such matter by the DGCL, the Certificate of Incorporation or the Bylaws or the rules and regulations of any stock exchange or other regulatory body, in which case such minimum or other vote will be the required vote of shareholders on such matter. Except as otherwise provided by law, or the Certificate Incorporation

by the resolution or resolutions adopted by the Board designating the rights, powers and preferences of any series and/or class of preferred stock, the holders of common stock have the exclusive right to vote for the election of directors and for all matters presented to the shareholders.

Written Consent

The DGCL provides that shareholders may take action by the written consent of the holders of shares having not less than the minimum number of votes necessary to take action at a meeting in which all shares entitled to vote on the matter were present and voting, unless such right is limited or restricted by the certificate of incorporation. The Certificate of Incorporation does not limit or restrict such right. If action is taken by less than unanimous written consent, the DGCL requires prompt notice afterwards to non-consenting holders of the action taken. The Bylaws provide for advance notice and other procedural requirements in connection with shareholder action by written consent.

Absence of Other Rights.

The holders of common stock have no preferences or rights of conversion, exchange, pre-emption or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock. Shareholders do not have the right of cumulative voting in the election of directors.

Anti-Takeover Effects of our Certificate of Incorporation and Bylaws and of Delaware Law

Delaware Business Combination Statute

The DGCL has a "business combination" statute that is applicable to publicly traded corporations incorporated in Delaware that do not opt out of its provisions in its certificate of incorporation or bylaws. The DGCL provides in Section 203 that an "interested shareholder" (defined as a person who owns fifteen percent (15%) or more of the outstanding voting stock of a corporation or who is an associate or affiliate of the corporation and, within the preceding three-year period, owned fifteen percent (15%) or more of the outstanding voting stock of the corporation), and the affiliates and associates of such person may not engage in specified business combinations with the corporation for a period of three years after the date on which the person became an interested shareholder unless (i) prior to such time the board of directors of the corporation approved either the business combination or the transaction which resulted in the shareholder becoming an interested shareholder, (ii) upon consummation of the transaction which resulted in the shareholder becoming an interested shareholder, the interested shareholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced excluding certain shares, and (iii) at or subsequent to the time the business combination is approved by the board of directors and authorized at an annual or special meeting of shareholders (and not by written consent) by the affirmative vote of at least sixty-six and two-thirds percent (66 2/3%) of the outstanding voting stock of the corporation not owned by the interested shareholder. The DGCL defines the term "business combination" to encompass a wide variety of transactions with or caused by an interested shareholder, including mergers, asset sales and transactions in which the interested shareholder receives or could receive a benefit on other than a pro rata basis with all other shareholders of the corporation. The Company may amend the Certificate of Incorporation in the future in accordance with the DGCL to no longer be governed by the Delaware business combination statute. Because the Company has not elected to opt-out of this provision in the Certificate of Incorporation, the provision might discourage takeover attempts that might result in a premium over the market price for shares of common stock at a given time.

Authorized Preferred Shares

Under the Certificate of Incorporation, the Board is authorized to issue 5,000,000 preferred shares. In each case, the Board may issue these preferred shares in one or more series and may establish the designations, preferences and rights, including voting rights, of each series. These preferred shares are available for issuance from time to time to any person for such consideration as the Board may determine without the requirement of further action by our shareholders, except as required by the New York Stock Exchange or other exchange on which Company shares are then listed. The Board may decide to issue such preferred stock for a variety of reasons including but not limited to the issuance in a public or private sale for cash as a means of obtaining additional capital for use in the Company's

business and operations, issuance as part or all of the consideration required to be paid for acquisitions of other business properties and issuance as a share dividend to equity holders. Depending on its terms, the issuance of preferred stock may or may not have a dilutive effect on the equity interest or voting power of the then current shareholders of the Company. Although our Board has no present intention to do so, authorized but unissued and undesignated preferred shares may also be issued as a defense to an attempted takeover.

Special Meetings of Shareholders

Limits on the rights of shareholders to call special meetings of shareholders could have an anti-takeover effect as a potential acquirer may wish to call a special meeting of shareholders for the purpose of considering the removal of directors or an acquisition offer. The Bylaws provide that shareholders holding at least twenty percent (20%) of the outstanding shares entitled to vote thereat may make written demand of the Company's secretary to call special meetings of shareholders, provided such shareholders comply with the other requirements set forth in the Bylaws.

Exhibit 10.3

RLI CORP. EXECUTIVES

DEFERRED COMPENSATION PLAN

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

Article 1 INTRODUCTION 3
1.1 Establishment3
1.2 Purpose3
1.3 Definitions3
1.4 “Top-Hat” Plan6

Article 2 PARTICIPATION 7
2.1 Eligibility and Selection7
2.2 Notification7
2.3 Enrollment7
2.4 Elective Deferrals7

Article 3 ACCOUNTS 9
3.1 Accounts9
3.2 Credits to Accounts9
3.3 Elective Deferrals9
3.5 Charges to Accounts10

Article 4 BENEFITS 10
4.1 Vesting10
4.2 Payment of Plan Benefits on Termination of Employment - General Rule10
4.3 Changing Payment Elections10
4.4 Special Rules11
4.5 Medium of Payments12
4.6 Delay in Distributions12
4.7 Acceleration of Distributions12
4.8 When a Payment is Deemed to be Made14

Article 5 DEATH BENEFITS 14
5.1 Death Benefits14
5.2 Designation of Beneficiary15

Article 6 CLAIMS AND REVIEW PROCEDURES 16
6.1 Application for Benefits16
6.2 Claims and Review Procedures16
6.3 Claims Rules18
6.4 Deadline to File Claim19
6.5 Exhaustion of Administrative Remedies19
6.6 Arbitration19

6.7 Deadline to File an Arbitration Action19
6.8 Knowledge of Fact by Participant Imputed to Beneficiary19
6.9 Deferral of Payment20

Article 7 ADMINISTRATION 20
7.1 Administrator20
7.2 Benefits Not Transferable21
7.3 Benefits Not Secured21
7.4 RLI's Obligations21
7.5 Withholding Taxes21
7.6 Service of Process21
7.7 Limitation on Liability21

Article 8 AMENDMENT AND TERMINATION 22
8.1 Amendment22
8.2 Termination22

Article 9 MISCELLANEOUS 22
9.1 Effect on Other Plans22
9.2 Effect on Employment22
9.3 Disqualification22
9.4 Rules of Document Construction22
9.5 References to Laws22
9.6 Choice of Law23
9.7 Binding Effect23

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 10.7

MARKET VALUE POTENTIAL (MVP)
EXECUTIVE INCENTIVE PROGRAM GUIDELINE

Effective January 1, 2022

1. PURPOSE OF PROGRAM

This MVP Executive Incentive Program ("MVP Program") is adopted pursuant to the terms of the RLI Corp. Annual Incentive Compensation Plan ("Plan"). Unless otherwise defined, capitalized terms have meaning given such terms in the Plan. The purpose of the MVP Program is to provide incentive to executive employees to effectively utilize company capital thereby maximizing the value of shareholder investment. The MVP Program aligns Participant compensation incentive with the factors upon which RLI's market value is driven. This Guideline is not to be construed as an employment agreement.

2. DEFINITIONS

2.1 "**Participant"** is any executive employee designated by the Committee.

2.2 **"Peer Companies"** are the companies selected by the Committee each year for benchmarking of senior executive compensation and Company performance.

2.3 "**Performance Period"** is a Fiscal Year, unless otherwise established by the Committee.

2.4 "**Invested Capital**" is the historic common and preferred stock investment including retained earnings, less any unrealized gains or losses net of tax on the available-for-sale fixed maturity investments (after September 1, 2003) plus outstanding debt instruments owned by outside parties as indicated on the beginning of year audited Company financial statement.

2.5 "**The Blended Cost of Capital"** is defined for purpose of this program as the weighted average of the cost of equity capital and the cost of debt capital. The cost of equity capital is the average ten-year U.S. Treasury Note rate, plus a market risk premium of 5% modified by the Company's 10-year beta vs. the S&P 500 index. The average ten-year U.S. Treasury Note rate shall be calculated as the average of the rate at the beginning of each quarter in the year for which a bonus award is calculated, defined as the published rate at the close of the last business day prior to the first day of the quarter. The cost of equity capital is blended pro rata (comparing market capitalization of RLI stock with outstanding RLI long-term debt at cost or conversion price whichever is higher) with the forward market rate on debt outstanding on the outstanding long-term debt. Should preferred stock or any new capital be issued, the appropriate cost will be blended with existing capital.

2.6 "**Required Return"** is equal to the beginning of the year Invested Capital times the Blended Cost of Capital. This return is required before executive bonuses are eligible for payment. Amounts in excess of the Required Return equal MVP for bonus purposes. Required Return will be adjusted quarterly on a time-weighted basis, except that interest rates will be averaged. No adjustment will be made in the fourth quarter of the Fiscal Year.

2.7 "**Trade Secret"** means information that: is used or intended for use in a trade or business; is included or embodied in a formula, pattern, compilation, computer software, drawing, device, method, technique or process; is not publicly known and is not generally known in the trade or business of the Company; cannot be readily ascertained or derived from publicly available information; and has significant economic value.

3. BONUS CALCULATION

3.1 For bonus purposes, the "**Actual Return**" is calculated as defined in section 3.11 and 3.12:

3.11 Company ending GAAP book value (as adjusted in 3.111-3.119);

3.111 Less unrealized gains or losses net of tax on the available-for-sale fixed maturity investments at the end of period after September 1, 2003.

3.112 Plus outstanding long-term debt instruments at end of period.

3.113 Less additional investments in the Company in the form of stock issues or outside long-term debt instruments issued during the year at issue price. This includes acquisitions using RLI stock or debt.

3.114 Plus any Company stock repurchases.

3.115 Plus any payment of long-term debt principal.

3.116 Plus after-tax accrued interest paid on all outside long-term debt instruments.

3.117 Plus shareholder dividends accrued during the year.

3.118 Plus current year after-tax accrued executive MVP bonuses.

3.119 Plus current year after-tax accrual of preferred dividends.

3.12 Less Company beginning GAAP book value (as adjusted in 3.121 and 3.122)

3.121 Less unrealized gains or losses net of tax on the available-for-sale fixed maturity investments at beginning of period after September 1, 2003.

3.122 Plus outstanding long-term debt instruments at beginning of period.

3.2 **MVP.** MVP is defined as the Actual Return less the Required Return.

3.3 **New Participant.** The MVP Award for a Participant newly hired or appointed during the Fiscal Year shall be calculated beginning the first day of the month following the date of employment or appointment and the Performance Period for such Participant shall be from the first day of participation until the end of the Fiscal Year, unless otherwise established by the Committee. The new Participant shall not be eligible to participate in the program if hired or appointed during the fourth quarter.

3.4 **Calculation of MVP Award**. Within the first 90 days of a Performance Period, the Committee will establish an MVP percentage award for each participant to be used to calculate Participants' MVP Awards as follows:

3.41 **Preliminary MVP Award.** At the completion of the Performance Period, a Participant's percentage award multiplied by actual MVP for such Performance Period (which amount may be positive or negative) equals the Participant's Preliminary MVP Award for such Performance Period. The Preliminary MVP Award will be divided into two components: (1) twenty percent (20%) will be assigned to the Personal Objectives Component; and (2) eighty percent (80%) will be assigned to the Financial Component.

3.42 **MVP Award.** The Final MVP Award is calculated as follows:

3.421 **Personal Objectives Component.** The Committee will approve for the CEO and review for all other Participants personal objectives for a Performance Period. Upon the completion of a Performance Period, the Committee will evaluate the performance of the CEO with respect to his personal objectives and shall assign an achievement rating between zero and 100%. The Committee will approve the respective achievement ratings recommended by the CEO for other Participants. If actual MVP is positive, the Personal Objectives Component will be multiplied by the achievement rating to calculate that

portion of the MVP Award, which shall be paid as provided in section 3.8 herein. If actual MVP is negative for a year, no Personal Objectives Component of an MVP Award shall be made for that year and no charge shall be made to Participants' MVP Bonus Bank, nor shall any offset be made for amounts paid to Participants for the Personal Objectives component.

3.422 **Financial Component**. Annually the Committee will approve a list of Peer Companies for purposes of benchmarking senior executive compensation and Company performance. Growth in Book Value achieved by the Company over a five-year period through the end of the third quarter in the applicable Performance Period will be compared to that of the Peer Companies. An achievement rating ranging from a minimum of 80% to a maximum of 125% will be assigned to the Financial Component based on the relative Growth in Book Value of the Company compared to the Peer Companies as follows:

Achievement Rating*	RLI's Relative Book Value Per Share Growth
125% (maximum)	90th percentile of peers or greater
100%	60th percentile of peers
80% (minimum)	33rd percentile of peers or less

(*Results between the stated values for relative performance will be interpolated to determine the achievement rating.)

If MVP is positive for the year, the achievement rating will be multiplied times the Financial Component to calculate that portion of the MVP Award. [1] If MVP is negative for the year, the achievement rating will likewise be applied to the amount otherwise charged to Participants' MVP Bonus Banks to adjust for Company performance[2]. The Financial Component of an MVP Award so calculated is subject to the Committee Approval Limit provision set forth in section 3.5.

3.423 Calculation **of Growth in Book Value.** RLI's relative Growth in Book Value will be calculated by comparing its Compound Annual Growth Rate ("CAGR") in Comprehensive Earnings over the applicable five-year period to that of its Peer Companies. CAGR in Comprehensive Earnings will be calculated based on publicly disclosed Comprehensive Earnings of Peer Companies for the five-year period ending at the third quarter of the fifth year. The Committee Retains discretion to make adjustments as appropriate for accounting changes, significant capital events, or other circumstances in order to ensure a consistent calculation across Peer Companies.

3.5 **Committee Approval Limit.** Notwithstanding the foregoing, the Financial Component of an MVP Award to be credited (if positive) or charged (if negative) to a Participant's MVP Bonus Bank for a Performance Period shall be subject to a Committee Approval Limit of 300% of the Participant's Salary for the Plan Year. In the event the Financial Component of an MVP Award that would otherwise be credited exceeds 300% of Salary, the independent directors on the Board may reduce that portion of an MVP Award credited to the Participant's MVP Bonus Bank account but not below the Committee Approval Limit. If the Required Return is not achieved, any amount less than the Required Return will be charged to the Participant' MVP Bonus Bank account at the same rate provided that any such reduction shall not reduce the bank account by more than 300% of the Participant's Salary unless the independent directors approve a

[1] If the financial component of an MVP Award is "a" and the achievement rating is "b", then if the financial component is positive, the amount credited to the MVP Bonus Bank is: a x b = credit to MVP Bonus Bank.

[2] See footnote 1. If the financial component of an MVP Award is negative, the formula to adjust the negative award is: a - [a x (b -1)] = charge to MVP Bonus Bank.

greater reduction; provided, however, that the maximum reduction shall not exceed the amount that would have been charged against the Participant's bank account but for such 300% limit.

3.6 **Credit or Charge to MVP Bonus Bank.** The Financial Component of each Participant's MVP Award will be credited (if positive) or charged (if negative) to the Participant's MVP Bonus Bank on the Bonus Payment Date next following the Performance Period. Crediting or charging of the Financial Component shall be subject to the Committee's certification that the MVP Performance Goals and any other material terms of the MVP Program are satisfied, the Committee's approval of each Participant's MVP Award, approval of the independent directors under paragraph 3.5 if necessary, and completion of the Company's annual audit.

3.7 **Interest on MVP Bonus Bank.** Interest will be accrued to the bank in arrears by the Company to each Participant's MVP Bonus Bank once a year on December 31st on any unpaid positive Bonus Bank balance before the current year's contribution. The interest rate applied will be the three-year U.S. Government Treasury Note rate in effect at the beginning of the Fiscal Year, defined as the published rate at the close of the last business day prior to the first day of the Fiscal Year.

3.8 **MVP Payout.** The Personal Objectives Component of the MVP Award and 33% of any positive total Bonus Bank balance (as adjusted as required in paragraphs 3.6 and 3.7) will be paid to Participants on the Bonus Payment Date next following the Performance Period. Payment of the Personal Objectives Component of the MVP Award and 33% of any positive total Bonus Bank balance shall be subject to the Committee's certification that the MVP Performance Goals and any other material terms of the MVP are satisfied, the Committee's approval of each Participant's MVP Award, and completion of the Company's annual audit. A Participant may elect to defer any amount due to be paid in future periods, subject to the terms of the RLI Corp. Executives Deferred Compensation Plan. Positive or negative balances in a Participant's MVP Bonus Bank after an MVP Payout will be carried forward to the next year. The Participant will not be required to reimburse the Company for a negative balance.

3.9 **Payment of MVP Bonus Bank Balance Upon Termination of Employment.** Upon Termination of Employment by a Participant who meets the definition of Retirement, should the Participant's MVP Bonus Bank balance be positive, it will be payable to the Participant subject to the following limitations:

3.91 The MVP Bonus Bank account balance of the terminated Participant will be calculated as of the end of the quarter prior to and during the quarter in which the termination took place. It will be the Company's option to pay the lower of the calculated amounts. The Participant's Bonus Bank account balance will be at risk from a negative MVP charge only until that time.

If the Participant's Termination of Employment is at age 65 or after, a lump sum distribution will be made on the first day of the seventh month following the Participant's Termination of Employment. If the Participant's Termination of Employment is before age 65, the balance will be paid quarterly, starting with the quarter following the Participant's Termination of Employment, as an annuity to age 65 using the 5-year Treasury Note rate at the date of Termination of Employment. Notwithstanding the foregoing, if a Participant is a Specified Employee, all installments due within 6 months following the Participant's Termination of Employment shall be delayed to the first day of the seventh month following the Participant's Termination of Employment. All payments are subject to the following restrictions:

3.911 The Participant shall not enter into any employment directly or indirectly related to the insurance industry without the prior written approval of the Company's Executive Resources Committee.

3.912 During the payment period the Participant must cooperate with the Company and must not divulge or use in any way, either directly or indirectly, whether or not for personal gain, proprietary Company information such as, but not limited to, customer lists, software, or company procedures. The Participant must never disclose any Company Trade Secret.

3.913 The Participant agrees to give depositions and testify in any court matter affecting the Company without charging a fee. The Company will reimburse out of pocket transportation, meal and lodging costs.

3.914 The Participant does not directly or indirectly solicit Company employees to work for another company. In addition, the Participant shall not directly or indirectly solicit any person who was employed by the Company within six months prior to the date the Participant's employment terminated.

3.915 The Participant shall not contact any producer of the Company for the purpose of soliciting business away from the Company.

3.10 **Forfeiture of MVP Bonus Bank Balance.** Upon termination of employment for any reason other than Retirement, death or Disability, the Participant will forfeit any unpaid MVP Bonus Bank balance. Any exceptions require the Committee's approval.

4. AMENDMENT AND TERMINATION OF PROGRAM

The Committee may at any time terminate, modify or amend this program. Any change shall not adversely affect the then existing earned Bonus Bank of each Participant. Notwithstanding the foregoing, the Company reserves the right to require a Participant to forfeit or return to the Company any cash or Shares received under an Award under the Plan to the extent required by law, under any applicable exchange listing standard or under any applicable policy adopted by the Company that is designed to meet any legal obligations or obligations under any applicable exchange listing standard.

Exhibit 10.9

RLI MANAGEMENT INCENTIVE PROGRAM (MIP) GUIDELINES

This program is adopted pursuant to the terms of the RLI Corp. Annual Incentive Compensation Plan (the "Plan"). Unless otherwise defined, capitalized terms have the same meaning given such term is in the Plan.

1. ELIGIBILITY

- A Participant must be employed by RLI on December 31 of the Plan Year, defined as the fiscal year ending December 31, to be eligible for an MIP Bonus.
- Notwithstanding the foregoing, a Participant will be eligible for a prorated bonus if the Participant voluntarily terminates employment on or after June 30th of the Plan Year after having attained a combined age and years of service with the Company of 75 (Rule of 75). In such case, employment through December 31st of the Plan Year shall not be required, and the Participant shall receive a prorated bonus for the Plan Year based on time worked within that year.
- If a Participant terminates employment due to death or disability, employment on December 31st of the Plan Year is not required and a prorated bonus will be paid based on time worked within the year.
- The Participant must have been approved for participation in MIP for the Plan Year according to Company policy.
- If hired after October 1 of the current Plan Year, the Participant will not be eligible for a bonus for the current Plan Year. If a Participant is on a formal Performance Improvement Plan as of December 31, he/she will not be eligible for a bonus.

2. BONUS CALCULATIONS

Bonus awards are determined annually and will be based on the approved final audited figures for the Plan Year. The bonus percentage earned for the Plan Year will be applied as follows:

- For a Participant who is hired during the Plan Year on or before October 1, the Participant's base salary as of December 31, prorated based on the number of days eligible for the Plan during the Plan Year, will be used to calculate the Participant's bonus. Per the eligibility section, if hired after October 1, the Participant will not be eligible for a bonus in the current Plan Year.
- For a Participant with a change to scheduled weekly hours (FTE %), bonus plan, and/or bonus percentage during the Plan Year, the Participant's bonus will be calculated using the annual salary at the time of any changes, prorated based on the applicable number of days within the Plan Year spent at each FTE %, bonus plan, and/or bonus percentage. The FTE %, bonus plan, and bonus percentage in effect at the end of the Plan Year would be calculated using the Participant's base salary as of December 31, prorated based on the number days since the last change. These prorated salaries would each be applied to the applicable earned bonus that was in effect at the time of each change and summed. An example of this calculation can be found below highlighting a change from one bonus to another on 7/1 of the Plan Year.

Bonus Calculation (1st Bonus Plan)						
Earned Bonus Percentage (1st plan)	X	Annual Salary (as of 6/30)	X	Proration of Time (1/1 – 6/30)	=	Bonus Earned (1st plan)
Bonus Calculation (2nd Bonus Plan)						
Earned Bonus Percentage (2nd plan)	X	Annual Salary (as of 12/31)	X	Proration of Time (7/1 – 12/31)	=	Bonus Earned (2nd plan)
Final Bonus Calculation						
Bonus Earned (1st plan)	+	Bonus Earned (2nd plan)	=	Total Bonus Earned		

- For a Participant who transitions from the MIP to a position eligible for the Underwriting Incentive Plan (UIP) after October 1, the employee will become eligible for the UIP in the following Plan Year. The bonus for the current Plan Year will be calculated in accordance with any applicable calculations referenced above for the entire plan year.

- For a Participant with no aforementioned changes for the entire Plan Year, the Participant's base salary as of December 31 will be used to calculate the Participant's bonus as shown below.

3. **MIP BONUS CRITERIA**

The performance criteria for the MIP will be provided to Participants annually. The required performance and weight of the rating criteria may change from year to year and will be influenced by performance levels set by executive management.

4. **MIP BONUS PAYMENT DATE**

Bonuses will be paid to MIP Participants on the Bonus Payment Date, which shall be no later than March 15th of the year following the Plan Year.

5. **NON-SOLICITATION CLAUSE**

In return for participation in the MIP, the Participant agrees that should the Program Participant leave the employment of the Company for any reason, the Participant will not, for a period of twelve months after leaving the employment of the Company, solicit an employee of the Company for employment elsewhere, or otherwise encourage an employee of the Company to leave its employment.

RLI UNDERWRITING PROFIT PROGRAM GUIDELINE

A. GENERAL TERMS AND CONDITIONS

This Underwriting Profit Program (the "UPP") is adopted pursuant to the terms of, and is governed by, the RLI Annual Incentive Compensation Plan (the "Plan"). This UPP Guideline is adopted effective January 1, 2022 (the "Effective Date"). Unless otherwise defined, capitalized terms have the same meaning given such terms in the Plan.

This UPP Guideline is intended to amend, consolidate and restate certain prior UPP Guidelines and UPP Awards. The terms of the UPP Guideline, as set forth herein, will apply to all UPP Awards granted under the UPP, including those granted before the Effective Date. Notwithstanding the foregoing, Individual Metrics associated with UPP Awards granted before the Effective Date are not changed by this UPP Guideline restatement.

1. Eligibility

Within an administratively reasonable period of time following the beginning of an underwriting year, the Plan Administrative Committee or its delegate, will determine which employees are eligible to become UPP Participants for the year.

UPP Participants must be actively employed by RLI on December 31 of a year in order to receive a UPP Award for such year. If a UPP Participant is not actively employed at such time, the Participant will not be eligible to receive a UPP Award for such year. Notwithstanding the foregoing, the Plan Administrative Committee may, in its sole discretion, include a pro-rata portion of a year in the calculation of a Participant's UPP Award (positive or negative) for the year in which a participant terminates employment prior to December 31 of that year.

2. Individual Metrics

Each UPP Participant will receive Individual Metrics for the applicable UPP Award that will specify the applicable Performance Period and the assumptions, goals and financial objectives that will be used to calculate UPP Payouts. The Individual Metrics will also specify the Payout Period over which the UPP Participant will be eligible to receive annual UPP Payouts.

3. Award Payments – Dates

All UPP Payouts will be made on the Bonus Payment Date following the Performance Period for which the UPP Payout is payable.

In the event of death, the Company will pay all UPP Payouts payable during the Payout Period to such beneficiaries as previously directed by such UPP Participant, or, if no beneficiaries have been designated, as directed by the UPP Participant's estate or applicable law. UPP Payouts will be made at the same time and in the same manner as if the UPP Participant had survived.

4. At-Risk for Development

A UPP Participant's UPP Payout calculation is subject to ongoing adjustment for actual losses, expected losses, loss reserves, allocated and unallocated loss adjustment expenses, IBNR and other development as determined by RLI ("Loss Development") during the entire Payout Period, as specified in the Individual Metrics and otherwise as set forth herein.

If a UPP Participant has multiple UPP Awards with Payout Periods that have not yet expired, the UPP Payouts for all such Awards will be aggregated to determine the net UPP Payout made to the UPP Participant for a given year unless otherwise specified in the UPP Participant's Individual Metrics. If a UPP Participant's net UPP Payout for a year is negative, such negative UPP Payout will be taken into account in calculating each subsequent year's UPP Payout until a positive UPP payout is achieved unless otherwise specified in the UPP Participant's Individual Metrics.

The UPP Participant's UPP Payout calculation will take into account an adjustment for Investment Income over such Payout Period at the rate per annum set forth in the Individual Metrics, which Investment Income will be added to the net UPP Payout paid for the year.

5. Conditions for Continued UPP Payouts during Payout Period

A UPP Payout for a Performance Period is not earned and payable to the Participant until the applicable Bonus Payment Date for such UPP Payout and is subject to the conditions of continued eligibility to receive a UPP Payout as set forth in this paragraph 5 and elsewhere in this UPP Guideline:

a. UPP Participants must not act in an Underwriting Capacity outside of RLI. For these purposes, "Underwriting Capacity" will mean engaging in underwriting or associated activities with respect to Covered Products - whether as an employee, owner, consultant or otherwise - on behalf of an insurance company, MGU, MGA, broker, or agent. This provision expires three (3) years after the UPP Participant's employment with RLI ceases.

b. Following departure from RLI and until the final UPP Payout to the UPP Participant, the UPP Participant must cooperate reasonably with RLI regarding any information related to or analysis of the UPP Participant's Covered Business, as reasonably requested by RLI. Further, following departure from RLI and until the final UPP Payout is made to the UPP Participant, the UPP Participant must not voluntarily cooperate with or lend assistance to, or voluntarily offer testimony on behalf of: (a) an adverse party to RLI in a pending litigation or arbitration matter or; (b) a party the UPP Participant knows or has reason to believe is threatening, planning, or considering filing suit or making a claim against RLI. Should any subpoena be issued to the UPP Participant regarding any information related to or analysis of the UPP Participant's Covered Product, the UPP Participant must forward a copy of that subpoena to RLI within forty-eight (48) hours of receipt and must afford RLI a reasonable opportunity to confer with the UPP Participant concerning the subject matter of such subpoena and/or to respond or object to such subpoena before the UPP Participant responds thereto.

c. Upon departure from RLI, for a period of twelve (12) months thereafter the UPP Participant must not solicit or otherwise encourage any employees of RLI to leave employment with RLI for any reason.

d. The UPP Participant's eligibility for UPP Payouts during a Payout Period will terminate immediately and permanently if prior to or in connection with the UPP Participant's departure from RLI, the UPP Participant: (a) violates a material provision of RLI's Code of Conduct, Employee Handbook, the Participant's underwriting authority or employment or other policies, or (b) improperly takes, removes, or transmits any RLI property or confidential or proprietary information (in any form or medium).

e. The provisions in paragraphs 5(a) through 5(c) do not give RLI the right to seek relief enforcing such provisions, but instead represent ongoing terms of Participants eligibility to receive UPP Payouts. If UPP Payouts cease at any time due to a UPP Participant's failure to comply with any provision in this section 5 (or other applicable UPP sections), such cessation is permanent and participation may not be reinstated except in RLI's sole discretion.

6. Adjustment to Payout Period

RLI, in its sole discretion, may offer a UPP Participant the right to receive a UPP Payout for one or more additional years.

7. Violations

All losses, fines, fees (including attorney's fees) and penalties emerging from intentional or reckless violations of RLI's underwriting guidelines or policies and/or state insurance regulations or other laws will be deducted from the UPP Participant's net UPP Payout, and any premium or underwriting income from such acts will be excluded from the bonus calculation. The Chief Executive Officer and/or President of RLI will have sole discretion regarding application of this provision, including determination as to whether an act or non-action constitutes an intentional or reckless violation.

8. Not an Employment Contract

This UPP Guideline (including any supplements and amendments) and participation in it do not constitute a contract of employment. Any UPP Participant may voluntarily leave employment with RLI upon proper notice, and may be discharged from employment by RLI at any time and for any reason. Any verbal or written statements or promises to the contrary are hereby expressly disavowed and may not be relied upon by a UPP Participant.

9. Nature of UPP

Potential UPP Payouts are at-risk and not "earned" (in whole or in part) until such time as a UPP Payout occurs pursuant to the terms and conditions herein. Profits on the Covered Business, and thus the UPP Participant's UPP Payouts, may or may not materialize depending upon Loss Development and profit performance of the UPP Participant's Covered Business and other requirements of the UPP Guideline, as set forth herein and in the UPP Participant's Individual Metrics. As such, due to the nature of insurance and bond underwriting and RLI's insurance and surety bond products, an accurate assessment of the final profitability of the UPP Participant's business is not possible for a period of years after such covered insurance policies or bonds are expired. Consequently, any potential UPP Payouts hereunder cannot be determined promptly after the departure of a UPP Participant from RLI, and thus are not (and will not be considered) wages, bonus, salary, commission or other substitutes for general wages that are otherwise earned immediately.

10. Amendments and Supplements

The terms of the UPP will be reviewed by RLI from time to time and are subject to change by RLI in its sole discretion at any time.

11. Severability

If any term or provision of the UPP or its application to any UPP Participant or circumstance is to any extent held invalid or unenforceable, the remainder of the UPP will not be affected and will remain in full force and effect.

12. Notices

All notices, requests and communications in connection with the UPP ("*Notices*") will be in writing and will be deemed to have been duly given if delivered in person or sent by registered or certified mail to RLI at its principal place of business, and if to a UPP Participant, Notice will either be emailed to the UPP Participant's company email address, or mailed (by registered or certified mail) to the UPP Participant's last known principal place of residence or to such other address as the UPP Participant will periodically designate by written notice. All such Notices will be deemed received two (2) business days after being sent.

13. Dispute Resolution

The interpretation of the UPP and all matters relating to it will be determined under and construed according to the laws of the State of Illinois. All disputes arising under or in connection with the UPP will be subject to binding arbitration as set forth herein. Any dispute, claim or controversy arising out of or relating to the UPP or the breach, termination, enforcement, interpretation or validity thereof, including the determination of the scope or applicability of this agreement to arbitrate, will be determined by arbitration in Chicago, Illinois before one (1) arbitrator. The arbitration will be administered by JAMS pursuant to its Streamlined Arbitration Rules and Procedures. Judgment on the award may be entered in any court having jurisdiction. This clause will not preclude parties from seeking provisional remedies in aid of arbitration from a court of appropriate jurisdiction. The arbitrator may not include special, consequential, punitive or similar damages in its award. The arbitrator may allocate between the parties all or part of the costs of the arbitration, including the fees of the arbitrator and the reasonable attorneys' fees of the prevailing party.

14. Waivers

The waiver by RLI of any breach of the UPP by a UPP Participant, whether in a single instance or repeatedly, will not be construed as a waiver of any other rights under the UPP. No such waiver will be construed as a waiver by RLI of the requirement to strictly adhere to all terms and conditions of the UPP, nor as a waiver of any claim for damages or other remedy by reason of any such breach.

15. Assignment

Neither the UPP nor any rights or interests of any UPP Participant in the UPP may be assigned, sold or transferred in any manner by a UPP Participant or subjected to any lien or encumbrance, whether directly or by operation of law or otherwise, including execution, levy garnishment, attachment, pledge and bankruptcy.

16. Taxes

RLI may deduct from payments otherwise due under the UPP any and all applicable federal, state, local or other taxes, including any interest, penalty or fees, whether disputed or not.

B. UPP AWARD CALCULATION

1. Calculation Method

UPP Payouts are based on underwriting income and are payable over the Payout Period specified in a UPP Participant's Individual Metrics. UPP Payouts are subject to adjustment taking into account the Investment Income rate specified in the Individual Metrics. UPP Payout calculations are completed for each UPP Participant for each year of the Payout Period, which varies according to product, according to the terms and conditions set forth in the UPP Participant's Individual Metrics. All calendar year elements of data and required assumptions are fixed at the beginning of a year and do not change during the Payout Period. Reported losses for the calculated accident year are included as reported during the Payout Period.

2. Individual Metrics

Each UPP Participant will receive Individual Metrics that specify the agreements, unreported loss factors, award percentages and payout factors applicable to them.

3. Definitions

Following are descriptions and definitions of the individual elements of the calculation:

"Commissions" are those recorded in the general ledger on a calendar year basis, net of ceding commissions less the expense calculated under the Individual Metrics. If applicable for the product, contingent commissions will also be included in the commission amount.

"Covered Product" means the insurance or surety product or products over which the Participant has or had oversight responsibility or with respect to which a UPP Award is made.

"DAC" (deferred acquisition costs) are as reported in the general ledger on a calendar year basis.

"Divisional Expenses" are the actual allocated and reported expenses in the general ledger on a calendar year basis.

"Goodwill Amortization" will be charged to products acquired by RLI. The schedule of amortization will be calculated off of goodwill determined under GAAP as recorded in the general ledger at the beginning of the UPP period.

"Gross Premiums Earned" are based on a calendar year, and are as reported in the general ledger. This provides

the basis for the RLI expense provision at 7.5% or actual, whichever is lower.

"Investment Income" is calculated by multiplying the investment rate times the unpaid award balance as of the previous year end. The investment rate is derived by matching the duration of the particular product reserves to a matching bond term. The interest rate for that particular bond will be determined separately for each new underwriting year. The rate used will be net of investment expenses of .15%.

"Losses Incurred" consists of actual reported losses and an unreported loss amount for all calculations except modeled CAT exposures. Actual reported losses include paid losses and case reserves. The unreported loss amount is developed using the Bornheutter-Ferguson (BF) methodology. The actuarial "pricing" best estimate expected loss ratio and unreported factors set by the Actuarial department at the beginning of the year will be used as the loss ratio and IBNR percentages. The unreported factors will be selected by the Actuarial Department utilizing both pricing and reserving development patterns. These ratios will be fixed at the beginning of each accident year. For modeled CAT exposures, RLI will use an estimate of expected modeled loss and loss adjustment expenses in the calculation to appropriately recognize the severe and highly fortuitous nature of these perils. The adopted corporate model (currently RMS) will be used to derive the expected loss and a load for loss adjustment expense will be applied that is consistent with percentages used for corporate reporting purposes. The calculation of underwriting profit for bonuses applicable to modeled CAT exposures will use this estimate of expected loss and loss adjustment amount in lieu of actual losses. The percentage of underwriting profit shared with the participant may vary depending on the expected profitability of the portfolio and is outlined in the Individual Metrics schedule. Some bonus schedules also share a percentage of the premium collected in excess of a benchmark amount. A table outlining these percentages can be found in the Individual Metrics schedule, if applicable.

"Net Premiums Earned" are on a calendar year basis net of reinsurance, and are as reported in the general ledger.

"Payout Factor" is the percentage of the UPP Payout deemed earned that will be calculated in the current year. The payout schedule is determined individually for each product and specified in the Participant's Individual Metrics.

"Payout Period" is the aggregate Performance Periods over which a UPP Participant is eligible to receive UPP Payouts for a UPP Award, commonly referred to as the "tail" of the Covered Product.

"Premium Taxes" are as reported in the general ledger on a calendar year basis.

"RLI" shall mean RLI Corp. and all of its subsidiaries and affiliates.

"RLI Expenses" are calculated to be 7.5% of gross earned premiums or the actual amount reported whichever is less. This ratio is to be evaluated annually. Application of the lower of actual or 7.5% rule is done for all multiple products in the aggregate where applicable.

"Unallocated LAE" is taken from the general ledger on a calendar year basis.

"Underwriting Income" is the calculation of net premiums earned less net losses and all expenses.

"UPP Payout" is underwriting income multiplied by the award percentage to be determined individually for each product. The total results for multiple underwriting years and products are aggregated to determine each year's net UPP Payout, unless otherwise specified in the Participant's Individual Metrics.

Exhibit 21.1

Subsidiaries of the Registrant

The following companies are subsidiaries of the Registrant as of December 31, 2021.

Name	Jurisdiction of Incorporation	Percentage Ownership
RLI Insurance Company	Illinois	100%
Mt. Hawley Insurance Company	Illinois	100%
RLI Underwriting Services, Inc.	Illinois	100%
Safe Fleet Insurance Services, Inc.	California	100%
Data & Staff Service Co.	Washington	100%
Contractors Bonding and Insurance Company	Illinois	100%

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement (No. 333-166614 and 333-203957) on Form S-8 of our report dated February 18, 2022, relating to the financial statements of RLI Corp and the effectiveness of the RLI Corp's internal control over financial reporting, appearing in this Annual Report on Form 10-K for the year ended December 31, 2021.

/s/ Deloitte & Touche LLP

Chicago, Illinois
February 18, 2022

Exhibit 23.2

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the registration statements (Nos. 333-166614 and 333-203957) on Form S-8 of our report dated February 21, 2020, with respect to the consolidated financial statements and financial statement schedules I to VI of RLI Corp.

/s/ KPMG LLP

Chicago, Illinois
February 18, 2022

Exhibit 31.1

CERTIFICATION

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

I, Craig W. Kliethermes, certify that:

I have reviewed this annual report on Form 10-K 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 fourth 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 controls 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: February 18, 2022

/s/ Craig W. Kliethermes

Craig W. Kliethermes
President & 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 annual report on Form 10-K 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 fourth 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 controls 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: February 18, 2022

/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 Annual Report of RLI Corp. (the "Company") on Form 10-K for the period ending December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Craig W. Kliethermes, 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/ Craig W. Kliethermes

Craig W. Kliethermes
President & CEO
February 18, 2022

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 Annual Report of RLI Corp. (the "Company") on Form 10-K for the period ending December 31, 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
February 18, 2022