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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **June 30, 2024**

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

(State or other jurisdiction of incorporation or organization)

37-0889946

(I.R.S. Employer Identification Number)

9025 North Lindbergh Drive, Peoria, IL

(Address of principal executive offices)

61615

(Zip Code)

(309) 692-1000

(Registrant's telephone number, including area code)

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

Title of each class
Common Stock \$0.01 par value

Trading Symbol
RLI

Name of each exchange on which registered
New York Stock Exchange

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of July 16, 2024, the number of shares outstanding of the registrant's Common Stock was 45,746,054.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

(in thousands, except per share data)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2024	2023	2024	2023
Net premiums earned	\$ 379,065	\$ 322,280	\$ 739,741	\$ 630,003
Net investment income	33,961	28,788	66,808	55,872
Net realized gains (losses)	(192)	5,580	5,802	20,200
Net unrealized gains on equity securities	3,608	25,214	48,922	40,710
Consolidated revenue	\$ 416,442	\$ 381,862	\$ 861,273	\$ 746,785
Losses and settlement expenses	167,799	153,943	311,623	268,431
Policy acquisition costs	113,921	102,626	224,375	204,070
Insurance operating expenses	27,321	24,510	56,024	48,411
Interest expense on debt	1,604	2,047	3,222	4,055
General corporate expenses	4,140	4,219	9,150	8,433
Total expenses	\$ 314,785	\$ 287,345	\$ 604,394	\$ 533,400
Equity in earnings of unconsolidated investees	1,646	1,514	6,415	5,437
Earnings before income taxes	\$ 103,303	\$ 96,031	\$ 263,294	\$ 218,822
Income tax expense	21,311	18,379	53,402	42,359
Net earnings	\$ 81,992	\$ 77,652	\$ 209,892	\$ 176,463
Other comprehensive earnings (loss), net of tax	(7,843)	(19,721)	(20,514)	17,986
Comprehensive earnings	\$ 74,149	\$ 57,931	\$ 189,378	\$ 194,449
Basic net earnings per share	\$ 1.79	\$ 1.70	\$ 4.59	\$ 3.87
Diluted net earnings per share	\$ 1.78	\$ 1.69	\$ 4.55	\$ 3.83
Weighted average number of common shares outstanding:				
Basic	45,737	45,591	45,709	45,560
Diluted	46,179	46,044	46,169	46,045

See accompanying notes to the unaudited condensed consolidated financial statements.

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

(in thousands, except share and per share data)	June 30, 2024	December 31, 2023
ASSETS		
Investments and cash:		
Fixed income:		
Available-for-sale, at fair value	\$ 2,989,527	\$ 2,855,849
(amortized cost of \$3,217,866 and allowance for credit losses of \$228 at 6/30/24)		
(amortized cost of \$3,054,391 and allowance for credit losses of \$806 at 12/31/23)		
Equity securities, at fair value (cost - \$381,138 at 6/30/24 and \$354,022 at 12/31/23)	666,563	590,041
Short-term investments, at cost which approximates fair value	125,865	134,923
Other invested assets	55,364	59,081
Cash	50,030	36,424
Total investments and cash	\$ 3,887,349	\$ 3,676,318
Accrued investment income	26,683	24,062
Premiums and reinsurance balances receivable, net of allowances for uncollectible amounts of \$21,791 at 6/30/24 and \$21,438 at 12/31/23	294,774	221,206
Ceded unearned premium	114,893	112,257
Reinsurance balances recoverable on unpaid losses and settlement expenses, net of allowances for uncollectible amounts of \$11,025 at 6/30/24 and \$10,608 at 12/31/23	782,288	757,349
Deferred policy acquisition costs	167,295	146,566
Property and equipment, at cost, net of accumulated depreciation of \$4,768 at 6/30/24 and \$74,279 at 12/31/23	46,574	46,715
Investment in unconsolidated investees	67,249	56,966
Goodwill and intangibles	53,562	53,562
Income taxes-deferred	12,291	15,872
Other assets	58,715	69,348
TOTAL ASSETS	\$ 5,511,673	\$ 5,180,221
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Unpaid losses and settlement expenses	\$ 2,544,622	\$ 2,446,025
Unearned premiums	992,754	892,326
Reinsurance balances payable	38,968	71,507
Funds held	107,235	101,446
Income taxes-current	7,610	3,757
Debt	100,000	100,000
Accrued expenses	83,805	108,880
Other liabilities	51,972	42,766
TOTAL LIABILITIES	\$ 3,926,966	\$ 3,766,707
Shareholders' Equity		
Common stock (\$0.01 par value)		
(Shares authorized - 200,000,000)		
(68,676,268 shares issued, 45,746,054 shares outstanding at 6/30/24)		
(68,570,261 shares issued, 45,640,047 shares outstanding at 12/31/23)	\$ 687	\$ 686
Paid-in capital	369,785	362,345
Accumulated other comprehensive earnings (loss)	(186,817)	(166,303)
Retained earnings	1,794,051	1,609,785
Deferred compensation	13,183	13,539
Less: Treasury shares, at cost (22,930,214 shares at 6/30/24 and 12/31/23)	(406,182)	(406,538)
TOTAL SHAREHOLDERS' EQUITY	\$ 1,584,707	\$ 1,413,514
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 5,511,673	\$ 5,180,221

See accompanying notes to the unaudited condensed consolidated financial statements.

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

		Total			Accumulated Other Comprehensive			Treasury
(in thousands, except share and per share data)	Common Shares	Shareholders' Equity	Common Stock	Paid-in Capital	Earnings (Loss)	Retained Earnings	Deferred Compensation	Shares at Cost
Balance, January 1, 2023	45,469,752	\$ 1,177,341	\$ 684	\$ 352,391	\$ (229,076)	\$ 1,446,341	\$ 12,015	\$ (405,014)
Cumulative-effect adjustment from ASU 2023-02	—	(951)	—	—	—	(951)	—	—
Net earnings	—	98,811	—	—	—	98,811	—	—
Other comprehensive earnings (loss), net of tax	—	37,707	—	—	37,707	—	—	—
Deferred compensation	—	—	—	—	—	—	249	(249)
Share-based compensation	84,944	2,864	1	2,863	—	—	—	—
Dividends and dividend equivalents (\$0.26 per share)	—	(11,851)	—	—	—	(11,851)	—	—
Balance, March 31, 2023	45,554,696	\$ 1,303,921	\$ 685	\$ 355,254	\$ (191,369)	\$ 1,532,350	\$ 12,264	\$ (405,263)
Net earnings	—	77,652	—	—	—	77,652	—	—
Other comprehensive earnings (loss), net of tax	—	(19,721)	—	—	(19,721)	—	—	—
Deferred compensation	—	—	—	—	—	—	243	(243)
Share-based compensation	41,500	2,402	—	2,402	—	—	—	—
Dividends and dividend equivalents (\$0.27 per share)	—	(12,342)	—	—	—	(12,342)	—	—
Balance, June 30, 2023	45,596,196	\$ 1,351,912	\$ 685	\$ 357,656	\$ (211,090)	\$ 1,597,660	\$ 12,507	\$ (405,506)

		Total			Accumulated Other Comprehensive			Treasury
(in thousands, except share and per share data)	Common Shares	Shareholders' Equity	Common Stock	Paid-in Capital	Earnings (Loss)	Retained Earnings	Deferred Compensation	Shares at Cost
Balance, January 1, 2024	45,640,047	\$ 1,413,514	\$ 686	\$ 362,345	\$ (166,303)	\$ 1,609,785	\$ 13,539	\$ (406,538)
Net earnings	—	127,900	—	—	—	127,900	—	—
Other comprehensive earnings (loss), net of tax	—	(12,671)	—	—	(12,671)	—	—	—
Deferred compensation	—	—	—	—	—	—	(790)	790
Share-based compensation	69,834	4,357	1	4,356	—	—	—	—
Dividends and dividend equivalents (\$0.27 per share)	—	(12,348)	—	—	—	(12,348)	—	—
Balance, March 31, 2024	45,709,881	\$ 1,520,752	\$ 687	\$ 366,701	\$ (178,974)	\$ 1,725,337	\$ 12,749	\$ (405,748)
Net earnings	—	81,992	—	—	—	81,992	—	—
Other comprehensive earnings (loss), net of tax	—	(7,843)	—	—	(7,843)	—	—	—
Deferred compensation	—	—	—	—	—	—	434	(434)
Share-based compensation	36,173	3,084	—	3,084	—	—	—	—
Dividends and dividend equivalents (\$0.29 per share)	—	(13,278)	—	—	—	(13,278)	—	—
Balance, June 30, 2024	45,746,054	\$ 1,584,707	\$ 687	\$ 369,785	\$ (186,817)	\$ 1,794,051	\$ 13,183	\$ (406,182)

See accompanying notes to the unaudited condensed consolidated financial statements.

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

(in thousands)	For the Six Months Ended June 30,	
	2024	2023
Net cash provided by operating activities	\$ 212,771	\$ 243,595
Cash Flows from Investing Activities		
Purchase of:		
Fixed income securities, available-for-sale	\$ (369,888)	\$ (365,976)
Equity securities	(45,585)	(25,454)
Property and equipment	(3,840)	(2,790)
Other	(3,591)	(2,669)
Proceeds from sale of:		
Fixed income securities, available-for-sale	41,543	19,490
Equity securities	31,473	22,029
Equity method investments	—	14,134
Other	3,952	473
Proceeds from call or maturity of:		
Fixed income securities, available-for-sale	159,869	349,714
Net proceeds from sale (purchase) of short-term investments	9,058	(235,067)
Net cash used in investing activities	\$ (177,009)	\$ (226,116)
Cash Flows from Financing Activities		
Cash dividends paid	\$ (25,604)	\$ (24,172)
Proceeds from stock option exercises	3,448	582
Net cash used in financing activities	\$ (22,156)	\$ (23,590)
Net increase (decrease) in cash	\$ 13,606	\$ (6,111)
Cash at the beginning of the period	36,424	22,818
Cash at June 30,	\$ 50,030	\$ 16,707

See accompanying notes to the unaudited condensed consolidated financial statements.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The unaudited interim condensed consolidated financial statements of RLI Corp. (the Company) and subsidiaries have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP). These condensed consolidated financial statements do not include all the disclosures required by GAAP for annual financial statements and should be read in conjunction with our 2023 Annual Report on Form 10-K. In the opinion of the Company's management, the condensed consolidated financial statements reflect all adjustments, of a normal and recurring nature, that are necessary for fair financial statement presentation. The results of operations for any interim period are not necessarily indicative of the operating results for a full year.

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

B. ADOPTED ACCOUNTING STANDARDS

No new accounting standards applicable in 2024 materially impact our financial statements.

C. PROSPECTIVE ACCOUNTING STANDARDS

2023-07—Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures

The guidance in ASU 2023-07 was designed to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. This ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Although the Company continues to evaluate the impact of adopting this new accounting standard, the amendments are disclosure-related and should not have a material impact on our financial statements.

2023-09—Income Taxes (Topic 740): Improvements to Income Tax Disclosures

The guidance in ASU 2023-09 was designed to increase transparency about income tax information through improvements to the rate reconciliation and disclosure of income taxes paid. This ASU is effective for fiscal years beginning after December 15, 2024. Although the Company continues to evaluate the impact of adopting this new accounting standard, the amendments are disclosure-related and should not have a material impact on our financial statements.

D. REINSURANCE

Ceded unearned premiums and reinsurance balances recoverable on unpaid losses and settlement expenses are reported separately as an asset, rather than being netted with the related liability, since reinsurance does not relieve the Company of our liability to policyholders. Such balances are subject to the credit risk associated with the individual reinsurer. We continually monitor the financial condition of our reinsurers and actively follow up on any past due or disputed amounts. As part of our monitoring efforts, we review reinsurers' annual financial statements and Securities and Exchange Commission 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 Standard & Poor's (S&P) ratings of our reinsurers. We subject our reinsurance balances recoverable 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 balances 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 overall allowance and determine whether the balance is sufficient and, if needed, an additional allowance is recognized.

The allowances for uncollectible amounts on paid and unpaid reinsurance balances recoverable were \$ 16 million and \$11 million, respectively, at June 30, 2024 and December 31, 2023. Changes in the allowances were due to changes in the amount of reinsurance balances outstanding, the composition of reinsurers from whom the balances were recoverable and their associated S&P default ratings. No write-offs were applied to the allowances in the first six months of 2024 and less than \$ 1 million was recovered.

E. INTANGIBLE ASSETS

The composition of goodwill and intangible assets at June 30, 2024 and December 31, 2023 is detailed in the following table:

(in thousands)	June 30, 2024	December 31, 2023
Goodwill		
Surety	\$ 40,816	\$ 40,816
Casualty	5,246	5,246
Total goodwill	\$ 46,062	\$ 46,062
Indefinite-lived intangibles	7,500	7,500
Total goodwill and intangibles	<u>\$ 53,562</u>	<u>\$ 53,562</u>

Annual impairment assessments were performed on our goodwill and state insurance license indefinite-lived intangible assets during the second quarter of 2024. Based upon these reviews, none of the assets were impaired. In addition, there were no triggering events as of June 30, 2024 that would suggest an updated impairment test would be needed for our goodwill and intangible assets.

F. EARNINGS PER SHARE

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

(in thousands, except per share data)	For the Three Months Ended June 30, 2024			For the Three Months Ended June 30, 2023		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS						
Earnings available to common shareholders	\$ 81,992	45,737	\$ 1.79	\$ 77,652	45,591	\$ 1.70
Effect of Dilutive Securities						
Stock options and restricted stock units	—	442		—	453	
Diluted EPS						
Earnings available to common shareholders	\$ 81,992	46,179	\$ 1.78	\$ 77,652	46,044	\$ 1.69
Anti-dilutive securities excluded from diluted EPS		—			118	

(in thousands, except per share data)	For the Six Months Ended June 30, 2024			For the Six Months Ended June 30, 2023		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS						
Earnings available to common shareholders	\$ 209,892	45,709	\$ 4.59	\$ 176,463	45,560	\$ 3.87
Effect of Dilutive Securities						
Stock options and restricted stock units	—	460		—	485	
Diluted EPS						
Earnings available to common shareholders	\$ 209,892	46,169	\$ 4.55	\$ 176,463	46,045	\$ 3.83
Anti-dilutive securities excluded from diluted EPS		114			118	

G. COMPREHENSIVE EARNINGS

Our comprehensive earnings include net earnings plus after-tax unrealized gains and losses on our available-for-sale fixed income portfolio. In reporting the components of comprehensive earnings, we used the federal statutory tax rate of 21 percent. Other comprehensive earnings (loss), as shown in the consolidated statements of earnings and comprehensive earnings, is net of tax benefit of \$2 million for the second quarter of 2024, compared to \$5 million of tax benefit for the same period in 2023. For the six-month period ended June 30, 2024, other comprehensive earnings (loss) is net of tax benefit of \$5 million, compared to \$5 million of tax expense for the same period in 2023.

Unrealized losses, net of tax, recognized in other comprehensive earnings (loss) were \$21 million for the first six months of 2024, compared to \$18 million of unrealized gains, net of tax, during the same period last year. The unrealized losses in 2024 were attributable to an increase in interest rates, which decreased the fair value of securities held in the fixed income portfolio. During 2023, modestly tighter credit spreads on relatively steady interest rates increased the fair value of securities held in the fixed income portfolio.

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

(in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2024	2023	2024	2023
Unrealized Gains/Losses on Available-for-Sale Securities				
Beginning balance	\$ (178,974)	\$ (191,369)	\$ (166,303)	\$ (229,076)
Other comprehensive earnings (loss) before reclassifications	(8,571)	(20,347)	(21,846)	15,908
Amounts reclassified from accumulated other comprehensive earnings	728	626	1,332	2,078
Net current-period other comprehensive earnings (loss)	\$ (7,843)	\$ (19,721)	\$ (20,514)	\$ 17,986
Ending balance	\$ (186,817)	\$ (211,090)	\$ (186,817)	\$ (211,090)
Balance of securities for which an allowance for credit losses has been recognized in net earnings			\$ 1,463	\$ 1,053

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

(in thousands)	Amount Reclassified from Accumulated Other Comprehensive Earnings (Loss)				
	For the Three Months Ended June 30,		For the Six Months Ended June 30,		
Component of Accumulated Other Comprehensive Earnings (Loss)	2024	2023	2024	2023	Affected line item in the Statement of Earnings
Unrealized gains and losses on available-for-sale securities	\$ (931)	\$ (824)	\$ (1,765)	\$ (2,536)	Net realized gains (losses)
	9	31	79	(95)	Credit gains (losses) presented within net realized gains
	\$ (922)	\$ (793)	\$ (1,686)	\$ (2,631)	Earnings (loss) before income taxes
	194	167	354	553	Income tax (expense) benefit
	\$ (728)	\$ (626)	\$ (1,332)	\$ (2,078)	Net earnings (loss)

H. FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

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

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

Regulation D Private Placement Securities: All Regulation D privately-placed bonds are classified as corporate securities and deemed Level 3. The pricing vendor evaluation methodology for these securities includes a combination of

observable and unobservable inputs. Observable inputs include public corporate spread matrices classified by sector, rating and average life, as well as investment and non-investment grade matrices created from fixed income indices. Unobservable inputs include a liquidity spread premium calculated based on public corporate spread and private corporate spread matrices. The quantitative detail of the liquidity spread premium is neither provided nor reasonably available to the Company. An increase to the credit spread assumptions would result in a lower fair value.

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

Equity Securities: As of June 30, 2024, nearly all of our equity holdings were traded on an exchange. Exchange traded equities have readily observable price levels and are classified as Level 1 (fair value based on quoted market prices). Pricing for the equity securities not traded on an exchange is provided by a third-party pricing source using observable inputs and are classified as Level 2. Pricing for equity securities not traded on an exchange rely on one or more unobservable inputs and are classified as Level 3.

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.

2. INVESTMENTS

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

Realized gains and losses on disposition of investments are based on the specific identification of the investments sold on the settlement date. The following is a summary of the disposition of fixed income and equity securities for the six-month periods ended June 30, 2024 and 2023:

Sales (in thousands)	Proceeds From Sales	Gross Realized		Net Realized Gain (Loss)
		Gains	Losses	
2024				
Fixed income securities - available-for-sale	\$ 41,543	\$ 357	\$ (1,139)	\$ (782)
Equity securities	31,473	13,344	(340)	13,004
2023				
Fixed income securities - available-for-sale	\$ 20,729	\$ 99	\$ (910)	\$ (811)
Equity securities	22,029	8,841	(101)	8,740
Calls/Maturities				
(in thousands)	Proceeds	Gross Realized		Net Realized Gain (Loss)
		Gains	Losses	
2024				
Fixed income securities - available-for-sale	\$ 158,472	\$ 79	\$ (856)	\$ (777)
2023				
Fixed income securities - available-for-sale	\$ 349,734	\$ 37	\$ (43)	\$ (6)

FAIR VALUE MEASUREMENTS

Assets measured at fair value on a recurring basis as of June 30, 2024 and December 31, 2023 are summarized below:

(in thousands)	As of June 30, 2024			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Fixed income securities - available-for-sale				
U.S. government	\$ —	\$ 434,800	\$ —	\$ 434,800
U.S. agency	—	58,309	—	58,309
Non-U.S. government & agency	—	3,828	—	3,828
Agency MBS	—	414,675	—	414,675
ABS/CMBS/MBS*	—	320,061	—	320,061
Corporate	—	1,182,685	68,095	1,250,780
Municipal	—	507,074	—	507,074
Total fixed income securities - available-for-sale	\$ —	\$ 2,921,432	\$ 68,095	\$ 2,989,527
Equity securities	661,978	—	4,585	666,563
Total	\$ 661,978	\$ 2,921,432	\$ 72,680	\$ 3,656,090

(in thousands)	As of December 31, 2023			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Fixed income securities - available-for-sale				
U.S. government	\$ —	\$ 308,031	\$ —	\$ 308,031
U.S. agency	—	59,826	—	59,826
Non-U.S. government & agency	—	3,882	—	3,882
Agency MBS	—	425,285	—	425,285
ABS/CMBS/MBS*	—	281,182	—	281,182
Corporate	—	1,164,548	60,471	1,225,019
Municipal	—	552,624	—	552,624
Total fixed income securities - available-for-sale	\$ —	\$ 2,795,378	\$ 60,471	\$ 2,855,849
Equity securities	588,416	—	1,625	590,041
Total	\$ 588,416	\$ 2,795,378	\$ 62,096	\$ 3,445,890

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

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

(in thousands)	Level 3 Securities
Balance as of January 1, 2024	\$ 62,096
Net realized and unrealized gains (losses)	
Included in other comprehensive earnings (loss)	(315)
Purchases	12,310
Sales / Calls / Maturities	(1,411)
Balance as of June 30, 2024	\$ 72,680
Change in unrealized gains (losses) during the period for Level 3 assets held at period-end - included in other comprehensive earnings (loss)	\$ (315)

The amortized cost and fair value of available-for-sale fixed income securities by contractual maturity as of June 30, 2024 were as follows:

(in thousands)	June 30, 2024	
	Amortized Cost	Fair Value
Due in one year or less	\$ 242,522	\$ 239,183
Due after one year through five years	847,005	815,300
Due after five years through 10 years	775,964	745,887
Due after 10 years	548,359	454,421
ABS/CMBS/MBS*	804,016	734,736
Total available-for-sale	<u>\$ 3,217,866</u>	<u>\$ 2,989,527</u>

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

The amortized cost and fair value of available-for-sale securities at June 30, 2024 and December 31, 2023 are presented in the tables below. Amortized cost does not include the \$26 million and \$23 million of accrued interest receivable as of June 30, 2024 and December 31, 2023, respectively.

(in thousands)	June 30, 2024				
	Cost or Amortized Cost	Allowance for Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government	\$ 442,734	\$ —	\$ 258	\$ (8,192)	\$ 434,800
U.S. agency	60,058	—	326	(2,075)	58,309
Non-U.S. government & agency	4,800	—	—	(972)	3,828
Agency MBS	458,944	—	915	(45,184)	414,675
ABS/CMBS/MBS*	345,072	(2)	1,367	(26,376)	320,061
Corporate	1,310,888	(226)	3,620	(63,502)	1,250,780
Municipal	595,370	—	1,069	(89,365)	507,074
Total Fixed Income	<u>\$ 3,217,866</u>	<u>\$ (228)</u>	<u>\$ 7,555</u>	<u>\$ (235,666)</u>	<u>\$ 2,989,527</u>

(in thousands)	December 31, 2023				
	Cost or Amortized Cost	Allowance for Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government	\$ 312,632	\$ —	\$ 1,257	\$ (5,858)	\$ 308,031
U.S. agency	60,763	—	652	(1,589)	59,826
Non-U.S. government & agency	4,800	—	—	(918)	3,882
Agency MBS	460,551	—	2,636	(37,902)	425,285
ABS/CMBS/MBS*	308,458	(3)	611	(27,884)	281,182
Corporate	1,273,187	(303)	8,766	(56,631)	1,225,019
Municipal	634,000	—	2,238	(83,614)	552,624
Total Fixed Income	<u>\$ 3,054,391</u>	<u>\$ (306)</u>	<u>\$ 16,160</u>	<u>\$ (214,396)</u>	<u>\$ 2,855,849</u>

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

Allowance for Credit Losses and Unrealized Losses on Fixed Income Securities

A reversible allowance for credit losses is recognized on available-for-sale fixed income securities. Several criteria are reviewed to determine if securities in the fixed income portfolio 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 security's fair value is below amortized cost. As of June 30, 2024, the discounted cash flow analysis resulted in an allowance for credit losses on 9 securities. The following table presents changes in the allowance for expected credit losses on available-for-sale securities:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Beginning balance	\$ 237	\$ 465	\$ 306	\$ 339
Increase to allowance from securities for which credit losses were not previously recorded	—	2	—	25
Reduction from securities sold during the period	(27)	—	(89)	—
Net increase (decrease) from securities that had an allowance at the beginning of the period	18	(33)	11	70
Balance as of June 30,	<u>\$ 228</u>	<u>\$ 434</u>	<u>\$ 228</u>	<u>\$ 434</u>

We recognized \$2 million of losses on securities for which we no longer had the intent to hold until recovery during the first six months of 2023. No such losses were recognized during the first six months of 2024.

As of June 30, 2024, in addition to the securities included in the allowance for credit losses, the fixed income portfolio contained 1,366 securities with an unrealized loss position for which an allowance for credit losses had not been recorded. The \$236 million in associated unrealized losses represents 7 percent of the fixed income portfolio's cost basis and 6 percent of total invested assets. Isolated to these securities, unrealized losses increased slightly through the first six months of 2024, as interest rates increased during the period. Of the total 1,366 securities, 1,156 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 June 30, 2024 and December 31, 2023 after factoring in the allowance for credit losses. All fixed income securities continue to pay the expected coupon payments and we believe we will recover the amortized cost basis of available-for-sale securities that remain in an unrealized loss position.

(in thousands)	June 30, 2024			December 31, 2023		
	< 12 Mos.	12 Mos. & Greater	Total	< 12 Mos.	12 Mos. & Greater	Total
U.S. government						
Fair value	\$ 157,918	\$ 227,774	\$ 385,692	\$ 37,718	\$ 204,556	\$ 242,274
Amortized cost	159,088	234,796	393,884	37,950	210,182	248,132
Unrealized loss	\$ (1,170)	\$ (7,022)	\$ (8,192)	\$ (232)	\$ (5,626)	\$ (5,858)
U.S. agency						
Fair value	\$ 11,369	\$ 35,039	\$ 46,408	\$ 8,736	\$ 29,632	\$ 38,368
Amortized cost	11,507	36,976	48,483	8,790	31,167	39,957
Unrealized loss	\$ (138)	\$ (1,937)	\$ (2,075)	\$ (54)	\$ (1,535)	\$ (1,589)
Non-U.S. government						
Fair value	\$ —	\$ 3,828	\$ 3,828	\$ —	\$ 3,882	\$ 3,882
Amortized cost	—	4,800	4,800	—	4,800	4,800
Unrealized loss	\$ —	\$ (972)	\$ (972)	\$ —	\$ (918)	\$ (918)
Agency MBS						
Fair value	\$ 47,461	\$ 312,936	\$ 360,397	\$ 61,196	\$ 275,707	\$ 336,903
Amortized cost	47,832	357,749	405,581	61,714	313,091	374,805
Unrealized loss	\$ (371)	\$ (44,813)	\$ (45,184)	\$ (518)	\$ (37,384)	\$ (37,902)
ABS/CMBS/MBS*						
Fair value	\$ 20,533	\$ 178,161	\$ 198,694	\$ 12,240	\$ 211,436	\$ 223,676
Amortized cost	20,571	204,499	225,070	12,367	239,193	251,560
Unrealized loss	\$ (38)	\$ (26,338)	\$ (26,376)	\$ (127)	\$ (27,757)	\$ (27,884)
Corporate						
Fair value	\$ 228,328	\$ 801,030	\$ 1,029,358	\$ 67,402	\$ 822,731	\$ 890,133
Amortized cost	233,642	859,218	1,092,860	68,345	878,419	946,764
Unrealized loss	\$ (5,314)	\$ (58,188)	\$ (63,502)	\$ (943)	\$ (55,688)	\$ (56,631)
Municipal						
Fair value	\$ 54,876	\$ 416,438	\$ 471,314	\$ 61,218	\$ 391,361	\$ 452,579
Amortized cost	55,562	505,117	560,679	61,697	474,496	536,193
Unrealized loss	\$ (686)	\$ (88,679)	\$ (89,365)	\$ (479)	\$ (83,135)	\$ (83,614)
Total fixed income						
Fair value	\$ 520,485	\$ 1,975,206	\$ 2,495,691	\$ 248,510	\$ 1,939,305	\$ 2,187,815
Amortized cost	528,202	2,203,155	2,731,357	250,863	2,151,348	2,402,211
Unrealized loss	\$ (7,717)	\$ (227,949)	\$ (235,666)	\$ (2,353)	\$ (212,043)	\$ (214,396)

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

The following table shows the composition of the fixed income securities in unrealized loss positions, after factoring in the allowance for credit losses, at June 30, 2024 by the National Association of Insurance Commissioners (NAIC) rating and the generally equivalent Standard & Poor's (S&P) and Moody's ratings. The vast majority of the securities are rated by S&P and/or Moody's.

NAIC Rating	Equivalent S&P Rating	Equivalent Moody's Rating	(dollars in thousands)			Percent to Total
			Amortized Cost	Fair Value	Unrealized Loss	
1	AAA/AA/A	Aaa/Aa/A	\$ 2,292,580	\$ 2,086,894	\$ (205,686)	87.3 %
2	BBB	Baa	388,103	361,830	(26,273)	11.1 %
3	BB	Ba	30,171	28,674	(1,497)	0.6 %
4	B	B	16,562	15,259	(1,303)	0.6 %
5	CCC	Caa	3,121	2,646	(475)	0.2 %
6	CC or lower	Ca or lower	820	388	(432)	0.2 %
		Total	\$ 2,731,357	\$ 2,495,691	\$ (235,666)	100.0 %

Other Invested Assets

We had \$55 million of other invested assets at June 30, 2024, compared to \$ 59 million at December 31, 2023. Other invested assets include investments in low income housing tax credit partnerships (LIHTC) and historic tax credit partnerships (HTC), membership in the Federal Home Loan Bank of Chicago (FHLBC), and investments in private funds. Our LIHTC and

HTC investments are carried at amortized cost and our investment in FHLBC stock is carried at cost. Due to the nature of the LIHTC, HTC and our membership in the FHLBC, their carrying amounts approximate fair value. The private funds are carried at fair value, using each investment's net asset value.

Our LIHTC interests had a balance of \$ 9 million at June 30, 2024, compared to \$ 10 million on December 31, 2023. Our LIHTC interests recognized amortization of \$1 million as a component of income tax expense and a total tax benefit of \$ 1 million during the second quarter of 2024 and 2023. For the six-months ended June 30, 2024, our LIHTC interests recognized amortization of \$1 million and a total tax benefit of \$ 1 million, compared to \$2 million of amortization and \$ 2 million of tax benefit for the same period in 2023. Our unfunded commitment for our LIHTC investments was less than \$1 million at June 30, 2024 and will be paid out in installments through 2035.

Our HTC investment had a balance of \$ 11 million at June 30, 2024, compared to \$ 13 million at December 31, 2023. Our HTC investment recognized \$1 million of amortization as a component of income tax expense and a total tax benefit of \$ 1 million during the second quarter of 2024 and 2023. For the six-months ended June 30, 2024 and 2023, our HTC investment recognized amortization of \$2 million and a total tax benefit of \$ 3 million.

As of June 30, 2024, \$57 million of investments were pledged as collateral with the FHLBC to ensure timely access to the secured lending facility that ownership of FHLBC stock provides. As of June 30, 2024, \$50 million of borrowings were outstanding with the FHLBC.

Our investments in private funds totaled \$25 million as of June 30, 2024, down from \$ 28 million as of December 31, 2023, and had \$4 million of associated unfunded commitments at June 30, 2024. 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.

Investments in Unconsolidated Investees

We had \$67 million of investments in unconsolidated investees at June 30, 2024, compared to \$ 57 million at December 31, 2023. At June 30, 2024, our investment in Prime Holdings Insurance Services, Inc. (Prime) was \$67 million and other investments in unconsolidated investees totaled less than \$1 million.

Cash and Short-Term Investments

Cash consists of uninvested balances in bank accounts. Short-term investments consist of investments with original maturities of 90 days or less, primarily AAA-rated government money market funds. Short-term investments are carried at cost. We had a cash and short-term investment balance of \$50 million and \$126 million, respectively, at June 30, 2024, compared to \$36 million and \$135 million, respectively, at December 31, 2023.

3. HISTORICAL LOSS AND LAE DEVELOPMENT

The following table is a reconciliation of our unpaid losses and settlement expenses (LAE) for the first six months of 2024 and 2023:

(in thousands)	For the Six Months Ended June 30,	
	2024	2023
Unpaid losses and LAE at beginning of year		
Gross	\$ 2,446,025	\$ 2,315,637
Ceded	(757,349)	(740,089)
Net	\$ 1,688,676	\$ 1,575,548
Increase (decrease) in incurred losses and LAE		
Current accident year	\$ 376,546	\$ 339,951
Prior accident years	(64,923)	(71,520)
Total incurred	\$ 311,623	\$ 268,431
Loss and LAE payments for claims incurred		
Current accident year	\$ (40,078)	\$ (30,978)
Prior accident years	(197,887)	(172,282)
Total paid	\$ (237,965)	\$ (203,260)
Net unpaid losses and LAE at June 30,	\$ 1,762,334	\$ 1,640,719
Unpaid losses and LAE at June 30,		
Gross	\$ 2,544,622	\$ 2,361,577
Ceded	(782,288)	(720,858)
Net	\$ 1,762,334	\$ 1,640,719

For the first six months of 2024, incurred losses and LAE included \$ 65 million of favorable development on prior years' loss reserves, largely from accident years 2016, 2017, 2019, 2020, 2022 and 2023. Marine, surety, general liability, commercial property, executive products, personal umbrella, professional services and commercial excess were drivers of the favorable development. No products experienced significant adverse development.

For the first six months of 2023, incurred losses and LAE included \$ 72 million of favorable development on prior years' loss reserves, largely from accident years 2018 through 2022. Commercial excess, professional services, surety, general liability, personal umbrella, marine and commercial property were drivers of the favorable development. No products experienced significant adverse development.

4. INCOME TAXES

Our effective tax rate for the three and six months ended June 30, 2024 was 20.6 percent and 20.3 percent, respectively, compared to 19.1 percent and 19.4 percent, respectively, for the same periods in 2023. Effective rates are dependent upon components of pretax earnings and the related tax effects. The effective tax rate was higher for the three and six-month periods in 2024 due to lower levels of tax-favored adjustments and higher levels of pretax income, which decreased the percentage impact of tax-favored adjustments.

Income tax expense attributable to income from operations for the three and six-month periods ended June 30, 2024 and 2023 differed from the amounts computed by applying the U.S. federal tax rate of 21 percent to pretax income by the items detailed in the table below. In interim periods, income taxes are adjusted to reflect the effective tax rate we anticipate for the year, with adjustments flowing through the other items, net line.

(in thousands)	For the Three Months Ended June 30,				For the Six Months Ended June 30, 2024			
	2024		2023		2024		2023	
	Amount	%	Amount	%	Amount	%	Amount	%
Provision for income taxes at the statutory rate of 21%	\$ 21,694	21.0 %	\$ 20,167	21.0 %	\$ 55,292	21.0 %	\$ 45,953	21.0 %
Increase (reduction) in taxes resulting from:								
Excess tax benefit on share-based compensation	(422)	(0.4)%	(878)	(0.9)%	(2,297)	(0.8)%	(2,868)	(1.3)%
Tax exempt interest income	(249)	(0.2)%	(274)	(0.3)%	(509)	(0.2)%	(557)	(0.3)%
Dividends received deduction	(234)	(0.2)%	(209)	(0.2)%	(468)	(0.2)%	(433)	(0.2)%
Tax credit	(768)	(0.8)%	(780)	(0.8)%	(1,536)	(0.6)%	(1,559)	(0.7)%
ESOP dividends paid deduction	(151)	(0.2)%	(144)	(0.2)%	(290)	(0.1)%	(281)	(0.1)%
Nondeductible expenses	946	0.9 %	745	0.8 %	1,659	0.6 %	1,346	0.6 %
Other items, net	495	0.5 %	(248)	(0.3)%	1,551	0.6 %	758	0.4 %
Total tax expense	<u>\$ 21,311</u>	<u>20.6 %</u>	<u>\$ 18,379</u>	<u>19.1 %</u>	<u>\$ 53,402</u>	<u>20.3 %</u>	<u>\$ 42,359</u>	<u>19.4 %</u>

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 result of future operations, which we believe will generate sufficient taxable income to realize the deferred tax asset.

5. STOCK BASED COMPENSATION

Our RLI Corp. Long-Term Incentive Plan (2015 LTIP) was in place from 2015 to 2023. The 2015 LTIP provided for equity-based compensation, including stock options and restricted stock units, up to a maximum of 4,000,000 shares of common stock (subject to adjustment for changes in our capitalization and other events). Between 2015 and 2023, we granted 3,291,388 awards under the 2015 LTIP. The 2015 LTIP was replaced in 2023.

In 2023, our shareholders approved the 2023 RLI Corp. Long-Term Incentive Plan (2023 LTIP), which provides for equity-based compensation. In conjunction with the adoption of the 2023 LTIP, effective May 4, 2023, awards are no longer granted under the 2015 LTIP. Awards under the 2023 LTIP may be in the form of restricted stock, restricted stock units, stock options (incentive or non-qualified), stock appreciation rights, performance units as well as other stock-based awards. Eligibility under the 2023 LTIP is limited to employees, directors, consultants and independent contractors of the Company or any affiliate. The granting of awards under the 2023 LTIP is solely at the discretion of the Human Capital and Compensation Committee of the board of directors or its delegate. The maximum number of shares of common stock available for distribution under the 2023 LTIP is 4,004,891 shares (subject to adjustment for changes in our capitalization and other events). Since the plan's approval in 2023, we have granted 357,001 awards under the 2023 LTIP, including 161,463 thus far in 2024.

Compensation expense is based on the probable number of awards expected to vest. The total compensation expense related to equity awards was \$2.2 million and \$4.0 million in the three and six-month periods ended June 30, 2024, respectively, compared to \$2.2 million and \$4.7 million, respectively, for the same periods in 2023. The total income tax benefit was \$ 0.3 million and \$0.6 million for the three and six-month periods ended June 30, 2024, compared to \$ 0.3 million and \$0.8 million, respectively, for the same periods in 2023. Total unrecognized compensation expense relating to outstanding and unvested awards was \$9 million, which will be recognized over the weighted average vesting period of 2.74 years.

Stock Options

Under the 2023 LTIP, as under the 2015 LTIP, we grant stock options for shares with an exercise price equal to the fair market value of the shares at the date of grant (subject to adjustments for changes in our capitalization, special dividends and other events as set forth in such plans). Options generally vest and become exercisable 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 or greater, the requisite service period is deemed to be met and options are immediately expensed on the date of grant. For participants who will become retirement eligible during the vesting period, the requisite service period over which expense is recognized is the period between the grant date and the attainment of retirement eligibility. Shares issued upon option exercise are newly issued shares.

The following tables summarize option activity for the six-month period ended June 30, 2024:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (in 000's)
Outstanding options at January 1, 2024	1,641,710	\$ 92.62		
Options granted	141,932	141.73		
Options exercised	(120,940)	67.25		
Options canceled/forfeited	(6,900)	105.93		
Outstanding options at June 30, 2024	1,655,802	\$ 98.62	4.51	\$ 69,933
Exercisable options at June 30, 2024	983,166	\$ 85.13	3.39	\$ 54,623

The intrinsic value of options exercised, which is the difference between the fair value and the exercise price, was \$ 9 million and \$16 million during the first six months of 2024 and 2023, respectively.

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

	2024	2023
Weighted-average fair value of grants	\$ 31.09	\$ 26.79
Risk-free interest rates	4.91 %	3.44 %
Dividend yield	2.30 %	2.29 %
Expected volatility	23.08 %	22.95 %
Expected option life	5.00 years	4.94 years

The risk-free rate was determined based on U.S. treasury yields that most closely approximated the options' 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 or greater. 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 million and \$1 million during the first six months of 2024 and 2023, respectively.

	RSUs	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2024	45,093	\$ 125.16
Granted	19,531	142.83
Reinvested	179	143.82
Vested	(17,198)	122.96
Forfeited	(606)	132.42
Nonvested at June 30, 2024	46,999	\$ 133.29

6. OPERATING SEGMENT INFORMATION

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

Revenues (in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2024	2023	2024	2023
Casualty	\$ 209,100	\$ 187,048	\$ 407,376	\$ 373,079
Property	134,097	101,841	263,508	190,608
Surety	35,868	33,391	68,857	66,316
Net premiums earned	\$ 379,065	\$ 322,280	\$ 739,741	\$ 630,003
Net investment income	33,961	28,788	66,808	55,872
Net realized gains (losses)	(192)	5,580	5,802	20,200
Net unrealized gains on equity securities	3,608	25,214	48,922	40,710
Total consolidated revenue	<u>\$ 416,442</u>	<u>\$ 381,862</u>	<u>\$ 861,273</u>	<u>\$ 746,785</u>
Net Earnings (in thousands)	2024	2023	2024	2023
Casualty	\$ 10,315	\$ 6,977	\$ 23,989	\$ 38,808
Property	53,180	25,877	110,896	54,260
Surety	6,529	8,347	12,834	16,023
Net underwriting income	\$ 70,024	\$ 41,201	\$ 147,719	\$ 109,091
Net investment income	33,961	28,788	66,808	55,872
Net realized gains (losses)	(192)	5,580	5,802	20,200
Net unrealized gains on equity securities	3,608	25,214	48,922	40,710
General corporate expense and interest on debt	(5,744)	(6,266)	(12,372)	(12,488)
Equity in earnings of unconsolidated investees	1,646	1,514	6,415	5,437
Earnings before income taxes	\$ 103,303	\$ 96,031	\$ 263,294	\$ 218,822
Income tax expense	21,311	18,379	53,402	42,359
Net earnings	<u>\$ 81,992</u>	<u>\$ 77,652</u>	<u>\$ 209,892</u>	<u>\$ 176,463</u>

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

Net Premiums Earned (in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2024	2023	2024	2023
Casualty				
Commercial excess and personal umbrella	\$ 85,986	\$ 69,261	\$ 166,021	\$ 136,843
Commercial transportation	29,323	25,398	56,624	50,630
General liability	26,104	26,016	51,516	51,916
Professional services	26,000	24,602	51,085	48,959
Small commercial	19,459	18,455	37,796	36,396
Executive products	5,448	6,153	11,363	12,506
Other casualty	16,780	17,163	32,971	35,829
Total	<u>\$ 209,100</u>	<u>\$ 187,048</u>	<u>\$ 407,376</u>	<u>\$ 373,079</u>
Property				
Commercial property	\$ 87,400	\$ 60,219	\$ 175,005	\$ 109,481
Marine	37,069	32,412	69,637	63,048
Other property	9,628	9,210	18,866	18,079
Total	<u>\$ 134,097</u>	<u>\$ 101,841</u>	<u>\$ 263,508</u>	<u>\$ 190,608</u>
Surety				
Transactional	\$ 12,308	\$ 11,887	\$ 24,416	\$ 23,934
Commercial	12,700	12,505	23,325	24,923
Contract	10,860	8,999	21,116	17,459
Total	<u>\$ 35,868</u>	<u>\$ 33,391</u>	<u>\$ 68,857</u>	<u>\$ 66,316</u>
Grand Total	<u>\$ 379,065</u>	<u>\$ 322,280</u>	<u>\$ 739,741</u>	<u>\$ 630,003</u>

7. LEASES

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

The Company's operating lease obligations are for branch office facilities. The components of lease expense and other lease information as of and during the three and six-month periods ended June 30, 2024 and 2023 were as follows:

(in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2024	2023	2024	2023
Operating lease cost	\$ 1,153	\$ 1,239	\$ 2,334	\$ 2,508
Variable lease cost	260	444	508	882
Sublease income	(42)	(139)	(85)	(277)
Total lease cost	<u>\$ 1,371</u>	<u>\$ 1,544</u>	<u>\$ 2,757</u>	<u>\$ 3,113</u>
Cash paid for amounts included in measurement of lease liabilities				
Operating cash outflows from operating leases	\$ 1,105	\$ 1,357	\$ 2,168	\$ 2,755
ROU assets obtained in exchange for new operating lease liabilities	\$ 333	\$ 943	\$ 3,789	\$ 984
Reduction to ROU assets resulting from reduction to lease liabilities	\$ —	\$ —	\$ —	\$ 200
(in thousands)	June 30, 2024		December 31, 2023	
Operating lease ROU assets	\$	15,417	\$	13,666
Operating lease liabilities	\$	16,783	\$	14,880
Weighted-average remaining lease term - operating leases		6.14 years		6.08 years
Weighted-average discount rate - operating leases		3.56 %		3.21 %

Future minimum lease payments under non-cancellable leases as of June 30, 2024 were as follows:

(in thousands)	June 30, 2024
2024	\$ 1,994
2025	4,197
2026	3,473
2027	2,107
2028	1,537
2029	1,443
Thereafter	4,489
Total future minimum lease payments	\$ 19,240
Less imputed interest	(2,457)
Total operating lease liability	<u>\$ 16,783</u>

8. ACQUISITIONS AND DISPOSTIONS

On September 30, 2022, RLI Corp. completed the sale of its equity method investment in Maui Jim, Inc. to Kering Eyewear. During the first quarter of 2023, the payout of the working capital escrow resulted in the recognition of a \$14 million gain that was recorded in the net realized gain line item of the statement of earnings.

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

Forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 appear throughout this report. These forward looking statements generally include words such as "expect," "predict," "estimate," "will," "should," "anticipate," "believe" and similar expressions. Such assumptions are, in turn, based on information available and internal estimates and analyses of general economic conditions, competitive factors, conditions specific to the property and casualty insurance and reinsurance industries, claims development and the impact thereof on our loss reserves, the adequacy and financial security of our reinsurance programs, developments in the securities market and the impact on our investment portfolio, regulatory changes and conditions and other factors. These assumptions are subject to various risks, uncertainties and other factors, including, without limitation those set forth in "Item 1A. Risk Factors" within the Annual Report on Form 10-K for the year ended December 31, 2023 and Part II within this report. Actual results could differ materially from those expressed in, or implied by, these forward looking statements. Forward looking statements reflect the Company's expectations, plans or forecasts of future events and views as of the date of this report. While the Company may elect to update these forward looking statements at some point in the future, the Company specifically disclaims any obligation to do so. You should review the various risks, uncertainties and other factors listed from time to time in our Securities and Exchange Commission filings.

OVERVIEW

RLI Corp. is a U.S.-based, specialty insurance company that underwrites select property, casualty and surety products through three major subsidiaries. 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 2023, we achieved our 28th consecutive year of underwriting profitability. Over the 28-year period, we averaged an 88.2 combined ratio. This drives our ability to provide shareholder returns in three different ways: the underwriting income itself, net investment income from our investment portfolio and long-term appreciation in our equity portfolio.

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

The property and casualty insurance business is cyclical and influenced by many factors, including price competition, economic conditions, natural or man-made disasters (for example, earthquakes, hurricanes, pandemics and terrorism), interest rates, state regulations, court decisions and changes in the law. One of the unique and challenging features of the property and casualty insurance business is that coverages must be priced before costs have fully developed, because premiums are charged before claims are incurred. This requires that liabilities be estimated and recorded in recognition of future loss and settlement obligations. Due to the inherent uncertainty in estimating these liabilities, there can be no assurance that actual liabilities will equal recorded amounts. If actual liabilities differ from recorded amounts, there will either be an adverse or favorable effect on net earnings.

The casualty portion of our business consists largely of commercial excess, personal umbrella, general liability, transportation and management liability 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 risks through quota share and excess of loss reinsurance agreements. 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, hurricane, earthquake, difference in conditions and marine coverages. We also offer homeowners' coverages in Hawaii. Property insurance results are subject to the variability introduced by perils such as earthquakes, fires, hurricanes and other storms. Our major catastrophe exposure is to losses caused by earthquakes, primarily on the West Coast, and windstorms affecting commercial properties in coastal regions of the United States. We limit our net aggregate exposure to a catastrophic event by managing the total policy limits written in a particular region, purchasing reinsurance and maintaining policy terms and conditions throughout insurance cycles. We also use computer-assisted modeling techniques to provide estimates that help the Company carefully manage the concentration of risks exposed to catastrophic events.

The surety segment specializes in writing small to medium-sized contract surety coverages, including payment and performance bonds. We offer a variety of commercial surety bonds for medium to large-sized businesses across a broad spectrum of industries, including the financial, healthcare, energy and renewable energy industries. We also offer a variety of transactional bonds including, but not limited to 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 commercial contractors' contractual obligations for a specific construction project. Generally, losses occur due to the deterioration of a contractor's financial condition. This line has historically produced marginally higher loss ratios than other surety lines during economic downturns.

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

Key Performance Measures

The following is a list of key performance 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 components are presented in the statements of earnings but is not subtotaled. However, this information is available in total and by segment in note 6 to the unaudited condensed consolidated financial statements in this quarterly report on Form 10-Q, and in note 12 to the consolidated financial statements in our 2023 Annual Report on Form 10-K, regarding operating segment information. The nearest comparable GAAP measure is earnings before income taxes which, in addition to underwriting income, includes net investment income, net realized gains or losses, net unrealized gains or losses on equity securities, general corporate expenses, debt costs and our portion of earnings from unconsolidated investees. A reconciliation of net earnings to underwriting income follows:

(in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2024	2023	2024	2023
Net earnings	\$ 81,992	\$ 77,652	\$ 209,892	\$ 176,463
Income tax expense	21,311	18,379	53,402	42,359
Earnings before income taxes	\$ 103,303	\$ 96,031	\$ 263,294	\$ 218,822
Equity in earnings of unconsolidated investees	(1,646)	(1,514)	(6,415)	(5,437)
General corporate expenses	4,140	4,219	9,150	8,433
Interest expense on debt	1,604	2,047	3,222	4,055
Net unrealized gains on equity securities	(3,608)	(25,214)	(48,922)	(40,710)
Net realized (gains) losses	192	(5,580)	(5,802)	(20,200)
Net investment income	(33,961)	(28,788)	(66,808)	(55,872)
Net underwriting income	\$ 70,024	\$ 41,201	\$ 147,719	\$ 109,091

Combined Ratio

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

Critical Accounting Policies

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

The most critical accounting policies involve significant estimates and include those used in determining the liability for unpaid losses and settlement expenses, investment valuation, recoverability of reinsurance balances, deferred policy acquisition costs and deferred taxes. For a detailed discussion of each of these policies, refer to our 2023 Annual Report on Form 10-K.

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

RESULTS OF OPERATIONS

Six Months Ended June 30, 2024 Compared to Six Months Ended June 30, 2023

Net premiums earned increased 17 percent, driven by products in our property and casualty segments. Positive market performance resulted in \$49 million of unrealized gains on equity securities in the first six months of 2024, compared to \$41 million in 2023. Investment income was up 20 percent, due to an increased average asset base and higher reinvestment rates. Realized gains during the first six months of 2024 were comprised of \$13 million of realized gains on equity securities, primarily due to rebalancing within our equity strategies, \$2 million of realized losses on the fixed income portfolio and \$5 million of other realized losses. This compares to \$9 million of realized gains on the equity portfolio, \$3 million of realized losses on the fixed income portfolio and \$14 million of other realized gains from the payout of the working capital escrow from our sale of Maui Jim, Inc. (Maui Jim) in the previous year.

Consolidated Revenues (in thousands)	For the Six Months Ended June 30,	
	2024	2023
Net premiums earned	\$ 739,741	\$ 630,003
Net investment income	66,808	55,872
Net realized gains (losses)	5,802	20,200
Net unrealized gains on equity securities	48,922	40,710
Total consolidated revenue	<u>\$ 861,273</u>	<u>\$ 746,785</u>

Underwriting income was \$148 million on an 80.0 combined ratio for the first six months of 2024, compared to \$109 million on an 82.7 combined ratio in the same period of 2023. A larger earned premium base resulted in higher levels of underwriting income. Underwriting results were impacted by \$28 million of pretax storm losses in 2024 and \$22 million of pretax storm losses in 2023. Results for each period benefited from favorable development on prior years' loss reserves, which provided additional pretax earnings of \$65 million in the first six months of 2024, compared to \$72 million in 2023.

The loss ratio decreased to 42.1 from 42.6, due to low levels of attritional, non-catastrophe property losses on a higher earned premium base in 2024. The expense ratio decreased to 37.9 from 40.1. Despite continued investments in our people and technology, as well as higher levels of bonus and profit-sharing expenses that resulted from improved operating performance, growth of net premiums earned allowed for improved leveraging of our expense base.

Bonus and profit-sharing amounts earned by executives, managers and associates are predominantly influenced by corporate performance, including operating earnings, combined ratio and return on capital. Favorable development and other drivers of growth in book value will increase bonus and profit-sharing expenses, while catastrophe losses, adverse development and decreased investment portfolio returns would lead to expense reductions. These performance-related expenses affect policy acquisition, insurance operating and general corporate expenses.

Our equity in earnings of unconsolidated investees primarily relates to our investment in Prime Holdings Insurance Services, Inc. (Prime), a specialty insurance company. We recognized \$6 million of investee earnings from Prime in the first six months of 2024 and 2023.

Net earnings for the first six months of 2024 totaled \$210 million, compared to \$176 million for the same period in 2023. Higher levels of underwriting income, investment income and unrealized gains on equity securities all contributed to the improved results.

Comprehensive earnings totaled \$189 million for the first six months of 2024, compared to \$194 million for the first six months of 2023. Other comprehensive earnings (loss) primarily included net after-tax unrealized gains (losses) from the fixed income portfolio. Other comprehensive loss of \$21 million in the first six months of 2024 was attributable to higher interest rates, which decreased the fair value of securities held in the fixed income portfolio. Comparatively, \$18 million of other comprehensive earnings was recognized in 2023, as modestly tighter credit spreads on relatively steady interest rates increased the fair value of securities held in the fixed income portfolio.

Premiums

Gross premiums written increased \$109 million for the first six months of 2024, compared to the same period of 2023. Growth was achieved in all three segments. Net premiums earned increased \$110 million, driven by products in our property and casualty segments.

(in thousands)	Gross Premiums Written			Net Premiums Earned		
	For the Six Months Ended June 30,			For the Six Months Ended June 30,		
	2024	2023	% Change	2024	2023	% Change
Casualty						
Commercial excess and personal umbrella	\$ 225,219	\$ 176,840	27 %	\$ 166,021	\$ 136,843	21 %
Commercial transportation	67,875	58,715	16 %	56,624	50,630	12 %
General liability	55,568	55,612	(0)%	51,516	51,916	(1)%
Professional services	57,600	55,282	4 %	51,085	48,959	4 %
Small commercial	44,769	40,246	11 %	37,796	36,396	4 %
Executive products	38,093	40,345	(6)%	11,363	12,506	(9)%
Other casualty	42,761	41,851	2 %	32,971	35,829	(8)%
Total	\$ 531,885	\$ 468,891	13 %	\$ 407,376	\$ 373,079	9 %
Property						
Commercial property	\$ 305,671	\$ 284,945	7 %	\$ 175,005	\$ 109,481	60 %
Marine	85,996	74,970	15 %	69,637	63,048	10 %
Other property	24,711	20,820	19 %	18,866	18,079	4 %
Total	\$ 416,378	\$ 380,735	9 %	\$ 263,508	\$ 190,608	38 %
Surety						
Transactional	\$ 27,390	\$ 25,821	6 %	\$ 24,416	\$ 23,934	2 %
Commercial	29,906	27,039	11 %	23,325	24,923	(6)%
Contract	26,489	20,490	29 %	21,116	17,459	21 %
Total	\$ 83,785	\$ 73,350	14 %	\$ 68,857	\$ 66,316	4 %
Grand Total	\$ 1,032,048	\$ 922,976	12 %	\$ 739,741	\$ 630,003	17 %

Casualty

Gross premiums written for the casualty segment increased \$63 million in the first six months of 2024. We continued to benefit from positive rate movement across a large portion of our casualty segment, as well as from new business growth across our personal umbrella and small commercial distribution channels. Commercial transportation benefited from an increase in submissions. However, executive products premium continued to decline as a result of competitive market conditions.

Property

Gross premiums written for the property segment increased \$36 million in the first six months of 2024. Our commercial property business was up \$21 million, as rates continued to increase. New opportunities led to \$11 million of premium growth for our marine product. Additionally, some competitors have reduced their appetite for select Hawaii homeowner coverages, which has allowed our other property premium to grow.

Surety

Gross premiums written for the surety segment increased \$10 million for the first six months of 2024. Contract surety benefited from new agency relationships, new construction projects and elevated material costs. The expansion of existing accounts and new business resulted in increased premium for commercial surety.

Underwriting Income

	For the Six Months Ended June 30,	
	2024	2023
Underwriting Income (in thousands)		
Casualty	\$ 23,989	\$ 38,808
Property	110,896	54,260
Surety	12,834	16,023
Total	\$ 147,719	\$ 109,091
Combined Ratio		
Casualty	94.1	89.6
Property	57.9	71.5
Surety	81.4	75.8
Total	80.0	82.7

Casualty

The casualty segment recorded underwriting income of \$24 million in the first six months of 2024, compared to \$39 million for the same period last year. Prior accident years' reserve releases reduced loss and settlement expenses for the casualty segment by \$32 million, primarily on accident years 2016 and 2019 through 2023. Favorable development was widespread, with notable amounts from general liability, executive products, personal umbrella, professional services and commercial excess. In comparison, \$47 million of prior accident years' reserves were released in the first six months of 2023. Commercial excess, professional services, general liability and personal umbrella were drivers of the favorable development in 2023.

The combined ratio for the casualty segment was 94.1 in 2024, compared to 89.6 in 2023. The segment's loss ratio was 56.8 in 2024, up from 52.2 in 2023. Lower levels of reserve releases on prior accident years resulted in the higher loss ratio in 2024. The expense ratio for the casualty segment was 37.3, down from 37.4 for the same period last year.

Property

The property segment recorded underwriting income of \$111 million for the first six months of 2024, compared to \$54 million for the same period last year. Underwriting results for 2024 included \$25 million of favorable development on prior years' loss and catastrophe reserves and \$26 million of storm losses in the current year. Comparatively, the 2023 underwriting results included \$17 million of favorable development on prior years' loss and catastrophe reserves and \$20 million of other storm losses.

Underwriting results for the first six months of 2024 translated into a combined ratio of 57.9, compared to 71.5 for the same period last year. The segment's loss ratio was 28.1 in 2024, down from 35.5 in 2023. Larger releases on prior years' loss reserves and low attritional, non-catastrophe losses more than offset the impact of higher storm losses. The segment's expense ratio decreased to 29.8 in 2024 from 36.0 in the prior year, as the growth in the earned premium base exceeded the growth in expense. Additionally, the expense ratio benefited from an increase in the expense override we earn for writing business on behalf of other carriers.

Surety

The surety segment recorded underwriting income of \$13 million for the first six months of 2024, compared to \$16 million for the same period last year. Both periods reflected positive current accident year underwriting performance and benefited from favorable development on prior years' loss reserves. Results for 2024 included favorable development on prior accident years' reserves, which decreased loss and settlement expenses for the segment by \$8 million. Results for 2023

included \$7 million of favorable development on prior accident years' reserves. Additionally, \$2 million of reinsurance reinstatement premium was recorded in 2024 on a prior year loss, which reduced net premiums earned and underwriting income.

The combined ratio for the surety segment totaled 81.4 for the first six months of 2024, compared to 75.8 for the same period in 2023. The segment's loss ratio was 9.2 in 2024, up from 9.0 in 2023. The expense ratio was 72.2, up from 66.8 in the prior year. The impact of the reinsurance reinstatement premium on the earned premium base increased the loss ratio by 0.3 points and the expense ratio by 2.0 points. In addition, the increase in expense ratio was the result of continued investments in technology and people to support growth and improve customer experiences.

Investment Income

Our investment portfolio generated net investment income of \$67 million during the first six months of 2024, an increase of 20 percent from the same period in 2023. The increase in investment income was due to higher reinvestment rates, as well as an increased average asset base relative to the prior year.

Yields on our fixed income investments for the first six months of 2024 and 2023 were as follows:

	2024	2023
Pretax Yield		
Taxable	3.74 %	3.40 %
Tax-Exempt	2.86 %	2.78 %
After-Tax Yield		
Taxable	2.95 %	2.69 %
Tax-Exempt	2.71 %	2.63 %

The following table depicts the composition of our investment portfolio at June 30, 2024 as compared to December 31, 2023:

(in thousands)	June 30, 2024		December 31, 2023	
Fixed income	\$ 2,989,527	76.9 %	\$ 2,855,849	77.7 %
Equity securities	666,563	17.2 %	590,041	16.0 %
Short-term investments	125,865	3.2 %	134,923	3.7 %
Other invested assets	55,364	1.4 %	59,081	1.6 %
Cash	50,030	1.3 %	36,424	1.0 %
Total investments and cash	\$ 3,887,349	100.0 %	\$ 3,676,318	100.0 %

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

The fixed income portfolio increased by \$134 million in the first six months of 2024, as cash flows were allocated to the fixed income portfolio. Average fixed income duration was 4.7 years at June 30, 2024, reflecting our liability structure and sound capital position. The equity portfolio increased by \$77 million during the first six months of 2024, due to the positive performance of equity markets. Short-term investments decreased by \$9 million, as we deployed cash to manage reinvestment risk.

Income Taxes

Our effective tax rate for the first six months of 2024 was 20.3 percent, compared to 19.4 percent for the same period in 2023. Effective rates are dependent upon components of pretax earnings or losses and the related tax effects. The effective tax rate was higher for the six-month period in 2024 due to lower levels of tax-favored adjustments, such as tax credits and excess tax benefits on share-based compensation, and higher levels of pretax income, which decreased the percentage impact of tax-favored adjustments.

Three Months Ended June 30, 2024 Compared to Three Months Ended June 30, 2023

Net premiums earned increased 18 percent, driven by products in our property and casualty segments. Positive market performance resulted in \$4 million of unrealized gains on equity securities in the second quarter of 2024, compared to \$25 million in 2023. Investment income was up 18 percent, due to an increased average asset base and higher reinvestment rates. Realized gains during the second quarter of 2024 were comprised of \$6 million of realized gains on equity securities, primarily due to rebalancing within our equity strategies, \$1 million of realized losses on the fixed income portfolio and \$5 million of other realized losses. This compares to \$6 million of realized gains on the equity portfolio and less than \$1 million of realized losses on the fixed income portfolio in the second quarter of 2023.

Consolidated Revenues (in thousands)	For the Three Months Ended June 30,	
	2024	2023
Net premiums earned	\$ 379,065	\$ 322,280
Net investment income	33,961	28,788
Net realized gains (losses)	(192)	5,580
Net unrealized gains on equity securities	3,608	25,214
Total consolidated revenue	<u>\$ 416,442</u>	<u>\$ 381,862</u>

Underwriting income was \$70 million on an 81.5 combined ratio for the second quarter of 2024, compared to \$41 million on an 87.2 combined ratio in the same period of 2023. A larger earned premium base resulted in higher levels of underwriting income. Underwriting results were impacted by \$16 million of pretax storm losses in 2024 and \$18 million of pretax storm losses in 2023. Results for each period benefited from favorable development on prior years' loss reserves, which provided additional pretax earnings of \$23 million in the second quarter of 2024, compared to \$20 million in 2023.

The loss ratio decreased to 44.3 from 47.8, due to an increase in favorable development on prior accident years' loss reserves, lower levels of catastrophe losses and low levels of attritional, non-catastrophe property losses on a higher earned premium base in 2024. The expense ratio decreased to 37.2 from 39.4. Despite continued investments in our people and technology, as well as higher levels of bonus and profit-sharing expenses that resulted from improved operating performance, growth of net premiums earned allowed for improved leveraging of our expense base.

Bonus and profit-sharing amounts earned by executives, managers and associates are predominantly influenced by corporate performance, including operating earnings, combined ratio and return on capital. Favorable development and other drivers of growth in book value will increase bonus and profit-sharing expenses, while catastrophe losses, adverse development and decreased investment portfolio returns would lead to expense reductions. These performance-related expenses affect policy acquisition, insurance operating and general corporate expenses.

Our equity in earnings of unconsolidated investees primarily relates to our investment in Prime Holdings Insurance Services, Inc. (Prime), a specialty insurance company. We recognized \$2 million of investee earnings from Prime in the second quarter of 2024 and 2023.

Net earnings for the second quarter of 2024 totaled \$82 million, compared to \$78 million for the same period in 2023. Higher levels of underwriting income and investment income more than offset a decline in unrealized gains on equity securities.

Comprehensive earnings totaled \$74 million for the second quarter of 2024, compared to \$58 million for the same period of 2023. Other comprehensive earnings (loss) primarily included net after-tax unrealized gains (losses) from the fixed income portfolio. Other comprehensive loss of \$8 million in the second quarter of 2024 was attributable to higher interest rates, which decreased the fair value of securities held in the fixed income portfolio. Comparatively, \$20 million of other comprehensive loss was recognized in 2023, as interest rates increased.

Premiums

Gross premiums written increased \$55 million for the second quarter of 2024, compared to the same period of 2023. Growth was achieved in all three segments. Net premiums earned increased \$57 million, driven by products in our property and casualty segments.

(in thousands)	Gross Premiums Written			Net Premiums Earned		
	For the Three Months			For the Three Months		
	Ended June 30,			Ended June 30,		
	2024	2023	% Change	2024	2023	% Change
Casualty						
Commercial excess and personal umbrella	\$ 123,037	\$ 95,409	29 %	\$ 85,986	\$ 69,261	24 %
Commercial transportation	38,746	35,842	8 %	29,323	25,398	15 %
General liability	28,808	30,823	(7)%	26,104	26,016	0 %
Professional services	30,808	29,093	6 %	26,000	24,602	6 %
Small commercial	23,143	20,287	14 %	19,459	18,455	5 %
Executive products	21,680	22,518	(4)%	5,448	6,153	(11)%
Other casualty	20,334	17,085	19 %	16,780	17,163	(2)%
Total	<u>\$ 286,556</u>	<u>\$ 251,057</u>	14 %	<u>\$ 209,100</u>	<u>\$ 187,048</u>	12 %
Property						
Commercial property	\$ 176,977	\$ 173,006	2 %	\$ 87,400	\$ 60,219	45 %
Marine	45,422	37,781	20 %	37,069	32,412	14 %
Other property	13,615	11,102	23 %	9,628	9,210	5 %
Total	<u>\$ 236,014</u>	<u>\$ 221,889</u>	6 %	<u>\$ 134,097</u>	<u>\$ 101,841</u>	32 %
Surety						
Transactional	\$ 13,276	\$ 12,474	6 %	\$ 12,308	\$ 11,887	4 %
Commercial	14,275	11,943	20 %	12,700	12,505	2 %
Contract	13,252	10,601	25 %	10,860	8,999	21 %
Total	<u>\$ 40,803</u>	<u>\$ 35,018</u>	17 %	<u>\$ 35,868</u>	<u>\$ 33,391</u>	7 %
Grand Total	<u>\$ 563,373</u>	<u>\$ 507,964</u>	11 %	<u>\$ 379,065</u>	<u>\$ 322,280</u>	18 %

Casualty

Gross premiums written for the casualty segment increased \$35 million in the second quarter of 2024. We continued to benefit from positive rate movement across a large portion of our casualty segment, as well as from new business growth across our personal umbrella and small commercial distribution channels. However, a reduction of available projects and our exit from energy casualty business resulted in a decline in general liability premium, while competitive market conditions continued to negatively impact executive products.

Property

Gross premiums written for the property segment increased \$14 million in the second quarter of 2024. New opportunities and improved retention led to \$8 million of premium growth for our marine product. Rate increases as well as new opportunities on fire and other peril lines resulted in a \$4 million increase in our commercial property business. Wind rates declined slightly in the second quarter, after four consecutive years of double-digit increases. Additionally, some competitors have reduced their appetite for select Hawaii homeowner coverages, which has allowed our other property premium to grow.

Surety

Gross premiums written for the surety segment increased \$6 million for the second quarter of 2024. Contract surety benefited from new agency relationships, new construction projects and continued increases in material costs. The expansion of existing accounts and new business resulted in increased premium for commercial surety.

Underwriting Income

	For the Three Months Ended June 30,	
	2024	2023
Underwriting Income (in thousands)		
Casualty	\$ 10,315	\$ 6,977
Property	53,180	25,877
Surety	6,529	8,347
Total	\$ 70,024	\$ 41,201
Combined Ratio		
Casualty	95.1	96.3
Property	60.3	74.6
Surety	81.8	75.0
Total	81.5	87.2

Casualty

The casualty segment recorded underwriting income of \$10 million in the second quarter of 2024, compared to \$7 million for the same period last year. Prior accident years' reserve releases reduced loss and settlement expenses for the casualty segment by \$14 million, primarily on accident years 2019 through 2023. Favorable development was widespread, with notable amounts from professional services, commercial excess, executive products and general liability. In comparison, \$11 million of prior accident years' reserves were released in the second quarter of 2023. Small commercial, commercial excess and personal umbrella were drivers of the favorable development in 2023.

The combined ratio for the casualty segment was 95.1 in 2024, compared to 96.3 in 2023. The segment's loss ratio was 58.3 in 2024, down from 58.9 in 2023. Larger levels of reserve releases on prior accident years resulted in the lower loss ratio in 2024. The expense ratio for the casualty segment was 36.8, down from 37.4 for the same period last year.

Property

The property segment recorded underwriting income of \$53 million for the second quarter of 2024, compared to \$26 million for the same period last year. Underwriting results for 2024 included \$6 million of favorable development on prior years' loss and catastrophe reserves and \$15 million of storm losses in the current year. Comparatively, the 2023 underwriting results included \$4 million of favorable development on prior years' loss and catastrophe reserves and \$17 million of other storm losses.

Underwriting results for the second quarter of 2024 translated into a combined ratio of 60.3, compared to 74.6 for the same period last year. The segment's loss ratio was 30.9 in 2024, down from 40.4 in 2023. Larger releases on prior years' loss reserves, lower levels of storm losses and low attritional, non-catastrophe losses all contributed to the decline the loss ratio. The segment's expense ratio decreased to 29.4 in 2024 from 34.2 in the prior year, as the growth in the earned premium base exceeded the growth in expense. Additionally, the expense ratio benefited from an increase in the expense override we earn for writing business on behalf of other carriers.

Surety

The surety segment recorded underwriting income of \$7 million for the second quarter of 2024, compared to \$8 million for the same period last year. Both periods reflected positive current accident year underwriting performance and benefited from favorable development on prior years' loss reserves. Results for 2024 included favorable development on prior accident years' reserves, which decreased loss and settlement expenses for the segment by \$2 million. Results for 2023 included \$4 million of favorable development on prior accident years' reserves.

The combined ratio for the surety segment totaled 81.8 for the second quarter of 2024, compared to 75.0 for the same period in 2023. The segment's loss ratio was 12.7 in 2024, up from 7.8 in 2023, due to lower levels of favorable prior accident years' reserve development. The expense ratio was 69.1, up from 67.2 in the prior year, due to increases in select policy acquisition costs.

Investment Income

Our investment portfolio generated net investment income of \$34 million during the second quarter of 2024, an increase of 18 percent from the same period in 2023. The increase in investment income was due to higher interest rates, as well as an increased average asset base relative to the prior year.

Yields on our fixed income investments for the second quarter of 2024 and 2023 were as follows:

	2024	2023
Pretax Yield		
Taxable	3.75 %	3.41 %
Tax-Exempt	2.90 %	2.79 %
After-Tax Yield		
Taxable	2.96 %	2.69 %
Tax-Exempt	2.75 %	2.64 %

Income Taxes

Our effective tax rate for the second quarter of 2024 was 20.6 percent, compared to 19.1 percent for the same period in 2023. Effective rates are dependent upon components of pretax earnings or losses and the related tax effects. The effective tax rate was higher for the second quarter of 2024 due to lower levels of tax-favored adjustments, such as tax credits and excess tax benefits on share-based compensation, and higher levels of pretax income, which decreased the percentage impact of tax-favored adjustments.

LIQUIDITY AND CAPITAL RESOURCES

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

The following table summarizes cash flows provided by (used in) our activities for the six-month periods ended June 30, 2024 and 2023:

(in thousands)	2024	2023
Operating cash flows	\$ 212,771	\$ 243,595
Investing cash flows	(177,009)	(226,116)
Financing cash flows	(22,156)	(23,590)
Total	\$ 13,606	\$ (6,111)

Our largest source of cash is premiums received from customers and our largest cash outflow is claim payments on insured losses. Cash flows from operating activities can vary among periods due to the timing in which these payments are made or received. Operating cash flows in the first six months of 2024 benefited from increased premium receipts relative to the first six months of 2023, but the impact was offset by elevated levels of loss and settlement expense payments.

As of June 30, 2024, we had \$100 million in debt outstanding. On September 15, 2023, we accessed \$50 million from our revolving line of credit with PNC Bank, N.A. (PNC). The borrowing may be repaid at any time and carries an adjustable interest rate of 6.94 percent, which will reset during the third quarter of 2024. The credit facility with PNC was entered into during the first quarter of 2023 and replaced the previous \$60 million facility with Bank of Montreal, Chicago Branch, which expired on March 27, 2023. The line of credit permits us to borrow up to an aggregate principal amount of \$100 million, but may be increased up to an aggregate principal amount of \$130 million under certain conditions. The facility has a three-year term that expires on May 29, 2026. Further, RLI Insurance Company borrowed \$50 million from the Federal Home Loan Bank of Chicago (FHLBC) on November 10, 2023. The borrowing matures on November 12, 2024. Interest is paid monthly at an annualized rate of 5.44 percent.

Two of our insurance companies, RLI Insurance Company (RLI Ins.) and Mt. Hawley Insurance Company, are members of the FHLBC. Membership in the Federal Home Loan Bank system provides both companies access to an additional source of

liquidity via a secured lending facility. Our membership allows each insurance subsidiary to determine tenor and structure at the time of borrowing. As of June 30, 2024, \$57 million of investments were pledged as collateral with the FHLBC to ensure timely access to the secured lending facility.

As of June 30, 2024, we had cash and other investments maturing within one year of approximately \$415 million and an additional \$846 million maturing between one to five years. Whereas our strategy is to be fully invested at all times, short-term investments in excess of demand deposit balances are considered a component of investment activities, and thus are classified as investments in our consolidated balance sheets.

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

We maintain a diversified investment portfolio representing policyholder funds that have not yet been paid out as claims, as well as the capital we hold for our shareholders. Invested assets at June 30, 2024 have increased \$211 million from December 31, 2023. As of June 30, 2024, 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	\$ 442,734	\$ 434,800	\$ (7,934)	11.2 %	AA+
U.S. agency	60,058	58,309	(1,749)	1.5 %	AA+
Non-U.S. government & agency	4,800	3,828	(972)	0.1 %	BBB+
Agency MBS	458,944	414,675	(44,269)	10.7 %	AA+
ABS/CMBS/MBS**	345,072	320,061	(25,011)	8.2 %	AA
Corporate	1,310,888	1,250,780	(60,108)	32.2 %	A-
Municipal	595,370	507,074	(88,296)	13.0 %	AA+
Total fixed income	\$ 3,217,866	\$ 2,989,527	\$ (228,339)	76.9 %	AA-
Equity	381,138	666,563	285,425	17.2 %	
Short-term investments	125,865	125,865	—	3.2 %	
Other invested assets	52,776	55,364	2,588	1.4 %	
Cash	50,030	50,030	—	1.3 %	
Total portfolio	\$ 3,827,675	\$ 3,887,349	\$ 59,674	100.0 %	

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

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

Quality is an average of each bond's credit rating, adjusted for its relative weighting in the portfolio. As of June 30, 2024, our fixed income portfolio had the following rating distribution:

	AAA	AA	A	BBB	Below Investment Grade	No Rating	Fair Value
U.S. government	-	434,800	-	-	-	-	434,800
U.S. agency	-	58,309	-	-	-	-	58,309
Non-U.S. government & agency	-	-	1,667	2,161	-	-	3,828
Agency MBS	-	414,675	-	-	-	-	414,675
ABS/CMBS/MBS*	190,159	30,454	67,071	3,137	-	29,240	320,061
Corporate	32,806	124,183	542,778	336,411	146,507	68,095	1,250,780
Municipal	139,241	319,227	48,606	-	-	-	507,074
Total	362,206	1,381,648	660,122	341,709	146,507	97,335	2,989,527

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

As of June 30, 2024, our fixed income portfolio remained well diversified, with 1,831 individual issues.

Our investment portfolio has limited exposure to structured asset-backed securities. As of June 30, 2024, we had \$166 million in ABS, which are pools of assets collateralized by cash flows from several types of loans, including home equity, credit cards, autos and structured bank loans in the form of collateralized loan obligations (CLOs).

As of June 30, 2024, we had \$152 million in commercial and non-agency MBS and \$415 million in MBS backed by government sponsored enterprises (GSEs - Freddie Mac, Fannie Mae and Ginnie Mae). Excluding the GSE-backed MBS, our exposure to ABS and CMBS was 8.2 percent of our investment portfolio at quarter end.

We had \$1,251 million in corporate fixed income securities as of June 30, 2024, which includes \$119 million invested in a high-yield credit strategy. This high-yield portfolio consists of floating rate bank loans and bonds that are below investment grade in credit quality and offer incremental yield over our core fixed income portfolio.

The municipal portfolio includes approximately 61 percent taxable securities and 39 percent tax-exempt securities. Approximately 90 percent of our municipal bond portfolio maintains an 'AA' or better rating, while 100 percent of the municipal bond portfolio is rated 'A' or better.

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.

As of June 30, 2024, our equity portfolio had a dividend yield of 1.8 percent, compared to 1.3 percent for the S&P 500 index. Because of the corporate dividend-received-deduction applicable to our dividend income, we pay an effective tax rate of 13.1 percent on dividends, compared to 21.0 percent on taxable interest and 5.3 percent on municipal bond interest income. The equity portfolio is managed in a diversified and granular manner, with 85 individual securities and four ETF positions. No single company exposure in the equity portfolio represents more than 1 percent of invested assets.

Other invested assets include investments in low income housing tax credit and historic tax credit partnerships, membership in the FHLBC and investments in private funds.

We had \$67 million of investments in unconsolidated investees at June 30, 2024, compared to \$57 million at December 31, 2023.

Our investment portfolio does not have any exposure to derivatives.

As of June 30, 2024, our capital structure consisted of \$100 million in debt and \$1.6 billion of shareholders' equity. Debt outstanding comprised 6 percent of total capital as of June 30, 2024. Interest and fees on debt obligations totaled \$3 million for the first six months of 2024, compared to \$4 million for the same period in 2023. We incurred interest expense on debt at an average annual interest rate of 6.21 percent during the first six months of 2024, compared to 3.89 percent during the same period last year.

We paid a regular quarterly cash dividend of \$0.29 per share on June 20, 2024, an increase of \$0.02 from the prior quarter. We have increased dividends in each of the last 49 years.

Our three insurance companies are subsidiaries of RLI Corp, with RLI Ins. as the first-level, or principal, insurance company. At the holding company (RLI Corp.) level, we rely largely on dividends from our insurance subsidiaries to meet our obligations for paying principal and interest on outstanding debt, corporate expenses and dividends to RLI Corp. shareholders. As discussed further below, dividend payments to RLI Corp. from our principal insurance subsidiary are restricted by state insurance laws as to the amount that may be paid without prior approval of the insurance regulatory authorities of Illinois. As a result, we may not be able to receive dividends from such subsidiary at times and in amounts necessary to pay desired dividends to RLI Corp. shareholders. On a GAAP basis, as of June 30, 2024, our holding company had \$1.6 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 \$155 million in liquid assets. Unrestricted funds at the holding company are available to fund debt interest, general corporate obligations and dividend payments to our shareholders. If necessary, the holding company also has other potential sources of liquidity that could provide for additional funding to meet corporate obligations or pay shareholder dividends, which include a revolving line of credit, as well as access to capital markets.

Ordinary dividends, which may be paid by our principal insurance subsidiary without prior regulatory approval, are subject to certain limitations based upon statutory income, surplus and earned surplus. The maximum ordinary dividend distribution from our principal insurance subsidiary in a rolling 12-month period is limited by Illinois law to the greater of 10 percent of RLI Ins. policyholder surplus, as of December 31 of the preceding year, or the net income of RLI Ins. for the 12-month period ending December 31 of the preceding year. Ordinary dividends are further restricted by the requirement that they be paid from earned surplus. Any dividend distribution in excess of the ordinary dividend limits is deemed extraordinary and requires prior approval from the Illinois Department of Insurance (IDOI). In the first six months of 2024, RLI Ins. paid \$34 million in ordinary dividends to RLI Corp. In 2023, RLI Ins. paid ordinary dividends totaling \$145 million. As of June 30, 2024, \$3 million of the net assets of our principal insurance subsidiary were not restricted and could be distributed to RLI Corp. as ordinary dividends without prior approval from the IDOI. Because the limitations are based upon a rolling 12-month period, the amount and impact of these restrictions vary over time. In addition to restrictions from our principal subsidiary's insurance regulator, we also consider internal models and how capital adequacy is defined by our rating agencies in determining amounts available for distribution.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes to our exposure to market risk from that reported in our 2023 Annual Report on Form 10-K.

Historically, our primary market risks have been equity price risk associated with investments in equity securities and interest rate risk associated with investments in fixed income securities. We have consistently invested in high credit quality, investment grade securities. See "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" of our 2023 Annual Report on Form 10-K for more information.

Item 4. Controls and Procedures

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

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

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

PART II - OTHER INFORMATION

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

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds - not applicable.

Item 3. Defaults Upon Senior Securities - Not applicable.

Item 4. Mine Safety Disclosures - Not applicable.

Item 5. Other Information –

Securities Trading Plans of Executive Officers and Directors

Rule 10b5-1 under the Exchange Act provides an affirmative defense that enables prearranged transactions in Company securities in a manner that avoids concerns about initiating transactions at a future date while possibly in possession of material nonpublic information. Our Insider Trading Policy permits our executive officers and directors to enter into trading plans designed to comply with Rule 10b5-1.

During the three months ended June 30, 2024, no director or officer of the Company adopted or terminated a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement, as each term is defined in Item 408(a) of Regulation S-K.

Item 6. Exhibits

Exhibit Number	Description of Document	Incorporated by Reference		Filed or Furnished Herewith
		Form	Filing Date	
10.1	RLI Corp. 2023 Long-Term Incentive Plan, as amended*			X
10.2	2024 Stock Option Agreement*			X
10.3	2024 Restricted Stock Unit Agreement*			X
10.4	2024 Non-Employee Director Restricted Stock Unit Agreement*			X
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			X
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			X
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			X
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			X
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document			X
101.SCH	Inline XBRL Taxonomy Extension Schema			X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase			X
101.DEF	Inline XBRL Taxonomy Definition Linkbase			X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase			X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase			X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)			X

* Management contract or compensatory plan

SIGNATURES

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

RLI Corp.

/s/ Todd W. Bryant

Todd W. Bryant

Chief Financial Officer

(Principal Financial and Chief Accounting Officer)

Date: July 24, 2024

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 quarterly report on Form 10-Q of RLI Corp.;

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

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

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

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

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

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

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

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

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

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

Date: July 24, 2024

/s/ Craig W. Kliethermes

Craig W. Kliethermes
President & CEO

CERTIFICATION

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

I, Todd W. Bryant, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: July 24, 2024

/s/ Todd W. Bryant

Todd W. Bryant

Chief Financial Officer

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

In connection with the Quarterly Report of RLI Corp. (the "Company") on Form 10-Q for the period ending June 30, 2024 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
July 24, 2024

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

In connection with the Quarterly Report of RLI Corp. (the "Company") on Form 10-Q for the period ending June 30, 2024 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
Chief Financial Officer
July 24, 2024

RLI CORP.

2023 LONG-TERM INCENTIVE PLAN

I. INTRODUCTION

1.1 Purposes. The purposes of the RLI Corp. 2023 Long-Term Incentive Plan (this “Plan”) are (i) to align the interests of the Company’s stockholders and the recipients of awards under this Plan by increasing the proprietary interest of such recipients in the Company’s growth and success, (ii) to advance the interests of the Company by attracting and retaining officers, other employees, Non-Employee Directors, consultants and independent contractors and (iii) to motivate such persons to act in the long-term best interests of the Company and its stockholders.

1.2 Certain Definitions.

“**Agreement**” shall mean the written or electronic agreement evidencing an award hereunder between the Company and the recipient of such award.

“**Automatic Exercise Date**” shall mean the last business day of the term of an option or SAR.

“**Board**” shall mean the Board of Directors of the Company.

“**Cause**” shall mean the participant’s: (i) failure to comply with any material policies and procedures of the Company or any Subsidiary; (ii) conduct reflecting dishonesty or disloyalty to the Company or any Subsidiary, or which may have a negative impact on the reputation of the Company or any Subsidiary; (iii) commission of a felony, theft or fraud, or violations of law involving moral turpitude; (iv) failure to perform the material duties of his or her employment; (v) excessive absenteeism; (vi) unethical behavior. If a participant’s employment is terminated for “Cause,” the date on which the participant’s employment is considered to be terminated, for purposes hereof, shall be the time at which such participant is instructed or notified to cease performing job responsibilities for the Company or any Subsidiary, whether or not for other reasons, such as payroll, benefits or compliance with legal procedures or requirements, he or she may still have other attributes of an employee.

“**Change in Control**” shall have the meaning set forth in Section 5.8(b).

“**Code**” shall mean the Internal Revenue Code of 1986, as amended.

“**Committee**” shall mean the Human Capital & Compensation Committee of the Board, or a subcommittee thereof, or such other committee designated by the Board, in each case, consisting of two or more members of the Board, each of whom is intended to be (i) a “Non-Employee Director” within the meaning of Rule 16b-3 under the Exchange Act and (ii) “independent” within the meaning of the rules of the New York Stock Exchange or, if the Common Stock is not listed on the New York Stock Exchange, within the meaning of the rules of the principal stock exchange on which the Common Stock is then traded.

“**Common Stock**” shall mean the common stock, par value \$0.01 per share, of the Company, and all rights appurtenant thereto.

“**Company**” shall mean RLI Corp., a corporation organized under the laws of the State of Delaware, or any successor thereto.

“**Disabled**” or “**Disability**,” with respect to a participant, means that the participant satisfies the requirements to receive long-term disability benefits under the Company-sponsored group long-term disability plan in which the participant participates (or in the case of a Non-Employee Director, would have satisfied the requirements of the Company-sponsored long-term disability plan had the Non-Employee Director participated) without regard to any waiting periods, or that the participant has been determined by the Social Security

Administration to be eligible to receive Social Security disability benefits. In addition, if Disability constitutes a payment event with respect to any award which provides for the deferral of compensation and is subject to Code Section 409A, the disability described in the preceding sentences of this Section 2(i) must be a "disability" within the meaning of Treasury Regulation Section 1.409A-3(i)(4). A participant shall not be considered to be "Disabled" unless the participant furnishes proof of the Disability to the Company in such form and manner as the Company may require.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Fair Market Value" shall mean the closing transaction price of a share of Common Stock as reported on the New York Stock Exchange on the date as of which such value is being determined or, if the Common Stock is not listed on the New York Stock Exchange, the closing transaction price of a share of Common Stock on the principal national stock exchange on which the Common Stock is traded on the date as of which such value is being determined or, if there shall be no reported transactions for such date, on the next following date for which transactions were reported; provided, however, the Company may in its discretion use the closing transaction price of a share of Common Stock on the day preceding the date as of which such value is being determined to the extent the Company determines such method is more practical for administrative purposes, such as for purposes of tax withholding. If the Common Stock is not listed on a national stock exchange or if Fair Market Value for any date cannot be so determined, Fair Market Value shall be determined by the Committee by whatever means or method as the Committee, in the good faith exercise of its discretion, shall at such time deem appropriate and in compliance with Section 409A of the Code.

"Free-Standing SAR" shall mean an SAR which is not granted in tandem with, or by reference to, an option, which entitles the holder thereof to receive, upon exercise, shares of Common Stock (which may be Restricted Stock) or, to the extent set forth in the applicable Agreement, cash or a combination thereof, with an aggregate value equal to the excess of the Fair Market Value of one share of Common Stock on the date of exercise over the base price of such SAR, multiplied by the number of such SARs which are exercised.

"Fundamental Change" means a dissolution or liquidation of the Company, a sale of substantially all of the assets of the Company, a merger or consolidation of the Company with or into any other corporation, regardless of whether the Company is the surviving corporation, or a statutory share exchange involving capital stock of the Company.

"Good Reason" means any of the following conditions arising without the consent of the participant: (i) a material diminution in base salary or in the opportunity for any bonus or incentive compensation; (ii) a material diminution in the participant's authority, duties or responsibilities; (iii) a material diminution in the authority, duties or responsibilities of the supervisor to whom the participant is required to report, including a requirement that the participant report to an officer or employee instead of directly to the Board; (iv) a material diminution in the budget over which the participant retains authority; (v) a material change in the geographic location at which the participant must perform services; or (vi) any action or inaction that results in a material breach in the terms of an applicable employment agreement. A termination will only be considered to have been made for Good Reason if the participant provides written notice of the existence of such condition to the Company or any successor employer within 90 days after the participant first becomes aware of such condition, the Company or successor employer fails to cure such condition within 30 days after receipt of such notice and the participant terminates employment within six months after the existence of such condition.

"Incentive Stock Option" shall mean an option to purchase shares of Common Stock that meets the requirements of Section 422 of the Code, or any successor provision, which is intended by the Committee to constitute an Incentive Stock Option.

"Non-Employee Director" shall mean any director of the Board who is considered a non-employee director within the meaning of Rule 16b-3(b)(3) of the Exchange Act or its successor provision.

"Nonqualified Stock Option" shall mean an option to purchase shares of Common Stock which is not an Incentive Stock Option.

“Other Stock Award” shall mean an award granted pursuant to Section 3.4 of the Plan.

“Performance Award” shall mean a right to receive an amount of cash, Common Stock, or a combination of both, contingent upon the attainment of specified Performance Measures within a specified Performance Period.

“Performance Measures” shall mean the criteria and objectives, established by the Committee, which shall be satisfied or met (i) as a condition to the grant or exercisability of all or a portion of an option or SAR or (ii) during the applicable Restriction Period or Performance Period as a condition to the vesting of the holder's interest, in the case of a Restricted Stock Award, of the shares of Common Stock subject to such award, or, in the case of a Restricted Stock Unit Award, Other Stock Award or Performance Award, to the holder's receipt of the shares of Common Stock subject to such award or of payment with respect to such award. Such performance criteria and objectives may include, without limitation, any one or more of the following business criteria for the Company, on a consolidated basis, and/or for specified subsidiaries, business or geographical units or operating areas of the Company (except with respect to the total shareholder return and earnings per share criteria) on an individual basis: the attainment by a share of Common Stock of a specified Fair Market Value for a specified period of time; increase in stockholder value; earnings per share; return on or net assets; return on equity; return on investments; return on capital or invested capital; total stockholder return; earnings or income of the Company before or after taxes and/or interest; earnings before interest, taxes, depreciation and amortization (“EBITDA”); EBITDA margin; operating income; revenues; operating expenses, attainment of expense levels or cost reduction goals; market share; cash flow, cash flow per share, cash flow margin or free cash flow; interest expense; economic value created; gross profit or margin; operating profit or margin; net cash provided by operations; price-to-earnings growth; comprehensive earnings; growth in book value; combined ratio (or corollary underwriting profit); and strategic business criteria, consisting of one or more objectives based on meeting specified goals relating to market penetration, customer acquisition, business expansion, cost targets, customer satisfaction, reductions in errors and omissions, reductions in lost business, management of employment practices and employee benefits, supervision of litigation, supervision of information technology, quality and quality audit scores, efficiency, and acquisitions or divestitures, or such other goals as the Committee may determine whether or not listed herein. Each such goal may be determined on a pre-tax or post-tax basis or on an absolute or relative basis, and may include comparisons based on current internal targets, the past performance of the Company (including the performance of one or more subsidiaries, divisions, or operating units) or the past or current performance of other companies or market indices (or a combination of such past and current performance). In addition to the ratios specifically enumerated above, performance goals may include comparisons relating to capital (including, but not limited to, the cost of capital), shareholders' equity, shares outstanding, assets or net assets, sales, or any combination thereof. In establishing a Performance Measure or determining the achievement of a Performance Measure, the Committee may provide that achievement of the applicable Performance Measures may be amended or adjusted to include or exclude components of any Performance Measure, including, without limitation, foreign exchange gains and losses, asset write-downs, acquisitions and divestitures, change in fiscal year, unbudgeted capital expenditures, special charges such as restructuring or impairment charges, debt refinancing costs, extraordinary or noncash items, unusual, infrequently occurring, nonrecurring or one-time events affecting the Company or its financial statements or changes in law or accounting principles. Performance Measures shall be subject to such other special rules and conditions as the Committee may establish at any time.

“Performance Period” shall mean any period designated by the Committee during which (i) the Performance Measures applicable to an award shall be measured and (ii) the conditions to vesting applicable to an award shall remain in effect.

“Prior Plan” shall mean the RLI Corp. 2015 Long-Term Incentive Plan.

“Qualifying Termination” means an involuntary termination of employment without Cause or a termination of employment for Good Reason that occurs within two years following a Change in Control. In addition, if the participant's termination of employment occurs prior to a Change in Control and it is determined that such termination (A) was at the request of a third party who has indicated an intention or taken steps reasonably calculated to effect a Change in Control and who subsequently effectuates a Change in Control or (B) otherwise occurred in connection with, or in anticipation of, a Change in Control which actually occurs, for purposes of this definition, the date of a Change in Control with respect to the participant shall mean the date immediately prior to the date of the participant's termination of employment.

“Restricted Stock” shall mean shares of Common Stock which are subject to a Restriction Period and which may, in addition thereto, be subject to the attainment of specified Performance Measures within a specified Performance Period.

“Restricted Stock Award” shall mean an award of Restricted Stock under this Plan.

“Restricted Stock Unit” shall mean a right to receive one share of Common Stock or, in lieu thereof and to the extent set forth in the applicable Agreement, the Fair Market Value of such share of Common Stock in cash, which shall be contingent upon the expiration of a specified Restriction Period and which may, in addition thereto, be contingent upon the attainment of specified Performance Measures within a specified Performance Period.

“Restricted Stock Unit Award” shall mean an award of Restricted Stock Units under this Plan.

“Restriction Period” shall mean any period designated by the Committee during which (i) the Common Stock subject to a Restricted Stock Award may not be sold, transferred, assigned, pledged, hypothecated or otherwise encumbered or disposed of, except as provided in this Plan or the Agreement relating to such award, or (ii) the conditions to vesting applicable to a Restricted Stock Unit Award or Other Stock Award shall remain in effect.

“Retirement” or **“Retires”** means a participant’s termination of employment on or after the date when the participant’s age plus years of service equals at least 75. For this purpose, (i) a participant’s age shall be measured in whole and partial years (with partial years measured in days) as of the date of the participant’s termination of employment and (ii) a participant’s years of service shall be based only on the participant’s actual service with the Company or a Subsidiary (and not with any other employer that may be acquired by the Company with respect to service prior to the acquisition, except as otherwise provided by the Company in writing) and shall be calculated based on the number of whole and partial years of employment (with partial years measured in days) that the participant has completed from the date of the participant’s initial employment with the Company or a Subsidiary through the date of the participant’s termination of employment. Notwithstanding the foregoing, the Committee may specify, in its discretion, in a written Agreement, policy or guideline that a participant will be considered to have had a “Retirement” if the participant satisfies the terms of a non-competition covenant or under such other terms and conditions as specified by the Committee in its discretion.

“SAR” shall mean a stock appreciation right which may be a Free-Standing SAR or a Tandem SAR.

“Stock Award” shall mean a Restricted Stock Award, Restricted Stock Unit Award or Other Stock Award.

“Subsidiary” shall mean any corporation, limited liability company, partnership, joint venture or similar entity in which the Company owns, directly or indirectly, an equity interest possessing more than 50% of the combined voting power of the total outstanding equity interests of such entity.

“Substitute Award” shall mean an award granted under this Plan upon the assumption of, or in substitution for, outstanding equity awards previously granted by a company or other entity in connection with a corporate transaction, including a merger, combination, consolidation or acquisition of property or stock; provided, however, that in no event shall the term “Substitute Award” be construed to refer to an award made in connection with the cancellation and repricing of an option or SAR.

“Tandem SAR” shall mean an SAR which is granted in tandem with, or by reference to, an option (including a Nonqualified Stock Option granted prior to the date of grant of the SAR), which entitles the holder thereof to receive, upon exercise of such SAR and surrender for cancellation of all or a portion of such option, shares of Common Stock (which may be Restricted Stock) or, to the extent set forth in the applicable Agreement, cash or a combination thereof, with an aggregate value equal to the excess of the Fair Market Value of one share of Common Stock on the date of exercise over the base price of such SAR, multiplied by the number of shares of Common Stock subject to such option, or portion thereof, which is surrendered.

“Tax Date” shall have the meaning set forth in Section 5.5.

“Ten Percent Holder” shall have the meaning set forth in Section 2.1(a).

1.3 Administration. This Plan shall be administered by the Committee. Any one or a combination of the following awards may be made under this Plan to eligible persons: (i) options to purchase shares of Common Stock in the form of Incentive Stock Options or Nonqualified Stock Options; (ii) SARs in the form of Tandem SARs or Free-Standing SARs; (iii) Stock Awards in the form of Restricted Stock, Restricted Stock Units or Other Stock Awards; and (iv) Performance Awards. The Committee shall, subject to the terms of this Plan, select eligible persons for participation in this Plan and determine the form, amount and timing of each award to such persons and, if applicable, the number of shares of Common Stock subject to an award, the number of SARs, the number of Restricted Stock Units, the dollar value subject to a Performance Award, the purchase price or base price associated with the award, the time and conditions of exercise or settlement of the award and all other terms and conditions of the award, including, without limitation, the form of the Agreement evidencing the award. The Committee may, in its sole discretion and for any reason at any time, take action such that (i) any or all outstanding options and SARs shall become exercisable in part or in full, (ii) all or a portion of the Restriction Period applicable to any outstanding awards shall lapse, (iii) all or a portion of the Performance Period applicable to any outstanding awards shall lapse and (iv) the Performance Measures (if any) applicable to any outstanding awards shall be deemed to be satisfied at the target, maximum or any other level. The Committee shall, subject to the terms of this Plan, interpret this Plan and the application thereof, establish rules and regulations it deems necessary or desirable for the administration of this Plan and may impose, incidental to the grant of an award, conditions with respect to the award, such as limiting competitive employment or other activities. All such interpretations, rules, regulations and conditions shall be conclusive and binding on all parties.

The Committee may delegate some or all of its power and authority hereunder to the Board or, subject to applicable law, to a subcommittee of the Board, a member of the Board, the President and the Chief Executive Officer or other executive officer of the Company as the Committee deems appropriate; provided, however, that the Committee may not delegate its power and authority to a member of the Board, the President and the Chief Executive Officer or other executive officer of the Company with regard to the selection for participation in this Plan of an officer, director or other person subject to Section 16 of the Exchange Act or decisions concerning the timing, pricing or amount of an award to such an officer, director or other person.

No member of the Board or Committee, and neither the President and the Chief Executive Officer nor any other executive officer to whom the Committee delegates any of its power and authority hereunder, shall be liable for any act, omission, interpretation, construction or determination made in connection with this Plan in good faith, and the members of the Board and the Committee and the President and the Chief Executive Officer or other executive officer shall be entitled to indemnification and reimbursement by the Company in respect of any claim, loss, damage or expense (including attorneys' fees) arising therefrom to the full extent permitted by law (except as otherwise may be provided in the Company's Certificate of Incorporation and/or By-laws) and under any directors' and officers' liability insurance that may be in effect from time to time.

1.4 Eligibility. Participants in this Plan shall consist of such officers, other employees, Non-Employee Directors, consultants and independent contractors, and persons expected to become officers, other employees, Non-Employee Directors, consultants and independent contractors of the Company and its Subsidiaries as the Committee in its sole discretion may select from time to time. The Committee's selection of a person to participate in this Plan at any time shall not require the Committee to select such person to participate in this Plan at any other time. Except as otherwise provided for in an Agreement, for purposes of this Plan, references to employment by the Company shall also mean employment by a Subsidiary, and references to employment shall include service as a Non-Employee Director, consultant or independent contractor. The Committee shall determine, in its sole discretion, the extent to which a participant shall be considered employed during an approved leave of absence. The aggregate value of cash compensation and the grant date fair value of shares of Common Stock that may be awarded or granted during any fiscal year of the Company to any Non-Employee Director shall not exceed \$500,000.

1.5 Shares Available. Subject to adjustment as provided in Section 5.7 and to all other limits set forth in this Plan, the number of shares of Common Stock that shall initially be available for all awards under this Plan, other than Substitute Awards, shall be the sum of (i) 3,250,000 and (ii) the number of Shares that remain available for issuance under the Prior Plan as of the effective date of this Plan, all of which may be issued under the Plan in connection with Incentive Stock Options. To the extent the Company grants an option or a Free-Standing SAR

under the Plan, the number of shares of Common Stock that remain available for future grants under the Plan shall be reduced by an amount equal to the number of shares subject to such option or Free-Standing SAR. To the extent the Company grants a Stock Award or settles a Performance Award in shares of Common Stock, the number of shares of Common Stock that remain available for future grants under the Plan shall be reduced by an amount equal to 2.5 times the number of shares subject to such Stock Award or Performance Award. The number of shares of Common Stock subject to a Performance Award shall be deemed to be the maximum number of Shares that could be received under such Performance Award.

To the extent that shares of Common Stock subject to an outstanding option, SAR, Stock Award or Performance Award granted under the Plan or the Prior Plan, other than Substitute Awards, are not issued or delivered by reason of (i) the expiration, termination, cancellation or forfeiture of such award (excluding shares subject to an option cancelled upon settlement in shares of a related Tandem SAR or shares subject to a Tandem SAR cancelled upon exercise of a related option) or (ii) the settlement of such award in cash, then such shares of Common Stock shall again be available under this Plan; provided, however, that shares of Common Stock subject to an award under this Plan or the Prior Plan shall not again be available for issuance under this Plan if such shares are (x) shares that were subject to an option or stock-settled SAR and were not issued or delivered upon the net settlement or net exercise of such option or SAR, (y) shares delivered to or withheld by the Company to pay the purchase price or the withholding taxes related to an outstanding award or (z) shares repurchased by the Company on the open market with the proceeds of an option exercise. The number of shares that again become available pursuant to this paragraph shall be equal to (i) one share for each share subject to an option or Free-Standing SAR described herein and (ii) 2.5 shares for each share subject to a Stock Award or Performance Award described herein. At the time this Plan becomes effective, none of the shares of Common Stock available for future grant under the Prior Plan shall be available for grant under the Prior Plan.

The number of shares of Common Stock available for awards under this Plan shall not be reduced by (i) the number of shares of Common Stock subject to Substitute Awards or (ii) available shares under a stockholder approved plan of a company or other entity which was a party to a corporate transaction with the Company (as appropriately adjusted to reflect such corporate transaction) which become subject to awards granted under this Plan (subject to applicable stock exchange requirements).

Shares of Common Stock to be delivered under this Plan shall be made available from authorized and unissued shares of Common Stock, or authorized and issued shares of Common Stock reacquired and held as treasury shares or otherwise or a combination thereof.

1.6 Minimum Vesting Requirements. No award granted under the Plan shall become exercisable or vested prior to the one-year anniversary of the date of grant; provided, however, that, such restriction shall not apply to awards granted under this Plan with respect to the number of shares of Common Stock which, in the aggregate, does not exceed five percent (5%) of the total number of shares initially available for awards under this Plan. This Section 1.7 shall not restrict the right of the Committee to accelerate or continue the vesting or exercisability of an award upon or after a Change in Control or termination of employment or otherwise pursuant to Section 1.3 of the Plan.

II. STOCK OPTIONS AND STOCK APPRECIATION RIGHTS

2.1 Stock Options. The Committee may, in its discretion, grant options to purchase shares of Common Stock to such eligible persons as may be selected by the Committee; provided that an Incentive Stock Option may be granted only to an employee of the Company or one of its Subsidiaries in accordance with Section 422 of the Code. Each option, or portion thereof, that is not an Incentive Stock Option, shall be a Nonqualified Stock Option. To the extent that the aggregate Fair Market Value (determined as of the date of grant) of shares of Common Stock with respect to which options designated as Incentive Stock Options are exercisable for the first time by a participant during any calendar year (under this Plan or any other plan of the Company, or any parent or Subsidiary) exceeds the amount (currently \$100,000) established by the Code, such options shall constitute Nonqualified Stock Options.

Options shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of this Plan, as the Committee shall deem advisable:

(a) Number of Shares and Purchase Price. The number of shares of Common Stock subject to an option and the purchase price per share of Common Stock purchasable upon exercise of the option shall be determined by the Committee; provided, however, that the purchase price per share of Common Stock purchasable upon exercise of an option shall not be less than 100% of the Fair Market Value of a share of Common Stock on the date of grant of such option; provided further, that if an Incentive Stock Option shall be granted to any person who, at the time such option is granted, owns capital stock possessing more than 10 percent of the total combined voting power of all classes of capital stock of the Company (or of any parent or Subsidiary) (a "Ten Percent Holder"), the purchase price per share of Common Stock shall not be less than the price (currently 110% of Fair Market Value) required by the Code in order to constitute an Incentive Stock Option.

Notwithstanding the foregoing, in the case of an option that is a Substitute Award, the purchase price per share of the shares subject to such option may be less than 100% of the Fair Market Value per share on the date of grant, provided, that the excess of: (a) the aggregate Fair Market Value (as of the date such Substitute Award is granted) of the shares subject to the Substitute Award, over (b) the aggregate purchase price thereof does not exceed the excess of: (x) the aggregate fair market value (as of the time immediately preceding the transaction giving rise to the Substitute Award, such fair market value to be determined by the Committee) of the shares of the predecessor company or other entity that were subject to the grant assumed or substituted for by the Company, over (y) the aggregate purchase price of such shares.

(b) Option Period and Exercisability. The period during which an option may be exercised shall be determined by the Committee; provided, however, that no option shall be exercised later than ten years after its date of grant; provided further, that if an Incentive Stock Option shall be granted to a Ten Percent Holder, such option shall not be exercised later than five years after its date of grant. The Committee may, in its discretion, establish Performance Measures which shall be satisfied or met as a condition to the grant of an option or to the exercisability of all or a portion of an option. The Committee shall determine whether an option shall become exercisable in cumulative or non-cumulative installments and in part or in full at any time. An exercisable option, or portion thereof, may be exercised only with respect to whole shares of Common Stock.

(c) Method of Exercise. An option may be exercised (i) by giving written notice to the Company specifying the number of whole shares of Common Stock to be purchased and accompanying such notice with payment therefor in full (or arrangement made for such payment to the Company's satisfaction) either (A) in cash, (B) by delivery (either actual delivery or by attestation procedures established by the Company) of shares of Common Stock having a Fair Market Value, determined as of the date of exercise, equal to the aggregate purchase price payable by reason of such exercise, (C) authorizing the Company to withhold whole shares of Common Stock which would otherwise be delivered having an aggregate Fair Market Value, determined as of the date of exercise, equal to the amount necessary to satisfy such obligation, (D) in cash by a broker-dealer acceptable to the Company to whom the participant has submitted an irrevocable notice of exercise or (E) a combination of (A), (B) and (C), in each case to the extent set forth in the Agreement relating to the option, (ii) if applicable, by surrendering to the Company any Tandem SARs which are cancelled by reason of the exercise of the option and (iii) by executing such documents as the Company may reasonably request; provided that, notwithstanding anything in this Section 2.1(c) to the contrary, payment shall not be permitted with shares of Common Stock if, in the opinion of the Committee, payment in such manner could have adverse financial accounting consequences for the Company. No shares of Common Stock shall be issued and no certificate representing Common Stock shall be delivered until the full purchase price therefor and any withholding taxes thereon, as described in Section 5.5, have been paid (or arrangement made for such payment to the Company's satisfaction).

(d) Automatic Exercise. The Company may, in its discretion, provide in an Agreement or adopt procedures that an option outstanding on the Automatic Exercise Date that has a "Specified Minimum Value" shall be automatically and without further action by the participant (or in the event of the participant's death, the participant's personal representative or estate), be exercised on the Automatic Exercise Date. Payment of the exercise price applicable to such option may be made pursuant to such procedures as may be approved by the Company from time to time and the Company shall deduct or withhold an amount sufficient to satisfy all taxes associated with such exercise in accordance with Section 5.5. For purposes of this Section 2.1(d), the term "Specified Minimum Value" means that the Fair Market Value per share of Common Stock exceeds the exercise price of a share of Common Stock subject to an expiring option by at least such amount as the Company shall determine from time to time. The Company may elect to discontinue the automatic exercise of options pursuant to

this Section 2.1(d) at any time upon notice to a participant or to apply the automatic exercise feature only to certain groups of participants. The automatic exercise of an option pursuant to this Section 2.1(d) shall apply only to an option that has been timely accepted by a participant under procedures specified by the Company from time to time.

2.2 Stock Appreciation Rights. The Committee may, in its discretion, grant SARs to such eligible persons as may be selected by the Committee. The Agreement relating to an SAR shall specify whether the SAR is a Tandem SAR or a Free-Standing SAR.

SARs shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of this Plan, as the Committee shall deem advisable:

(a) Number of SARs and Base Price. The number of SARs subject to an award shall be determined by the Committee. Any Tandem SAR related to an Incentive Stock Option shall be granted at the same time that such Incentive Stock Option is granted. The base price of a Tandem SAR shall be the purchase price per share of Common Stock of the related option. The base price of a Free-Standing SAR shall be determined by the Committee; provided, however, that such base price shall not be less than 100% of the Fair Market Value of a share of Common Stock on the date of grant of such SAR (or, if earlier, the date of grant of the option for which the SAR is exchanged or substituted).

Notwithstanding the foregoing, in the case of an SAR that is a Substitute Award, the base price per share of the shares subject to such SAR may be less than 100% of the Fair Market Value per share on the date of grant, provided, that the excess of: (a) the aggregate Fair Market Value (as of the date such Substitute Award is granted) of the shares subject to the Substitute Award, over (b) the aggregate base price thereof does not exceed the excess of: (x) the aggregate fair market value (as of the time immediately preceding the transaction giving rise to the Substitute Award, such fair market value to be determined by the Committee) of the shares of the predecessor company or other entity that were subject to the grant assumed or substituted for by the Company, over (y) the aggregate base price of such shares.

(b) Exercise Period and Exercisability. The period for the exercise of an SAR shall be determined by the Committee; provided, however, that (i) no Tandem SAR shall be exercised later than the expiration, cancellation, forfeiture or other termination of the related option and (ii) no Free-Standing SAR shall be exercised later than ten years after its date of grant. The Committee may, in its discretion, establish Performance Measures which shall be satisfied or met as a condition to the grant of an SAR or to the exercisability of all or a portion of an SAR. The Committee shall determine whether an SAR may be exercised in cumulative or non-cumulative installments and in part or in full at any time. An exercisable SAR, or portion thereof, may be exercised, in the case of a Tandem SAR, only with respect to whole shares of Common Stock and, in the case of a Free-Standing SAR, only with respect to a whole number of SARs. If an SAR is exercised for shares of Restricted Stock, a certificate or certificates representing such Restricted Stock shall be issued in accordance with Section 3.2(c), or such shares shall be transferred to the holder in book entry form with restrictions on the shares duly noted, and the holder of such Restricted Stock shall have such rights of a stockholder of the Company as determined pursuant to Section 3.2(d). Prior to the exercise of a stock-settled SAR, the holder of such SAR shall have no rights as a stockholder of the Company with respect to the shares of Common Stock subject to such SAR.

(c) Method of Exercise. A Tandem SAR may be exercised (i) by giving written notice to the Company specifying the number of whole SARs which are being exercised, (ii) by surrendering to the Company any options which are cancelled by reason of the exercise of the Tandem SAR and (iii) by executing such documents as the Company may reasonably request. A Free-Standing SAR may be exercised (A) by giving written notice to the Company specifying the whole number of SARs which are being exercised and (B) by executing such documents as the Company may reasonably request. No shares of Common Stock shall be issued and no certificate representing Common Stock shall be delivered until any withholding taxes thereon, as described in Section 5.5, have been paid (or arrangement made for such payment to the Company's satisfaction).

(d) Automatic Exercise. The Company may, in its discretion, provide in an Agreement or adopt procedures that an SAR outstanding on the Automatic Exercise Date that has a "Specified Minimum Value" shall be automatically and without further action by the participant (or in the event of the participant's death, the participant's personal representative or estate), be exercised on the Automatic Exercise Date. The Company shall

deduct or withhold an amount sufficient to satisfy all taxes associated with such exercise in accordance with Section 5.5. For purposes of this Section 2.2(d), the term "Specified Minimum Value" means that the Fair Market Value per share of Common Stock exceeds the base price of a share of Common Stock subject to an expiring SAR by at least such amount as the Company shall determine from time to time. The Company may elect to discontinue the automatic exercise of SARs pursuant to this Section 2.2(d) at any time upon notice to a participant or to apply the automatic exercise feature only to certain groups of participants. The automatic exercise of an SAR pursuant to this Section 2.2(d) shall apply only to an SAR that has been timely accepted by a participant under procedures specified by the Company from time to time.

2.3 Termination of Employment or Service. All of the terms relating to the exercise, cancellation or other disposition of an option or SAR (i) upon a termination of employment with or service to the Company of the holder of such option or SAR, as the case may be, whether by reason of Disability, Retirement, death or any other reason, or (ii) during a paid or unpaid leave of absence, shall be determined by the Committee and set forth in the applicable Agreement; provided that, notwithstanding the foregoing, unless otherwise determined by the Committee and set forth in the applicable Agreement, the following terms shall apply to an option or SAR:

(a) Death. Upon a termination of employment with or service to the Company by reason of death, then any option or SAR that has not expired or been terminated shall become fully vested and exercisable in full and may be exercised by the participant's beneficiary at any time, or from time to time, within one year after the date of the participant's death.

(b) Disability. Upon a termination of employment with or service to the Company by reason of Disability, then any option or SAR that has not expired or been terminated shall become fully vested and exercisable in full and may be exercised by the participant's beneficiary at any time, or from time to time, within three years after the date of such termination of employment or service.

(c) Retirement. Upon a termination of employment with or service to the Company by reason of Retirement, then any option or SAR (or portion thereof) that has not expired or been terminated, shall, to the extent vested and exercisable as of the date of such termination of employment or service, including as a result of any acceleration that occurs pursuant to the terms of the applicable Agreement, remain exercisable by the participant at any time, or from time to time, for three years after the date of such termination of employment or service, and any remaining portion of such option or SAR shall be forfeited as of the date of such termination.

(d) Qualifying Termination. Upon a Qualifying Termination, then any option or SAR (or portion thereof) that has not expired or been terminated, shall become fully vested and exercisable as of the date of such termination of employment or service, remain exercisable by the participant at any time, or from time to time, until the expiration of the term of such option or SAR.

(e) Other Termination. Upon a termination of employment with or service to the Company for any reason other than death, Disability, Retirement, a Qualifying Termination or Cause, then any option or SAR (or portion thereof) that has not expired or been terminated, shall, to the extent vested and exercisable as of the date of such termination of employment or service, remain exercisable by the participant at any time, or from time to time, for three months after the date of such termination, and any remaining portion of such option or SAR shall be forfeited as of the date of such termination.

(f) Cause. Upon a termination of employment with or service to the Company for Cause, then any option or SAR that has not expired or been terminated, shall be forfeited without consideration, whether vested or unvested.

(g) Non-Employee Director. Notwithstanding the foregoing, if the holder is a Non-Employee Director, upon a termination of service to the Company for any reason other than Cause, then any option or SAR (or portion thereof) that has not expired or been terminated, shall if (i) unvested and not exercisable as of the date of such termination of service, be treated for vesting purposes in accordance with the terms of clauses (a)-(e) based on the type of termination and (ii) vested and exercisable as of the date of such termination of service, remain exercisable by the participant at any time, or from time to time, until the expiration of the term of such option or SAR.

2.4 No Repricing. The Committee shall not, without the approval of the stockholders of the Company, (i) reduce the purchase price or base price of any previously granted option or SAR, (ii) cancel any previously granted option or SAR in exchange for another option or SAR with a lower purchase price or base price or (iii) cancel any previously granted option or SAR in exchange for cash or another award if the purchase price of such option or the base price of such SAR exceeds the Fair Market Value of a share of Common Stock on the date of such cancellation, in each case, other than in connection with a Change in Control or the adjustment provisions set forth in Section 5.7.

2.5 No Dividend Equivalents. Notwithstanding anything in an Agreement to the contrary, the holder of an option or SAR shall not be entitled to receive dividend equivalents with respect to the number of shares of Common Stock subject to such option or SAR.

III. STOCK AWARDS

3.1 Stock Awards. The Committee may, in its discretion, grant Stock Awards to such eligible persons as may be selected by the Committee. The Agreement relating to a Stock Award shall specify whether the Stock Award is a Restricted Stock Award, a Restricted Stock Unit Award or, in the case of an Other Stock Award, the type of award being granted.

3.2 Terms of Restricted Stock Awards. Restricted Stock Awards shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of this Plan, as the Committee shall deem advisable.

(a) Number of Shares and Other Terms. The number of shares of Common Stock subject to a Restricted Stock Award and the Restriction Period, Performance Period (if any) and Performance Measures (if any) applicable to a Restricted Stock Award shall be determined by the Committee.

(b) Vesting and Forfeiture. The Agreement relating to a Restricted Stock Award shall provide, in the manner determined by the Committee, in its discretion, and subject to the provisions of this Plan, for the vesting of the shares of Common Stock subject to such award (i) if the holder of such award remains continuously in the employment of the Company during the specified Restriction Period or (ii) if specified Performance Measures (if any) are satisfied or met during a specified Performance Period, and for the forfeiture of the shares of Common Stock subject to such award (x) if the holder of such award does not remain continuously in the employment of the Company during the specified Restriction Period or (y) if specified Performance Measures (if any) are not satisfied or met during a specified Performance Period.

(c) Stock Issuance. During the Restriction Period, the shares of Restricted Stock shall be held by a custodian in book entry form with restrictions on such shares duly noted or, alternatively, a certificate or certificates representing a Restricted Stock Award shall be registered in the holder's name and may bear a legend, in addition to any legend which may be required pursuant to Section 5.6, indicating that the ownership of the shares of Common Stock represented by such certificate is subject to the restrictions, terms and conditions of this Plan and the Agreement relating to the Restricted Stock Award. All such certificates shall be deposited with the Company, together with stock powers or other instruments of assignment (including a power of attorney), each endorsed in blank with a guarantee of signature if deemed necessary or appropriate, which would permit transfer to the Company of all or a portion of the shares of Common Stock subject to the Restricted Stock Award in the event such award is forfeited in whole or in part. Upon termination of any applicable Restriction Period (and the satisfaction or attainment of applicable Performance Measures), subject to the Company's right to require payment of any taxes in accordance with Section 5.5, the restrictions shall be removed from the requisite number of any shares of Common Stock that are held in book entry form, and all certificates evidencing ownership of the requisite number of shares of Common Stock shall be delivered to the holder of such award.

(d) Rights with Respect to Restricted Stock Awards. Unless otherwise set forth in the Agreement relating to a Restricted Stock Award, and subject to the terms and conditions of a Restricted Stock Award, the holder of such award shall have all rights as a stockholder of the Company, including, but not limited to, voting rights, the right to receive dividends and the right to participate in any capital adjustment applicable to all holders of Common Stock; provided, however, that a distribution or dividend with respect to shares of Common Stock, including a

regular cash dividend, shall be deposited with the Company and shall be subject to the same restrictions as the shares of Common Stock with respect to which such distribution was made.

3.3 Terms of Restricted Stock Unit Awards. Restricted Stock Unit Awards shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of this Plan, as the Committee shall deem advisable.

(a) Number of Shares and Other Terms. The number of shares of Common Stock subject to a Restricted Stock Unit Award, including the number of shares that are earned upon the attainment of any specified Performance Measures, and the Restriction Period, Performance Period (if any) and Performance Measures (if any) applicable to a Restricted Stock Unit Award shall be determined by the Committee.

(b) Vesting and Forfeiture. The Agreement relating to a Restricted Stock Unit Award shall provide, in the manner determined by the Committee, in its discretion, and subject to the provisions of this Plan, for the vesting of such Restricted Stock Unit Award (i) if the holder of such award remains continuously in the employment of the Company during the specified Restriction Period or (ii) if specified Performance Measures (if any) are satisfied or met during a specified Performance Period, and for the forfeiture of the shares of Common Stock subject to such award (x) if the holder of such award does not remain continuously in the employment of the Company during the specified Restriction Period or (y) if specified Performance Measures (if any) are not satisfied or met during a specified Performance Period.

(c) Settlement of Vested Restricted Stock Unit Awards. The Agreement relating to a Restricted Stock Unit Award shall specify (i) whether such award may be settled in shares of Common Stock or cash or a combination thereof and (ii) whether the holder thereof shall be entitled to receive, on a current or deferred basis, dividend equivalents, and, if determined by the Committee, interest on, or the deemed reinvestment of, any deferred dividend equivalents, with respect to the number of shares of Common Stock subject to such award. Any dividend equivalents with respect to Restricted Stock Units that are subject to vesting conditions shall be subject to the same vesting conditions as the underlying awards. Prior to the settlement of a Restricted Stock Unit Award, the holder of such award shall have no rights as a stockholder of the Company with respect to the shares of Common Stock subject to such award.

3.4 Other Stock Awards. Subject to the limitations set forth in the Plan, the Committee is authorized to grant other awards that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, shares of Common Stock, including without limitation shares of Common Stock granted as a bonus and not subject to any vesting conditions, dividend equivalents, deferred stock units, stock purchase rights and shares of Common Stock issued in lieu of obligations of the Company to pay cash under any compensatory plan or arrangement, subject to such terms as shall be determined by the Committee. The Committee shall determine the terms and conditions of such awards, which may include the right to elective deferral thereof, subject to such terms and conditions as the Committee may specify in its discretion. Any distribution, dividend or dividend equivalents with respect to Other Stock Awards that are subject to vesting conditions shall be subject to the same vesting conditions as the underlying awards.

3.5 Termination of Employment or Service. All of the terms relating to the satisfaction of Performance Measures and the termination of the Restriction Period or Performance Period relating to a Stock Award, or any forfeiture and cancellation of such award (i) upon a termination of employment with or service to the Company of the holder of such award, whether by reason of Disability, Retirement, death or any other reason, or (ii) during a paid or unpaid leave of absence, shall be determined by the Committee and set forth in the applicable Agreement; provided that, notwithstanding the foregoing, unless otherwise determined by the Committee and set forth in the applicable Agreement, if the holder of an award has a termination of employment during the Restriction Period or the Performance Period as a result of (i) the holder's death or Disability, then all restrictions shall lapse with respect to a number of Shares under the Stock Award that has been prorated for the portion of the Restriction Period or Performance Period prior to the holder's termination of employment, based on target performance, or (y) any other reason, the holder will immediately forfeit any portion of the Stock Award that is unvested as of the date of the holder's termination of employment or service.

IV. PERFORMANCE AWARDS

4.1 Performance Awards. The Committee may, in its discretion, grant Performance Awards to such eligible persons as may be selected by the Committee.

4.2 Terms of Performance Awards. Performance Awards shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of this Plan, as the Committee shall deem advisable.

(a) Value of Performance Awards and Performance Measures. The method of determining the value of the Performance Award and the Performance Measures and Performance Period applicable to a Performance Award shall be determined by the Committee.

(b) Vesting and Forfeiture. The Agreement relating to a Performance Award shall provide, in the manner determined by the Committee, in its discretion, and subject to the provisions of this Plan, for the vesting of such Performance Award if the specified Performance Measures are satisfied or met during the specified Performance Period and for the forfeiture of such award if the specified Performance Measures are not satisfied or met during the specified Performance Period.

(c) Settlement of Vested Performance Awards. The Agreement relating to a Performance Award shall specify whether such award may be settled in shares of Common Stock (including shares of Restricted Stock) or cash or a combination thereof. If a Performance Award is settled in shares of Restricted Stock, such shares of Restricted Stock shall be issued to the holder in book entry form or a certificate or certificates representing such Restricted Stock shall be issued in accordance with Section 3.2(c) and the holder of such Restricted Stock shall have such rights as a stockholder of the Company as determined pursuant to Section 3.2(d). Any dividends or dividend equivalents with respect to a Performance Award shall be subject to the same restrictions as such Performance Award. Prior to the settlement of a Performance Award in shares of Common Stock, including Restricted Stock, the holder of such award shall have no rights as a stockholder of the Company.

4.3 Termination of Employment or Service. All of the terms relating to the satisfaction of Performance Measures and the termination of the Performance Period relating to a Performance Award, or any forfeiture and cancellation of such award (i) upon a termination of employment with or service to the Company of the holder of such award, whether by reason of Disability, Retirement, death or any other reason, or (ii) during a paid or unpaid leave of absence, shall be determined by the Committee and set forth in the applicable Agreement; provided that, notwithstanding the foregoing, unless otherwise determined by the Committee and set forth in the applicable Agreement, if the holder of an award has a termination of employment during the Performance Period as a result of (i) the holder's death or Disability, then all restrictions shall lapse with respect to a number of Shares under the Award that has been prorated for the portion of the Performance Period prior to the holder's termination of employment, based on target performance, or (y) any other reason, the holder will immediately forfeit any portion of the Performance Award that is unvested as of the date of the holder's termination of employment or service.

V. GENERAL

5.1 Effective Date and Term of Plan. This Plan shall be submitted to the stockholders of the Company for approval at the Company's 2023 annual meeting of stockholders and shall become effective as of the date on which the Plan is approved by stockholders. This Plan shall terminate as of the first annual meeting of the Company's stockholders to occur on or after the tenth anniversary of its effective date, unless terminated earlier by the Board. Termination of this Plan shall not affect the terms or conditions of any award granted prior to termination.

Awards hereunder may be made at any time prior to the termination of this Plan, provided that no Incentive Stock Option may be granted later than ten years after the date on which the Plan was approved by the Board. In the event that this Plan is not approved by the stockholders of the Company, this Plan and any awards hereunder shall be void and of no force or effect, and the RLI Corp. 2015 Long-Term Incentive Plan shall remain in effect in accordance with its terms.

5.2 Amendments. The Board may amend this Plan as it shall deem advisable; provided, however, that no amendment to the Plan shall be effective without the approval of the Company's stockholders if (i) stockholder approval is required by applicable law, rule or regulation, including any rule of the New York Stock Exchange, or any other stock exchange on which the Common Stock is then traded, or (ii) such amendment seeks to modify the Non-Employee Director compensation limit set forth in Section 1.3 or the prohibition on repricing set forth in Section 2.4 hereof; provided further, that no amendment may materially impair the rights of a holder of an outstanding award without the consent of such holder.

5.3 Agreement. Each award under this Plan shall be evidenced by an Agreement setting forth the terms and conditions applicable to such award. No award shall be valid until an Agreement is executed by the Company and, to the extent required by the Company, executed or electronically accepted by the recipient of such award. Upon such execution or acceptance and delivery of the Agreement to the Company within the time period specified by the Company, such award shall be effective as of the effective date set forth in the Agreement.

5.4 Non-Transferability. No award shall be transferable other than by will, the laws of descent and distribution or pursuant to beneficiary designation procedures approved by the Company or, to the extent expressly permitted in the Agreement relating to such award, to the holder's family members, a trust or entity established by the holder for estate planning purposes, a charitable organization designated by the holder or pursuant to a domestic relations order, in each case, without consideration. Except to the extent permitted by the foregoing sentence or the Agreement relating to an award, each award may be exercised or settled during the holder's lifetime only by the holder or the holder's legal representative or similar person. Except as permitted by the second preceding sentence, no award may be sold, transferred, assigned, pledged, hypothecated, encumbered or otherwise disposed of (whether by operation of law or otherwise) or be subject to execution, attachment or similar process. Upon any attempt to so sell, transfer, assign, pledge, hypothecate, encumber or otherwise dispose of any award, such award and all rights thereunder shall immediately become null and void.

5.5 Tax Withholding. The Company shall have the right to require, prior to the issuance or delivery of any shares of Common Stock or the payment of any cash pursuant to an award made hereunder, payment by the holder of such award of any federal, state, local or other taxes which may be required to be withheld or paid in connection with such award. An Agreement may provide that (i) the Company shall withhold whole shares of Common Stock which would otherwise be delivered to a holder, having an aggregate Fair Market Value determined as of the date the obligation to withhold or pay taxes arises in connection with an award (the "Tax Date"), or withhold an amount of cash which would otherwise be payable to a holder, in the amount necessary to satisfy any such obligation or (ii) the holder may satisfy any such obligation by any of the following means: (A) a cash payment to the Company; (B) delivery (either actual delivery or by attestation procedures established by the Company) to the Company of previously owned whole shares of Common Stock having an aggregate Fair Market Value, determined as of the Tax Date, equal to the amount necessary to satisfy any such obligation; (C) authorizing the Company to withhold whole shares of Common Stock which would otherwise be delivered having an aggregate Fair Market Value, determined as of the Tax Date, or withhold an amount of cash which would otherwise be payable to a holder, in either case equal to the amount necessary to satisfy any such obligation; (D) in the case of the exercise of an option, a cash payment by a broker-dealer acceptable to the Company to whom the participant has submitted an irrevocable notice of exercise or (E) any combination of (A), (B) and (C), in each case to the extent set forth in the Agreement relating to the award. Shares of Common Stock to be withheld may not have an aggregate Fair Market Value in excess of the amount determined by applying the minimum statutory withholding rate (or, if permitted by the Company, such other rate as will not cause adverse accounting consequences under the accounting rules then in effect, and is permitted under applicable IRS withholding rules). Any fraction of a share of Common Stock which would be required to satisfy such an obligation shall be disregarded and the remaining amount due shall be paid in cash by the holder.

5.6 Restrictions on Shares. Each award made hereunder shall be subject to the requirement that if at any time the Company determines that the listing, registration or qualification of the shares of Common Stock subject to such award upon any securities exchange or under any law, or the consent or approval of any governmental body, or the taking of any other action is necessary or desirable as a condition of, or in connection with, the delivery of shares thereunder, such shares shall not be delivered unless such listing, registration, qualification, consent, approval or other action shall have been effected or obtained, free of any conditions not acceptable to the Company. The Company may require that certificates evidencing shares of Common Stock delivered pursuant to any award made

hereunder bear a legend indicating that the sale, transfer or other disposition thereof by the holder is prohibited except in compliance with the Securities Act of 1933, as amended, and the rules and regulations thereunder.

5.7 Adjustment. In the event of any Fundamental Change or equity restructuring (within the meaning of Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation—Stock Compensation or any successor or replacement accounting standard) that causes the per share value of shares of Common Stock to change, such as a stock dividend, stock split, spinoff, rights offering or recapitalization through an extraordinary cash dividend, the number and class of securities available under this Plan, the terms of each outstanding option and SAR (including the number and class of securities subject to each outstanding option or SAR and the purchase price or base price per share), the terms of each outstanding Stock Award (including the number and class of securities subject thereto), and the terms of each outstanding Performance Award (including the number and class of securities subject thereto, if applicable), shall be appropriately adjusted by the Committee, such adjustments to be made in the case of outstanding options and SARs in accordance with Section 409A of the Code. In the event of any other change in corporate capitalization, including a merger, consolidation, reorganization, or partial or complete liquidation of the Company, such equitable adjustments described in the foregoing sentence may be made as determined to be appropriate and equitable by the Committee to prevent dilution or enlargement of rights of participants. In either case, the decision of the Committee regarding any such adjustment shall be final, binding and conclusive.

5.8 Change in Control.

(a) Subject to the terms of the applicable Agreements, in the event of a “Change in Control,” the Board, as constituted prior to the Change in Control, may, in its discretion:

- (1) require that (i) some or all outstanding options and SARs shall become exercisable in full or in part, either immediately or upon a subsequent termination of employment, (ii) the Restriction Period applicable to some or all outstanding Stock Awards shall lapse in full or in part, either immediately or upon a subsequent termination of employment, (iii) the Performance Period applicable to some or all outstanding awards shall lapse in full or in part, and (iv) the Performance Measures applicable to some or all outstanding awards shall be deemed to be satisfied at the target, maximum or any other level;
 - (2) require that shares of capital stock of the corporation resulting from or succeeding to the business of the Company pursuant to such Change in Control, or a parent corporation thereof, be substituted for some or all of the shares of Common Stock subject to an outstanding award, with an appropriate and equitable adjustment to such award as determined by the Board in accordance with Section 5.7; and/or
 - (3) require outstanding awards, in whole or in part, to be surrendered to the Company by the holder, and to be immediately cancelled by the Company, and to provide for the holder to receive (i) a cash payment or other property in an amount equal to (A) in the case of an option or an SAR, the aggregate number of shares of Common Stock then subject to the portion of such option or SAR surrendered, whether or not vested or exercisable, multiplied by the excess, if any, of the Fair Market Value of a share of Common Stock as of the date of the Change in Control, over the purchase price or base price per share of Common Stock subject to such option or SAR, (B) in the case of a Stock Award or a Performance Award denominated in shares of Common Stock, the number of shares of Common Stock then subject to the portion of such award surrendered to the extent the Performance Measures applicable to such award have been satisfied or are deemed satisfied pursuant to Section 5.8(a)(i), whether or not vested, multiplied by the Fair Market Value of a share of Common Stock as of the date of the Change in Control, and (C) in the case of a Performance Award denominated in cash, the value of the Performance Award then subject to the portion of such award surrendered to the extent the Performance Measures applicable to such award have been satisfied or are deemed satisfied pursuant to Section 5.8(a)(i); (ii) shares of capital stock of the corporation resulting from or succeeding to the business of the Company pursuant to such Change in Control, or a parent corporation thereof, having a fair market value not less
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than the amount determined under clause (i) above; or (iii) a combination of the payment of cash pursuant to clause (i) above and the issuance of shares pursuant to clause (ii) above.

For the avoidance of doubt, except as explicitly authorized in an Agreement, by this Section 5.8(a) or by a participant in writing, the Board may not terminate or cancel any equity awards (whether vested or unvested) in connection with a Change in Control.

(b) For purposes of this Plan, a "Change in Control" shall be deemed to have occurred if:

- (1) any "Person," within the meaning of Section 13(d) or 14(d) under the Exchange Act, including any group (within the meaning of Section 13(d)(3) under the Exchange Act), becomes the "Beneficial Owner," as such term is defined in Rule 13d-3 promulgated under the Exchange Act, of 30% or more of the combined voting power of the Company's outstanding shares, other than beneficial ownership by (A) the Company or any subsidiary of the Company, (B) any employee benefit plan of the Company or any subsidiary of the Company or (C) any entity of the Company for or pursuant to the terms of any such plan.

Notwithstanding the foregoing, a Change in Control shall not occur as the result of an acquisition of outstanding shares of the Company by the Company which, by reducing the number of shares outstanding, increases the proportionate number of shares beneficially owned by a Person to 30% or more of the shares of the Company then outstanding; provided, however, that if a Person becomes the Beneficial Owner of 30% or more of the shares of the Company then outstanding by reason of share purchases by the Company and shall, after such share purchases by the Company, become the Beneficial Owner of any additional shares of the Company, then a Change in Control shall be deemed to have occurred; or

- (2) the Company consummates a merger or consolidation with another entity, or engages in a reorganization with or a statutory share exchange or an exchange offer for the Company's outstanding voting stock of any class with another entity or acquires another entity by means of a statutory share exchange or an exchange offer, or engages in a similar transaction; provided that no Change in Control shall have occurred by reason of this paragraph unless either:

(A) the stockholders of the Company immediately prior to the consummation of the transaction would not, immediately after such consummation, as a result of their beneficial ownership of voting stock of the Company immediately prior to such consummation

(I) be the Beneficial Owners, directly or indirectly, of securities of the resulting or acquiring entity entitled to elect a majority of the members of the board of directors or other governing body of the resulting or acquiring entity; and

(II) be the Beneficial Owners of the resulting or acquiring entity in substantially the same proportion as their beneficial ownership of the voting stock of the Company immediately prior to such transaction; or

(B) those persons who were directors of the Company immediately prior to the consummation of the proposed transaction would not, immediately after such consummation, constitute a majority of the directors of the resulting entity; or

- (3) the sale or disposition, in one or a series of related transactions, of all or substantially all of the assets of the Company to any Person (as defined in paragraph (1) above) other than a Subsidiary; or
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- (4) the number of duly elected and qualified directors of the Company who were not either elected by the Board or nominated by the Board or its nominating/governance committee for election by the shareholders constitute a majority of the total number of directors of the Company as fixed by its Bylaws;

provided, that with respect to any nonqualified deferred compensation that becomes payable on account of the Change in Control, the transaction or event described in clause (1), (2), (3) or (4) also constitutes a "change in control event," as defined in Treasury Regulation §1.409A-3(i)(5) if required in order for the payment not to violate Section 409A of the Code.

The Committee shall have full and final authority, which shall be exercised in its discretion, to determine conclusively whether a Change in Control of the Company has occurred pursuant to the above definition, and the date of the occurrence of such Change in Control and any incidental matters relating thereto.

5.9 Deferrals and Section 409A. The Committee may determine that the delivery of shares of Common Stock or the payment of cash, or a combination thereof, upon the settlement of all or a portion of any award made hereunder, other than awards of options or SARs, shall be deferred, or the Committee may, in its sole discretion, approve deferral elections made by holders of awards. Deferrals shall be for such periods and upon such terms as the Committee may determine in its sole discretion, subject to the requirements of Section 409A of the Code. Awards under the Plan are intended to comply with, or be exempt from, the applicable requirements of Section 409A of the Code and shall be limited, construed and interpreted in accordance with such intent. Although the Company does not guarantee any particular tax treatment, to the extent that any award is subject to Section 409A of the Code, it shall be paid in a manner that is intended to comply with Section 409A of the Code, including regulations and any other guidance issued by the Secretary of the Treasury and the Internal Revenue Service with respect thereto. In no event whatsoever shall the Company be liable for any additional tax, interest or penalties that may be imposed on the participant by Section 409A of the Code or any damages for failing to comply with Section 409A of the Code. Notwithstanding anything in the Plan or any Agreement to the contrary, each participant shall be solely responsible for the tax consequences of awards, and in no event shall the Company have any responsibility or liability if an award does not meet any applicable requirements of Section 409A. Although the Company intends to administer the Plan to prevent taxation under section 409A, the Company does not represent or warrant that the Plan or any award complies with Section 409A or any other provision of federal, state, local or other tax law.

5.10 No Right of Participation, Employment or Service. Unless otherwise set forth in an employment agreement, no person shall have any right to participate in this Plan. Neither this Plan nor any award made hereunder shall confer upon any person any right to continued employment by or service with the Company or any Subsidiary or affect in any manner the right of the Company or any Subsidiary to terminate the employment or service of any person at any time without liability hereunder.

5.11 Rights as Stockholder. No person shall have any right as a stockholder of the Company with respect to any shares of Common Stock or other equity security of the Company which is subject to an award hereunder unless and until such person becomes a stockholder of record with respect to such shares of Common Stock or equity security.

5.12 Designation of Beneficiary. To the extent permitted by the Company, a holder of an award may file with the Company a written designation of one or more persons as such holder's beneficiary or beneficiaries (both primary and contingent) in the event of the holder's death or incapacity. To the extent an outstanding option or SAR granted hereunder is exercisable, such beneficiary or beneficiaries shall be entitled to exercise such option or SAR pursuant to procedures prescribed by the Company. Each beneficiary designation shall become effective only when filed in writing with the Company during the holder's lifetime on a form prescribed by the Company. The spouse of a married holder domiciled in a community property jurisdiction shall join in any designation of a beneficiary other than such spouse. The filing with the Company of a new beneficiary designation shall cancel all previously filed beneficiary designations. If a holder fails to designate a beneficiary, or if all designated beneficiaries of a holder predecease the holder, then each outstanding award held by such holder, to the extent vested or exercisable, shall be payable to or may be exercised by such holder's executor, administrator, legal representative or similar person.

5.13 Awards Subject to Clawback. The awards granted under this Plan and any cash payment or shares of Common Stock delivered pursuant to such an award are subject to forfeiture, recovery by the Company or other action pursuant to the applicable Agreement or any clawback or recoupment policy which the Company may adopt from time to time, including without limitation any such policy which the Company may be required to adopt under the Dodd-Frank Wall Street Reform and Consumer Protection Act and implementing rules and regulations thereunder, or as otherwise required by law.

5.14 Governing Law. This Plan, each award hereunder and the related Agreement, and all determinations made and actions taken pursuant thereto, to the extent not otherwise governed by the Code or the laws of the United States, shall be governed by the laws of the State of Delaware and construed in accordance therewith without giving effect to principles of conflicts of laws.

5.15 Foreign Employees. Without amending this Plan, the Committee may grant awards to eligible persons who are foreign nationals and/or reside outside of the United States on such terms and conditions different from those specified in this Plan as may in the judgment of the Committee be necessary or desirable to foster and promote achievement of the purposes of this Plan and, in furtherance of such purposes the Committee may make such modifications, amendments, procedures, subplans and the like as may be necessary or advisable to comply with provisions of laws in other countries or jurisdictions in which the Company or its Subsidiaries operates or has employees.

Date: May 4, 2023

RLI CORP.

By: Craig W. Kliethermes
Chief Executive Officer

RLI CORP.
2023 Long-Term Incentive Plan
Stock Option Agreement

(May 1, 2024 Form of Agreement)

Name of Participant:													
Number of Shares of Common Stock Covered:	Date of Grant:												
Exercise Price Per Share of Common Stock:	Expiration Date:												
<p>Exercise Schedule (Cumulative):</p> <p><i>Actual vesting dates and corresponding shares incorporated as follows:</i></p> <table style="width: 100%; margin-top: 20px;"> <thead> <tr> <th style="text-align: center; width: 60%;">Date(s) of Exercisability</th> <th style="text-align: center; width: 40%;">Number of Shares as to Which Option Becomes Exercisable</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;"><i>[Date of Grant plus one year]</i></td> <td style="text-align: center;"><i>[20%]</i></td> </tr> <tr> <td style="text-align: center;"><i>[Date of Grant plus two years]</i></td> <td style="text-align: center;"><i>[20%]</i></td> </tr> <tr> <td style="text-align: center;"><i>[Date of Grant plus three years]</i></td> <td style="text-align: center;"><i>[20%]</i></td> </tr> <tr> <td style="text-align: center;"><i>[Date of Grant plus four years]</i></td> <td style="text-align: center;"><i>[20%]</i></td> </tr> <tr> <td style="text-align: center;"><i>[Date of Grant plus five years]</i></td> <td style="text-align: center;"><i>[20%]</i></td> </tr> </tbody> </table>		Date(s) of Exercisability	Number of Shares as to Which Option Becomes Exercisable	<i>[Date of Grant plus one year]</i>	<i>[20%]</i>	<i>[Date of Grant plus two years]</i>	<i>[20%]</i>	<i>[Date of Grant plus three years]</i>	<i>[20%]</i>	<i>[Date of Grant plus four years]</i>	<i>[20%]</i>	<i>[Date of Grant plus five years]</i>	<i>[20%]</i>
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Effective as of the "Date of Grant" specified above, RLI Corp., a Delaware corporation (the "**Company**"), grants to the individual named above (the "**Participant**") an option representing the right to purchase shares of common stock, par value \$0.01 per share, of the Company ("Common Stock") at the "Exercise Price Per Share of Common Stock" stated above (the "**Option**"). The Option shall be subject to the terms and conditions set forth in this Stock Option Agreement (the "**Agreement**") and in the RLI Corp. 2023 Long-Term Incentive Plan (the "**Plan**"). In the event of any conflict between the terms of the Agreement and the Plan, the terms of the Plan shall govern. Capitalized terms used but not defined shall have the meaning ascribed thereto in the Plan.

Background

A. The Company maintains the Plan (i) to align the interests of the Company's stockholders and the recipients of awards under the Plan by increasing the proprietary interest of such recipients in the Company's growth and success, (ii) to advance the interests of the Company by attracting and retaining officers, other employees, Non-Employee Directors, consultants and independent contractors and (iii) to motivate such persons to act in the long-term best interests of the Company and its stockholders.

B. Under the Plan, the Human Capital & Compensation Committee of the Board of Directors of the Company (the "**Committee**") administers the Plan and has the authority to determine the awards granted under the Plan or delegate to specific persons authority to make certain awards .

C. The Committee or its delegate has determined that the Participant is eligible to receive an award under the Plan in the form of an **Option**.

D. The Company hereby grants the Option to the Participant under the following terms and conditions:

Terms and Conditions

1. **Grant.** The Participant is granted the Option to purchase the number of shares of Common Stock specified at the beginning of this Agreement.
2. **Exercise Price.** The purchase price of each share of Common Stock subject to the Option will be the Exercise Price Per Share of Common Stock specified at the beginning of this Agreement (which price shall not be less than 100% of the Fair Market Value of a share of Common Stock on the date of grant).
3. **Non-Qualified Stock Option.** The Option is not intended to be and is not an "incentive stock option" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"). Accordingly, the Option does not qualify for the tax treatment specified therein. The Option is a Nonqualified Stock Option for purposes of the Plan.
4. **Exercise Schedule.** The Option will become vested and exercisable with respect to twenty percent (20%) of the shares of Common Stock covered under the Option annually over each of the five years from the Date of Grant as specified in the exercise schedule at the beginning of this Agreement. The exercise schedule will be cumulative; thus, to the extent the Option has not already been exercised and has not expired, terminated or been cancelled, the Participant or the person otherwise entitled to exercise the Option as to vested shares of Common Stock as provided herein may at any time, and from time to time, purchase all or any portion of the whole shares of Common Stock then purchasable under the exercise schedule.

Notwithstanding the foregoing or any other provision of this Agreement, the Participant may not exercise all or any portion of the Option (in any manner) during the Company's quiet periods in accordance with the Company's Insider Trading Policy in effect at such time.

The Option may also be exercised in full (notwithstanding the exercise schedule) under the circumstances described in Section 8 of this Agreement if it has not expired prior thereto.

5. **Expiration.** The Option shall expire at 5:00 p.m. Central Time on the "Expiration Date" specified at the beginning of this Agreement. In no event may anyone exercise the Option, in whole or in part, after it has expired, notwithstanding any other provision of this Agreement.
6. **Procedure to Exercise Option.**

(a) *Notice of Exercise.* The Company partners with Solium Capital for the management and administration of its long-term incentives program using Solium's web-based application, Shareworks by Morgan Stanley®. The Option may be exercised by initiating an exercise through the Company's Shareworks by Morgan Stanley® site, <https://rli.solium.com>, or by delivering written notice of exercise to the Company at the principal executive office of the Company, to the attention of the Company's Secretary or other designated Company employees or representative. The notice shall be in writing and state the Grant Date and number of whole shares of Common Stock subject to such Option to be exercised. If the person exercising the Option is not the Participant, he/she also must submit appropriate proof that is satisfactory to the Committee in its sole discretion of his/her right to exercise the Option.

(b) *Tender of Payment.* Upon giving notice of any exercise hereunder, the Participant shall provide for payment of the purchase price of the shares of Common Stock being purchased through one or a combination of the following methods:

- (i) **Purchase.** Cash (including check paid to the Company, wire transfer, bank draft, or money order);

(ii) **Broker-Assisted Cashless Exercise.** By directing, via an irrevocable notice of exercise, a stockbroker designated by the Company through Shareworks by Morgan Stanley to effect a broker assisted cashless exercise to sell shares of Common Stock issued on exercise of the Option and remitting the proceeds of such sale to the Company to pay the exercise price and taxes, and remitting the net cash and/or shares to the Participant; or

(iii) **Net Exercise.** By instructing the Company to withhold whole shares of Common Stock having an aggregate Fair Market Value, determined as of the date of exercise, less than or equal to the purchase price of the Shares acquired upon exercise and any applicable withholding taxes in accordance with Section 6(d) of this Agreement; provided that this method of exercise may only be used to deliver net shares to the Participant and no cash compensation may be provided, other than cash in lieu of a fractional share.

Notwithstanding the foregoing, the Participant shall not be permitted to pay any portion of the purchase price with Shares, though a broker-assisted cashless exercise or through net exercise, if the Committee, in its sole discretion, determines that payment in such manner could have adverse tax or financial accounting consequences for the Company.

(c) *Company's Option to Cash-Out.* Upon receipt of notice of exercise, the Committee may elect to cash out all or part of the portion of the shares of Common Stock for which an Option is being exercised by paying Participant an amount, in cash or shares of Common Stock, equal to the excess of the Fair Market Value of the shares of Common Stock over the aggregate purchase price for the shares of Common Stock for which the Option is being exercised on the effective date of such cash-out.

(d) *Withholding Taxes.* Participant is responsible for payment of any federal, state, local or other taxes which must be withheld or paid in connection with the Option, and Participant must promptly pay to the Company any such taxes. The Participant hereby authorizes the Company and any Subsidiary to deduct from any payment owed to Participant any taxes required to be withheld or paid in connection with the Option, including social security and Medicare (FICA) taxes and federal, state and local taxes. The Company shall have the right to require that the Participant satisfy such obligations by making a cash payment to the Company. In lieu of all or any part of such a cash payment, the Participant may elect to authorize the Company to withhold whole shares of Common Stock which would otherwise be issuable upon the settlement of the Option equal to the amount necessary to satisfy any such tax obligations. Shares of Common Stock to be withheld may not have an aggregate Fair Market Value in excess of the amount determined by applying the maximum individual statutory tax rate in the Participant's applicable jurisdiction; provided that the Company shall be permitted to limit the number of shares so withheld to a lesser number if necessary, in the judgment of the Committee, to avoid adverse accounting consequences or for administrative convenience. Any fraction of a share of Common Stock which would be required to satisfy such an obligation shall be disregarded and the remaining amount due shall be withheld.

(d) *Delivery of Certificates.* As soon as practicable after the Company receives the notice and purchase price in full and payment for applicable taxes as provided above, it shall deliver to the person exercising the Option, in the name of such person, a certificate or certificates representing the shares of Common Stock being purchased; provided, however, that the Company may deliver the shares of Common Stock electronically in book-entry form. The Company shall pay any original issue or transfer taxes with respect to the issue or transfer of the shares of Common Stock and all fees and expenses incurred by it in connection therewith. All shares of Common Stock so issued shall be fully paid and nonassessable. Notwithstanding anything to the contrary in this Agreement, no certificate for shares of Common Stock distributable under the Plan shall be issued and delivered unless the issuance of such certificate complies with all applicable legal requirements including, without limitation, compliance with the provisions of applicable state securities laws, the federal Securities Act of 1933 and the Securities Exchange Act of 1934, and related regulations, and the Company may further require that any such certificates bear a legend indicating that the sale, transfer or other disposition thereof by the holder is prohibited except in compliance with the Securities Act of 1933, as amended, and the rules and regulations thereunder.

7. **Termination of Employment.** The Option may be exercised at any time prior to the Expiration Date only while the Participant remains employed with the Company or a parent or subsidiary thereof, and only if the Participant has been continuously so employed since the date the Option was granted; *provided that*:
- (a) Except as otherwise provided below, the Option may be exercised for three months after termination of the Participant's employment, but only to the extent that it was exercisable immediately prior to termination of employment; provided that if the Participant dies within such three-month period, the Option may be exercised until the first anniversary of the Participant's termination of employment;
 - (b) The Option may be exercised for one year after termination of the Participant's employment if such termination is because of death of the Participant;
 - (c) The Option may be exercised for three years after the date of Participant's termination of employment if such termination of employment is because of the Participant's Disability;
 - (d) The Option may be exercised for three years after termination of the Participant's employment if such termination is because of the Participant's Retirement; and
 - (e) The Option may be exercised at any time prior to the expiration of the Option pursuant to Section 5 of this Agreement if such termination is because of the Participant's Qualifying Termination (pursuant to Section 18(a) of the Agreement).

Notwithstanding the above, in no event will any Option be exercisable at any time after the Expiration Date. When an Option is no longer exercisable, it shall be deemed to have lapsed or terminated. **The Company has no duty to inform Participant of the imminent expiration of the Option. The Option will expire as provided in this Section 7 and the term of the Option will not be extended, even if the Option expires during a period when the Option is unexercisable (i.e., during a "quiet period" or on a date on which the NYSE is closed for trading).**

Termination for Cause. Notwithstanding the foregoing, the Option shall terminate immediately if Participant is notified that Participant's employment is being terminated or has been terminated for Cause. Participant's termination shall be deemed to have been for Cause if, before or after such termination, facts and circumstances are discovered that would have justified a termination for Cause.

8. **Acceleration of Vesting.** In the event of the death, Disability, Retirement or Qualifying Termination of the Participant, any portion of the Option that has not expired or otherwise been terminated and was not previously exercisable shall become immediately exercisable in full if the Participant shall have been continuously employed by the Company or a parent or subsidiary thereof between the date the Option was granted and the date of such Disability, Retirement or Qualifying Termination.
9. **Limitation on Transfer.** During the lifetime of the Participant, only the Participant or his/her guardian or legal representative may exercise the Option. The Option may not be sold, transferred, assigned, pledged, hypothecated, encumbered or otherwise disposed of (whether by operation of law or otherwise) or be subject to execution, attachment or similar process otherwise than by will, the laws of descent and distribution, pursuant to beneficiary designation procedures approved by the Committee, or pursuant to a qualified domestic relations order. Notwithstanding the foregoing, the Participant may transfer the Option, without payment or consideration from the transferee, (a) to any one or more of the Participant's spouse or issue, (b) to one or more trusts established solely for the benefit of the Participant's spouse or issue or (c) to one or more partnerships in which the only partners are the Participant's spouse or issue. For purpose of this provision, the term "spouse" shall include a former spouse who receives a transfer pursuant to a qualified domestic relations order, and the term issue shall include stepchildren, step-grandchildren and adopted children. No such transfer

shall be effective unless reasonable prior notice thereof is delivered to the Company. Any such permitted transferee shall be subject to all of the terms and conditions applicable to the person transferring the Option including the terms and conditions set forth in the Plan and this Agreement. Any attempt to sell, transfer, assign, pledge, hypothecate, encumber or otherwise dispose of the Option other than in accordance with this Section 9 shall be null and void.

10. **No Stockholder Rights Before Exercise.** No person shall have any of the rights of a stockholder of the Company with respect to any share of Common Stock subject to the Option unless and until the share of Common Stock actually is issued to him/her upon valid exercise of the Option and such person becomes a stockholder of record with respect to such shares of Common Stock.
11. **Adjustment.** The Option is subject to adjustment, without the consent of the Participant, pursuant to Section 5.7 of the Plan.
12. **Interpretation of this Agreement.** All decisions and interpretations made by the Committee (or, as applicable, the Board) with regard to any question arising hereunder or under the Plan shall be binding and conclusive upon the Company and the Participant. If there is any inconsistency between the provisions of this Agreement and the Plan, the provisions of the Plan shall govern.
13. **Discontinuance of Employment.** This Agreement shall not give the Participant a right to continued employment with the Company or any parent or subsidiary of the Company, and the Company or any such parent or subsidiary employing the Participant may terminate his/her employment at any time and otherwise deal with the Participant without regard to the effect it may have upon him/her under this Agreement.
14. **Binding Effect.** This Agreement shall be binding in all respects on the heirs, representatives, successors and assigns of the Participant.
15. **Choice of Law; Jurisdiction.** This Agreement is entered into under the laws of the State of Delaware and shall be construed and interpreted thereunder (without regard to its conflict of law principles), provided that Sections 16, 17, 20, 22 and 23 shall be construed and interpreted under the laws of the State of Illinois (without regard to its conflicts of law principles). All disputes under this Agreement shall be heard in the federal and state courts located in Peoria, Illinois.
16. **Restrictions on Solicitation of Company Employee(s).** Participant understands and acknowledges that the Company and its Subsidiaries have expended and continues to expend significant time and expense in recruiting and training its employees and that the loss of employees would cause significant and irreparable harm to the Company and any Subsidiary.

(a) Solicitation of Company Employee(s) During Participant's Employment. Unless otherwise prohibited by applicable law, in return for this Option grant and by virtue of Participant's ongoing duty of loyalty to the Company, the Participant – while Participant remains employed by the Company – shall not, directly, indirectly, or through the direction or control of others, solicit, hire, recruit, attempt to hire or recruit, encourage, or induce any employee(s) of the Company or any Subsidiary to terminate their employment with the Company or any Subsidiary (collectively, “**Solicitation of Company Employee(s) During Participant's Employment**”), unless Participant's Solicitation of Company Employee(s) during Participant's Employment is in the best interest of the Company and prior consent for the Solicitation of Company Employee(s) During Participant's Employment has been received from an authorized officer of the Company.

(b) Solicitation of Company Employee(s) Following Participant's Employment. Unless otherwise prohibited by applicable law, in return for this Option grant, the Participant – during the twelve (12) month period that immediately follows the Participant's termination of employment with the Company, regardless of the reason for termination and whether it is initiated by the Participant, the Company or otherwise – shall not, directly, indirectly, or through the direction or

control of others, solicit, hire, recruit, attempt to hire or recruit, encourage, or induce any employee(s) of the Company or any Subsidiary whom Participant supervised or with whom Participant directly worked (regardless of whether such individuals worked in the same location) during the last two (2) years of Participant's employment by the Company and/or with respect to whom Participant received confidential employment or background information during the last two (2) years of Participant's employment by the Company to terminate their employment with the Company or any Subsidiary (collectively, "**Solicitation of Company Employee(s) Following Participant's Employment**"), unless Participant's Solicitation of Company Employee(s) Following Participant's Employment is in the best interest of the Company and prior consent for the Solicitation of Company Employee(s) Following Participant's Employment has been received from an authorized officer of the Company. Participant's obligations under this Section 16(b) shall not apply to soliciting any individual(s) formerly employed by or who otherwise provided services to the Company or any Subsidiary whose employment was terminated or whose services were disengaged by the Company or any Subsidiary; or to any individual(s) who voluntarily terminated their employment with or ceased providing services to the Company or any Subsidiary at least six (6) months prior to any solicitation by Participant.

(c) Violation(s) of Section 16. If Participant has received or been entitled to payment of cash, delivery of shares of Common Stock, or a combination thereof pursuant to this Option grant within six (6) months before the Participant's termination of employment with the Company or any Subsidiary, the Committee, in its sole discretion, may require Participant to return or forfeit the cash and/or shares of Common Stock received with respect to the Option (or its economic value as of the date of the exercise of Option) in the event of a violation of this Section 16. The Committee's right to require forfeiture must be exercised within ninety (90) days after discovery of such an occurrence but in no event later than fifteen (15) months after Participant's termination of employment with the Company or any Subsidiary.

17. **Restrictions on Solicitation of Company Customer(s).** Participant understands and acknowledges that because of Participant's experience with, training by, and relationship to the Employer or any Subsidiary, Participant will have access to and learn about the Company and any Subsidiary's Confidential Information (defined below), including its or their customer information. It is understood and agreed by Participant that all business relationships and goodwill now existing with respect to the prospects and customers of the Company or any Subsidiary, whether or not created by Participant, and all such relationships and goodwill which may hereafter be created or enhanced during Participant's employment by the Company or any Subsidiary, at all times shall be considered by the parties as near permanent relationships belonging to the Company and any Subsidiary, and that the loss of any such business relationship or goodwill will cause significant and irreparable harm to the Company or any Subsidiary. Accordingly, Participant agrees to the restrictions on solicitation of Company Customer(s) (as defined below) as outlined below in this Section 17.

(a) Solicitation of Company Customer(s) During Participant's Employment. Unless otherwise prohibited by applicable law, in return for this Option grant and by virtue of Participant's ongoing duty of loyalty to the Company, the Participant – while Participant remains employed by the Company – shall not, directly or indirectly, solicit or otherwise induce any person or entity engaged in a business relationship with Company, including, but not limited to, any policyholder, or any reinsurer, producer, broker, or other third party business partner of the Company (collectively, "**Company Customer(s)**") to: (a) discontinue or diminish its or their relationship with the Company and/or any Subsidiary ; (b) conduct with any person or entity other than the Company or any Subsidiary any business that such Company Customer(s) conducts or could conduct with the Company and/or any Subsidiary; or (c) otherwise interfere with or disrupt, or in any manner attempt to interfere with or disrupt, any of the Company's and/or any Subsidiary relationships with Company Customer(s) (collectively, "**Solicitation of Company Customer(s) During Participant's Employment**").

(b) Solicitation of Company Customer(s) Following Participant's Employment. Unless otherwise prohibited by applicable law, in return for this Option grant, the Participant – during the

twelve (12) month period that immediately follows the Participant's termination of employment with the Company, regardless of the reason for termination and whether it is initiated by the Participant, the Company or otherwise – shall not, as proprietor, partner, joint venturer, stockholder, director, officer, trustee, principal, agent, member, consultant, servant, employee, or in any other capacity whatsoever, directly or indirectly, solicit or otherwise induce any Company Customer(s) to: (a) discontinue or diminish its or their relationship with the Company and/or any Subsidiary; (b) conduct with any person or entity other than the Company or any Subsidiary any business that such Company Customer(s) conducts or could conduct with the Company and/or any Subsidiary; or (c) otherwise interfere with or disrupt, or in any manner attempt to interfere with or disrupt, any of the Company's and/or any Subsidiary's relationships with Company Customer(s) (collectively, **"Solicitation of Company Customer(s) Following Participant's Employment"**); provided, however, Participant's obligations under this Section 17(b) shall apply only to any Company Customer(s) doing business with the Company and/or any Subsidiary at any time during the last twelve (12) months of the Participant's employment with the Company (or at any time during the Participant's employment with the Company, if the length of employment is less than twelve (12) months): and either (i) with which Participant had material personal dealings during the last twelve (12) months of the Participant's employment with the Company (or at any time during the Participant's employment with the Company, if the length of employment is less than twelve (12) months); (ii) with which someone under Participant's direct supervision had material personal dealings during the last twelve (12) months of the Participant's employment with the Company (or at any time during the Participant's employment with the Company, if the length of employment is less than twelve (12) months); or (iii) about which Participant received Confidential Information, or other information that is not publicly available, by or through their relationship to the Company or any Subsidiary. The Company and any Subsidiary, on the one hand, and Participant, on the other, expressly acknowledge and agree that this Section 17(b) in itself is not intended to, and will not, function as a covenant against competition.

(c) Notwithstanding anything herein to the contrary, the foregoing obligations under Section 17(b) shall not apply to Participant to the extent Participant's Solicitation of Company Customer(s) Following Participant's Employment occurs while Participant lives or primarily works within the State of California. In such instance, unless otherwise prohibited by applicable law, in return for the Restricted Stock Unit Award, the Participant – following the Participant's termination of employment with the Company, regardless of the reason for termination and whether it is initiated by the Participant, the Company or otherwise – shall not, as proprietor, partner, joint venturer, stockholder, director, officer, trustee, principal, agent, member, consultant, servant, employee, or in any other capacity whatsoever, directly or indirectly, (i) unlawfully interfere with ongoing or prospective business relationships of the Company and any Company Customer(s), or (ii) unlawfully utilize or disclose the Company's trade secrets or other Confidential Information in the Solicitation of Company Customer(s) Following Participant's Employment.

(d) Violation(s) of Section 17. If Participant has received or been entitled to payment of cash, delivery of shares of Common Stock, or a combination thereof pursuant to this Option grant within six (6) months before the Participant's termination of employment with the Company or any Subsidiary, the Committee, in its sole discretion, may require Participant to return or forfeit the cash and/or shares of Common Stock received with respect to the Option (or its economic value as of the date of the exercise of Option) in the event of a violation of this Section 17. The Committee's right to require forfeiture must be exercised within ninety (90) days after discovery of such an occurrence but in no event later than fifteen (15) months after Participant's termination of employment with the Company or any Subsidiary.

18. **Change in Control.** In the event of a Change in Control, the Committee shall take one of the actions described in Sections 18(a) or (b).

(a) Substitution. If the Change in Control is a merger, consolidation or statutory share exchange, the Committee may make appropriate provision for the replacement of the Option by the substitution of an option to purchase stock of the corporation surviving any merger or consolidation

with substantially similar terms and conditions (or, if appropriate, an option to purchase stock of the parent corporation of the Company or such surviving corporation), provided such option preserves the full economic value of the Option (to the extent permitted under Code Section 409A, or, if applicable, the stock rights exemption from Code Section 409A) and provides for full vesting of the option in the event Participant experiences a Qualifying Termination; provided that if the Company continues to be a publicly traded corporation immediately after a Change in Control, the Committee may provide for the Option to continue in effect in accordance with its terms, in which case the Option shall become fully vested in the event Participant experiences a Qualifying Termination.

(b) Acceleration of Vesting and Payment of Awards. At least ten days before the occurrence of the Change in Control, the Committee may declare, and provide written notice to Participant of the declaration that the Option, whether or not then exercisable, shall be cancelled at the time of, or immediately before the occurrence of, the Change in Control in exchange for payment to Participant, within ten (10) days after the Change in Control of cash equal to, for each share of Common Stock covered by the canceled Option, the amount, if any, by which the Fair Market Value per share of Common Stock exceeds the purchase price per share of Common Stock covered by the Option. Alternatively, at least ten days before the occurrence of the Change in Control, the Committee may cause the Option to become immediately become exercisable in full and Participant shall have the right, during the period preceding the time of cancellation of the Option, to exercise the Option as to all or any part of the shares of Common Stock covered thereby in whole or in part. In the event the Committee takes the actions contemplated by the preceding sentence, to the extent the Option shall not have been exercised before the Change in Control, the Option shall be cancelled at the time of, or immediately before, the Change in Control.

19. **Amendment.** Subject to the terms of the Plan, the Committee may amend the terms and conditions of this Agreement. Amendments to the Agreement may be unilaterally made by the Company (with the approval of the Committee) unless such amendments are deemed by the Committee to be materially impair the rights of Participant and not required as a matter of law.

20. **Confidential Information.**

(a) Restrictions on Use/Disclosure of Confidential Information. Pursuant to this Agreement, the Company's Confidential Information Protection Policy, the Company's Code of Conduct, and any additional confidentiality policy and/or agreement governing Participant's use/disclosure of confidential information, the Participant understands and acknowledges that during the course of employment by the Company, Participant will have access to and learn about confidential, secret, and proprietary documents, materials, data, and other information, in tangible and intangible form, of and relating to the Company and any Subsidiary, and the foregoing's businesses and existing and prospective customers, suppliers, and other associated third parties ("**Confidential Information**"). The parties specifically recognize that the Company's Confidential Information includes, without limitation: (i) business/financial information (preliminary financial results that have not been made available to the public, investment information; financial data, budgets, and projections; the terms and conditions of contracts and the existence of other actual or potential relationships between the Company and other persons or entities); (ii) strategies and plans (strategic plans; marketing plans and data; business development plans and objectives; and management reports); (iii) personal information (employee information; personally-identifiable information concerning any person – such as address, date of birth, social security number, etc. – that can be used to identify, contact, or locate a person; and medical or health information concerning any person); (iv) underwriting/claims information (the identity of RLI's agents, brokers, insureds, or customers; the types of policies or bonds sold through a particular agency or producer; claims, loss history, reserves, litigation plans and similar or related information; policy forms and other forms or agreements created or used by the Company; underwriting guidelines or requirements, forms, templates, training and support materials; rates, rate manuals, and commissions); and (v) other confidential information (information related to the Company's cyber security measures, attorney-client privileged information, software code, and any other information that has not been made public by RLI). For purposes of this Agreement, Confidential Information shall not include

any information that (i) is or becomes generally available to the public other than as a result of a disclosure or wrongful act of Employee or any of Employee's agents; (ii) was available to Employee on a non-confidential basis before its disclosure by a member of the Company Group; or (iii) becomes available to Employee on a non-confidential basis from a source other than a member of the Company Group; *provided, however*, that such source is not bound by a confidentiality agreement with, or other obligation with respect to confidentiality to, a member of the Company Group.

Participant further understands and acknowledges that this Confidential Information and the Company's ability to reserve it for the exclusive knowledge and use of the Company and any Subsidiary is of great competitive importance and commercial value to the Company, and that improper use or disclosure of the Confidential Information by Participant will cause irreparable harm to the Company, for which remedies at law will not be adequate, and may also cause the Company to incur financial costs, loss of business advantage, liability under confidentiality agreements with third parties, and civil damages.

Participant acknowledges and agrees that Participant, shall not, without the express prior written consent of an authorized officer of the Company, directly or indirectly use, disclose, communicate, publish, copy, or make available any Confidential Information, including any work in which the Participant may have been engaged on behalf of the Company, to any person, firm, corporation, association or other entity, for any reason or purpose whatsoever, except as required in the performance of Participant's authorized employment duties to the Company. At the conclusion of employment with the Company, the Participant is required to return or destroy all Company documents and records in his or her possession or control, including those containing Confidential Information. The Participant further acknowledges that Participant's obligations to maintain and protect Confidential Information pursuant to this Agreement, the Company's Confidential Information Protection Policy, the Company's Code of Conduct, and any additional confidentiality policy and/or agreement governing Participant's use/disclosure of confidential information, will continue after Participant's employment termination date. However, unless otherwise prohibited by applicable law, Participant's nondisclosure obligation shall extend for three (3) years after Participant's employment termination date as to Confidential Information that does not qualify as a trade secret or is not otherwise protected under applicable law; trade secret information shall be protected from disclosure as long as the information at issue continues to qualify as a trade secret.

(b) Exceptions to Confidentiality Obligations. Notwithstanding, the foregoing, nothing in this Agreement shall prohibit or restrict Participant from lawfully: (i) initiating communications directly with, cooperating with, providing information to, causing information to be provided to, or otherwise assisting in an investigation by, any governmental authority regarding a possible violation of any law; (ii) responding to any inquiry or legal process directed to Participant from any such governmental authority; (iii) testifying, participating or otherwise assisting in any action or proceeding by any such governmental authority relating to a possible violation of law; (iv) making any other disclosures that are protected under the whistleblower provisions of any applicable law ; or (v) discussing or disclosing information about unlawful acts in the workplace, such as harassment, discrimination, retaliation, or any other conduct that Participant has reason to believe is unlawful. Additionally, as provided by the Federal Defend Trade Secrets Act, Participant will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret made: (i) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, and solely for the purpose of reporting or investigating a suspected violation of law; (ii) to the individual's attorney in relation to a lawsuit for retaliation against the individual for reporting a suspected violation of law; or (iii) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

(c) Violation(s) of Section 20. If Participant has received or been entitled to payment of cash, delivery of shares of Common Stock, or a combination thereof pursuant to this Option grant within six (6) months before the Participant's termination of employment with the Company or any Subsidiary, the Committee, in its sole discretion, may require Participant to return or forfeit the cash

and/or shares of Common Stock received with respect to the Option (or its economic value as of the date of the exercise of Option) in the event of a violation of this Section 20. The Committee's right to require forfeiture must be exercised within ninety (90) days after discovery of such an occurrence but in no event later than fifteen (15) months after Participant's termination of employment with the Company or any Subsidiary.

21. **Consideration.** Participant acknowledges that the Option provided pursuant to this Agreement is in exchange for the promises made in this Agreement, including the confidentiality and non-solicitation obligations. Participant agrees that the Company has business interests which are legitimately in need of the protections provided for herein.
22. **Specific Performance.** Because of the difficulty of measuring economic losses to the Company as a result of a breach or threatened breach of the covenants set forth in Sections 16, 17 and 20 of this Agreement, and because of the immediate and irreparable damage that would be caused to the Company for which it would have no other adequate remedy, the Company shall be entitled to enforce the foregoing covenants in the event of a breach or threatened breach, by injunctions and restraining orders from any arbitrator or court of competent jurisdiction, without the necessity of showing any actual damages or that money damages would not afford an adequate remedy, and without the necessity of posting any bond or other security. The aforementioned equitable relief shall not be the Company's exclusive remedy for a breach but instead shall be in addition to all other rights and remedies available to the Company, at law and equity.
23. **Survival; Third Party Beneficiaries.** Participant's obligations under Sections 16, 17, and 20 of this Agreement will continue in effect after the termination of Participant's employment, regardless of the reason or reasons for termination, and whether such termination is voluntary or involuntary. Participant's obligations under this Agreement will be binding upon Participant's heirs, executors, assigns, and administrators and will inure to the benefit of each Subsidiary of the Company and their respective subsidiaries, successors, and assigns. Each Subsidiary of the Company that is not a signatory hereto shall be a third-party beneficiary of Employee's representations and covenants hereunder and shall be entitled to enforce this Agreement as if a party hereto.
24. **Modification.** Should any provision of this Agreement be declared or be determined by any court of competent jurisdiction to be illegal or invalid, the validity of the remaining parts, terms or provisions shall not be affected thereby, and said illegal or invalid part, term, or provision shall be deemed not be a part of this Agreement. The parties expressly empower a court of competent jurisdiction to modify any term or provision of this Agreement to the extent necessary to comply with existing law and to enforce the Agreement as modified.
25. **Advice of Counsel.** Certain statutes and/or other regulations require that Participant be provided with an opportunity to consult with an attorney before signing this Agreement, including the covenants not to solicit in Section 16-17. Participant acknowledges that they have been given at least fourteen (14) calendar days from the time they receive this Agreement to consider whether to sign this Agreement.

The Participant and the Company have executed this Agreement as of **###TODAY'S DATE AND TIME OF ACCEPTANCE###**.

RLI Corp.

By_____

Name_____

Title_____

I, **###PARTICIPANT_NAME###**, by clicking on the "Accept" button below do hereby electronically accept the Stock Option Award ("**Award**") as of today's date and agree to the terms and conditions set forth in the Stock Option Agreement included above.

RLI CORP.
2023 Long-Term Incentive Plan
Restricted Stock Unit Agreement

(May 1, 2024 Form of Agreement)

Name of Participant:			
Number of Restricted Stock Units:	Date of Grant:		
<p>Restriction Period:</p> <p><i>Actual vesting date and corresponding Restricted Stock Units incorporated as follows:</i></p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%; text-align: center;"> <u>Date of Vesting</u> <i>[Date of Grant plus three years]</i> </td> <td style="width: 50%; text-align: center;"> <u>Percentage of Units that Become Vested</u> <i>[100%]</i> </td> </tr> </table>		<u>Date of Vesting</u> <i>[Date of Grant plus three years]</i>	<u>Percentage of Units that Become Vested</u> <i>[100%]</i>
<u>Date of Vesting</u> <i>[Date of Grant plus three years]</i>	<u>Percentage of Units that Become Vested</u> <i>[100%]</i>		

Effective as of the "Date of Grant" specified above, RLI Corp., a Delaware corporation (the "**Company**"), grants to the individual named above (the "**Participant**") Restricted Stock Units ("**Restricted Stock Units**"), each of which represents the right to receive one share of common stock, par value \$0.01 per share, of the Company ("**Common Stock**") at the time and subject to the terms and conditions set forth in this Restricted Stock Unit Agreement (the "**Agreement**") and in the RLI Corp. 2023 Long-Term Incentive Plan (the "**Plan**"). In the event of any conflict between the terms of the Agreement and the Plan, the terms of the Plan shall govern. Capitalized terms used but not defined shall have the meaning ascribed thereto in the Plan.

Background

A. The Company maintains the Plan (i) to align the interests of the Company's stockholders and the recipients of awards under the Plan by increasing the proprietary interest of such recipients in the Company's growth and success, (ii) to advance the interests of the Company by attracting and retaining officers, other employees, Non-Employee Directors, consultants and independent contractors and (iii) to motivate such persons to act in the long-term best interests of the Company and its stockholders.

B. Under the Plan, the Human Capital & Compensation Committee of the Board of Directors of the Company (the "**Committee**") administers the Plan and has the authority to determine the awards granted under the Plan or delegate to specific persons authority to make certain awards .

C. The Committee or its delegee has determined that the Participant is eligible to receive an award of Restricted Stock Units under the Plan (the "**Restricted Stock Unit Award**").

D. The Company hereby grants the Restricted Stock Unit Award to the Participant under the following terms and conditions:

Terms and Conditions

1. **Grant.** The Participant is granted the Restricted Stock Unit Award with respect to the number of Restricted Stock Units specified at the beginning of this Agreement.
2. **Restriction Period.** One hundred percent (100%) of the Restricted Stock Units subject to the Restricted Stock Unit Award will become vested on the third anniversary of the Date of Grant as specified at the beginning of this Agreement, provided that the Participant remains continuously employed by the Company or a parent or subsidiary thereof through such anniversary date.

The Restricted Stock Units shall also become vested in full (notwithstanding the vesting schedule) under the circumstances described in Section 3 of this Agreement or in the event of a Qualifying Termination in accordance with Section 16 of this Agreement if they have not been forfeited prior thereto. Except as provided in Sections 3 or 16 of this Agreement, the Restricted Stock Units shall be forfeited in their entirety if the Participant's employment with the Company or a parent or subsidiary thereof terminates prior to the third anniversary of the Date of Grant.

3. **Acceleration of Vesting.** In the event of the death, Disability or Retirement of the Participant, the Restricted Stock Units shall immediately become vested in full if the Participant shall have been continuously employed by the Company or a parent or subsidiary thereof between the date the Restricted Stock Unit Award was granted and the date of such Disability, Retirement or death; provided that the Restricted Stock Units shall vest upon Retirement only if the Participant's termination date occurs on or after December 31st of the calendar year in which the Restricted Stock Unit Award is granted. Notwithstanding the foregoing, the Restricted Stock Unit Award shall terminate immediately if Participant is notified that Participant's employment is being terminated or has been terminated for Cause. Participant's termination shall be deemed to have been for Cause if, before or after such termination, facts and circumstances are discovered that would have justified a termination for Cause.
4. **Dividend Equivalents.** As of each date on which the Company pays a cash dividend to record owners of shares of Common Stock (a "**Dividend Date**"), the number of Restricted Stock Units subject to the Restricted Stock Unit Award shall increase by (i) the product of the total number of Restricted Stock Units subject to the Restricted Stock Unit Award which remain unsettled by shares of Common Stock issued to the Participant in accordance with Section 5 hereof (as reflected in the records of the Company's transfer agent) immediately prior to such Dividend Date multiplied by the dollar amount of the cash dividend paid per share of Common Stock by the Company on such Dividend Date, divided by (ii) the Fair Market Value on such Dividend Date and rounded down to the nearest whole share; provided that any fractional shares shall be paid to the Participant in cash and included first in any applicable federal tax withholding for the Participant. Any such additional Restricted Stock Units shall be subject to the same vesting conditions and payment terms set forth herein as the Restricted Stock Units to which they relate.
5. **Delivery of Certificates.** Except to the extent deferred in accordance with a deferred compensation program established by the Company and Section 409A of the Internal Revenue Code of 1986, as amended (the "**Code**"), as soon as practicable, but not more than 30 days, after the date of vesting in accordance with Sections 2 or 3, the Company shall deliver to the Participant or his or her beneficiary, in the name of such person, a certificate or certificates representing a number of shares of Common Stock equal to the number of Restricted Stock Units subject to the Restricted Stock Unit Award (including any dividend equivalents pursuant to Section 4 of this Agreement) that have become vested pursuant to Section 2 or Section 3 of this Agreement; provided, however, that the Company may deliver the shares of Common Stock electronically in book-entry form. The Company shall pay any original issue or transfer taxes with respect to the issue or transfer of the shares of Common Stock and all fees and expenses incurred by it in connection therewith. All

shares of Common Stock so issued shall be fully paid and nonassessable. Notwithstanding anything to the contrary in this Agreement, no certificate for shares of Common Stock distributable under the Plan shall be issued and delivered unless the issuance of such certificate complies with all applicable legal requirements including, without limitation, compliance with the provisions of applicable state securities laws, the federal Securities Act of 1933 and the Securities Exchange Act of 1934, and related regulations, and the Company may further require that any such certificates bear a legend indicating that the sale, transfer or other disposition thereof by the holder is prohibited except in compliance with the Securities Act of 1933, as amended, and the rules and regulations thereunder.

6. **Withholding Taxes.** The Participant is responsible for payment of any federal, state, local or other taxes which must be withheld or paid in connection with the Restricted Stock Unit Award, and the Participant must promptly pay to the Company any such taxes. The Participant hereby authorizes the Company and any Subsidiary to deduct from any payment owed to the Participant any taxes required to be withheld or paid in connection with the Restricted Stock Unit Award, including social security and Medicare (FICA) taxes and federal, state and local taxes. The Company shall have the right to require that the Participant satisfy such obligations by making a cash payment to the Company. In lieu of all or any part of such a cash payment, the Participant may elect to authorize the Company to withhold whole shares of Common Stock which would otherwise be issuable upon the settlement of the Restricted Stock Unit Award equal to the amount necessary to satisfy any such tax obligations. Shares of Common Stock to be withheld may not have an aggregate Fair Market Value in excess of the amount determined by applying the maximum individual statutory tax rate in the Participant's applicable jurisdiction; provided that the Company shall be permitted to limit the number of shares so withheld to a lesser number if necessary, in the judgment of the Committee, to avoid adverse accounting consequences or for administrative convenience. Any fraction of a share of Common Stock which would be required to satisfy such an obligation shall be disregarded and the remaining amount due shall be withheld.
7. **Limitation on Transfer.** The Restricted Stock Unit Award may not be sold, transferred, assigned, pledged, hypothecated, encumbered or otherwise disposed of (whether by operation of law or otherwise) or be subject to execution, attachment or similar process otherwise than by will, the laws of descent and distribution, pursuant to beneficiary designation procedures approved by the Committee, or pursuant to a qualified domestic relations order. Notwithstanding the foregoing, the Participant may transfer the Restricted Stock Unit Award, without payment or consideration from the transferee, (a) to any one or more of the Participant's spouse or issue, (b) to one or more trusts established solely for the benefit of the Participant's spouse or issue or (c) to one or more partnerships in which the only partners are the Participant's spouse or issue. For purpose of this provision, the term "spouse" shall include a former spouse who receives a transfer pursuant to a qualified domestic relations order, and the term issue shall include stepchildren, step-grandchildren and adopted children. No such transfer shall be effective unless reasonable prior notice thereof is delivered to the Company. Any such permitted transferee shall be subject to all of the terms and conditions applicable to the person transferring the Restricted Stock Unit Award including the terms and conditions set forth in the Plan and this Agreement. Any attempt to sell, transfer, assign, pledge, hypothecate, encumber or otherwise dispose of the Restricted Stock Unit Award other than in accordance with this Section 7 shall be null and void.
8. **No Stockholder Rights Before Issuance of Shares.** No person shall have any of the rights of a stockholder of the Company with respect to any share of Common Stock subject to the Restricted Stock Unit Award unless and until the share of Common Stock actually is issued to him/her following the vesting and settlement of the Restricted Stock Unit Award and such person becomes a stockholder of record with respect to such shares of Common Stock.
9. **Adjustment.** The Restricted Stock Unit Award is subject to adjustment, without the consent of the Participant, pursuant to Section 5.7 of the Plan.

10. **Interpretation of this Agreement.** All decisions and interpretations made by the Committee (or, as applicable, the Board) with regard to any question arising hereunder or under the Plan shall be binding and conclusive upon the Company and the Participant. If there is any inconsistency between the provisions of this Agreement and the Plan, the provisions of the Plan shall govern.
11. **Discontinuance of Employment.** This Agreement shall not give the Participant a right to continued employment with the Company or any parent or subsidiary of the Company, and the Company or any such parent or subsidiary employing the Participant may terminate his/her employment at any time and otherwise deal with the Participant without regard to the effect it may have upon him/her under this Agreement.
12. **Binding Effect.** This Agreement shall be binding in all respects on the heirs, representatives, successors and assigns of the Participant.
13. **Choice of Law; Jurisdiction.** This Agreement is entered into under the laws of the State of Delaware and shall be construed and interpreted thereunder (without regard to its conflict of law principles), provided that Sections 14, 15, 20, 22 and 23 shall be construed and interpreted under the laws of the State of Illinois (without regard to its conflicts of law principles). All disputes under this Agreement shall be heard in the federal and state courts located in Peoria, Illinois.
14. **Restrictions on Solicitation of Company Employee(s).** Participant understands and acknowledges that the Company and its Subsidiaries have expended and continues to expend significant time and expense in recruiting and training its employees and that the loss of employees would cause significant and irreparable harm to the Company and any Subsidiary.

(a) Solicitation of Company Employee(s) During Participant's Employment. Unless otherwise prohibited by applicable law, in return for the Restricted Stock Unit Award and by virtue of Participant's ongoing duty of loyalty to the Company, the Participant – while Participant remains employed by the Company – shall not, directly, indirectly, or through the direction or control of others, solicit, hire, recruit, attempt to hire or recruit, encourage, or induce any employee(s) of the Company or any Subsidiary to terminate their employment with the Company or any Subsidiary (collectively, "**Solicitation of Company Employee(s) During Participant's Employment**"), unless Participant's Solicitation of Company Employee(s) during Participant's Employment is in the best interest of the Company and prior consent for the Solicitation of Company Employee(s) During Participant's Employment has been received from an authorized officer of the Company.

(b) Solicitation of Company Employee(s) Following Participant's Employment. Unless otherwise prohibited by applicable law, in return for the Restricted Stock Unit Award, the Participant – during the twelve (12) month period that immediately follows the Participant's termination of employment with the Company, regardless of the reason for termination and whether it is initiated by the Participant, the Company or otherwise – shall not, directly, indirectly, or through the direction or control of others, solicit, hire, recruit, attempt to hire or recruit, encourage, or induce any employee(s) of the Company or any Subsidiary whom Participant supervised or with whom Participant directly worked (regardless of whether such individual worked in the same location) during the last two (2) years of Participant's employment by the Company and/or with respect to whom Participant received confidential employment or background information during the last two (2) years of Participant's employment by the Company to terminate their employment with the Company or any Subsidiary (collectively, "**Solicitation of Company Employee(s) Following Participant's Employment**"), unless Participant's Solicitation of Company Employee(s) Following Participant's Employment is in the best interest of the Company and prior consent for the Solicitation of Company Employee(s) Following Participant's Employment has been received from an authorized officer of the Company. Participant's obligations under this Section 14(b) shall not

apply to soliciting any individual(s) formerly employed by or who otherwise provided services to the Company or any Subsidiary whose employment was terminated or whose services were disengaged by the Company or any Subsidiary; or to any individual(s) who voluntarily terminated their employment with or ceased providing services to the Company or any Subsidiary at least six (6) months prior to any solicitation by Participant.

(c) Violation(s) of Section 14. If the Participant has received or been entitled to payment of cash, delivery of shares of Common Stock, or a combination thereof pursuant to this Restricted Stock Unit Award within six (6) months before the Participant's termination of employment with the Company or any Subsidiary, the Committee, in its sole discretion, may require the Participant to return or forfeit the cash and/or shares of Common Stock received with respect to the Restricted Stock Unit Award (or its economic value as of the date of the issuance of shares of Common Stock upon the settlement of the Restricted Stock Unit Award) in the event of any violation(s) of this Section 14. The Committee's right to require forfeiture must be exercised within ninety (90) days after discovery of such an occurrence but in no event later than fifteen (15) months after the Participant's termination of employment with the Company or any Subsidiary.

15. **Restrictions on Solicitation of Company Customer(s).** Participant understands and acknowledges that because of Participant's experience with, training by, and relationship to the Employer or any Subsidiary, Participant will have access to and learn about the Company and/or any Subsidiary Confidential Information (defined below), including its or their customer information. It is understood and agreed by Participant that all business relationships and goodwill now existing with respect to the prospects and customers of the Company or any Subsidiary, whether or not created by Participant, and all such relationships and goodwill which may hereafter be created or enhanced during Participant's employment by the Company or any Subsidiary, at all times shall be considered by the parties as near permanent relationships belonging to the Company and any Subsidiary, and that the loss of any such business relationship or goodwill will cause significant irreparable harm to the Company or any Subsidiary. Accordingly, Participant agrees to the restrictions on solicitation of Company Customer(s) (as defined below) as outlined below in this Section 15.

(a) Solicitation of Company Customer(s) During Participant's Employment. Unless otherwise prohibited by applicable law, in return for the Restricted Stock Unit Award and by virtue of Participant's ongoing duty of loyalty to the Company, the Participant – while Participant remains employed by the Company – shall not, directly or indirectly, solicit or otherwise induce any person or entity engaged in a business relationship with Company, including, but not limited to, any policyholder, or any reinsurer, producer, broker, or other third party business partner of the Company (collectively, "**Company Customer(s)**") to: (a) discontinue or diminish its or their relationship with the Company and/or any Subsidiary; (b) conduct with any person or entity other than the Company or any Subsidiary any business that such Company Customer(s) conducts or could conduct with the Company and/or any Subsidiary; or (c) otherwise interfere with or disrupt, or in any manner attempt to interfere with or disrupt, any of the Company's and/or any Subsidiary relationships with Company Customer(s) (collectively, "**Solicitation of Company Customer(s) During Participant's Employment**").

(b) Solicitation of Company Customer(s) Following Participant's Employment. Unless otherwise prohibited by applicable law, in return for the Restricted Stock Unit Award, the Participant – during the twelve (12) month period that immediately follows the Participant's termination of employment with the Company, regardless of the reason for termination and whether it is initiated by the Participant, the Company or otherwise – shall not, as proprietor, partner, joint venturer, stockholder, director, officer, trustee, principal, agent, member, consultant, servant, employee, or in any other capacity whatsoever, directly or indirectly, solicit or otherwise induce any Company Customer(s) to: (a) discontinue or diminish its or their relationship with the Company and/or any Subsidiary; (b) conduct with any person or entity other than the Company or any

Subsidiary any business that such Company Customer(s) conducts or could conduct with the Company and/or any Subsidiary; or (c) otherwise interfere with or disrupt, or in any manner attempt to interfere with or disrupt, any of the Company's and/or any Subsidiary relationships with Company Customer(s) (collectively, "**Solicitation of Company Customer(s) Following Participant's Employment**"); provided, however, Participant's obligations under this Section 15(b) shall apply only to any Company Customer(s) doing business with the Company and/or any Subsidiary at any time during the last twelve (12) months of the Participant's employment with the Company (or at any time during the Participant's employment with the Company, if the length of employment is less than twelve (12) months) **and either** (i) with which Participant had material personal dealings during the last twelve (12) months of the Participant's employment with the Company (or at any time during the Participant's employment with the Company, if the length of employment is less than twelve (12) months); (ii) with which someone under Participant's direct supervision had material personal dealings during the last twelve (12) months of the Participant's employment with the Company (or at any time during the Participant's employment with the Company, if the length of employment is less than twelve (12) months).; or (iii) about which Participant received Confidential Information, or other information that is not publicly available, by or through their relationship to the Company or any Subsidiary. The Company and any Subsidiary, on the one hand, and Participant, on the other, expressly acknowledge and agree that this Section 15(b) in itself is not intended to, and will not, function as a covenant against competition.

(c) Notwithstanding anything herein to the contrary, the foregoing obligations under Section 15(b) shall not apply to Participant to the extent Participant's Solicitation of Company Customer(s) Following Participant's Employment occurs while Participant lives or primarily works within the State of California. In such instance, unless otherwise prohibited by applicable law, in return for the Restricted Stock Unit Award, the Participant – following the Participant's termination of employment with the Company, regardless of the reason for termination and whether it is initiated by the Participant, the Company or otherwise – shall not, as proprietor, partner, joint venturer, stockholder, director, officer, trustee, principal, agent, member, consultant, servant, employee, or in any other capacity whatsoever, directly or indirectly, (i) unlawfully interfere with ongoing or prospective business relationships of the Company and any Company Customer(s), or (ii) unlawfully utilize or disclose the Company's trade secrets or other Confidential Information in the Solicitation of Company Customer(s) Following Participant's Employment.

(d) Violation(s) of Section 15. If the Participant has received or been entitled to payment of cash, delivery of shares of Common Stock, or a combination thereof pursuant to this Restricted Stock Unit Award within six (6) months before the Participant's termination of employment with the Company or any Subsidiary, the Committee, in its sole discretion, may require the Participant to return or forfeit the cash and/or shares of Common Stock received with respect to the Restricted Stock Unit Award (or its economic value as of the date of the issuance of Shares upon the settlement of the Restricted Stock Unit Award) in the event of any violation(s) of this Section 15. The Committee's right to require forfeiture must be exercised within ninety (90) days after discovery of such an occurrence but in no event later than fifteen (15) months after the Participant's termination of employment with the Company or any Subsidiary.

16. **Change in Control.** the event of a Change in Control, the Committee shall take one of the actions described in Sections 16(a) or (b).

(a) Substitution. If the Change in Control is a merger, consolidation or statutory share exchange, the Committee may make appropriate provision for the replacement of the Restricted Stock Unit Award by the substitution of an award relating to the stock of the corporation surviving any merger or consolidation with substantially similar terms and conditions (or, if appropriate, an award relating to the stock of the parent corporation of the Company or such surviving corporation), provided such award preserves the full economic value of the Award (to the extent permitted under

Section 409A of the Code) and provides for full vesting of the award in the event the Participant experiences a Qualifying Termination; provided that if the Company continues to be a publicly traded corporation immediately after a Change in Control, the Committee may provide for the Restricted Stock Unit Award to continue in effect in accordance with its terms, in which case the Restricted Stock Unit Award shall become fully vested in the event the Participant experiences a Qualifying Termination.

(b) Acceleration of Vesting and Payment of Awards. The Committee may declare, and provide written notice to the Participant of the declaration, that the Restricted Stock Unit Award, whether or not then vested, shall be cancelled at the time of, or immediately before the occurrence of, the Change in Control in exchange for payment to the Participant, within ten (10) days after the Change in Control, of cash equal to, for each Restricted Stock Unit covered by the canceled Restricted Stock Unit Award, an amount equal to the Fair Market Value per share of Common Stock; provided, however, that if the Restricted Stock Unit Award is deferred compensation, within the meaning of Section 409A of the Code, and the Change in Control is not a "change in control event," within the meaning of Section 409A of the Code, the Restricted Stock Unit Award shall become immediately vested upon the Change in Control, but the cash payment pursuant to this Section 16(b) shall be made in accordance with Section 5 of this Agreement.

17. **Amendment.** Subject to the terms of the Plan, the Committee may amend the terms and conditions of this Agreement. Amendments to the Agreement may be unilaterally made by the Company (with the approval of the Committee) unless such amendments are deemed by the Committee to materially impair the rights of the Participant and not required as a matter of law.
18. **Section 409A.** This Agreement is intended to comply with, or be exempt from, the applicable requirements of Section 409A of the Code, and shall be limited, construed and interpreted in accordance with such intent. Although the Company does not guarantee any particular tax treatment, to the extent that the Restricted Stock Unit Award is subject to Section 409A of the Code, it shall be paid in a manner that is intended to comply with Section 409A of the Code, including regulations and any other guidance issued by the Secretary of the Treasury and the Internal Revenue Service with respect thereto. In no event whatsoever shall the Company be liable for any additional tax, interest or penalties that may be imposed on the Participant by Section 409A of the Code or any damages for failing to comply with Section 409A of the Code. Notwithstanding anything in the Plan or this Agreement to the contrary, the Participant shall be solely responsible for the tax consequences of the Restricted Stock Unit Award, and in no event shall the Company have any responsibility or liability if the Restricted Stock Unit Award does not meet any applicable requirements of Section 409A of the Code. Although the Company intends to administer the Plan to prevent taxation under Section 409A of the Code, the Company does not represent or warrant that the Plan or the Restricted Stock Unit Award complies with Section 409A or any other provision of federal, state, local or other tax law. To the extent any amounts under this Agreement are payable by reference to the Participant's termination of employment, such term shall be deemed to refer to the Participant's "separation from service," within the meaning of Section 409A of the Code. Notwithstanding any other provision in this Agreement, if the Participant is a "specified employee," as defined in Section 409A of the Code, as of the date of Participant's separation from service, then to the extent any amount payable to the Participant (i) constitutes the payment of nonqualified deferred compensation, within the meaning of Section 409A of the Code, (ii) is payable upon any separation from service within the meaning of Section 409A of the Code and (iii) under the terms of this Agreement would be payable prior to the first day of the seventh month following the Participant's separation from service, such payment shall be delayed until the earlier to occur of (a) the first business day following the six-month anniversary of the separation from service and (b) the date of the Participant's death.

19. **Plan Administration.** The Company partners with Solium Capital for the management and administration of its long-term incentives program using Solium's web-based application, Shareworks by Morgan Stanley®. The Participant may access information pertaining to the Restricted Stock Unit Award via the Company's Shareworks by Morgan Stanley® site, <https://rli.solium.com>.

20. **Confidential Information.**

(a) Restrictions on Use/Disclosure of Confidential Information. Pursuant to this Agreement, the Company's Confidential Information Protection Policy, the Company's Code of Conduct, and any additional confidentiality policy and/or agreement governing Participant's use/disclosure of confidential information, the Participant understands and acknowledges that during the course of employment by the Company, Participant will have access to and learn about confidential, secret, and proprietary documents, materials, data, and other information, in tangible and intangible form, of and relating to the Company and any Subsidiary, and the foregoing's businesses and existing and prospective customers, suppliers, and other associated third parties ("**Confidential Information**"). The parties specifically recognize that the Company's Confidential Information includes, without limitation: (i) business/financial information (investment information; financial data, budgets, and projections; contracts and other relationships between the Company and other persons or entities; and any other information about the Company which has not been made public by the Company); (ii) strategies and plans (strategic plans; marketing plans and data; business development plans and objectives; and management reports); (iii) personal information (employee information; personally-identifiable information concerning any person – such as address, date of birth, social security number, etc. – that can be used to identify, contact, or locate a person; and medical or health information concerning any person); (iv) underwriting/claims information (agent, broker, insured, or customer lists and information; claims, loss history, litigation plans and similar, or related information; policy forms and other forms or agreements created or used by the Company; underwriting guides, forms, templates, and support materials; and rate manuals); and (v) other confidential information (information related to the Company's cyber security and attorney/client privilege information). For purposes of this Agreement Confidential Information shall not include any information that (i) is or becomes generally available to the public other than as a result of a disclosure or wrongful act of Employee or any of Employee's agents; (ii) was available to Employee on a non-confidential basis before its disclosure by a member of the Company Group; or (iii) becomes available to Employee on a non-confidential basis from a source other than a member of the Company Group; provided, however, that such source is not bound by a confidentiality agreement with, or other obligation with respect to confidentiality to, a member of the Company Group.

Participant further understands and acknowledges that this Confidential Information and the Company's ability to reserve it for the exclusive knowledge and use of the Company and any Subsidiary is of great competitive importance and commercial value to the Company, and that improper use or disclosure of the Confidential Information by Participant will cause irreparable harm to the Company, for which remedies at law will not be adequate, and may also cause the Company to incur financial costs, loss of business advantage, liability under confidentiality agreements with third parties, and civil damages. Participant acknowledges and agrees that Participant, shall not, without the express prior written consent of an authorized officer of the Company, directly or indirectly use, disclose, communicate, publish, copy, or make available any Confidential Information, including any work in which the Participant may have been engaged on behalf of the Company, to any person, firm, corporation, association or other entity, for any reason or purpose whatsoever, except as required in the performance of Participant's authorized employment duties to the Company. At the conclusion of employment with the Company, the Participant is required to return or destroy all Company documents and records in his or her possession or control, including those containing Confidential Information. The Participant further

acknowledges that Participant's obligations to maintain and protect Confidential Information pursuant to this Agreement, the Company's Confidential Information Protection Policy, the Company's Code of Conduct, and any additional confidentiality policy and/or agreement governing Participant's use/disclosure of confidential information, will continue after Participant's employment termination date. However, unless otherwise prohibited by applicable law, Participant's nondisclosure obligation shall extend for three (3) years after Participant's employment termination date as to Confidential Information that does not qualify as a trade secret or is not otherwise protected under applicable law; trade secret information shall be protected from disclosure as long as the information at issue continues to qualify as a trade secret.

(b) Exceptions to Confidentiality Obligations. Notwithstanding the foregoing, nothing in this Agreement shall prohibit or restrict Participant from lawfully: (i) initiating communications directly with, cooperating with, providing information to, causing information to be provided to, or otherwise assisting in an investigation by, any governmental authority regarding a possible violation of any law; (ii) responding to any inquiry or legal process directed to Participant from any such governmental authority; (iii) testifying, participating or otherwise assisting in any action or proceeding by any such governmental authority relating to a possible violation of law; (iv) making any other disclosures that are protected under the whistleblower provisions of any applicable law; or (v) discussing or disclosing information about unlawful acts in the workplace, such as harassment, discrimination, retaliation, or any other conduct that Participant has reason to believe is unlawful. Additionally, as provided by the Federal Defend Trade Secrets Act, Participant will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret made: (i) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, and solely for the purpose of reporting or investigating a suspected violation of law; (ii) to the individual's attorney in relation to a lawsuit for retaliation against the individual for reporting a suspected violation of law; or (iii) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. Nothing in this Agreement requires Participant to obtain prior authorization before engaging in any conduct described in this paragraph, or to notify the Company that Participant has engaged in any such conduct.

(c) Violation(s) of Section 20. If the Participant has received or been entitled to payment of cash, delivery of shares of Common Stock, or a combination thereof pursuant to this Restricted Stock Unit Award within six (6) months before the Participant's termination of employment with the Company or any Subsidiary, the Committee, in its sole discretion, may require the Participant to return or forfeit the cash and/or shares of Common Stock received with respect to the Restricted Stock Unit Award (or its economic value as of the date of the issuance of shares of Common Stock upon the settlement of the Restricted Stock Unit Award) in the event of any violation(s) of this Section 20. The Committee's right to require forfeiture must be exercised within ninety (90) days after discovery of such an occurrence but in no event later than fifteen (15) months after the Participant's termination of employment with the Company or any Subsidiary.

21. **Consideration.** Participant acknowledges that the Restricted Stock Unit Award provided pursuant to this Agreement is in exchange for the promises made in this Agreement, including the confidentiality and non-solicitation obligations. Participant agrees that the Company has business interests which are legitimately in need of the protections provided for herein.
22. **Specific Performance.** Because of the difficulty of measuring economic losses to the Company as a result of a breach or threatened breach of the covenants set forth in Sections 14, 15 and 20 of this Agreement, and because of the immediate and irreparable damage that would be caused to the Company for which it would have no other adequate remedy, the Company shall be entitled to enforce the foregoing covenants in the event of a breach or threatened breach, by injunctions and restraining orders from any arbitrator or court of competent jurisdiction, without the necessity of

showing any actual damages or that money damages would not afford an adequate remedy, and without the necessity of posting any bond or other security. The aforementioned equitable relief shall not be the Company's exclusive remedy for a breach but instead shall be in addition to all other rights and remedies available to the Company, at law and equity.

23. **Survival; Third Party Beneficiaries.** Participant's obligations under Sections 14, 15, and 20 of this Agreement will continue in effect after the termination of Participant's employment, regardless of the reason or reasons for termination, and whether such termination is voluntary or involuntary. Participant's obligations under this Agreement will be binding upon Participant's heirs, executors, assigns, and administrators and will inure to the benefit of each Affiliate of the Company and their respective subsidiaries, successors, and assigns. Each Affiliate of the Company that is not a signatory hereto shall be a third-party beneficiary of Employee's representations and covenants hereunder and shall be entitled to enforce this Agreement as if a party hereto.
24. **Modification.** Should any provision of this Agreement be declared or be determined by any court of competent jurisdiction to be illegal or invalid, the validity of the remaining parts, terms or provisions shall not be affected thereby, and said illegal or invalid part, term, or provision shall be deemed not be a part of this Agreement. The parties expressly empower a court of competent jurisdiction to modify any term or provision of this Agreement to the extent necessary to comply with existing law and to enforce the Agreement as modified.
25. **Advice of Counsel.** Certain statutes and/or other regulations require that Participant be provided with an opportunity to consult with an attorney before signing this Agreement. Participant acknowledges that they have been given at least fourteen (14) calendar days from the time they receive this Agreement to consider whether to sign this Agreement.

The Participant and the Company have executed this Agreement as of ###TODAY'S DATE AND TIME OF ACCEPTANCE###.

RLI Corp.

By_____

Name_____

Title_____

I, ###PARTICIPANT_NAME###, by clicking on the "Accept" button below do hereby electronically accept the Restricted Stock Unit Award ("**Award**") as of today's date and agree to the terms and conditions set forth in the Restricted Stock Unit Award Agreement included above.

Name of Participant:	
Number of Units:	Date of Grant:
Restriction Period:	
<u>Date of Vesting</u> <u>[]</u>	<u>Percentage of Units that Become Vested</u> <u>100%</u>

Background

D. The Company grants the Restricted Stock Unit Award to the Participant under the following terms and conditions:

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2. **Restriction Period.** One hundred percent (100%) of the Restricted Stock Units subject to the Award will become vested on the Date of Vesting as specified at the beginning of this Agreement, provided that the Participant continuously serves as a Non-Employee Director or otherwise provides services to the Company as an employee or service provider through such Date of Vesting.

The Restricted Stock Units shall also become vested in full (notwithstanding the vesting schedule) under the circumstances described in Section 3 of this Agreement or in the event of a Qualifying Termination in accordance with Section 14 of this Agreement if they have not been forfeited prior thereto. Except as provided in Sections 3 or 14 of this Agreement, the Restricted Stock Units shall be forfeited in their entirety the Participant's service as a Non-Employee Director, employee or service provider of the Company terminates prior to the Date of Vesting.

3. **Acceleration of Vesting.** In the event of the death or Disability of the Participant, the Units shall immediately become vested in full if the Participant continuously served as a Non-Employee Director or otherwise provided services to the Company as an employee or service provider between the date the Award was granted and the date of such death or Disability.
4. **Dividend Equivalents.** As of each date on which the Company pays a cash dividend to record owners of Shares of Stock (a "**Dividend Date**"), the number of Restricted Stock Units subject to the Restricted Stock Unit Award shall increase by (i) the product of the total number of Restricted Stock Units subject to the Restricted Stock Unit Award which remain unsettled by shares of Common Stock issued to the Participant in accordance with Section 5 hereof (as reflected in the records of the Company's transfer agent) immediately prior to such Dividend Date multiplied by the dollar amount of the cash dividend paid per share of Common Stock by the Company on such Dividend Date, divided by (ii) the Fair Market Value on such Dividend Date and rounded down to the nearest whole share; provided that any fractional shares shall be paid to the Participant in cash. Any such additional Restricted Stock Units shall be subject to the same vesting conditions and payment terms set forth herein as the Restricted Stock Units to which they relate.
5. **Delivery of Certificates.** Except to the extent deferred in accordance with a deferred compensation program established by the Company and Section 409A of the Internal Revenue Code of 1986, as amended (the "**Code**"), as soon as practicable, but not more than 30 days, after the date of vesting in accordance with Sections 2 or 3, the Company shall deliver to the Participant or his or her beneficiary, in the name of such person, a certificate or certificates representing a number of shares of Common Stock equal to the number of Restricted Stock Units subject to the Restricted Stock Unit Award (including any dividend equivalents pursuant to Section 4 of this Agreement) that have become vested pursuant to Section 2 or Section 3 of this Agreement; provided, however, that the Company may deliver the shares of Common Stock electronically in book-entry form. The Company shall pay any original issue or transfer taxes with respect to the issue or transfer of the shares of Common Stock and all fees and expenses incurred by it in connection therewith. All shares of Common Stock so issued shall be fully paid and nonassessable. Notwithstanding anything to the contrary in this Agreement, no certificate for shares of Common Stock distributable under the Plan shall be issued and delivered unless the issuance of such certificate complies with all applicable legal requirements including, without limitation, compliance with the provisions of applicable state securities laws, the federal Securities Act of 1933 and the Securities Exchange Act of 1934, and related regulations, and the Company may further require that any such certificates bear a legend indicating that the sale, transfer or other disposition thereof by the holder is prohibited except in compliance with the Securities Act of 1933, as amended, and the rules and regulations thereunder.
6. **Withholding Taxes.** Except as required by applicable law, no federal, state, local or other taxes will be withheld or paid in connection with the Restricted Stock Unit Award, and the Participant is responsible for the payment of all such taxes.
7. **Limitation on Transfer.** The Restricted Stock Unit Award may not be sold, transferred, assigned, pledged, hypothecated, encumbered or otherwise disposed of (whether by operation of law or otherwise) or be subject to execution, attachment or similar process otherwise than by will, the laws of descent and distribution, pursuant to beneficiary designation procedures approved by the Committee, or pursuant to a qualified domestic relations order. Notwithstanding the foregoing, the Participant may transfer the Restricted Stock Unit Award, without payment or consideration from the transferee, (a) to any one or more of the Participant's spouse or issue, (b) to one or more trusts established solely for the benefit of the Participant's spouse or issue or (c) to one or more partnerships in which the only partners are the Participant's spouse or issue. For purpose of this provision, the

term "spouse" shall include a former spouse who receives a transfer pursuant to a qualified domestic relations order, and the term issue shall include stepchildren, step-grandchildren and adopted children. No such transfer shall be effective unless reasonable prior notice thereof is delivered to the Company. Any such permitted transferee shall be subject to all of the terms and conditions applicable to the person transferring the Restricted Stock Unit Award including the terms and conditions set forth in the Plan and this Agreement. Any attempt to sell, transfer, assign, pledge, hypothecate, encumber or otherwise dispose of the Restricted Stock Unit Award other than in accordance with this Section 7 shall be null and void .

8. **No Stockholder Rights Before Issuance of Shares.** No person shall have any of the rights of a stockholder of the Company with respect to any share of Common Stock subject to the Restricted Stock Unit Award unless and until the share of Common Stock actually is issued to him/her following the vesting and settlement of the Restricted Stock Unit Award and such person becomes a stockholder of record with respect to such shares of Common Stock.
9. **Adjustment.** The Restricted Stock Unit Award is subject to adjustment, without the consent of the Participant, pursuant to Section 5.7 of the Plan.
10. **Interpretation of this Agreement.** All decisions and interpretations made by the Committee (or, as applicable, the Board) with regard to any question arising hereunder or under the Plan shall be binding and conclusive upon the Company and the Participant. If there is any inconsistency between the provisions of this Agreement and the Plan, the provisions of the Plan shall govern.
11. **Discontinuance of Service.** This Agreement shall not give the Participant a right to continued service with the Company, and the Company may terminate his/her service at any time and otherwise deal with the Participant without regard to the effect it may have upon him/her under this Agreement.
12. **Binding Effect.** This Agreement shall be binding in all respects on the heirs, representatives, successors and assigns of the Participant.
13. **Choice of Law; Jurisdiction.** This Agreement is entered into under the laws of the State of Delaware and shall be construed and interpreted thereunder (without regard to its conflict of law principles). All disputes hereunder shall be heard in the federal and state courts located in Peoria, Illinois.
14. **Change in Control.** In the event of a Change in Control, the Committee shall take one of the actions described in Sections 14(a) or (b).

(a) Substitution. If the Change in Control is a merger, consolidation or statutory share exchange, the Committee may make appropriate provision for the replacement of the Restricted Stock Unit Award by the substitution of an award relating to the stock of the corporation surviving any merger or consolidation with substantially similar terms and conditions (or, if appropriate, an award relating to the stock of the parent corporation of the Company or such surviving corporation), provided such award preserves the full economic value of the Restricted Stock Unit Award (to the extent permitted under Section 409A of the Code) and provides for full vesting of the award in the event the Participant experiences a Qualifying Termination; provided that if the Company continues to be a publicly traded corporation immediately after a Change in Control, the Committee may provide for the Award to continue in effect in accordance with its terms, in which case the Restricted Stock Unit Award shall become fully vested in the event the Participant experiences a Qualifying Termination.

(b) Acceleration of Vesting and Payment of Awards. The Committee may declare, and provide written notice to the Participant of the declaration, that the Restricted Stock Unit Award, whether or not then vested, shall be cancelled at the time of, or immediately before the occurrence of, the Change in Control in exchange for payment to the Participant, within ten (10) days after the Change in Control, of cash equal to, for each Restricted Stock Unit covered by the canceled Restricted Stock Unit Award, an amount equal to the Fair Market Value per share of Common Stock; provided, however, that if the Restricted Stock Unit Award is deferred compensation, within the meaning of Section 409A of the Code, and the Change in Control is not a "change in control event," within the meaning of Section 409A of the Code, the Restricted Stock Unit

Award shall become immediately vested upon the Change in Control, but the cash payment pursuant to this Section 14(b) shall be made in accordance with Section 5 of this Agreement.

15. **Amendment.** Subject to the terms of the Plan, the Committee may amend the terms and conditions of this Agreement. Amendments to the Agreement may be unilaterally made by the Company (with the approval of the Committee) unless such amendments are deemed by the Committee to be materially impair the rights of the Participant and not required as a matter of law.
16. **Section 409A.** This Agreement is intended to comply with, or be exempt from, the applicable requirements of Section 409A of the Code, and limited, construed and interpreted in accordance with such intent. Although the Company does not guarantee any particular tax treatment, to the extent that the Restricted Stock Unit Award is subject to Section 409A of the Code, it shall be paid in a manner that is intended to comply with Section 409A of the Code, including regulations and any other guidance issued by the Secretary of the Treasury and the Internal Revenue Service with respect thereto. In no event whatsoever shall the Company be liable for any additional tax, interest or penalties that may be imposed on the Participant by Section 409A of the Code or any damages for failing to comply with Section 409A of the Code. Notwithstanding anything in the Plan or this Agreement to the contrary, the Participant shall be solely responsible for the tax consequences of the Restricted Stock Unit Award, and in no event shall the Company have any responsibility or liability if the Restricted Stock Unit Award does not meet any applicable requirements of Section 409A of the Code. Although the Company intends to administer the Plan to prevent taxation under Section 409A of the Code, the Company does not represent or warrant that the Plan or the Restricted Stock Unit Award complies with Section 409A or any other provision of federal, state, local or other tax law. To the extent any amounts under this Agreement are payable by reference to the Participant's termination of employment, such term shall be deemed to refer to the Participant's "separation from service," within the meaning of Section 409A of the Code.
17. **Plan Administration.** The Company partners with Solium Capital for the management and administration of its long-term incentives program using Solium's web-based application, Shareworks by Morgan Stanley®. The Participant may access information pertaining to the Restricted Stock Unit Award via the Company's Shareworks by Morgan Stanley® site, <https://rli.solium.com>.

****Signatures Appear on the Following Page****

The Participant and the Company have executed this Agreement as of the [] day of [], [].

PARTICIPANT

RLI Corp.

By

Name

Title
