

RLI CORP  
Form DEF 14A  
March 22, 2012  
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Schedule 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant /X/

Filed by a party other than the Registrant //

Check the appropriate box:

// Preliminary Proxy Statement

// Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

/ X/ Definitive Proxy Statement

// Definitive Additional Materials

// Soliciting Material Pursuant to Section 240.14a-12

RLI CORP.

.....  
(Name of Registrant as Specified In Its Charter)

.....  
(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

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(4) Date Filed:

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 RLI Corp.

9025 N. Lindbergh Drive | Peoria, IL 61615-1431

P: 309-692-1000 | F: 309-692-1068 | [www.rlicorp.com](http://www.rlicorp.com)

RLI Corp.

9025 North Lindbergh Drive

Peoria, Illinois 61615

March 22, 2012

Dear Shareholders:

Please consider this letter your personal invitation to attend the 2012 RLI Corp. Annual Shareholders Meeting. It will be held at the Mt. Hawley Country Club, 7724 North Knoxville Avenue, Peoria, Illinois, 61614, on May 3, 2012, at 2 p.m. CDT.

Business scheduled to be considered at the meeting includes the election of directors, ratification of KPMG LLP as our independent registered public accounting firm for the current year, and an advisory vote on executive compensation (the Say-on-Pay vote). In addition, we will review significant events of 2011 and their impact on you and your Company.

We are pleased to be taking advantage of the Securities and Exchange Commission rule that allows companies to furnish their proxy materials over the Internet. As a result, we are mailing our shareholders a notice instead of a paper copy of this 2012 Proxy Statement and our 2011 Annual Report to Shareholders. The notice contains instructions on how to access those documents over the Internet.

Thank you for your interest in RLI as well as your confidence in and support of our future.

Sincerely,

Jonathan E. Michael

Chairman & Chief Executive Officer

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RLI Corp. | 9025 N. Lindbergh Drive | Peoria, Illinois 61615

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**  
**May 3, 2012**

To the Shareholders of RLI Corp.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of RLI Corp. ( Company ) will be held at the Mt. Hawley Country Club, 7724 North Knoxville Avenue, Peoria, Illinois, 61614, on Thursday, May 3, 2012, at 2 p.m. Central Daylight Time for the following purposes:

1. to elect nine (9) directors for a one-year term expiring at the 2013 Annual Meeting;
2. to ratify the selection of KPMG LLP as the independent registered public accounting firm of the Company for the current year;
3. to hold an advisory vote on executive compensation (the Say-on-Pay vote); and
4. to transact such other business as may properly be brought before the meeting.

Only holders of Common Stock of the Company of record at the close of business on March 6, 2012, are entitled to notice of and to vote at the Annual Meeting.

By Order of the Board of Directors

Daniel O. Kennedy

Vice President, General Counsel & Corporate Secretary

Peoria, Illinois

March 22, 2012

*It is important, regardless of the number of shares you hold, that you personally be present or be represented by proxy at the Annual Meeting. Even if you expect to attend, it is important that you submit your proxy as follows:*

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*By Internet: by submitting your proxy over the Internet in accordance with the instructions provided on your proxy card or Notice of Internet Availability of Proxy Materials;*

*By Phone: by submitting your proxy by telephone, toll-free, in accordance with the instructions provided on your proxy card or Notice of Internet Availability of Proxy Materials, or*

*By Mail: if you received your proxy card by mail, by completing the proxy card and signing, dating and returning it as promptly as possible.*

You have the right to revoke your proxy at any time prior to its use by filing a written notice of revocation with the Corporate Secretary of the Company prior to the convening of the Annual Meeting, or by presenting another proxy card with a later date or voting by telephone or over the Internet at a later date. If you attend the Annual Meeting and desire to vote in person, your proxy may be withdrawn upon request.

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RLI Corp. | 9025 N. Lindbergh Drive | Peoria, Illinois 61615

## PROXY STATEMENT

**Annual Meeting of Shareholders to be held May 3, 2012**

### GENERAL INFORMATION

This Proxy Statement is furnished to the shareholders of RLI Corp., an Illinois corporation ( Company ), in connection with the solicitation, by the Board of Directors of the Company ( Board or Board of Directors ), of proxies to be used at the Annual Meeting of Shareholders to be held at 2 p.m. Central Daylight Time on Thursday, May 3, 2012, at the Mt. Hawley Country Club, 7724 North Knoxville Avenue, Peoria, Illinois, 61614, and at any adjournments of the Annual Meeting.

This year, we are pleased to again be taking advantage of a Securities and Exchange Commission ( SEC ) rule that allows companies to furnish their proxy materials over the Internet. As a result, we are mailing to our shareholders a Notice of Internet Availability of Proxy Materials ( E-Proxy Notice ) instead of a paper copy of the proxy materials. The E-Proxy Notice contains instructions that will enable shareholders receiving the E-Proxy Notice to access these materials over the Internet and, if so desired, to request a paper copy of these proxy materials by mail. Shareholders who do not receive the E-Proxy Notice will receive a paper copy of the proxy materials by mail. The Company intends to mail the E-Proxy Notice to shareholders on or about March 22, 2012.

### VOTING

Because many shareholders cannot attend the Annual Meeting in person, it is necessary that a large number of our voting shares be represented by proxy to achieve a quorum. Pursuant to the Company s By-Laws, at least a majority of the outstanding voting shares must be present (in person or by proxy) at the Annual Meeting to conduct the meeting, which is known as a quorum of shares. Even if you expect to attend, it is important that you vote your shares in advance.

Whether you hold your shares directly as the shareholder of record or through a broker, trustee, or other nominee ( in street name ), you may vote by proxy without attending the Annual Meeting in three different ways:

- Internet: Shareholders may submit their proxy over the Internet by following the instructions provided on the proxy card or on the E-Proxy Notice. Shareholders will need to have the control number appearing on their proxy card or E-Proxy Notice available in order to submit their proxy over the Internet.

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- Telephone: Shareholders may submit their proxy by telephone, toll-free, by following the instructions provided on the proxy card or on the E-Proxy Notice. Shareholders will need to have the control number appearing on their proxy card or E-Proxy Notice available in order to submit their proxy by telephone.
- Mail: Shareholders who receive a paper copy of a proxy card by mail may submit their proxy by signing, dating and returning the proxy card as promptly as possible in the envelope enclosed for that purpose.

Shareholders can save the Company expense by submitting their proxy by telephone or over the Internet. If you submit your proxy by telephone or over the Internet, you do not need to also submit a proxy card, although you may do so as one method of changing your vote as described below. The method of voting will not limit a shareholder's right to attend the Annual Meeting.

Each proxy will be voted in accordance with the shareholder's specifications. If you return a signed proxy card without providing voting instructions, your shares will be voted as recommended by the Board of Directors. All proxies delivered pursuant to this solicitation are revocable at any time prior to the meeting at the option of the shareholder either by giving written notice to the Corporate Secretary at 9025 North Lindbergh Drive, Peoria, Illinois, 61615, or by timely delivery of a properly completed proxy, whether by proxy card or by Internet or telephone vote, bearing a later date, or by voting in person at the Annual Meeting. All shares represented by valid, unrevoked proxies will be voted at the Annual Meeting.

Assuming the presence, in person or by proxy, of a quorum, the election of directors requires the affirmative vote of a majority of the shares represented in person or by proxy at the meeting and entitled to vote. With respect to the election of directors, shareholders may vote in favor of all nominees, or withhold their votes as to all nominees, or withhold their votes as to specific nominees. Votes withheld are deemed present at the meeting and thus will be counted for quorum purposes and have the effect of a vote against the director.

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Assuming the presence, in person or by proxy, of a quorum, the affirmative vote of a majority of the shares represented in person or by proxy at the meeting and entitled to vote shall be required to approve Proposal Two. The Proposal Three (Say-on-Pay) vote is advisory in nature so there is no specified requirement for approval. However, the Board of Directors will consider that the shareholders have approved executive compensation on an advisory basis if this agenda item receives the affirmative vote of a majority of the votes cast (in person or by proxy).

With respect to Proposals Two and Three, shareholders may vote For, Against or Abstain on each proposal. Abstentions are deemed present at the meeting, and thus will be counted for quorum purposes, but will have the same effect as a vote against the matters respectively set forth in Proposals Two and Three.

Brokers who hold shares for the accounts of their clients in street name may vote such shares either as directed by their clients or at their own discretion if permitted by the New York Stock Exchange ( NYSE ) and other organizations of which they are members. If an executed proxy is returned by a broker on behalf of its client that indicates the broker does not have discretionary authority as to certain shares to vote on one or more matters (a broker non-vote ), such shares will be considered present at the Annual Meeting for purposes of determining a quorum, but are not considered entitled to vote on that matter. Therefore, broker non-votes will not have any effect on any of the proposals being voted upon at the meeting. If your broker holds your shares in street name and you do not instruct your broker how to vote, your broker will have discretion to vote your shares on routine matters, such as Proposal Two, the ratification of the selection of the Company s independent public accounting firm.

Your broker will not, however, have discretion to vote on non-routine matters absent direction from you. Among other matters, brokers are not entitled to use their discretion to vote uninstructed proxies in director elections or executive compensation matters. As a result, your broker will not be able to vote your shares on Proposals One and Three without your direction. **Therefore, it is important that you provide your broker with voting instructions on all proposals.** If your shares are held by your broker in street name, you will receive a voting instruction form from your broker or the broker s agent asking you how your shares should be voted. Please complete the form and return it in the envelope provided by the broker or agent.

## **SHAREHOLDERS ENTITLED TO VOTE**

Shareholders of record at the close of business on March 6, 2012, the record date, shall be entitled to vote at the 2012 Annual Meeting. As of the record date, the Company had 21,205,953 shares of Common Stock outstanding and entitled to vote. Common share ownership entitles the holder to one vote per share upon each matter to be voted at the 2012 Annual Meeting.

## **PROXY SOLICITATION**

The Company will bear the cost of solicitation of proxies. In addition to the use of the mail, proxies may be solicited in person or by telephone, facsimile or other electronic means, by directors, officers or employees of the Company. No additional compensation will be paid to such persons for their services. In accordance with the regulations of the SEC and the NYSE, the Company will reimburse banks, brokerage firms, investment advisors and other custodians, nominees, fiduciaries and service bureaus for their reasonable out-of-pocket expenses for forwarding soliciting material to beneficial owners of the Company s Common Stock and obtaining their proxies or voting instructions.

## **ELECTRONIC ACCESS TO PROXY MATERIALS AND ANNUAL REPORT**

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This Notice of Annual Meeting and Proxy Statement and the 2011 Annual Report are available on the Company's Internet site at [www.rlicorp.com](http://www.rlicorp.com) and at [www.proxyvote.com](http://www.proxyvote.com).

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Table of Contents**Share Ownership of Certain Beneficial Owners****PRINCIPAL SHAREHOLDERS**

The following are the persons or entities known to the Company who beneficially own more than 5 percent of the Company's Common Stock as of December 31, 2011:

<b>Name and Address of Beneficial Owner</b>	<b>Number of Shares Beneficially Owned</b>	<b>Percent of Outstanding Common Stock</b>
State Street Corporation (1) One Lincoln Street Boston, Massachusetts 02111	2,031,368	9.60%
Neuberger Berman Group LLC (2) 605 Third Avenue New York, New York 10158	1,923,777	9.13%
BlackRock, Inc.(3) 40 East 52nd Street New York, New York 10022	1,381,813	6.55%
Kayne Anderson Rudnick Investment Management LLC(4) 1800 Avenue of the Stars 2nd Floor Los Angeles, California 90067	1,299,367	6.09%
Gerald D. Stephens (5) 493 East High Point Drive Peoria, Illinois 61614	1,188,450	5.60%
The Vanguard Group, Inc. (6) 100 Vanguard Boulevard Malvern, Pennsylvania 19355	1,124,610	5.33%
Franklin Resources, Inc.(7) One Franklin Parkway San Mateo, California 94403	1,086,953	5.20%

(1) The information shown is based solely on an Schedule 13G dated February 9, 2012, filed with the SEC by State Street Corporation ( State Street ), which filing indicates that State Street Bank and Trust Company ( Trustee ), a subsidiary of State Street, in its capacity as trustee of the Company's Employee Stock Ownership Plan ( ESOP ), held 1,608,935 shares on behalf of participants in such plan. State Street further disclosed no sole voting or sole dispositive power with respect to the shares, and shared voting and shared dispositive power with respect to 2,031,368 shares. Each ESOP participant or beneficiary may direct the Trustee as to the manner in which the shares allocated to each participant under the ESOP are to be voted. The Trustee has sole voting power with respect to all unallocated shares and sole investment power as to all allocated and unallocated shares. With respect to allocated shares for which no votes are received, the Trustee will vote such shares in proportion to the votes cast on behalf of allocated shares for which votes are received.



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(2) The information shown is based solely on a Schedule 13G dated February 14, 2012, filed with the SEC by Neuberger Berman Group LLC ( Neuberger ). According to the Schedule 13G, Neuberger is the beneficial owner of 1,923,777 shares, has shared voting power with respect to 1,716,277 shares and shared dispositive power with respect to 1,923,777 shares.

(3) The information shown is based solely on a Schedule 13G dated January 20, 2012, filed with the SEC by BlackRock, Inc. ( BlackRock ). According to the Schedule 13G, BlackRock is the beneficial owner of 1,381,813 shares, and has sole voting and sole dispositive power with respect to 1,381,813 shares.

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(4) The information shown is based solely on a Schedule 13G dated February 10, 2012, filed with the SEC by Kayne Anderson Rudnick Investment Management LLC ( Kayne ). According to the Schedule 13G, Kayne is the beneficial owner of 1,299,367 shares, and has sole voting and sole dispositive power with respect to 1,299,367 shares.

(5) The information shown is based solely on a Schedule 13G dated January 23, 2012, filed with the SEC by Gerald D. Stephens, the retired Chairman of the Company s Board of Directors. Includes 17,512 shares held in custodian accounts for the benefit of Mr. Stephens grandchildren, over which Mr. Stephens has sole voting and investment power; 19,151 shares owned by the Gerald D. and Helen M. Stephens Foundation, over which Mr. Stephens, as President, has sole voting and investment power; 451,091 shares owned by the Gerald D. Stephens Grantor Annuity Trusts, over which Mr. Stephens, as trustee, has sole voting and investment power. Excludes 162,135 shares owned by Mr. Stephens spouse, over which Mr. Stephens has no voting or investment power, as to which Mr. Stephens disclaims beneficial ownership.

(6) The information shown is based solely on a Schedule 13G dated February 6, 2012, filed with the SEC by The Vanguard Group, Inc. ( Vanguard ). According to the Schedule 13G, Vanguard is the beneficial owner of 1,124,610 shares, and has sole voting and shared dispositive power with respect to 27,671 shares, and sole dispositive power with respect to 1,096,939 shares.

(7) The information shown is based solely on a Schedule 13G dated February 9, 2012, filed with the SEC by Franklin Resources, Inc., ( Franklin ), Charles B. Johnson, Rupert H. Johnson, Jr. and Franklin Advisory Services, LLC, which filing indicates one or more open- or closed-end investment companies or other managed accounts that are investment management clients of investment managers that are direct and indirect subsidiaries of Franklin, have sole voting power with respect to 1,073,828 shares and sole dispositive power with respect to 1,085,428 shares. Messrs. Johnson and Johnson are the principal shareholders of Franklin.

**DIRECTORS AND OFFICERS**

The following is information regarding beneficial ownership of the Company s Common Stock by each current director and named executive officer (whose compensation is disclosed in this Proxy Statement), and the directors and executive officers of the Company as a group, as of December 31, 2011.

<b>Name of Individual or Number of Persons in Group</b>	<b>Number of Shares Beneficially Owned (1)</b>	<b>Percent of Outstanding Common Stock</b>
Kaj Ahlmann	676	*
Barbara R. Allen	9,810	*
John T. Baily (2) (3)	19,787	*
Thomas L. Brown	0	*
Jordan W. Graham (2)	14,880	*
Daniel O. Kennedy (4) (5)	16,399	*
Craig W. Kliethermes (4) (5) (6)	32,901	*
Gerald I. Lenrow (2) (7)	68,423	*
Charles M. Linke (2)	27,804	*
F. Lynn McPheeters (2) (8)	37,416	*
Jonathan E. Michael (4) (5) (6) (9) (10)	556,256	2.6%
Michael J. Stone (4) (5) (6) (11)	229,807	1.1%
Robert O. Viets (2) (8) (12)	92,224	*
Directors and executive officers as a group (14 persons) (4)(6)	1,118,259	5.2%

\*Less than 1% of Class.



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- (1) Unless otherwise noted, each person has sole voting power and sole investment power with respect to the shares reported.
- (2) Includes shares held by a bank trustee under an irrevocable trust established by the Company pursuant to the RLI Corp. Nonemployee Director Deferred Compensation Plan ( Deferred Plan ) for the benefit of the following: Mr. Baily 7,017 shares; Mr. Graham 13,402 shares; Mr. Lenrow 61,356 shares; Mr. Linke 12,544 shares; Mr. McPheeters 15,751 shares; and Mr. Viets 45,978 shares. Each participating director has no voting or investment power with respect to such shares.
- (3) Includes 3,000 shares held by Mr. Baily s spouse.
- (4) Includes shares allocated to the named persons under the ESOP with respect to which such persons have sole voting power and no investment power. As of December 31, 2011, the following shares were allocated under the ESOP: Mr. Kennedy 2,820 shares; Mr. Kliethermes 2,822 shares; Mr. Michael 84,100 shares; and Mr. Stone 19,495 shares. During 2011, Jonathan E. Michael and Michael J. Stone were eligible to elect to diversify their respective ESOP shares.
- (5) Includes shares allocated to the named persons which shares are held by a bank trustee under an irrevocable trust established by the Company pursuant to the Deferred Agreement for the benefit of the following: Mr. Kennedy 495 shares; Mr. Kliethermes 4,949 shares; Mr. Michael 18,549 shares; and Mr. Stone 22,745 shares. Each participant has no voting or investment power with respect to such shares.
- (6) Includes shares that may be acquired by the named persons within 60 days after December 31, 2011, under the Incentive Stock Option Plan ( ISOP ), the Omnibus Stock Plan and the Long-Term Incentive Plan, upon the exercise of outstanding stock options as follows: Mr. Kliethermes 19,300 shares; Mr. Michael 168,200 shares; and Mr. Stone 50,400 shares
- (7) Includes 176 shares held by Mr. Lenrow s daughter, as to which Mr. Lenrow disclaims any beneficial interest.
- (8) Includes shares that may be acquired by the named persons within 60 days after December 31, 2011, under the Directors Stock Option Plan for Outside Directors ( Director Plan ), upon the exercise of outstanding stock options as follows: Mr. McPheeters 5,400 shares; and Mr. Viets 3,600 shares.
- (9) Includes 45,968 shares allocated under the Key Plan, over which Mr. Michael has no voting or investment power; 14,920 shares owned by the Jonathan E. Michael Grantor Retained Annuity Trusts, over which Mr. Michael, as Trustee, has sole voting and sole investment power; and 5,060 shares owned by the Michael Charitable Fund, over which Mr. Michael has no voting power and sole investment power.
- (10) Includes shares held in margin securities or pledged asset accounts at brokerage firms. At December 31, 2011, the following number of shares were held in such accounts: Mr. Michael 83,521 shares.
- (11) Includes 46,131 shares owned by the Michael J. Stone Grantor Retained Annuity Trusts, over which Mr. Stone, as Trustee, has sole voting and sole investment power.
- (12) Includes 13,633 shares owned by the Robert O. Viets Grantor Retained Annuity Trusts, over which Mr. Viets, as Trustee, has sole voting and sole investment power.

The information with respect to beneficial ownership of Common Stock of the Company is based on information furnished to the Company by each individual included in the table.

### **SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

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Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors, executive officers and beneficial owners of more than 10 percent of the Common Stock of the Company to file with the SEC certain reports regarding their ownership of Common Stock or any changes in such ownership.

Based solely on its review of the copies of such reports received by it, and/or written representations from certain reporting persons, the Company believes that, during the year ended December 31, 2011, the reporting persons have complied with all filing requirements of Section 16(a).

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**PROPOSAL ONE: ELECTION OF DIRECTORS**

**GENERAL**

At this year's Annual Meeting, all (nine) directors are to be elected, each to hold office for a one-year term expiring at the 2013 Annual Meeting unless that director dies, resigns or is removed prior to that time. Unless otherwise instructed, the shares represented by a signed proxy card will be voted for the election of the nine nominees named below. The affirmative vote of a majority of the shares of common stock of the Company present in person or represented by proxy at the Annual Meeting and entitled to vote is required for the election of directors. Votes will be tabulated by an Inspector of Election appointed at the Annual Meeting. Shares may be voted for, or withheld from, each nominee. Cumulative voting for the directors is not permitted under the Company's Articles of Incorporation.

**NOMINEES**

Messrs. Kaj Ahlmann, John T. Baily, Jordan W. Graham, Gerald I. Lenrow, Charles M. Linke, F. Lynn McPheeters, Jonathan E. Michael and Robert O. Viets and Ms. Barbara R. Allen, each a current director, are standing for election. Each is nominated to serve for a one-year term expiring in 2013.

The Board of Directors has no reason to believe that any nominee will be unable to serve if elected. In the event that any nominee shall become unavailable for election, the shares represented by a proxy will be voted for the election of a substitute nominee selected by the persons appointed as proxies and recommended by the Board, unless the Board should determine to reduce the number of directors pursuant to the Company's By-Laws or allow the vacancy to stay open until a replacement is designated by the Board.

**The Board of Directors recommends the shareholders vote For election of all nine nominees listed below.**

**DIRECTOR NOMINEE INFORMATION**

Below are specific qualifications, skills, attributes and experience with respect to the director nominees to the Board of Directors furnished to the Company by such individuals, summarized herein and more fully detailed in the individual professional history below, which information led to the conclusion that they are qualified to serve as a director and are beneficial to the Company. The Nominating/Corporate Governance Committee and the Board considered, in particular, the following with respect to each director: Mr. Ahlmann his broad reinsurance and insurance expertise, as well as his global experience. Ms. Allen her extensive executive management skills, as well as her strategy background. Mr. Baily his extensive experience in accounting and auditing in the insurance and reinsurance industry. Messrs. McPheeters and Viets their significant experience, expertise and background regarding accounting matters, together with their various executive management experience. Mr. Graham his strong financial services, strategy, merger/acquisition and advisory experience, as well as deep technology background. Mr. Lenrow his significant experience, expertise and knowledge of the insurance industry, including accounting matters and insurance taxation. Mr. Linke his many years of experience in the financial field, including the broad perspective brought by Mr. Linke's experience in consulting to clients in many diverse industries. The Board also considered the over 30 years of experience with the Company represented by Mr. Michael (our Chairman, President & Chief Executive Officer).



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NAME	AGE	DIRECTOR SINCE	PRINCIPAL OCCUPATION AND BACKGROUND
Kaj Ahlmann(1)	61	2009	<p>Joined Deutsche Bank in October 2009 as Global Head, Strategic Services and Chair, Advisory Board after having provided independent services to the Council of Global Insurance Asset Management, Deutsche Asset Management, since 2006. Mr. Ahlmann brings nearly 35 years of experience with various companies related to the reinsurance and insurance industries and asset management. From 2001 to 2003, Mr. Ahlmann was the Chairman and CEO of <i>inreon</i>, a global electronic reinsurance venture created by Munich Re, Swiss Re, Internet Capital Group and Accenture. He was Vice Chairman and Executive Officer of E.W. Blanch Holdings, Inc., a provider of integrated risk management and distribution services, from 1999 to 2001. Prior to that, from 1993 to 1999, he was Chairman, President and CEO of Employers Reinsurance Corporation, a global reinsurance company and served as a director of the parent organization, GE Capital Services. He served on the boards of Erie Indemnity Company, Erie Insurance Group from 2003 to 2008 and SCPIE Holdings, Inc., from 2006 to 2008. Mr. Ahlmann, with his family, owns and operates the Six Sigma Ranch &amp; Winery in Lower Lake, California, which produces artisanal wines for retail distribution. Mr. Ahlmann currently serves on the boards of the American Institute for CPCU and the Advisory Board of Six Sigma Academy. He has a Bachelor's degree in Mathematics and a Master's degree in Mathematical Statistics and Probability and Actuarial Science, both from the University of Copenhagen.</p>
Barbara R. Allen(2)	59	2006	<p>Retired after serving from November 2005 through August 2008 as President of Proactive Partners, a division of Tennis Corporation of American, which owns and operates athletic facilities in North America. Former Partner with The Everest Group, a strategy and general management consulting firm, from 2003 through October 2005. For 23 years, Ms. Allen held various executive management positions with The Quaker Oats Company including Executive Vice President, International Foods responsible for Quaker's food business outside the United States; Vice President, Corporate Strategic Planning responsible for development of worldwide strategic plans and annual operating budgets; and, President, Frozen Foods Division and Vice President Marketing. Additionally, Ms. Allen served as President of the Corporate Supplier Division for Corporate Express and as CEO for the women's pro-soccer league start-up, the WUSA. Ms. Allen is a former director for Maytag Corporation, Tyson Foods, Inc., Converse Inc., Chart House Enterprises, Inc., Lance, Inc., and Coty, Inc., serving on audit and compensation committees. She has a Bachelor's degree in Psychology from the University of Illinois-Champaign and a Master's degree in Marketing and Finance from the University of Chicago.</p>
John T. Baily (3)	68	2003	<p>Retired after serving as President of Swiss Re Capital Partners from 1999 through 2002. In this role, he was involved in investments and acquisitions in the insurance industry. Previously National Insurance Industry Chairman and Partner of the accounting firm of Coopers &amp; Lybrand LLP (C&amp;L) (now known as PricewaterhouseCoopers LLP) retiring in 1999 after 33 years, 23 years as a partner. He served as Chairman of the C&amp;L insurance practice for 13 years, where he was responsible for all of the firm's services to the insurance industry (including audit, tax, actuarial, management consulting). He was also past Chairman of C&amp;L's International Insurance Companies Committee. He was also a member of C&amp;L's governing body, U.S. Board of Partners. He is a past Chairman of the AICPA Insurance Companies committee. He served on the Investment Committee of both Securitas Capital and Conning Capital Partners. Mr. Baily serves on the boards of Endurance Specialty Holdings, Inc., Golub Capital BDC, Inc., CIFG Holdings, Ltd., and its affiliates. and is Chairman of the Board of Albright College. He previously served on the board of Erie Indemnity Company and NYMagic, Inc. He has served as the Chair of the Audit Committee of both private and public companies. He has a Bachelor's degree in Economics from Albright College and a Master's degree in Business Administration from the University of Chicago.</p>





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NAME	AGE	DIRECTOR SINCE	PRINCIPAL OCCUPATION AND BACKGROUND
Jordan W. Graham	51	2004	<p>Managing Director with Quotient Partners since May, 2011, providing strategy and merger/acquisition advisory services to financial, information services, and technology companies. From 2010 to 2011, President of FICO Consumer Services and Executive Vice President for Credit Scoring and Predictive Analytics at FICO, a leading provider of credit, analytics, and decision management technologies. From 2007 to 2010, Mr. Graham was Managing Director and Head of North America Business Development for the Global Transaction Services (GTS) Division of Citigroup and responsible for strategic planning, global partnerships and acquisitions for the Cash Management and Trade Services businesses. For the preceding two years, he was retained as a full time consultant to the CEO of Citigroup GTS and provided business strategy and acquisition advisory services. Mr. Graham has over 25 years of experience working in and providing products and services to the financial services industry globally. From 1998 to 2004, he was an executive with Cisco Systems, serving as Vice President of the Internet Business Solutions Group, Services Industries Strategy Consulting Practice and led the internet business strategy consulting practices for the financial services, healthcare, energy and media/entertainment industries globally. Previously he was Managing Director and Global Head of Cisco's Financial Services Industry Consulting Practice and provided internet strategy and advisory services to CXO level executives in Global 500 securities, banking, and insurance firms. He has also been the CEO of two successful venture capital-backed businesses, a financial services technology company and an internet e-commerce service provider, as well as a member of the board of directors of 11 other companies including Technology Credit Union and Securitas Capital, a SwissRe and Credit Suisse backed private equity fund investing in insurance and risk related ventures. Mr. Graham has a Bachelor's degree in Business Entrepreneurship from the University of Southern California.</p>
Gerald I. Lenrow	84	1993	<p>Currently in his own legal practice serving a select group of insurers. At the end of 1998, he concluded three years of consulting with General Reinsurance Corp and its affiliate, Cologne Life Re. Previously, he was a partner with Coopers &amp; Lybrand LLP (C&amp;L) (now known as PricewaterhouseCoopers LLP) retiring after 30 years with the firm. While at C&amp;L, he formed and led their national insurance tax group. While widely recognized as an authority in insurance taxation, Mr. Lenrow has been involved in all facets of the industry. Over the years, he provided strategic counsel to senior management in all sectors of the industry. An integral part of his activities included mergers and acquisitions and handling disputes through the IRS administrative appeals procedures. He monitors legislative activities and developments emanating from the IRS national office affecting the insurance industry. He worked with congressional tax writing committees, the Treasury and the IRS on tax legislation. For approximately 20 years, Mr. Lenrow was an advisor to the Property Casualty Insurance Association of America (formerly known as National Association of Independent Insurers) and the National Association of Mutual Insurance Companies. Mr. Lenrow is past chair of the American Bar Association's Torts &amp; Insurance Practice Section Committee on the Taxation of Insurance Companies and was on the Advisory Board for the Insurance Tax Review. He has a Bachelor's degree in Accounting from the City College of New York and a Law degree from Fordham University.</p>

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NAME	AGE	DIRECTOR SINCE	PRINCIPAL OCCUPATION AND BACKGROUND
Charles M. Linke	74	2003	<p>Professor Emeritus of Finance at the University of Illinois (Urbana-Champaign) since 1998. Professor Linke has held various positions with the University of Illinois since 1966. CEO of Economics Et Cetera, Inc., a consulting firm specializing in financial economics since 1981. Professor Linke joined the University of Illinois faculty in 1966, serving as IBE Distinguished Professor of Finance, Chairperson of the Department of Finance, Associate Dean for Graduate Studies and Associate Dean of Executive Education. He has also served as visiting scholar at Senshu University in Tokyo, Japan, and visiting professor at Nankai University, People's Republic of China. He has a Bachelor's degree and has Master's and Doctorate degrees in Business Administration, all from Indiana University.</p>
F. Lynn McPheeters	69	2000	<p>Retired as Vice President and Chief Financial Officer of Caterpillar Inc., the world's leading manufacturer of construction, mining and related equipment in February 2005. Mr. McPheeters joined Caterpillar Inc. in 1964 and held various financial positions and spent 15 years overseas. In his global assignments, he served as Distribution Finance Manager in Japan, Finance Manager in Europe and Secretary-Treasurer for Caterpillar Far East in Hong Kong. He went on to serve as Executive Vice President of Caterpillar Financial Services Corporation in Nashville and returned to Peoria to become Caterpillar's Corporate Treasurer in 1996 until November 1998. He was responsible for the company's banking and funding relationships, trade financing policy, foreign exchange and interest risk management, pension fund administration and Caterpillar Investment Management Limited, the company's investment advisory group, which had its own group of mutual funds and managed the company's employee 401(k) plan. He was also responsible for a division managing the placement of all corporate insurance coverages. Mr. McPheeters was appointed Vice President and Chief Financial Officer in 1998. He was responsible for the Corporate Services Division, which included accounting, tax, treasury, and investor relations functions. For three of his six years as CFO, he also had responsibility for the company's IT operations. Mr. McPheeters serves on the board of Microlution Inc. and Crosslink. He is a past Chairman of the OSF Saint Francis Medical Center Foundation Council and is former President and current member of the Southern Illinois University Carbondale Foundation Board. He has a Bachelor's degree in Accounting from Southern Illinois University-Carbondale, and later attended the Advanced Management Program at Duke University and Finance Management Program at Stanford University.</p>

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NAME	AGE	DIRECTOR SINCE	PRINCIPAL OCCUPATION AND BACKGROUND
Jonathan E. Michael(4)	58	1997	Chairman of the Board since May 5, 2011. President & Chief Executive Officer of the Company since January 1, 2001. He was elected Chairman of the Board & Chief Executive Officer of the Company's principal insurance subsidiaries January 1, 2002. Mr. Michael joined the Company in 1982 and has held various managerial and executive officer positions, including Controller, Vice President, Finance/ Chief Financial Officer. Additionally, as Executive Vice President he was responsible for running the Company's insurance operations for several years before becoming Chief Operating Officer in 1994. Prior to 1982, Mr. Michael was associated with Coopers & Lybrand LLP, and is a certified public accountant. He serves on the Board of Directors of investment management software maker SS&C Technologies Holdings, Inc. and sunglass manufacturer Maui Jim, Inc. He is currently a member of the Marshall County State Bank Board, the 1st Vice Chair of the Property Casualty Insurers Association Board of Governors, a member of the OSF St. Francis Medical Center Community Advisory Board, a member of the Illinois Neurological Institute Advisory Board, and a member of the Peoria CEO Roundtable Board. He is a former director of First Capital Bank (Peoria), member of the Board of Easter Seals Peoria/Bloomington, and the Eureka College Board of Trustees. He has a Bachelor's degree in Business Administration from Ohio Dominican College.
Robert O. Viets (5)	68	1993	Since 1999, President of ROV Consultants, LLC., providing consulting services to regulated energy and communication businesses. Former President, CEO and director from 1988 until 1999 of CILCORP Inc., a holding company in Peoria, Illinois, whose principal subsidiary was a utility company. He served as a consultant to AES Corporation, a global power company. After working for several years in St. Louis with Arthur Andersen & Co., a national accounting firm, Mr. Viets joined Central Illinois Light Company (CILCO) in Peoria to manage the company's regulatory and financial activities. CILCO was a regulated electric and natural gas utility serving central Illinois. In 1985, Mr. Viets led the formation of CILCORP, Inc., a non-regulated holding company that became the parent company of CILCO. The corporate restructuring was designed to prepare the company for competition in the retail electric and natural gas energy markets. Mr. Viets is a director for Patriot Coal Corporation as well as a former director for Consumers Water Company, Philadelphia Suburban Corporation (now Aqua America, Inc.), Lincoln Office Supply Co., Inc. and Methodist Health Services Corporation. He has also chaired the Bradley University board of trustees. Mr. Viets has a Bachelor's degree in Economics from Washburn University and a Law degree from Washington University School of Law. He is a certified public accountant.

The following footnotes reflect directorships held within the past five years at publicly traded companies:

- (1) Mr. Ahlmann previously served as a director of Erie Indemnity Company and its subsidiary, Erie Family Life Insurance Company, as well as SCPIE Holdings, Inc.
- (2) Ms. Allen previously served as a director of Lance, Inc.
- (3) Mr. Baily currently serves as a director of Endurance Specialty Holdings Ltd. and Golub Capital BDC, Inc. Mr. Baily previously served as a director of NYMagic, Inc., Erie Indemnity Company and its subsidiary, Erie Family Life Insurance Company.
- (4) Mr. Michael currently serves as a Director of SS&C Technologies Holdings, Inc. Mr. Michael previously served as a director of Fieldstone Investment Corp.

- (5) Mr. Viets currently serves as a director of Patriot Coal Corporation.

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**PROPOSAL TWO: RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee has selected KPMG LLP ( KPMG ), the Company s independent registered public accounting firm since 1983, for fiscal 2012, and the Board is asking shareholders to ratify that selection. Although current law, rules and regulations, as well as the Charter of the Audit Committee, require our independent auditor to be appointed, retained and supervised by the Audit Committee, the Board considers the selection of an independent auditor to be an important matter of shareholder concern and considers a proposal for shareholders to ratify such selection to be an important opportunity for shareholders to provide direct feedback to the Board on an important issue of corporate governance. If the appointment of KPMG is not ratified by shareholders, the Audit Committee will take such action, if any, with respect to the appointment of the independent auditor as the Audit Committee deems appropriate.

Representatives of KPMG are expected to be present at the Annual Meeting with the opportunity to make a statement, if they desire, and will be available to respond to appropriate questions from the shareholders.

The affirmative vote of the holders of at least a majority of the shares of Common Stock of the Company present and entitled to vote at the Annual Meeting is required for adoption of this proposal.

The Board of Directors recommends the shareholders vote FOR Proposal Two and the ratification of selection of KPMG LLP as independent registered public accounting firm of the Company for the current fiscal year.

**PROPOSAL THREE: NON-BINDING, ADVISORY VOTE REGARDING THE COMPENSATION OF THE COMPANY S NAMED EXECUTIVE OFFICERS ( SAY-ON-PAY )**

Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, at least once every six years we are required to submit for your vote a non-binding resolution to determine whether the advisory shareholder vote on executive compensation should occur every one, two or three years. At the Company s 2011 Annual Shareholders Meeting, a significant majority of the votes cast advised that the compensation of the Company s named executive officers be submitted to shareholders for an advisory vote every year. After taking into account the results of the shareholder advisory vote on the frequency of say-on-pay conducted at the 2011 Annual Meeting of Shareholders, it is the policy of the Board of Directors to submit the compensation of the Company s named executive officers to shareholders for a non-binding advisory vote annually. The frequency of this say-on-pay vote will be subject to an advisory shareholder vote again in 2017.

The Dodd-Frank Wall Street Reform and Consumer Protection Act requires that we seek a non-binding vote from our shareholders to approve, on an advisory basis, the compensation of our named executive officers as disclosed in the Compensation Discussion & Analysis ( CD&A ), compensation tables and related disclosures in this Proxy Statement.

As discussed in our CD&A starting on page 24, our executive compensation programs have been designed to provide a competitive total executive compensation program linked to Company performance that will attract, retain and motivate talented executives critical to the Company s long-term success.

Our Executive Resources Committee developed an overall compensation philosophy that is built on a foundation of the following principles:

- There must be a direct linkage between long-term shareholder value creation and executive pay;
- Annual incentives for executives directly involved in underwriting are based on underwriting profit measured over a period of years consistent with the income and risk to the Company;
- Compensation should reflect both the Company s and individual s performance;
- A meaningful element of equity-based compensation and significant executive equity holdings are important to ensure alignment of management and shareholder interests;
-

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The Company's overall executive pay levels must be competitive in the marketplace for executive talent to enable the Company to attract and retain the best talent; and

- Appropriate safeguards must be in place to ensure annual incentives are aligned with long-term risk and value creation to protect against unnecessary and excessive risk to the Company.

We are asking you to indicate your support for our executive compensation programs as described in this Proxy Statement. This proposal, commonly known as a "say-on-pay" proposal, gives you the opportunity to express your views on our 2011 executive compensation policies and procedures for named executive officers. This non-binding vote is not intended to address

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any specific item of compensation, but rather the overall compensation of our named executive officers and the policies and procedures described in this Proxy Statement. **Accordingly, we ask the shareholders to vote FOR the following resolution at the Annual Meeting:**

RESOLVED, that the compensation paid to the Company's named executive officers, as disclosed pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the CD&A, compensation tables and any related material disclosed in the Company's Proxy Statement is hereby APPROVED.

Your vote is advisory, and therefore not binding on the Executive Resources Committee or the Board. However, we value your opinions and to the extent there is any significant vote against the named executive officer compensation as disclosed in this Proxy Statement, we will consider our shareholders' concerns. The Executive Resources Committee will evaluate whether any actions are necessary to address those concerns.

**The Board of Directors recommends that shareholders vote FOR the proposal to approve the compensation of the Company's named executive officers as described in this Proxy Statement.**

## **CORPORATE GOVERNANCE AND BOARD MATTERS**

### **CORPORATE GOVERNANCE PRINCIPLES**

The Company is committed to having sound corporate governance principles that are designed to ensure that the Board exercises reasonable business judgment in discharging its obligations to the Company and its shareholders. Corporate governance practices also help to ensure that full and transparent disclosures are made to the Company's shareholders and the SEC.

The Company's published Corporate Governance Guidelines, which are publicly available on the Company's Internet site under Investors at [www.rlicorp.com](http://www.rlicorp.com), outline the directors' responsibilities, which include attendance at shareholder, Board and committee meetings. All members of the Board attended the 2011 Annual Meeting of Shareholders and were available to respond to appropriate questions from the shareholders.

The Company has developed an orientation process for new directors and also encourages new directors to attend a director seminar in their first year as a director. Each incumbent director is expected to attend an accredited director education seminar at least once a year, and each Audit Committee member is expected to attend an audit committee forum/conference at least once a year.

### **DIRECTOR INDEPENDENCE**

The Board is required to affirmatively determine the independence of each director and to disclose such determination in the proxy statement for each Annual Meeting of Shareholders of the Company. The Board has established guidelines, which are set forth below, to assist it in making this determination, which incorporate all of the NYSE independence standards. Only independent directors serve on the Company's Audit Committee, Executive Resources Committee and Nominating/Corporate Governance Committee.



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It is the policy of the Board of Directors of the Company that a majority of its members be independent. To be considered independent under the NYSE Listing Standards, the Board must affirmatively determine that a director or director nominee (collectively referred to as "director") has no material relationship with the Company (directly or as a partner, shareholder or officer of an organization that has a relationship with the Company), and also meets other specific independence tests. The Board examines the independence of each of its members once per year, and again if a member's outside affiliations change substantially during the year. With the exception of the President & CEO, the Board has affirmatively determined that each director is independent within the meaning of the NYSE Listing Standards and the Company's Director Independence Standards.

The Board has established the following categorical standards, incorporating the NYSE's independence standards to assist it in determining director independence:

(a) A Director will not be independent if:

(i) the Director is, or has been within the last three years, an employee of RLI, or an immediate family member of the Director is, or has been within the last three years, an executive officer of RLI;

(ii) the Director has received, or has an immediate family member who has received, during any 12-month period within the last three years, more than \$120,000 in direct compensation from RLI, other than Director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service);

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(iii) (A) the Director is a current partner or employee of a firm that is RLI's internal or external auditor; (B) the Director has an immediate family member who is a current partner of such firm; (C) the Director has an immediate family member who is a current employee of such firm and personally works on RLI's audit; or (D) the Director or an immediate family member was within the last three years a partner or employee of such a firm and personally worked on RLI's audit within that time;

(iv) the Director or an immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of RLI's present executive officers at the same time serves or served on that company's compensation committee; or

(v) the Director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to, or received payments from, RLI for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million, or 2 percent of such other company's consolidated gross revenues.

(b) The following commercial and charitable relationships will not be considered to be material relationships that would impair a Director's independence:

(i) if a Director, or an immediate family member of the Director, is an executive officer, director, employee or holder of an equity interest of a company that has made payments to, or received payments from, RLI for property or services in an amount which, in the last fiscal year, does not exceed the greater of \$1 million, or 2 percent of such other company's consolidated gross revenues;

(ii) if a Director, or an immediate family member of the Director, is an executive officer, director, employee or holder of an equity interest of a company that is indebted to RLI, or to which RLI is indebted, and the total amount of either company's indebtedness to the other does not exceed the greater of \$1 million, or 2 percent of such other company's total consolidated assets;

(iii) if a Director, or an immediate family member of the Director, is an executive officer, director or employee of a company in which RLI owns an equity interest, and the amount of RLI's equity interest in such other company does not exceed the greater of \$1 million, or 2 percent of such other company's total shareholders' equity;

(iv) if a Director, or an immediate family member of the Director, is a holder of an equity interest of a company of which a class of equity security is registered under the Securities Exchange Act of 1934, as amended, and in which RLI owns an equity interest;

(v) if a Director, or an immediate family member of the Director, is an executive officer, director, employee or holder of an equity interest of a company that owns an equity interest in RLI; and

(vi) if a Director, or an immediate family member of the Director, serves as an officer, director or trustee of a tax exempt organization, and the contributions from RLI to such tax exempt organization in the last fiscal year do not exceed the greater of \$1 million, or 2 percent of such tax exempt organization's consolidated gross revenues. (RLI's automatic matching of employee charitable contributions will not be included in the amount of RLI's contributions for this purpose.)

(c) For relationships not covered by the standards in subsection (b) above, the determination of whether the relationship is material or not, and therefore whether the Director would be independent or not, shall be made by the Directors who satisfy the independence standards set forth in subsections (a) and (b) above. RLI is required to explain in its proxy statement the basis for any Board determination that a relationship was immaterial, despite the fact that it did not meet the categorical standards of immateriality set forth in subsection (b) above.

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<b>Director</b>	<b>Independent</b>	<b>Management</b>
Kaj Ahlmann	X	
Barbara R. Allen	X	
John T. Baily	X	
Jordan W. Graham	X	
Gerald I. Lenrow	X	
Charles M. Linke	X	
F. Lynn McPheeters	X	
Jonathan E. Michael		X
Robert O. Viets	X	

The following relationships were reviewed in connection with determining director independence but were determined to not affect such persons independence:

Mr. Baily is a director of Endurance Specialty Holdings Ltd., affiliates of which include reinsurance companies. From time to time the Company enters into reinsurance arrangements with the Endurance companies.

Messrs. Baily and Lenrow each formerly were partners with predecessor firms of PricewaterhouseCoopers LLP ( PwC ). Mr. Baily retired from PwC in 1999, and Mr. Lenrow retired from PwC in 1990, continuing as a consultant until 1996. From time to time, the Company engages PwC for special projects and services in actuarial, tax and other areas.

**DIRECTOR NOMINATION POLICY**

The Nominating/Corporate Governance Committee of the Company considers director candidates based upon a number of qualifications. A nominee should have:

- A reputation for the highest professional and personal ethics and values, fairness, honesty and good judgment;
- A significant breadth of experience, knowledge and abilities to assist the Board in fulfilling its responsibilities;
- Been in a generally recognized position of leadership in his or her field of endeavor; and
- Commitment to enhancing shareholder value.

Nominees with insurance and accounting backgrounds are particularly desirable. A nominee should not have a conflict of interest that would impair the nominee's ability to represent the interests of the Company's shareholders and fulfill the responsibilities of a director.

The Nominating/Corporate Governance Committee conducts an annual assessment of the composition of the Board and its committees. The Committee reviews the appropriate skills and characteristics required of Board members with a view toward establishing a diversity of backgrounds in areas of core competencies, including experience in the following: business development, insurance industry, senior management, operational, technical, compensation and finance. The Nominating/Corporate Governance Committee relies upon recommendations from a wide variety of its business contacts, including current executive officers, directors, community leaders and shareholders, as sources for potential director candidates, and may also utilize third party search firms.

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The Nominating/Corporate Governance Committee will consider qualified director candidates as properly nominated by shareholders as further set forth under SHAREHOLDER PROPOSALS on page 44.

### **CODE OF CONDUCT**

The Company has adopted a Code of Conduct, which is designed to help directors, officers and employees maintain ethical behavior and resolve ethical issues in an increasingly complex global business environment. The Code of Conduct applies to all directors, officers and employees, including the Chief Executive Officer, the Chief Financial Officer, the Controller, the General Counsel and any other employee with any responsibility for the preparation and filing of documents with the SEC. The Code of Conduct covers topics including, but not limited to, ethical behavior, conflicts of interest, corporate opportunities, confidentiality of information and compliance with laws and regulations. A copy of our Code of Conduct is available at the Company's website under the Investors section at [www.rlicorp.com](http://www.rlicorp.com). Any amendments to the Code of Conduct will be posted on the website, and any waiver that applies to a director or executive officer will be disclosed in accordance with the Rules of the NYSE.

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**SHAREHOLDER AND INTERESTED PARTIES COMMUNICATIONS**

Any shareholder or other interested party who desires to communicate with the Board's Lead Director of the Board's independent directors or any of the other members of the Company's Board of Directors may do so electronically by sending an email to the following address: [Lead.Director@rlicorp.com](mailto:Lead.Director@rlicorp.com). Alternatively, a shareholder or other interested party may communicate with the Lead Director or any of the other members of the Board by writing to: Lead Director, RLI Corp. 9025 N. Lindbergh Drive, Peoria, Illinois 61615. Communications may be addressed to the Lead Director, an individual director, a Board Committee, the independent directors or the full Board. Communications received by the Lead Director will then be distributed to the appropriate directors. Solicitations for the sale of merchandise, publications or services of any kind will not be forwarded to the directors.

**COMPANY POLICY ON RELATED PARTY TRANSACTIONS**

The Company recognizes that related party transactions present a heightened risk of conflicts of interest and/or improper valuation (or the perception thereof) and therefore has adopted a written policy which shall be followed in connection with all related party transactions involving the Company. The policy generally requires approval by the Nominating/Corporate Governance Committee for all transactions above \$10,000 between the Company and its directors, officers, shareholders owning in excess of 5 percent of the Common Stock of the Company, and their family members and affiliates. No proposed transactions falling within the purview of the policy were presented or approved in 2011.

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

In 2011, there were no transactions or series of similar transactions to which the Company was or is to be a party in which the amount involved exceeded or will exceed \$120,000 and in which any director, executive officer or holder of more than 5 percent of the Common Stock of the Company (or any of their immediate family members) had or will have a direct or indirect material interest nor is any such transaction currently proposed.

**COMMITTEES OF THE BOARD OF DIRECTORS**

The Board has five standing committees: Audit, Executive Resources, Finance and Investment, Nominating/Corporate Governance and Strategy. The Audit, Executive Resources and Nominating/Corporate Governance Committees are composed solely of independent directors in compliance with the Company's requirements and the NYSE Listing Standards. The Nominating/Corporate Governance Committee annually evaluates both Committee members and Committee Chairs, and rotates as necessary. In his discretion, the Chairman of the Board may attend any or all Committee meetings. All committees meet at least quarterly and also hold informal discussions from time to time. Charters for each committee are available on the Company's website under [Investors](#) at [www.rlicorp.com](http://www.rlicorp.com).

**AUDIT COMMITTEE**

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The Company's Audit Committee, composed exclusively of independent directors, met ten times in 2011 to consider various audit and financial reporting matters, including the Company's outside audit firm relationship and to discuss the planning of the Company's annual outside audit and its results. The committee also monitored the Company's management of its exposures to risk of financial loss, assessed the auditors' performance, reviewed the adequacy of the Company's internal controls, reviewed the extent and scope of audit coverage, reviewed quarterly financial results, monitored selected financial reports and selected the Company's independent registered public accounting firm. The committee also meets in executive session, with no members of management present, after its regular meetings, as well as private executive sessions with KPMG and various members of management.

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Fees for services rendered by KPMG, the Company's Independent Registered Public Accounting Firm, for the past two fiscal years for each of the following categories of services, are set forth below:

	<b>Fiscal Year 2011</b>	<b>Fiscal Year 2010</b>
Audit Fees	\$ 970,100(1)	\$ 775,500
Audit-Related Fees	\$ 0	\$ 3,500
Tax Fees		
Tax Compliance	\$ 0	\$ 0
Other Tax Services	\$ 0	\$ 0
All Other Fees	\$ 17,500	\$ 19,485
Total Fees	\$ 987,600	\$ 798,485

(1) The increase in Audit Fees from 2010 to 2011 is primarily reflective of the purchase of Contractors Bonding and Insurance Company through an acquisition of its holding company, Data and Staff Service Co.

Audit fees relate to professional services rendered for the audit of the consolidated financial statements of the Company, audits of the financial statements of certain subsidiaries and certain statutory audits, review of quarterly consolidated financial statements and assistance with review of documents filed with the SEC, including attestation as required under Section 404 of the Sarbanes-Oxley Act of 2002.

Audit-Related fees consist of a review of an SEC employee benefit plan registration statement.

All Other Fees relate to professional services and expenses in assisting management with technical accounting advice and due diligence regarding the acquisition of Contractors Bonding and Insurance Company.

The Audit Committee is responsible for approving every engagement of KPMG to perform audit or non-audit services on behalf of the Company or any of its subsidiaries before KPMG is engaged to provide those services. The Audit Committee evaluated the effects that the provision of non-audit services may have on the Company's independent registered public accounting firm services.

The Board of Directors annually determines the financial literacy of the members of the Audit Committee pursuant to the NYSE required standards. The Board has determined that based on those standards, each member of the Audit Committee is independent and financially literate, and that each member possesses accounting or related financial management expertise. The Board of Directors has further determined that each of Messrs. Baily, Lenrow, and Viets, and Ms. Allen qualifies as an audit committee financial expert as defined by the SEC.

Until the May 2011 Board meeting, the members of the committee were Messrs. Baily (Chair), Lenrow, McPheeters and Viets. After the May 2011 Board meeting, the members of the committee were Messrs. Baily (Chair), Lenrow and Viets, and Ms. Allen.

**EXECUTIVE RESOURCES COMMITTEE**

The Company's Executive Resources Committee, composed exclusively of independent directors, met five times in 2011 to evaluate and recommend compensation of the President & Chief Executive Officer and certain key executive officers of the Company, discuss and evaluate the Company's Market Value Potential Executive Incentive Program and to develop objective criteria for the selection and ongoing management of the

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Company's compensation peer group and to enhance the overall effectiveness of the executive compensation programs. The committee also reviews and evaluates the President & Chief Executive Officer's goals and objectives, management development and succession planning, and the Company's deferred compensation, stock option, retirement and medical programs. Ms. Allen (Chair) and Messrs. Graham, Lenrow and McPheeters are members of the committee.



Table of Contents**FINANCE AND INVESTMENT COMMITTEE**

The Company's Finance and Investment Committee is composed exclusively of independent directors and oversees the Company's investment and corporate finance transactions, policies and guidelines, which includes reviewing investment performance, investment risk management exposure and the Company's capital structure. This committee met four times in 2011 to discuss ongoing financial, investment and capital matters.

Until the May 2011 Board meeting, the members of the committee were Messrs. Michael (Chair), Ahlmann, Linke and Stephens. After the May 2011 Board meeting, the members of the committee were Messrs. McPheeters (Chair), Ahlmann and Linke.

**NOMINATING/CORPORATE GOVERNANCE COMMITTEE**

The Company's Nominating/Corporate Governance Committee, composed exclusively of independent directors, met four times in 2011 to guide the Company's corporate governance program and to monitor and discuss current and emerging corporate governance principles and procedures. The committee also counsels the Board with respect to Board and Committee organization, compensation, membership, function and Board and Committee performance assessments, individually and collectively. The committee identifies and reviews qualified individuals as potential new director candidates.

Members of the committee were Messrs. Linke (Chair), Baily and Viets.

**STRATEGY COMMITTEE**

The Company's Strategy Committee is composed exclusively of independent directors. The committee met four times in 2011 to oversee the Company's strategic plan and its implementation.

Until the May 2011 Board meeting, the members of the Strategy Committee were Ms. Allen and Messrs. Ahlmann, Graham (Chair), McPheeters and Michael. After the May 2011 Board meeting, the members of the committee were Messrs. Ahlmann (Chair) and Graham.

**COMMITTEE MEMBERSHIP**

Director	Audit	Executive Resources	Nominating/ Corporate Governance	Finance and Investment	Strategy
Kaj Ahlmann				X	X*
Barbara R. Allen	X	X*			
John T. Baily	X*		X		
Jordan W. Graham		X			X
Gerald I. Lenrow	X	X			
Charles M. Linke			X*	X	
F. Lynn McPheeters		X		X*	
Jonathan E. Michael					
Robert O. Viets	X		X		

\* Chair of Committee

## BOARD MEETINGS AND COMPENSATION

### MEETINGS

During 2011, five meetings of the Board of Directors were held with all directors in attendance. No director attended fewer than 75 percent of the aggregate number of meetings of the Board and Board committees on which he or she served. In connection with each Board meeting, the independent directors meet in executive session with no members of management present. Mr. Lenrow was the Presiding Director of the Board's executive sessions until the May 5, 2011 Annual Meeting of Shareholders. Effective May 5, 2011, the Lead Director position was established and the Chairman of the Nominating/Corporate Governance Committee was elected Lead Director of the Board and presided at the Board's executive sessions.

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**DIRECTOR COMPENSATION**

During 2011, the Independent Directors were compensated as follows:

Annual Board Retainer:	\$	95,000
Annual Committee Retainer:		
Audit	\$	15,000
All Other Committees	\$	10,000
Additional Annual Committee Chair Retainer:		
Audit	\$	20,000
Executive Resources	\$	20,000
All Other Committees	\$	10,000
Non-Executive Chairman of the Board Fee	\$	85,000

Directors are also reimbursed for actual travel and related expenses incurred and are provided a travel accident policy funded by the Company.

Upon Mr. Stephens' retirement from Chairman of the Board on May 5, 2011, he was deemed Chairman Emeritus of the Board, with the following benefits/services during his three-year term as Chairman Emeritus:

- Personal use of the Company aircraft for up to 25 hours per year based on a Company Aircraft Time Share Agreement, for which the Company will be reimbursed by Mr. Stephens at the current Time Share rate then in effect (which rate is modified annually);
- Temporary office space at the Company's Home Office in Peoria, Illinois during his in-person visits to the Company; and
- Use of up to 40 percent of one Company administrative support personnel's time for assistance with professional and personal administrative matters at an aggregate cost of approximately \$30,000. Any use amount over 40 percent will be reimbursed to the Company.

Mr. Stephens is authorized by the Board to use the Company aircraft for personal use, when it is not being used for business purposes, pursuant to a lease arrangement at an hourly lease rate established from time to time by the Board. Under the aircraft lease arrangement, income is imputed to Mr. Stephens under certain circumstances pursuant to tax regulations. In 2011, Mr. Stephens reimbursed the Company for his personal use of the Company aircraft at the agreed lease rate, and \$1,195 was imputed income.

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The following table provides the compensation of the Company's Board of Directors earned for the fiscal year ended December 31, 2011.

Name	Fees Earned or Paid in Cash (\$)(1)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation (\$)	Total (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Kaj Ahlmann	121,534						121,534
Barbara R. Allen	138,267						138,267
John T. Baily	140,000		(2)				140,000
Jordan W. Graham	118,459						118,459
Gerald I. Lenrow	120,000		(2)				120,000
Charles M. Linke	125,000		(2)				125,000
F. Lynn	126,722		(2)				126,722
McPheeters							
Jonathan E. Michael		(3)					
Gerald D. Stephens	66,915 (4)					33,266 (5)	98,986
Robert O. Viets	120,000		(2)				120,000

(1) Outside directors elect the form of their Annual Board Retainer, Annual Committee Retainer and Annual Committee Chair Retainer, if applicable, which may be received either in cash or in Company stock, or a combination of both, in accordance with the Directors Deferred Compensation Plan ( Deferred Plan ). Amounts shown include the value of fees taken in the form of Company stock.

(2) Effective May 7, 2004, no further options were granted to outside directors under the Stock Option Plan for Outside Directors ( Director Plan ). The aggregate number of outstanding stock options under the Director Plan as of December 31, 2011, were as follows: Mr. McPheeters 5,400 options; and Mr. Viets 3,600 options.

(3) Mr. Michael, as Chairman of the Board and a management director, does not receive director fees. His compensation as President and CEO is disclosed under the Executive Compensation Summary Compensation Table.

(4) Effective January 1, 2006, Mr. Stephens retired as an employee of the Company and received the same compensation as all outside directors of the Company. In addition, Mr. Stephens was paid an \$85,000 annual fee as Chairman of the Board until his retirement in May 2011.

(5) Mr. Stephens was provided an office when present at the Company's home office. He was also provided part-time secretarial support at the aggregate cost of \$32,071. Also includes \$1,195 in imputed income in connection with personal use of the Company aircraft.

**BOARD LEADERSHIP STRUCTURE**

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Immediately following the 2011 Annual Shareholders Meeting, Mr. Stephens retired as Chairman of the Board, and Mr. Michael was appointed Chairman of the Board in addition to his current position of President and Chief Executive Officer.

The Company does not have a formal policy regarding separation of the offices of chairman of the board and chief executive officer. The Board believes that the decision whether to combine or separate such positions will vary from company to company and depends upon a company's particular circumstances at a given point in time.

The Board believes that a joint board chairman and chief executive officer position is advisable and in the best interests of the Company and its shareholders given our current Board and Lead Director configuration. This structure promotes unified leadership, continuity and direction for the Company. This combined position also provides a clear focus for management to execute the Company's strategy and business plan, while fostering clear accountability and decision-making in such roles. The Board believes the designation of an empowered Lead Director provides a counterbalancing governance structure and enables an appropriate balance between strategic execution and independent oversight of management.

The Lead Director (an independent director) is the Chairperson of the Board's Nominating/Corporate Governance Committee and is elected / confirmed by the Board's independent directors. The Lead Director (a) presides over executive

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sessions of the independent directors, (b) serves as liaison between the Chairman and the independent directors, (c) assists in setting Board meeting agendas and schedules, (d) assists in determining information sent to directors for meetings, (e) may call meetings of the independent directors, (f) may consult with major shareholders if requested by the Chairman or the Board, and (g) consults with the Chairman/CEO regarding results of annual performance reviews of the Board Committees, Board members and CEO, all as set forth in the charter for the Lead Director position.

Several factors promote a strong and independent Board at our Company. Currently, all directors except for Mr. Michael are independent as defined in the applicable NYSE listing standards (as adopted by the Company). The Audit, Executive Resources, and Nominating/Corporate Governance committees of our Board are comprised entirely of independent directors. Also, our independent directors meet quarterly in executive session without management present. Consequently, with our Lead Director position, we believe our Board continues to be strong and independent, and provides appropriate counterbalance to a combined Chairman/CEO position.

### **STOCK OPTION PLAN FOR OUTSIDE DIRECTORS (DIRECTOR PLAN)**

Prior to May 7, 2004, the Director Plan provided for the grant of an option to purchase 3,000 shares of the Company's Common Stock to each newly elected or appointed outside director. In addition, effective the first business day in February of each year, each outside director was annually granted an option to purchase 1,800 shares of the Company's Common Stock under the Director Plan. If the Company earned more than its cost of capital as provided under its MVP Plan in each respective year, each outside director was granted an option to purchase 1,800 additional shares of the Company's Common Stock under the Director Plan, effective the first business day in February of the succeeding year. The exercise price of each option granted is an amount equal to the fair market value of such option share on the grant date, and all options granted provided for one-third annual vesting over a period of three years. In the event of an outside director's death, disability or termination of status as an outside director, all options granted become fully vested. Effective May 7, 2004, no future options were granted to outside directors under the Director Plan.

### **NONEMPLOYEE DIRECTOR DEFERRED COMPENSATION PLAN (DEFERRED PLAN)**

Prior to the beginning of each year, an outside director may elect to defer the compensation otherwise payable or awarded to the director during the succeeding year pursuant to the Deferred Plan. Under the Deferred Plan, the Company transfers to a bank trustee, under an irrevocable trust established by the Company, such number of shares of the Company as are equal to the compensation deferred by the director during the relevant year. The deferred compensation is used to purchase an equivalent amount of Company Common Stock. Dividends on these shares are reinvested quarterly under the Company's Dividend Reinvestment Plan. In general, Deferred Plan benefits are distributable, in the form of Company Common Stock, beginning when the director's status terminates.

### **DIRECTOR SHARE OWNERSHIP**

Outside Directors are encouraged to, within three years of their initial appointment as a Company director, own shares of the Common Stock of the Company having a value of not less than 500 percent of such director's Annual Board Retainer, which Retainer was \$85,000 in 2009 and \$95,000 in 2010 and 2011. Shares held directly and in Company benefit plans are counted to satisfy the guideline, but options, whether vested or not, are not counted.

The Nominating/Corporate Governance Committee monitors directors' share ownership and may make allowances to accommodate timing of purchases caused by quiet period limitations, periodic adjustments to the Annual Board Retainer, and other factors affecting a director's share ownership level.

## AUDIT COMMITTEE REPORT

The following report by the Audit Committee is required by the rules of the SEC to be included in this Proxy Statement and shall not be considered incorporated by reference in other filings by the Company with the SEC.

The Audit Committee (the Committee) of the Company's Board of Directors is composed of four independent directors and operates under a written charter adopted by the Board of Directors.

The primary role of the Committee is to assist the Board of Directors in its oversight of (a) the Company's corporate accounting and reporting practices, (b) the quality and integrity of the Company's financial statements, (c) the Company's compliance with legal and regulatory requirements, (d) the qualifications, independence and performance of the independent registered public accounting firm, and (e) the performance of the Company's internal audit function. In addition to those primary roles, the Committee also performs other roles and functions as outlined in its charter, including risk management oversight,

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preliminary review of earnings releases and other activities. The Committee also acts as the audit committee for each of the Company's insurance company subsidiaries. A more detailed description of the Committee's roles, functions and activities is set forth in the description of Board committees elsewhere in this Proxy Statement and in the Committee's charter.

The Board of Directors has determined that each of the members of the Audit Committee qualifies as independent within the meaning of the NYSE Listing Standards and the rules of the SEC. The Board of Directors has further determined that each of Ms. Allen and Messrs. Baily, Lenrow and Viets is an audit committee financial expert within the meaning of the SEC rules.

The Committee reviews the internal audit function of the Company, including the independence and authority of its reporting obligations, the proposed audit plans for the coming year, and the coordination of such plans with the independent registered public accounting firm.

The Committee selects the Company's independent registered public accounting firm and provides assistance to the members of the Board of Directors in fulfilling their oversight functions of the financial reporting practices, including satisfying obligations imposed by Section 404 of the Sarbanes Oxley Act of 2002, and financial statements of the Company. It is not the duty of the Committee, however, to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with U.S. generally accepted accounting principles. The Company's independent registered public accounting firm is responsible for planning and conducting audits; and the Company's management is responsible for preparing the financial statements, designing and assessing the effectiveness of internal control over financial reporting and determining that the Company's financial statements are complete and accurate and in accordance with U.S. generally accepted accounting principles and applicable laws and regulations.

The Committee received reports and reviewed and discussed the audited financial statements with management and the independent registered public accounting firm. The Committee also discussed with the independent registered public accounting firm the Section 404 obligations and matters required to be discussed by Statement on Auditing Standards No. 61, as amended (AICPA AU Section 380) as adopted by the Public Company Accounting Oversight Board (PCAOB). The Committee received from the Company's independent registered public accounting firm the written disclosures and letter required by the applicable PCAOB requirements for independent accountant communications with the Audit Committee concerning auditor independence. The Committee discussed with the independent registered public accounting firm that firm's independence and any relationships that may impact that firm's objectivity and independence, including audit and non-audit fees.

Based on the Committee's discussion with and review of reports from management, the Company's internal auditors and the Company's independent registered public accounting firm and the Committee's reliance on the representation of management that the Company's consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles, the Committee recommended to the Board of Directors that the audited financial statements of the Company be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, as filed with the SEC.

The foregoing report has been approved by all members of the Audit Committee.

## **MEMBERS OF THE AUDIT COMMITTEE**

John T. Baily (Chair)

Barbara R. Allen

Gerald I. Lenrow

Robert O. Viets

## **EXECUTIVE RESOURCES COMMITTEE REPORT**



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The Executive Resources Committee has reviewed and discussed with management of the Company the Compensation Discussion and Analysis section of this Proxy Statement. Based on the Executive Resources Committee's review and discussions, it recommended to the Board, and the Board approved, that the Compensation Discussion and Analysis be included in the Company's 2012 Proxy Statement.

### **MEMBERS OF THE EXECUTIVE RESOURCES COMMITTEE**

Barbara R. Allen (Chair)

Jordan W. Graham

Gerald I. Lenrow

F. Lynn McPheeters

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**COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

No member of the Executive Resources Committee is a current or former employee or officer of the Company or otherwise had any relationships to be disclosed within the scope of SEC regulations.

**2012 COMPENSATION DISCUSSION & ANALYSIS**

**INTRODUCTION**

The Executive Resources Committee ( ERC ) is responsible for reviewing, determining and administering specific compensation levels for senior executive officers, as well as overseeing other executive compensation programs and management succession and development processes.

**EXECUTIVE SUMMARY**

The Company is a specialty insurance company that offers a diverse portfolio of property and casualty coverage and surety bonds. We are always focused on achieving an underwriting profit and growing book value to create security for our policyholders and long-term value for our shareholders. As a result, we have structured our compensation programs to provide incentives for achieving those objectives.

In May 2011 we held a shareholder advisory vote on the compensation of our named executive officers, referred to as a say-on-pay vote. Our shareholders expressed strong support for our compensation practices, with 83 percent of shareholder votes cast in favor of our say-on-pay resolution. We considered this vote to represent strong support by shareholders for our longstanding executive compensation policies and practices. In 2011, therefore, the ERC continued its general approach to executive compensation:

- **Conservative base salary increases:** The average increase in base salaries for the Named Executive Officers ( NEOs ) in May 2011 when salaries were reviewed was 2.7 percent. The NEOs in May 2011 were Jonathan Michael, President & CEO; Michael Stone, President & COO, RLI Insurance Company; Joseph Dondanville; Senior Vice President, CFO (retired); Craig Kliethermes, Senior Vice President, Risk Services; and Daniel Kennedy, Vice President, General Counsel, and Corporate Secretary.
- **Performance-based compensation:** Total executive compensation is directly linked to Company performance. As in prior years, all executives participate in an annual incentive plan through which they are eligible to earn compensation based on achievement of Company financial objectives that are aligned with shareholder value creation.
- **Conservative long-term incentive awards:** In 2011, we continued our conservative approach to long-term incentives, awarding stock option grants sufficient to align the interests of the management team with shareholders, but not at a level which, in our view, would provide a windfall to recipients. Stock option awards in 2011 generally were at or below median levels for comparable positions.

- **Significant executive stock ownership:** Our compensation programs encourage employees to build and maintain an ownership interest in the Company. We have established specific executive stock ownership guidelines and our NEOs currently maintain significant share ownership in the Company.

- **Peer company comparisons:** In accordance with our standard practice, each year we conduct a review of executive compensation within an insurance peer group to ensure that the Company's executive compensation remains fair, competitive, and consistent with Company performance. In 2011, the Committee retained Pay Governance, a compensation consulting firm, to assist in the evaluation and selection of appropriate peer companies.

Additionally, our compensation decisions during the 2011 fiscal year continued to be influenced by ongoing economic and insurance marketplace uncertainty. We feel that our conservative approach to both our business and compensation practices during the past year contributed to our overall financial success. In 2011, the Company had solid financial performance, delivering the 16th consecutive year of underwriting profit; achieving an excellent combined ratio; and returning capital to our shareholders through a \$5.00 per share special dividend and our 36th consecutive year of paying regular dividends. We made the largest acquisition in Company history, acquiring and successfully integrating Contractors Bonding and Insurance Company ( CBIC ).

Our CFO, Joseph E. Dondanville retired in 2011 after 27 years of service to the Company. Thomas L. Brown joined the Company as CFO on September 1, 2011. Each of their respective compensation for 2011 is described below.

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*HOW THE ERC OPERATES*

**ERC MEMBERS**

In 2011, the members of the ERC were Ms. Allen (Chair) and Messrs. Graham, Lenrow and McPheeters. ERC members are nominated by the Nominating/Corporate Governance Committee, elected by the Board, and may be removed from the ERC by the Board at any time, with or without cause. The members of the ERC are independent directors under the independence standards developed by the Board, which incorporate all of the NYSE independence standards, and which are set out above under the section entitled Corporate Governance and Board Matters. The Board annually determines the independence of each member of the ERC under those independence standards.

**ERC RESPONSIBILITIES**

The ERC operates under a Charter, which can be found on the Company's website at [www.rlicorp.com](http://www.rlicorp.com). The ERC Charter is reviewed annually by the ERC and any proposed changes to the Charter are submitted to the Nominating/Corporate Governance Committee for recommendation to the full Board for approval. The ERC is responsible to the Board for (1) reviewing and providing advice regarding the Company's executive compensation policy and the execution thereof; (2) reviewing and providing advice regarding the Company's management succession and development processes; (3) monitoring compensation actions by management below the executive level; (4) producing an annual report on executive compensation for approval by the Board for inclusion in the Company's proxy statement in accordance with applicable rules and regulations; and (5) reviewing the Company's employee benefit plans. Compensation of the Board is recommended by the Nominating/Corporate Governance Committee, with the advice and counsel of the ERC to ensure alignment of interests between Board and executive compensation.

**ERC MEETINGS**

The ERC held five meetings in 2011. The agenda for each ERC meeting is established by the Chair of the ERC in consultation with other ERC members, and with Mr. Michael and Jeffrey Fick, the Company's Vice President, Human Resources. ERC materials are prepared by Messrs. Michael and Fick and are reviewed and approved by the ERC Chair in advance of distribution to ERC members. The ERC meetings are attended by Messrs. Michael and Fick.

**INPUT FROM MANAGEMENT**

Mr. Michael plays an important role in the ERC's consideration of executive compensation levels and the design of executive compensation plans and programs for other senior executive officers. For these individuals, Mr. Michael recommends the following components of executive compensation to the ERC for review and recommendation to the Board:

- annual base salary levels;
- annual bonus targets and financial goals; and

- the form and amount of long-term incentives.

Mr. Michael makes such compensation recommendations based on external market data; achievement of respective performance criteria by each executive; and his judgment related to internal pay equity among Company executives, potential for advancement, and contribution to team initiatives. Mr. Michael also relies upon the input of Messrs. Stone, Kliethermes and Fick when making such recommendations.

#### **COMPENSATION CONSULTANT**

The ERC Charter specifically provides that if a compensation consultant is to assist in the evaluation of CEO or senior executive compensation, the ERC has sole authority to retain and terminate the consulting firm, including sole authority to approve the firm's fees and retention terms. Management also has authority to retain a compensation consultant, but may not retain the same compensation consulting firm retained by the ERC without approval in advance by the ERC.

In 2011 the compensation consulting firm of Pay Governance was engaged by the ERC with respect to two matters: (1) assisting the ERC in the evaluation and potential revisions to the current compensation peer group, including the development of objective criteria for the selection and ongoing management of the members of the peer group, described in more detail at page 26; and (2) an assessment of the Market Value Potential Executive Incentive Program ( MVP Program ) to assist the ERC to enhance the overall effectiveness of the Program, described in more detail at page 27. Total fees of \$68,491.64 were paid to Pay Governance for this engagement.

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*OVERVIEW OF RLI EXECUTIVE COMPENSATION*

**OBJECTIVES**

The objective of the Company's executive compensation program is to provide a competitive total executive compensation program linked to Company performance that will attract, retain and motivate talented executives critical to the Company's long-term success.

**GUIDING PRINCIPLES**

The ERC is guided by a number of principles in its oversight of the design and administration of the Company's executive compensation programs:

- (1) The focus is on the linkage between long-term shareholder value creation and executive pay;
- (2) Annual incentives for executives directly involved in underwriting are based on underwriting profit measured over a period of years consistent with the income and risk to the Company;
- (3) Compensation should reflect both the Company's and individual's performance;
- (4) A meaningful element of equity-based compensation and significant executive equity holdings are important to ensure alignment of management and shareholder interests;
- (5) The Company's overall executive pay levels must be competitive in the marketplace for executive talent to enable the Company to attract and retain the best talent; and
- (6) Appropriate safeguards must be in place to ensure annual incentives are aligned with long-term risk and value creation to protect against unnecessary and excessive risk to the Company.

**ELEMENTS OF COMPANY EXECUTIVE COMPENSATION**

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The Company's total executive compensation program is comprised of the following components, each of which is described in greater detail below:

- (1) Total annual cash compensation consisting of:
  - (a) Base salary;
  - (b) Annual bonuses under the MVP Program for the CEO; COO; CFO; and Senior Vice President, Risk Services;
  - (c) Annual bonuses under the Management Incentive Program (MIP) for other home office executives;
  - (d) Annual bonuses under the Underwriter Profit Program for product group executives;
- (2) Long-term incentive compensation granted under the Long-Term Incentive Plan; and
- (3) Limited perquisites. All Company executives are provided with travel accident insurance and are reimbursed for out of pocket costs for an annual health examination not covered by the Company's health plan. The CEO and COO are permitted to use the Company's aircraft pursuant to a lease agreement and hourly lease rate approved by the Board of Directors, with maximum annual use limited to total lease charges of 6.5 percent of annual base salary.

### *ANNUAL COMPENSATION*

#### **BASE SALARY**

Executive base salaries are targeted to be at the median base salary for comparable positions in the insurance industry, taking into account performance, experience, potential and the level of base salary necessary to attract and retain top executive talent.

In 2011, the ERC set base salary ranges for the CEO, CFO and COO based on publicly available executive compensation data for 2010 from the following peer companies: Alleghany Corporation; AmTrust Financial Services; Argonaut Group, Inc; Baldwin & Lyons Inc.; CNA Surety Corporation; Endurance Specialty Holdings Ltd.; Global Indemnity; HCC Insurance Holdings, Inc.; Market Insurance Company; Meadowbrook Insurance Group Inc.; National Interstate Corp.; Navigators Group; Old Republic International Corp.; and OneBeacon Insurance Group LTD. The ERC selected these peer companies based on their judgment, input from management, and the recommendation of Pay Governance. Each of the peer companies competes within the property and casualty insurance industry and sells a variety of insurance products that serve both commercial entities and individuals that can generally be defined as specialty in nature, or targeted toward niche markets. The peer companies have established records of financial performance, and most have been publicly traded for at least five years, facilitating the comparison of the Company's financial performance to theirs. The ERC also reviews the market capitalization of the Company compared to the peer companies to ensure that the Company is at or near the median market capitalization among those companies.





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Each year, the ERC compares the relative ranking among the Company and peer companies based on the most recently available public data for base salaries and total compensation for the CEO, COO and CFO positions to the relative performance ranking for the following performance metrics for the prior year: price-to-book ratio; price-to-earnings ratio; return on equity; combined ratio; five-year combined ratio; and total return to shareholders for one, three, and five-year time frames to determine the overall competitiveness of the Company's executive compensation. Such a comparison in 2011 demonstrated that total compensation for each of these individuals was above the median among the peer companies, consistent with the ranking for the Company in the performance metrics listed above which were above the median for every metric.

Base salaries and total compensation for other executive positions are established by reference to the publicly available survey data, including median base salary levels, for comparable executives in the insurance industry.

At the May 2011 Board meeting, when the annual review of base salaries was conducted by the ERC, Mr. Michael recommended, and the ERC approved, no annual base salary increase for himself. The average increase in base salary in May 2011 for all NEOs averaged 2.7 percent<sup>1</sup>.

### **MARKET VALUE POTENTIAL EXECUTIVE INCENTIVE PROGRAM (MVP PROGRAM)**

The Company has paid annual cash bonuses to certain executive officers under the MVP Program since 1996. As discussed in further detail below, the MVP Program provides a mechanism with which the ERC can correlate cash compensation to long-term shareholder value creation. The MVP Program uses an economic profit measure called Market Value Potential, or MVP, which measures the after-tax returns earned by the Company above its cost of capital, as a gauge of shareholder value creation. MVP is defined as (1) the Actual Return (the increase in GAAP book value<sup>2</sup>), less (2) the Required Return (beginning capital<sup>3</sup> multiplied by the blended cost of capital<sup>4</sup>). If the Company does not earn the Required Return in a given year, no bonus award is made pursuant to the MVP Program for that year.

Key elements of the MVP Program for 2011 include the following:

- Annual bonus awards are expressed as a percentage of MVP created in that year.
- Annual bonus awards, if positive, are credited to a bonus bank with only 33 percent of the bank paid out annually, with the remaining amount in the bonus bank at risk depending on future results.
- Bonus banks can either be positive or negative.
- Bonus awards can be negative if MVP for the year is negative and are charged to the bonus bank, reducing prior year award balances in the bonus bank.

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- Annual bonus awards in excess of 300 percent of a participant's base salary require approval of the independent Directors.

Participation in the MVP Program, percentage bonus awards and the formula to calculate MVP are recommended by the ERC and approved annually by the independent Directors of the Board for Mr. Michael and by the entire Board for other participants. In 2011, participation in the MVP Program was limited to Messrs. Michael, Stone, Dondanville and Kliethermes. The Board has concluded based on the position responsibilities and ongoing assessment of individual performance against operational and financial goals that the senior executive management team (the CEO, COO, CFO and Senior Vice President, Risk Services) is most responsible for the operating and investment decisions and actions that directly impact the creation of long-term shareholder value, and, therefore, should be rewarded with incentive compensation that is directly and exclusively tied to the creation of MVP. Mr. Brown joined the Company in September 2011 and did not participate in the MVP Program for 2011, but instead participated in the Management Incentive Program ( MIP ), described below. Mr. Brown is a participant in the MVP Program beginning in 2012.

1 Mr. Michael last received an increase in his base salary rate in 2006; Messrs. Stone and Dondanville in 2007; Mr. Kennedy in 2008; and Mr. Kliethermes in 2009 when he was promoted to senior vice president.

2 The increase in GAAP book value is calculated as ending capital (defined as ending GAAP book value, less unrealized gains or losses net of tax on available-for-sale fixed maturity investments, plus outstanding long-term debt instruments at the end of the period; plus adjustments for capital transactions during the year), less beginning capital.

3 Beginning capital is defined as beginning GAAP book value, less unrealized gains or losses net of tax on available-for-sale fixed maturity investments, plus outstanding long-term instruments at the beginning of the period.

4 The Company's blended cost of capital is defined as the weighted average of the cost of equity capital and the cost of debt capital. The cost of equity capital is the average ten year U.S. Treasury Note rate, plus a market risk premium multiplied by the Company's beta. The Company's cost of debt capital is the coupon or interest rate actually incurred on the outstanding long-term debt.

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For 2011, each participant in the MVP Program received an annual MVP bonus award expressed as a percentage of MVP created by the Company in that calendar year. Each year the ERC confirms that the percentage awards remain appropriate by reviewing historical bonus award payouts, projected future payouts and resulting total compensation for MVP Program participants, which in turn is compared to the performance of the Company necessary to achieve such payouts. The ERC then compares the performance of the Company and total compensation of the MVP Program participants with comparable performance metrics and compensation at companies in the peer group. The MVP percentage award, expressed as a percentage of MVP, for each participant for 2011 was as follows: 3.0 percent for Mr. Michael, 1.9 percent for Mr. Stone, 1.25 percent for Mr. Dondanville and 0.625 percent for Mr. Kliethermes. The ERC set the percentage bonus awards for 2011 based on the factors described above and based on the range of expected MVP to be created by the Company in 2011 and the projected bonus awards and bonus payouts that would result.

Annual awards are added to a MVP bonus bank for each participant. If MVP is negative for a year, a negative award is deducted from each participant's bonus bank. If the entire bank balance is negative, the negative bank balance carries over to the next year. Interest at the three-year U.S. Government Treasury Bill rate is accrued on any positive unpaid bonus bank balance on December 31 of each year.

Annually, 33 percent of a participant's MVP Program bonus bank (if positive) is paid as a cash bonus payment. The remainder of the bank balance is at risk and will be reduced to the extent MVP is negative in subsequent years. The MVP Program also includes a Board Approval Limit which provides that if a positive MVP award to be added to, or a negative MVP award to be deducted from, a participant's bonus bank exceeds 300 percent of year-end base salary, the independent Directors must approve, and may reduce, that portion of the MVP award in excess of the Board Approval Limit. MVP awards approved by the ERC for 2011 for Messrs. Michael and Stone did exceed the Board Approval Limit of 300 percent of their respective base salaries. Accordingly, the amount of the MVP Awards to those individuals above 300 percent of each of their respective base salaries was approved by the independent Directors. Individual annual MVP Award payments, including the amount credited to a bonus bank, are capped at \$7.5 million under the terms of the RLI Corp. Annual Incentive Compensation Plan approved by Shareholders in 2011.

The Company's MVP in 2011 was \$98.4 million, compared to MVP of \$101.7 million in 2010, and MVP of \$97.7 million in 2009. The following table shows the manner in which 2011 MVP payouts and remaining at-risk bank balances were calculated for Messrs. Michael, Stone, and Kliethermes.

**2011 MVP Program Bonus Awards and Payouts**

<b>Participant</b>	<b>2011 MVP (A)</b>	<b>MVP Bonus Percent (B)</b>	<b>2011 MVP Award Paid into Bonus Bank (C = A x B)</b>	<b>December 31, 2011 Bonus Bank Balance(1) (D)</b>	<b>Bonus Bank Balance after 2011 Award (E = C+D)</b>	<b>Payout to Participant of 33% of Bank (F = E x .33)</b>	<b>Remaining Bank Balance at Risk(2) (G = E - F)</b>
Michael, J. E.	\$98,436,000	3.0%	\$2,953,080	\$4,507,675	\$7,460,755	\$2,462,049	\$4,998,706
Stone, M. J.	\$98,436,000	1.9%	\$1,870,284	\$2,773,069	\$4,643,353	\$1,532,307	\$3,111,047
Dondanville, J. E.	\$58,934,000 <sup>(3)</sup>	1.25%	\$736,675	\$1,839,074	\$2,575,749	N/A	N/A
Kliethermes, C. W.	\$98,436,000	0.625%	\$615,225	\$782,500	\$1,397,725	\$461,249	\$936,476

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(1) Interest at the three-year U.S. Government Treasury Note rate (0.99 percent) was accrued on the unpaid bonus bank balance on December 31, 2011. The following interest was accrued to the December 31, 2011 bonus bank balance as follows: Mr. Michael, \$44,189; Mr. Stone, \$27,184; and Mr. Kliethermes, \$7,671.

(2) The conditions under which a positive bank balance will be distributed in the event of a participant's termination of employment are discussed in the section entitled: Elements of Post-Termination Compensation and Benefits beginning on page 32.

(3) Mr. Dondanville retired as the Company's CFO effective September 1, 2011. At the Company's request, he continued to serve as interim treasurer until his retirement from the Company on November 1, 2011. Pursuant to an agreement with Mr. Dondanville as an inducement for him to serve in the interim treasurer role, he was awarded a pro-rata MVP Program bonus based on MVP created in the first six months of 2011 and his MVP Bonus Bank was frozen as of June 30, 2011. Interest was calculated on his January 1, 2011 beginning bank balance of \$1,820,199 at the three-year Treasury Note rate of .99 percent through his retirement date of November 1, 2011. As of November 1, 2011, his MVP Bank balance, including his

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2011 MVP Award credited to his Bonus Bank as of November 1, 2011, accrued interest at the five- year Treasury Note rate of .90 percent for the remainder of the year. Total interest paid to Mr. Dondanville's MVP Bonus Bank for 2011 was \$18,875. Pursuant to the MVP Program, Mr. Dondanville's Bonus Bank balance on the date of his retirement will be paid to him in a quarterly annuity in the amount of \$68,948 commencing in May 2012 and continuing until June 30, 2021 when he reaches age 65.

**REVISIONS TO MVP PROGRAM EFFECTIVE 2012**

In February 2012 the MVP Program was revised to broaden the range of factors used to measure success and to incorporate market standards of performance by assessing performance against that of the selected peer companies. The MVP Program continues to use annual MVP created as the foundation for MVP awards, which are calculated as a percentage of MVP created. However, twenty percent of the annual award so calculated for each participant will now be evaluated against personal objectives and an achievement rating of 0 to 100 percent will be assigned to that portion of the award. The personal objectives component of an MVP award will only be paid if personal objectives are achieved, and if positive MVP is created for shareholders. If MVP is positive and personal objectives are achieved, the personal objectives component of the award will be paid annually, instead of being placed in each participant's bonus bank, to provide direct linkage of annual incentive compensation for the achievement of annual goals. If MVP is negative for a year, no MVP award will be made for that year with respect to the personal objectives component.

Eighty percent of the preliminary annual MVP award will now be subject to an assessment of Company performance compared to peer companies (the financial component.) The financial component will be adjusted from 80 percent (minimum) to 125 percent (maximum) based on RLI's performance relative to peers with respect to five-year change in book value per share according to the following schedule:

<b>Achievement Rating</b>	<b>RLI's Relative Five-Year Book Value Per Share Growth</b>
125% (maximum)	90th percent of peers or greater
100%	60th percent of peers or greater
80% (minimum)	33rd percent of peers or greater

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

The financial component of an MVP award will continue to be credited (if positive) or charged (if negative) to each participant's bonus bank, with 33 percent of a positive bank balance paid to participants annually.

The ERC's goal in making these revisions was to build on the strengths and success of the current MVP Program and continue to support the strong underwriting profit culture of the Company. Incorporating personal objectives and a peer company comparison supports one of the guiding principles of the Company's executive compensation program enumerated above at page 27 that compensation should reflect both the Company's and individual's performance. Ultimately, the ERC's purpose in revising the MVP Program was to improve the long-term alignment between MVP Program incentive compensation and shareholder returns.

**MANAGEMENT INCENTIVE PROGRAM (MIP)**

Participants in the MIP include home office vice presidents, assistant vice presidents, and other senior managers. Target awards are granted annually and expressed as a percentage of year-end base pay. Actual awards are based on Company performance against three financial goals: operating return on equity, or ROE, combined ratio, and MVP goals; and performance related to balanced scorecard objectives. ROE and combined ratio are used as financial goals to provide an incentive to increase annual profitability. MVP is used as a financial goal as a proxy for shareholder value creation. Actual awards for a year are paid in February of the following year. The ERC approves award levels for MIP participants at the vice president level. The CEO approves award levels for other MIP participants.

For 2011, Mr. Michael recommended, and the ERC approved, a MIP maximum bonus opportunity for Mr. Kennedy of 75 percent of his respective year-end base salary, 60 percent of which was based on the achievement of financial goals of MVP, ROE and combined ratio and 15 percent of which was based on balanced scorecard objectives related to expense management, employee morale, enterprise risk management, and new product and IT initiatives. Mr. Brown participated in the MIP Program at a maximum bonus opportunity of 90 percent, pro-rated for his start date, 72 percent of which was based on the achievement of financial goals, and 18 percent of which was related to the balanced scorecard objectives.

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Achievement levels for financial goals are measured according to the following schedules.

**MIP Maximum 90 Percent**

						<b>Combined</b>		
	<b>ROE %</b>	<b>Bonus %</b>		<b>MVP</b>	<b>Bonus %</b>		<b>Ratio</b>	<b>Bonus %</b>
Greater than	6.0	0.000	Greater than	\$	0.000	Greater than	100.0	0.000
	8.0	4.000		15,000,000	4.000		99.0	1.212
	10.0	8.000		25,000,000	6.667		97.0	3.636
	12.0	12.000		35,000,000	9.333		95.0	6.061
	13.0	14.000		45,000,000	12.000		92.6	8.970
	14.0	16.000		55,000,000	14.667		90.0	12.121
	15.0	18.000		65,000,000	17.334		87.6	15.030
	16.0	20.000		75,000,000	20.000		85.0	18.182
	17.0	22.000		85,000,000	22.667		82.6	21.091
Max	18.0	24.000	Max	90,000,000	24.000	Max	80.0	24.000

**MIP Maximum 75 Percent**

						<b>Combined</b>		
	<b>ROE %</b>	<b>Bonus%</b>		<b>MVP</b>	<b>Bonus %</b>		<b>Ratio</b>	<b>Bonus%</b>
Greater than	6.0	0.000	Greater than	\$	0.000	Greater than	100.0	0.000
	8.0	3.333		15,000,000	3.333		99.0	1.010
	10.0	6.667		25,000,000	5.556		97.0	3.030
	12.0	10.000		35,000,000	7.778		95.0	5.051
	13.0	11.667		45,000,000	10.000		92.6	7.475
	14.0	13.333		55,000,000	12.222		90.0	10.101
	15.0	15.000		65,000,000	14.444		87.6	12.526

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	16.0	16.667		75,000,000	16.667		85.0	15.152
	17.0	18.333		85,000,000	18.889		82.6	17.576
Max	18.0	20.000	Max	90,000,000	20.000	Max	80.0	20.000

In 2011, the Company achieved ROE of 15.2 percent, MVP of \$98.4 million, and a combined ratio of 78.4 percent. Mr. Brown received a 2011 MIP award of \$92,089, reflective of 18.4 percent of year-end base salary for the ROE goal, 24.0 percent for the MVP goal, 24.0 percent for the combined ratio goal and 17.1 percent for balanced scorecard objectives, pro-rated for his start date. Mr. Kennedy received a 2011 MIP award of \$215,707, reflective of 15.3 percent of year-end base salary for the ROE goal, 20.0 percent for the MVP goal, 20.0 percent for the combined ratio goal and 14.25 percent for balanced scorecard objectives.

### *LONG-TERM COMPENSATION*

#### **DEFERRED COMPENSATION PLAN (DEFERRED PLAN)**

Under the Company's Deferred Plan, an executive officer may elect to defer up to 100 percent of total cash compensation after payroll deductions. Upon an election by an executive officer to defer compensation, the Company transfers cash equal to the amount deferred to a bank trustee under an irrevocable trust established by the Company, and the trustee purchases a number of shares of Common Stock of the Company representing an amount equal to the compensation deferred by the executive officer. Pursuant to the Deferred Plan, dividends paid on the shares in such trust are used by the trustee to purchase additional shares of Common Stock of the Company which are placed in the trust. The trust is considered to be a Rabbi Trust or grantor trust for tax purposes. The assets of the trust are subject to claims by the Company's creditors. The Deferred Plan generally provides that the shares credited to the participant's account will be transferred to the participant upon termination.



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of employment over five years. Messrs. Kliethermes and Kennedy deferred income under the Deferred Plan in 2011. Each of the named executive officers other than Mr. Brown has deferred income under the Deferred Plan in prior years and receives dividends on shares held in the Deferred Plan, which are used to purchase additional shares.

**OMNIBUS STOCK PLAN (OMNIBUS PLAN)**

Under the Company's Omnibus Plan, which was adopted in 2005, certain employees, officers, consultants and directors of the Company were eligible to receive long-term incentive compensation in a variety of forms including non-qualified stock options, incentive stock options, stock appreciation rights, performance units, restricted stock awards and other equity awards. The Long-Term Incentive Plan was adopted in 2010 and approved by Shareholders on May 6, 2010, and replaced the Omnibus Plan, which is described immediately below.

**LONG-TERM INCENTIVE PLAN**

The purpose of the Long-Term Incentive Plan is to promote the interests of the Company and its shareholders by providing key personnel of the Company with an opportunity to acquire an equity interest in the Company and rewarding them for achieving or exceeding the Company's performance goals. The grant of equity awards, the value of which is related to the value of the Company's Common Stock, aligns the interests of the Company's executive officers with that of the shareholders. The ERC believes this arrangement develops a strong incentive for Company executives to put forth maximum effort for the continued creation of shareholder value and long-term growth of the Company.

Under the Company's Long-Term Incentive Plan, certain employees, officers and directors of the Company are eligible to receive equity awards in a variety of forms including non-qualified stock options, incentive stock options, stock appreciation rights, performance units, restricted stock awards and other equity awards.

The ERC believes equity awards serve as incentives to executives to maximize long-term growth and profitability of the Company, an arrangement that benefits both the executives and shareholders. Equity awards also provide a means to attract and retain key employees. The ERC establishes and recommends to the independent directors of the Board the annual equity award for Mr. Michael, which is established based on a review of long-term incentive compensation of CEO positions among the peer companies described above, an assessment of his performance and initiatives underway, and a comparison of his equity awards compared to awards to other officers. A target range of the value of annual equity awards, expressed as a percentage of base salary, has been established for all other Company executives.

In 2011, the Company awarded long-term incentives in the form of non-qualified stock option grants to Company executives. The ERC believes that non-qualified stock options provide an effective form of compensation to align the interests of executive management and shareholders. In reaching that conclusion, the ERC considered the following: stock options provide more leverage than equity awards such as restricted stock; are directly aligned with shareholder interests since they provide rewards only with share price appreciation; and, are understood and supported by recipients. The Company targets long-term incentives at approximately the median of competitive market data. Mr. Michael recommends to the ERC proposed stock option awards within the target range for each executive officer based on the executive officer's position, and a subjective assessment of the executive officer's individual performance and anticipated future contributions to the Company. The ERC considers Mr. Michael's recommendations and then recommends stock option awards to the Board for approval. Options granted prior to May 2009 expire ten years after grant, options awarded from May 2009 and after expire eight years after grant. The change in 2009 to an eight-year term for stock options was implemented to reduce the expense of option grants. Stock options vest over five years at the rate of 20 percent per year, or upon termination of employment due to the death, disability, or qualified retirement of the recipient. Upon termination of employment (other than due to death, disability or retirement), vested options must be exercised within the earlier of 90 days of termination or expiration of the option award, except that all unexercised options granted in May 2006 and thereafter are forfeited in the event the employment of an option recipient is terminated for cause.

**EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)**

The Company's ESOP offers another performance-based means of retaining and motivating employees, including executive officers, who work 1,000 or more hours per year, by offering ownership in the Company on a long-term basis. The Board may approve an annual contribution to the ESOP based on the profitability of the Company that is used by the ESOP to purchase Common Stock on behalf of participating employees, including executive officers. All ESOP participants, including executive officers, may receive an annual contribution expressed as a percentage of eligible compensation (limited for an individual employee to an annual cap of \$245,000 in earnings in 2011). ESOP contributions vest 100 percent after three years of qualifying service. For 2011, the Company's Board approved a discretionary profit sharing contribution to the ESOP of 9.75 percent of participants' eligible compensation. In addition, plan forfeitures of 0.042 percent of eligible compensation were added to all participants' accounts.

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### **401(k) PLAN**

Effective January 1, 2004, the Company adopted a 401(k) Plan in which all employees, including executive officers, scheduled to work 1,000 or more hours per year, are entitled to participate. All participants receive a "safe harbor" annual contribution by the Company to their 401(k) accounts of three percent of eligible compensation (limited for an individual employee to an annual cap of \$245,000 in earnings in 2011), which is immediately vested. The Board may also approve discretionary profit sharing contributions to the 401(k) Plan, which are allocated in proportion to the eligible compensation paid to each participant, subject to statutory maximums. Profit sharing contributions vest after three years of qualifying service. Participants are entitled to make their own elective deferrals to the 401(k) Plan through payroll deduction. For 2011, in addition to the safe harbor three percent annual contribution, the Company's Board approved a discretionary profit sharing contribution to the 401(k) of 2.25 percent of participants' eligible compensation and plan forfeitures equal to 0.031 percent of eligible compensation were added to all participants' accounts.

### **KEY EMPLOYEE EXCESS BENEFIT PLAN (KEY PLAN)**

The purpose of the Key Plan is to restore benefits lost to certain executive officers under the ESOP and 401(k) Plan due to limitations on benefits contained in the Internal Revenue Code. The Company transfers to a bank trustee under an irrevocable trust established by the Company such number of shares of Common Stock of the Company representing an amount equal to the benefits the participant would have earned in the 401(k) and ESOP but for the limitation in the Internal Revenue Code on the maximum compensation on which those benefits may be calculated. The trust is considered to be a Rabbi Trust or grantor trust for tax purposes. The assets of the trust are subject to claims by the Company's creditors. The Key Plan generally provides that dividends are credited to the participant's account and reinvested in shares of Common Stock of the Company. The shares credited to the participant's account pursuant to the Key Plan will be paid upon termination of employment in five annual installments. Mr. Michael ceased active participation in the Key Plan in 2005. Dividends on his shares held in the Key Plan continue to be credited to his account in the Key Plan. No other employee participates or has participated in the Key Plan.

### **ELEMENTS OF POST-TERMINATION COMPENSATION AND BENEFITS**

Except as described below, the Company has not entered into any employment or severance agreements or arrangements with any of its executive officers that would compensate the executive officers for or after departing the Company. The Company does not have change in control agreements with its executives and does not provide any additional benefits for executives in the event of a change in control.

Messrs. Michael, Stone, Dondanville and Kliethermes were participants in the MVP Program in 2011, which is described in more detail on page 27. Upon termination of employment of an MVP Program participant for any reason other than retirement (defined as the date at which a participant has attained both combined age and service with the Company of 75), death, or disability, all unpaid positive MVP bonus bank balances of the participant are forfeited unless the ERC deems otherwise. Upon the termination of employment of a participant qualifying as retirement, a positive MVP bonus bank calculated on the last day of the quarter during which the participant's employment ended will be paid to a participant in a lump sum within 90 days of termination of employment if the participant is age 65 or older, and as a quarterly annuity to age 65 using the interest rate for the five-year Treasury Note in effect at the date of retirement if the Participant's age is less than 65. A bonus bank balance will also be calculated at the end of the quarter prior to a participant's termination of employment and the Company may, in its discretion, pay the lower of the calculated bonus banks. All such payments upon a termination of employment qualifying as retirement are subject to ongoing restrictions on: the participant's employment in the insurance industry; solicitation of Company employees; solicitation of business away from the Company; and disclosure of confidential information of the Company.

At year-end 2011, Messrs. Michael and Stone qualified for retirement under the MVP Program; while Mr. Kliethermes did not qualify for retirement. Had Messrs. Michael's and Stone's employment ended on December 31, 2011, they would have met the definition of retirement under the MVP Program and would have been entitled to the payment of their respective MVP bonus bank on that date, including the MVP Program award for

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2011, in the amount of \$7,460,755 for Mr. Michael and \$4,643,353 for Mr. Stone in the form of a quarterly annuity at an interest rate of 0.90 percent until age 65.

As noted above, Mr. Dondanville retired as CFO on September 1, 2011 and retired as an employee from the Company on November 1, 2011. He was paid a pro-rata MVP Program bonus based on MVP created in the first six months of 2011 and his MVP Bonus Bank was frozen as of June 30, 2011 pursuant to an agreement between the Company and Mr. Dondanville, approved by the ERC. The agreement was entered into as an inducement for Mr. Dondanville to remain in the employment of the Company as interim treasurer. Pursuant to the terms of the MVP Program, his Bonus Bank balance of \$2,575,749 will be paid as a quarterly annuity until he reaches age 65 calculated at a 0.90 percent interest rate, the five-year Treasury Note rate, as provided in the MVP Program.

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Under the terms of the Long-Term Incentive Plan, stock option grants vest upon the death or disability of an optionee, and may vest upon the retirement of an optionee provided that the underlying stock option agreement so provides. The awards of stock options to the Named Executive Officers, and all other stock option recipients at the Company, provide for the immediate vesting of outstanding unvested stock options in the event of a recipient's termination of employment qualifying as a retirement. Retirement is defined under the Long-Term Incentive Plan as the termination of employment of a participant with combined age and years of service of 75 or greater. Stock options must be exercised within the earlier of one year of the death of an optionee, or three years of the termination of employment due to the disability or retirement of an optionee, and the original expiration date of the stock option award. In the event of the termination of employment of an optionee for reasons other than death, disability, or retirement, vested options must be exercised within the earlier of 90 days of the termination of employment or the original expiration of the option award.

In 2011, Messrs. Michael's, Dondanville's and Stone's respective age and years of service exceeded 75. Accordingly, upon Mr. Michael's or Mr. Stone's termination of employment with the Company, all of their respective unvested stock option grants will immediately vest, expiring on the earlier of the original expiration date or three years. Therefore, had Messrs. Michael or Stone left the employment of the Company on December 31, 2011, their respective unvested stock options would have immediately vested on that date. The in-the-money value of such options that would have vested on December 31, 2011, using the closing stock price on that date of \$72.86, would have been \$8,633,878 for Mr. Michael, and \$3,821,607 for Mr. Stone. When Mr. Dondanville retired from the Company on November 1, 2011, his unvested options became vested and all vested options will expire on the earlier of the original expiration date or three years after his retirement.

Under the Company's self-funded health plan for employees, coverage may be maintained at retirement, defined as termination of employment at age 55 or older and at least 20 years of service, until age 65, by paying the full amount of the employee and Company premium. In 2011 Messrs. Michael and Dondanville qualified for such continuation of coverage, while none of the other named executive officers qualified.

**STOCK OWNERSHIP/RETENTION GUIDELINE**

It is the Company's belief that key executives should hold significant amounts of Company stock. The value of all shares owned, including those held outright and in benefit plans, but excluding the value of stock options held, must equal or exceed a multiple of their annual base salary, as shown below:

<b>Position</b>	<b>\$ Value of Shares</b>
CEO	6.0 x Base Salary
COO	4.0 x Base Salary
CFO	3.0 x Base Salary
Sr. VP, Risk Services	2.0 x Base Salary
Other Officers	1.5 x Base Salary

Executives to whom this Guideline applies are encouraged to reach their respective stock ownership level within five years of the date on which an individual assumes an executive position covered by this Guideline.

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The ERC reviews the progress of executives, to whom the Guideline applies, toward their stock ownership goal each year. All NEO s have met their respective stock ownership goals and Messrs. Michael and Stone have greatly exceeded their respective stock ownership goal.

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The following information is provided as to each current executive officer of the Company:

<b>Name</b>	<b>Age</b>	<b>Position with Company</b>	<b>Executive Officer Since</b>
Jonathan E. Michael	58	President & Chief Executive Officer	1985
Michael J. Stone	63	President & Chief Operating Officer of the Company's principal insurance subsidiaries	1997
Thomas L. Brown	55	Vice President, Chief Financial Officer, and Treasurer	2011
Craig W. Kliethermes (1)	47	Senior Vice President, Risk Services of the Company's principal insurance subsidiaries	2007
Daniel O. Kennedy	47	Vice President, General Counsel & Corporate Secretary	2006
Todd W. Bryant (2)	43	Vice President, Controller	2009
Aaron P. Diefenthaler(3)	38	Vice President, Chief Investment Officer	2012

(1) Mr. Kliethermes joined the Company as Vice President, Actuarial Services in April 2006. In February 2009, Mr. Kliethermes was promoted to Senior Vice President, Risk Services. Previously he was Senior Vice President, Quantitative Analyst for Lockton Companies from January 2006 through April 2006. Mr. Kliethermes was Assistant Vice President, Employers Reinsurance Corporation and Vice President, Westport, both a part of GE Insurance Solutions, from May 1998 through January 2006.

(2) Mr. Bryant was promoted to Vice President, Controller of the Company in February 2009. Prior to his promotion, Mr. Bryant had been Assistant Vice President, Financial Reporting since August 2006, and previously held various managerial and accounting positions since he joined the Company in 1993.

(3) Mr. Diefenthaler joined the Company as Vice President, Chief Investment Officer on January 23, 2012. Mr. Diefenthaler was Principal and Portfolio Manager with AAM Insurance Investment Management from 2002 to January 2012.





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The aggregate compensation earned from the Company and its subsidiaries during the last fiscal year is set forth below for the Company's President & Chief Executive Officer, Senior Vice President, Chief Financial Officer (retired and current) and the other three most highly compensated executive officers, referred to herein collectively as named executive officers.

Name and Principal Position	Year	Salary (\$)(1)	Bonus (\$)(2)	Stock Awards (\$)(e)	Option Awards (\$)(3)	Non-Equity Incentive Plan Compensation (\$)(4)	Change In Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)(5)(6)(7)	Total (\$)
							(h)		
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Jonathan E. Michael President & Chief Executive Officer	2011	715,400			691,940	2,462,049		42,374	3,911,763
	2010	728,000	-	-	450,898	2,198,434	-	40,543	3,417,875
	2009	728,000	-	-	521,798	1,749,407	-	39,087	3,038,292
Michael J. Stone President & Chief Operating Officer of the Company's principal insurance subsidiaries	2011	486,496			386,840	1,532,307		37,461	2,443,104
	2010	485,250	-	-	229,980	1,352,451	-	32,650	2,100,331
	2009	485,250			346,240	1,049,403	-	36,338	1,917,231
Joseph E. Dondanville Senior Vice President, Chief Financial Officer	2011	319,637			205,560	-0-		2,584,268	3,109,465
	2010	362,400	-	-	213,621	896,516	-	35,599	1,508,136
	2009	362,400	-	-	250,519	700,298	-	36,782	1,349,999
Thomas L. Brown Vice President, Chief Financial Officer, and Treasurer	2011	104,077	50,000		124,400	92,089		-0-	370,566
Craig W. Kliethermes Senior Vice President, Risk Services of the Company's principal insurance subsidiaries	2011	321,000			232,560	461,249		37,925	1,052,734
	2010	320,000	-	-	174,460	381,632	-	33,033	909,125
	2009	315,000	-	-	151,480	252,350	-	38,475	757,305
Daniel O. Kennedy Vice President, General Counsel &	2011	300,031			129,200	215,707		36,950	681,888
	2010	296,000	-	-	118,096	195,447	-	32,650	642,193
	2009	296,000			111,446	173,900	-	42,869	624,215

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Corporate Secretary

- (1) Although Mr. Michael's base salary rate of \$728,000 did not change in 2011, his base salary for 2011 above reflects a reduction as a result of the payroll cycle of the Company changing in 2011 from semi-monthly to bi-weekly, resulting in 51 weeks of pay in 2011, a one-time impact of this change. The base salary of the other NEOs likewise reflects 51 weeks pay.
- (2) The amount included in column (d) for Mr. Brown reflects the initial payment of a sign-on bonus of \$100,000, \$50,000 of which was paid on September 1, 2011 at the commencement of his employment, and \$50,000 of which will be paid in February 2012 when Company annual incentive plan payments for 2011 are made.
- (3) The amounts shown in column (f) reflect the aggregate grant date fair value of stock option awards computed in accordance with FASB ASC Topic 718. Assumptions used in the calculation of these amounts are included in footnote 8 to

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the Company's audited financial reports for the fiscal year ended December 31, 2011, included in the Company's Annual Report on Form 10-K filed with the SEC on February 28, 2012.

- (4) The amounts shown in column (g) for Messrs. Michael, Stone, and Kliethermes reflect the cash awards paid under the MVP Program, which is discussed in further detail on page 27, and reflect 33 percent of their respective bonus bank balances, which include amounts credited to their bonus banks for 2011. The amounts reflected in column (g) for Mr. Kennedy for 2009-2011 and Mr. Brown for 2011 reflect the cash awards paid under the MIP, which is discussed in further detail on page 29.
- (5) The amounts shown in column (i) include:
- a. A Company contribution to the ESOP of \$24,110 for 2009; \$20,867 for 2010; and \$23,991 for 2011 for Messrs. Michael, Stone, Dondanville, Kliethermes, and Kennedy, except that because Mr. Dondanville was not employed on December 31, 2011, he was not eligible for an ESOP contribution for 2011. Mr. Brown was not eligible for an ESOP contribution in 2011.
  - b. For all NEOs, a Company contribution to the 401(k) Plan was made for \$11,653 for 2009 and \$11,764 for 2010; for Messrs. Michael, Stone, Kliethermes, and Kennedy a Company contribution to the 401(k) Plan was made for \$12,939 for 2011. For 2011 a Company contribution of \$7,350 was made for Mr. Dondanville who was not eligible for a 401(k) profit sharing contribution for 2011 since he was not employed on December 31, 2011 as required by the 401(k) Plan. Mr. Brown was not eligible for a 401(k) contribution in 2011.
  - c. The value of travel accident insurance for each named executive officer is calculated by dividing the annual premium for such coverage by the number of covered employees. Travel accident insurance is provided to all Company employees at the assistant vice president level and above.
  - d. Reimbursement for annual installment of country club initiation fee/capital charge and associated income tax gross up for Mr. Kennedy of \$5,000/\$2,087 for 2009, and for Kliethermes of \$1,900/\$793 for 2009. The 2009 reimbursements reflected the final reimbursements for Messrs. Kennedy and Kliethermes. The Company no longer provides a gross up to offset individual income tax liability for any Company executive.
  - e. The membership fee for Mr. Dondanville's use of two membership airline clubs for 2009, 2010, and 2011.
  - f. For Mr. Dondanville, his accrued MVP Bank Balance on December 31, 2011 in the amount of \$2,575,749, described in more detail at page 27.
- (6) Messrs. Michael, Stone and Dondanville were authorized by the Board to use the Company aircraft for personal use in 2011, when it is not being used for business purposes, pursuant to a lease arrangement at an hourly lease rate established from time to time by the Board, limited to the maximum hourly lease charges equal to 6.5 percent of base salary. In August 2009 the hourly lease rate was set at \$1,500; in August 2010 it was set at \$1,250; and in August 2011 it was set at \$1,700 all of which rates were reflective of the variable hourly operating cost, including fuel prices, of the Company aircraft. In 2009 Mr. Michael paid \$4,570 for 2.9 hours use; Mr. Stone paid \$3,910 for 2.3 hours use, and Mr. Dondanville did not use the aircraft for personal use. In 2010 Mr. Michael paid \$10,500 for 7.8 hours use; Mr. Stone paid \$3,225 for 2.3 hours use, and Mr. Dondanville did not use the aircraft for personal use. In 2011 Mr. Michael paid \$8,230 for 5.9 hours use; Mr. Stone paid \$3,740 for 2.2 hours use, and Mr. Dondanville did not use the aircraft for personal use.
- Under the lease arrangement, income was imputed if the Standard Industry Fair Level (SIFL) rate for a flight made under such a lease exceeded the lease rate or if a guest or guests accompanied the executive on a leased or business flight. For Mr. Michael, in 2009, imputed income of \$1,102 resulted from one leased flight for which the SIFL rate exceeded the lease rate by that amount and imputed income of \$2,203 resulted from guests accompanying him on leased and business flights; in 2010, imputed income of \$2,062 resulted from two leased flights for which the SIFL rate exceeded the lease rate by that amount and imputed income of \$5,831 resulted from guests accompanying him on leased and business flights; and in 2011, imputed income of \$108 resulted from one leased flight for which the SIFL rate exceeded the lease rate by that amount and imputed income of \$5,317 resulted from guests accompanying him on leased and business flights. For Mr. Stone, in 2009, imputed income of \$556 resulted from guests accompanying him on leased and business flights; in 2010, no imputed income resulted from guests accompanying him on leased and business flights; and in 2011 imputed income of \$511 resulted from guests accompanying him on leased and business flights.
- (7) In 1996, when the Company acquired an equity ownership interest in Maui Jim, Inc. (Maui Jim), Messrs. Michael and Dondanville were elected to the Board of Directors of Maui Jim. Mr. Michael continues to hold this position. Messrs. Michael and Dondanville were paid an initial board of director retainer in the form of 20,000 non-qualified options to purchase shares of Maui Jim stock and were paid a director fee of \$1,500 for each of the nine Maui Jim board meetings held from December 1996 through February 2002. Messrs. Michael and Dondanville elected to be paid their entire Maui Jim director fees in the form of non-qualified options to purchase shares of Maui Jim stock valued pursuant to an annual appraisal, which election was available to members of the Maui Jim Board of Directors who were not Maui Jim employees.



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After February 2002, no further director fees were paid to Messrs. Michael and Dondanville for their service as directors of Maui Jim. Mr. Michael exercised all of his options to purchase 67,878 Maui Jim shares in 2003, and Mr. Dondanville exercised all of his options to purchase 67,878 Maui Jim shares in 2004. Each of them paid cash for such shares and incurred an income tax liability on the gain at the time of exercise. Messrs. Michael and Dondanville each received a dividend of \$40,727 in 2010 on their shares of Maui Jim stock. Maui Jim did not pay a dividend in 2009 or 2011. The amounts reflected in column (i) do not include dividends paid to Messrs. Michael and Dondanville on the Maui Jim stock in 2010.

**GRANTS OF PLAN-BASED AWARDS**

The following table sets forth information about estimated possible payouts under non-equity incentive plan awards, which consist of potential payouts under the MVP Program for Messrs. Michael, Dondanville, Stone and Kliethermes, and under the MIP for Messrs. Kennedy and Brown. The table also shows information regarding grants of stock options made to the named executive officers under the Long-Term Incentive Plan.

Name	Grant Date	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(1) (2)				All Other Option Awards: Number of Securities	Exercise Price of Option	Grant Date Fair Value of Stock
			Approval Date	Threshold (\$)	Target (\$)	Probable	Cap	Underlying Options (#)(3)	Awards (\$/Sh)(4)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	
Jonathan E. Michael	02/01/11	05/06/10					8,500	50.28	
	05/05/11	05/05/11					15,000	53.73	
	08/01/11	05/05/11					15,000	57.62	
	11/01/11	05/05/11					15,000	62.59	
Michael J. Stone		N/A	0	2,230,033	2,972,533	7,500,000			
	02/01/11	05/06/10					6,000	50.28	
	05/05/11	05/05/11					8,000	53.73	
	08/01/11	05/05/11					8,000	57.62	
Joseph E. Dondanville	11/01/11	05/05/11					8,000	62.59	
		N/A	0	1,385,363	1,855,613	7,500,000			
	02/01/11	05/06/10					4,000	50.28	
	05/05/11	05/05/11					4,000	53.73	
Thomas L. Brown	08/01/11	05/05/11					4,000	57.62	
	11/01/11	05/05/11					4,000	62.59	
		N/A	0	915,987	1,225,362	7,500,000			
	10/03/11	08/18/11	0	66,172	99,257	99,257	10,000	56.50	
Craig W. Kliethermes	05/05/11	05/05/11					18,000	53.73	
		N/A	0	412,913	567,600	7,500,000			
Daniel O. Kennedy	05/05/11	05/05/11					10,000	53.73	
		N/A	0	155,000	232,500	232,500			

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- (1) The MVP Program does not provide for specific threshold awards and the amounts shown in column (c) are therefore zero. If in a given year the Company's performance results in a negative MVP calculation such that it reduces a participant's MVP Program bank balance to zero or below, no MVP Program bonus payment would be made for that year. For Messrs. Michael, Dondanville, Kliethermes and Stone, the amounts shown in column (d) reflect the potential payouts for 2011 under the MVP Program, which is discussed in further detail on page 27. The MVP program does not utilize express target amounts, either individually or in the aggregate, and thus the identified amounts were determined based on reference to 2011 corporate objectives affecting MVP, which results in an aggregate MVP level of \$75 million. The amounts shown in column (e) reflect probable maximum payouts assuming \$150 million in MVP was created. The probable maximum level

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of \$150 million of MVP created was selected based on the maximum MVP created by the Company in prior years and an assessment of possible operational and investment outcomes. The cap of \$7.5 million shown in column (e) represents the maximum bonus permitted under the RLI Corp. Annual Incentive Compensation Plan approved by shareholders in 2011, which governs the MVP Program.

- (2) For Mr. Kennedy the amounts shown in column (c) represents the minimum award under the MIP, discussed in further detail on page 29, which is equal to 0 if balance scorecard and financial goals are not met; column (d) represents the target award which is equal to 50 percent of his annual base salary rate at year-end; and column (e) represents the maximum award and cap which is equal to 75 percent of his annual base salary rate at year-end. For Mr. Brown the amounts shown in column (c) represents the minimum award under the MIP, discussed in further detail on page 29, which is equal to 0 if balance scorecard and financial goals are not met; column (d) represents the target award which is equal to 60 percent of his annual base salary rate at year-end; and column (e) represents the maximum award and cap which is equal to 90 percent of his annual base salary rate at year-end, pro-rated for his start date.
- (3) Twenty percent of each option grant becomes exercisable one year after the date of the grant and each year thereafter in 20 percent increments. Options granted prior to May 2009 lapse on the tenth anniversary of the grant date. Options granted in May 2009 and later lapse on the eighth anniversary of the grant date. The 2011 grants were granted pursuant to the RLI Corp. Long-Term Incentive Plan. The stock option grants vest upon the death or the termination of employment of a stock option recipient due to disability or retirement. Retirement is defined as termination of employment of an employee with combined age and years of service of 75 or greater. Under FASB ASC Topic 718, option awards to recipients who are current employees, but who qualify for retirement upon departure from the Company, must be expensed at the time of grant, rather than over the five-year vesting period. Because Messrs. Michael, Dondanville and Stone's age and years of service exceeded 75 in 2006, 2008 and 2010, respectively, the ERC decided to grant option awards to Mr. Michael beginning in 2006, to Mr. Dondanville beginning in 2008 and Mr. Stone in 2010 on a quarterly basis to avoid a disproportionate expense in the quarter of grant if the option award was made in a single annual grant.
- (4) Option exercise price adjusted to reflect \$7.00 special dividend paid December 29, 2010 and \$5.00 special dividend paid December 20, 2011.

Table of Contents**OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END**

The following table sets forth information with respect to the named executive officers regarding the outstanding stock option awards as of December 31, 2011.

Name	Number of Securities Underlying Unexercised Options (#) Exercisable(1)	Number of Securities Underlying Unexercised Options (#) Unexercisable(1)	Option Awards		
			Equity Incentive Plan Awards:		Option
(a)	(b)	(c)	Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price(2)	Expiration Date
(a)	(b)	(c)	(d)	(e)	(f)
Jonathan E. Michael	45,000			32.54	05/05/15
	10,500			38.15	05/04/16
	10,500			35.44	08/04/16
	10,500			42.04	11/03/16
	8,400	2,100		44.21	02/02/17
	8,400	2,100		44.09	05/03/17
	8,400	2,100		44.67	08/03/17
	8,400	2,100		44.03	11/02/17
	6,300	4,200		43.41	02/01/18
	6,300	4,200		38.00	05/01/18
	6,300	4,200		42.36	08/01/18
	6,300	4,200		44.73	11/03/18
	4,200	6,300		44.89	02/02/19
	3,900	5,850		34.90	05/07/17
	3,900	5,850		38.49	08/03/17
	3,900	5,850		37.90	11/02/17
	1,950	7,800		39.62	02/01/18
	1,700	6,800		44.34	05/06/18
	1,700	6,800		44.20	08/02/18
	1,700	6,800		45.26	11/01/18
		8,500		50.28	02/01/19
		15,000		53.73	05/05/19
		15,000		57.62	08/01/19
		15,000		62.59	11/01/19
Michael J. Stone	25,200	6,300		44.09	05/03/17
	20,400	13,600		38.00	05/01/18
		19,200		34.90	05/07/17
	1,200	4,800		44.34	05/06/18
	1,200	4,800		44.20	08/02/18
	1,200	4,800		45.26	11/01/18
		6,000		50.28	02/01/19
		8,000		53.73	05/05/19
		8,000		57.62	08/01/19
		8,000		62.59	11/01/19





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## Option Awards

Name	Number of Securities Underlying Unexercised Options (#) Exercisable(1)	Number of Securities Underlying Unexercised Options (#) Unexercisable(1)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price(2)	Option Expiration Date
(a)	(b)	(c)	(d)	(e)	(f)
Joseph E. Dondanville	10,000			32.54	11/01/14
	17,500			38.15	11/01/14
	18,000			44.09	11/01/14
	5,000			38.00	11/01/14
	5,000			42.36	11/01/14
	5,000			44.73	11/01/14
	5,000			44.89	11/01/14
	4,700			34.90	11/01/14
	4,700			38.49	11/01/14
	4,700			37.90	11/01/14
	4,700			39.62	11/01/14
	4,000			44.34	11/01/14
	4,000			44.20	11/01/14
	4,000			45.26	11/01/14
	4,000			50.28	11/01/14
4,000			53.73	11/01/14	
4,000			57.62	11/01/14	
4,000			62.59	11/01/14	
Thomas L. Brown		10,000		56.50	10/03/19
Craig W. Kliethermes	7,200	1,800		44.09	05/03/17
	6,600	4,400		38.00	05/01/18
	2,900	8,400		34.90	05/07/17
	2,600	10,400		44.34	05/06/18
		18,000		53.73	05/05/19
Daniel O. Kennedy		1,800		44.09	05/03/17
		4,400		38.00	05/01/18
		6,180		34.90	05/07/17
		7,040		44.34	05/06/18
		10,000		53.73	05/05/19

(1) These grants are included in column (f) of the Summary Compensation Table on page 35 and do not constitute additional compensation from what is reported there. Options vest 20 percent per year over five years; options granted prior to May 2009 expire on the 10th anniversary of the grant date; options granted from and after May 2009 expire on the 8th anniversary of the grant date.

(2) Option exercise price adjusted to reflect \$7.00 special dividend paid December 29, 2010 and \$5.00 special dividend paid December 20, 2011.

Table of Contents**OPTION EXERCISES AND STOCK VESTED**

The following table sets forth information with respect to the named executive officers regarding the exercise of options during the last fiscal year (2011). Value realized on exercise is the excess of the fair market value of the underlying stock on the exercise date over the exercise price under the option.

Name	Option Awards		Stock Awards	
	Number of Shares	Value Realized	Number of Shares	Value Realized
	Acquired on Exercise (#)	on Exercise (\$)	Acquired on Vesting (#)	on Vesting (\$)
(a)	(b)	(c)	(d)	(e)
Jonathan E. Michael	120,001	\$4,164,037		
Michael J. Stone	90,300	\$2,361,939		
Joseph E. Dondanville	53,000	\$1,441,300		
Craig W. Kliethermes	7,700	\$239,071		
Daniel O. Kennedy	32,927	\$891,171		

**NON-QUALIFIED DEFERRED COMPENSATION**

The following table sets forth information on the non-qualified deferred compensation for the named executive officers in 2011.

Name	Executive Contributions	Aggregate Earnings	Aggregate Balance
	in Last FY	in Last FY	at Last FYE
(a)	(b)	(c)	(d)
	(\$)	\$(1)(2)	(\$)

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Jonathan E. Michael		\$1,584,131	\$4,700,809
Michael J. Stone		\$558,475	\$1,657,232
Joseph E. Dondanville		\$274,765	\$815,344
Thomas L. Brown			
Craig W. Kliethermes	\$30,531	\$119,128	\$360,721
Daniel O. Kennedy	\$4,000	\$11,907	\$36,148

(1) The amounts shown in column (c) for Mr. Michael reflect the dividends paid on, and change in the value of, Company shares held in his accounts under the Deferred Plan, which is described in further detail at page 30, and the Key Plan, which is described in further detail at page 32. Dividends paid on shares held in the Deferred Plan and Key Plan are used to purchase additional shares held in those plans. Mr. Michael did not participate in the Deferred Plan in 2009, 2010, or 2011, and no contributions were made on his behalf under the Key Plan in 2009, 2010, or 2011. The amounts shown in column (c) were not included in amounts shown in the Summary Compensation Table for 2009, 2010, or 2011 for Mr. Michael. Amounts deferred by Mr. Michael in previous years and contributions on his behalf under the Key Plan in previous years were included in the Summary Compensation Table in the year of such deferrals or contributions.

(2) The amounts shown for Messrs. Stone, Dondanville, Kennedy and Kliethermes in column (c) reflect the dividends paid on, and change in the value of, the Company shares held in their respective accounts under the Deferred Plan, which is described in further detail at page 30. Dividends paid on shares held in the Deferred Plan are used to purchase additional shares held in the Deferred Plan. Messrs. Kennedy and Kliethermes deferred income under the Deferred Plan in 2009, 2010 and 2011. Neither Messrs. Stone nor Dondanville deferred income under the Deferred Plan in 2009, 2010 or 2011. The amounts shown in column (c) were not included in amounts shown in the Summary Compensation Table for 2009, 2010 or 2011 for Messrs. Stone, Dondanville, Kliethermes and Kennedy. Amounts deferred by Messrs. Stone and Dondanville in previous years were included in the Summary Compensation Table in the year of such deferrals. The deferred amounts shown in column (b) were included in amounts shown in the Summary Compensation Table for Messrs. Kliethermes and Kennedy.

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**SAFEGUARDS AGAINST UNNECESSARY OR EXCESSIVE RISK**

The following is a discussion of how the Company's compensation policies and practices for its employees will affect risk management practices and risk-taking incentives. The Company is in the business of insurance and therefore takes on the risk of others in return for appropriate premiums. The Company is therefore particularly sensitive to matching the annual incentives it pays to its employees with the long-term risk and value created by the insurance business it writes. The following discussion is broken into four areas: (1) Senior Management Compensation; (2) Underwriting Compensation; (3) Investment Compensation; and (4) Employee and Executive Equity Ownership.

**SENIOR MANAGEMENT COMPENSATION**

The Company's CEO, COO, CFO and Senior Vice President, Risk Services participate in the MVP Program, an annual incentive program described in further detail at page 27. The MVP Program contains two features designed to ensure that incentives awarded under this program balance annual results with long-term shareholder value creation.

The first is a banking feature that deposits all of the annual MVP-based bonus awards (which may be positive or negative) into a bonus bank, paying out 33 percent of the bonus bank's balance annually. A bonus bank balance is at risk based on future performance—future positive MVP will increase the bonus bank and payouts, while negative MVP will decrease the bank and payouts. By exposing the bonus bank balance to future performance, the MVP Program provides an incentive to sustain long-term shareholder value creation.

The second feature is a Board approval mechanism, which requires the prior approval of the independent directors of the Board of any portion of any annual award (positive or negative) contributed to a MVP bonus bank that exceeds 300 percent of a participant's base salary. This Board approval limit gives the Board the ability to reduce an award if the Board determines that MVP did not correspondingly increase shareholder value.

The ERC believes that the long-term banking feature and Board approval limit provision in the MVP Program significantly reduce the likelihood that senior management will take high-risk actions solely to improve short-term financial results to the detriment of long-term performance.

**UNDERWRITING COMPENSATION**

Underwriters are paid annual incentives under one of two annual incentive programs, the Underwriter Profit Program ( UPP ) or the Underwriter Incentive Plan ( UIP ). Participants in UPP, product group executives with oversight responsibility for respective product group underwriting, earn an annual incentive equal to a percentage of underwriting profit created. All other underwriters at the Company participate in UIP. UIP provides incentives based on specific performance factors such as individual and product group loss ratio, underwriting profit, combined ratio, gross written premium and new business generation.

To calculate underwriting profit for purposes of UPP and UIP, actual and estimated losses are subtracted from net premiums to ensure that the annual incentives based on underwriting profit reflect losses that occur over several years. For most products, actual and estimated losses are measured over a four to eight-year period. Over that four to eight-year period, only a partial bonus is paid each year until all losses develop and a final underwriting profit figure can be determined that the profitability to the Company for the applicable underwriting year. For earthquake insurance, modeled expected losses are used to calculate underwriting profit for incentive purposes since losses are typically experienced over a

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significantly longer period of time. The ERC believes that by subjecting premiums to risk of actual and estimated losses, the Company's underwriting incentive plans, UPP and UIP, ensure that the income and risk to the Company from underwriting results are closely aligned with the incentives paid to underwriters. In this manner, UPP and UIP are designed to ensure that underwriters are not given an incentive to produce short-term underwriting results without regard to the long-term income and risk consequences of their underwriting.

### INVESTMENT COMPENSATION

The ERC believes that the following controls protect the Company against the Company taking excessive and unnecessary risk to maximize short-term investment results:

- The Company's investment portfolio is managed pursuant to the oversight of the Finance and Investment Committee of the Board (FIC);
- The FIC has established an Investment Policy Statement setting forth detailed investment objectives, benchmarks, constraints and operating policies for the portfolio;
- All security transactions must be approved by three Company officers; and
- All investment actions must comply with state insurance regulatory provisions related to the investments in the portfolio.

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**EMPLOYEE AND EXECUTIVE EQUITY OWNERSHIP**

Finally, the Company has a long-standing employee ownership culture, reflected by its ESOP implemented in 1975. The ownership culture creates strong alignment between the interests of employees and shareholders to foster a long-term shareholder value creation perspective. To further support the employee ownership culture, the ERC has designed the executive compensation program to provide equity-based long-term incentives and has implemented a stock ownership guideline requiring significant levels of stock ownership for key executives, described in detail at page 33. The ERC believes that significant stock holdings by employees and executives provide a strong incentive to grow long-term shareholder value and to avoid actions that increase short-term results in a manner that prevents excessive and unnecessary risk to long-term results.

**BOARD'S ROLE IN RISK OVERSIGHT**

The Board's risk oversight is accomplished both at the full Board level and through its committee structure. The individual Committee responsibilities with respect to risk oversight are included in their respective Charters. The Audit Committee generally oversees overall enterprise risk management, risk profile and risk assessment. The Audit Committee has sole authority to retain and compensate outside auditors and reviews and monitors loss reserves, among other activities. The Company's Vice President, Internal Audit reports jointly to Mr. Michael and the Chair of the Audit Committee to ensure an open and effective line of communication with respect to Company risk oversight. The Finance and Investment Committee oversees the Company's investment and corporate finance transactions, policies and guidelines, which includes the oversight of investment performance, investment risk exposure and the Company's capital structure, among other activities. As discussed in more detail under "Safeguards Against Unnecessary or Excessive Risk," the Executive Resources Committee monitors and oversees executive compensation and incentive programs and associated goals, and, together with the Board, ascertains that such programs do not create the likelihood that employees will take unnecessary and excessive risks to maximize short-term gains to the detriment of long-term performance. The Nominating/Corporate Governance Committee provides oversight of the Company enterprise risk management in areas including but not limited to corporate governance, regulatory, legislative and related matters, in coordination with other Board committees as appropriate. The Strategy Committee is responsible to the Board for oversight of the Company's corporate strategy growth and corporate growth/development and associated risks. Each of the Board committees works within their area of responsibility and coordinates with other committees, the full Board and executive management in risk management at the Company. The Executive Resources Committee and Audit Committee held a joint session in February 2011 to discuss enterprise risk management issues.

**EQUITY COMPENSATION PLAN INFORMATION**

The following table provides information as of December 31, 2011, regarding Common Stock that may be issued under the Company's existing equity compensation plans, including the Director Plan, the ISOP, the Deferred Plan, the Deferred Agreement, the Omnibus Plan and the Long-Term Incentive Plan (LTIP). As of December 31, 2011, the Company had 21,162,137 shares of Common Stock outstanding. Information is included for both equity compensation plans approved and not approved by the Company's shareholders.

Number of securities to be issued upon exercise of outstanding options,	Weighted-average exercise price of outstanding options,	Number of securities remaining available for future issuance under equity compensation plans (excluding
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Plan Category	warrants and rights	warrants and rights	securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by shareholders (1)	1,280,866(2)	\$43.23	1,510,452(3)
Equity compensation plans not approved by shareholders (4)			(5)
Total	1,280,866	\$43.23	1,510,452

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- (1) Consists of the Director Plan, the ISOP, the Omnibus Plan and the LTIP.
  
- (2) Includes options to purchase 9,000 shares exercisable under the Director Plan, options to purchase 14,243 shares exercisable under the ISOP, options to purchase 775,543 shares exercisable under the Omnibus Plan, and 482,080 options to purchase shares exercisable under the LTIP. The weighted average remaining contractual life of the outstanding options is 5.62 years.
  
- (3) Shares available for future issuance under the LTIP.
  
- (4) Consists of the Deferred Plan and the Deferred Agreement.
  
- (5) No specific number of shares of the Company's Common Stock are reserved for future issuance under these plans. Under the Company's Deferred Plan and Deferred Agreement, executive officers and directors may elect to defer compensation otherwise payable to them. Under the Deferred Plan and Deferred Agreement, the Company must transfer to a bank trustee, under an irrevocable trust established by the Company, such number of shares of Common Stock as are equal to the compensation earned and deferred.

**SHAREHOLDER PROPOSALS**

To be included in the Company's Proxy Statement for the 2013 Annual Meeting of Shareholders, a shareholder proposal must be received by the Company on or before November 22, 2012, and otherwise comply with all applicable federal securities laws. Proposals should be directed to the attention of the Corporate Secretary at 9025 North Lindbergh Drive, Peoria, Illinois, 61615.

The Company has implemented provisions in its By-Laws that provide notice, information and procedural requirements for shareholder nominations of candidates to the Company's Board and for shareholder proposals at shareholder meetings. These provisions do not affect the rights of shareholders to request inclusion of proposals in the Company's proxy statement pursuant to Rule 14a-8 under the Securities Exchange Act of 1934.

Pursuant to our By-Laws, in order for a shareholder to nominate a Board candidate at Company shareholder meetings, such nomination must be submitted in writing to the Company no later than 90 days prior to the anniversary of the previous year's annual shareholder meeting or 10 days after public disclosure of any special meeting of shareholders. The notice must provide information regarding (a) the proposed Board nominee(s), (b) the person making the nomination (proponent), (c) share ownership by the nominee(s) and the proponent, (d) arrangements between the proponent and the nominee(s), and (e) arrangements relating to the Company's stock. The proponent must also make certain representations, including updating the information provided in the notice and other matters.

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Proposals and business desired to be brought by shareholders at Company shareholder meetings (other than director nominations) must be submitted in writing to the Company no later than 90 days prior to the anniversary of the previous year's annual shareholder meeting or 10 days after public disclosure of any special meeting of shareholders. The notice must provide information regarding (a) the nature of the proposed business, (b) the shareholder and its Company stock ownership, (c) certain relationships and arrangements involving the shareholder and other parties, and (d) certain arrangements involving the shareholder and the Company's stock. The shareholder must also make certain representations, including updating the information provided in the notice and other matters.

Therefore, in order for a shareholder to nominate a candidate for director or raise another matter at the 2013 Annual Meeting of Shareholders, the Company must receive proper notice of the nomination or the other matter before February 2, 2013.

These descriptions are summaries only, and for the complete provisions, reference is made to the Company's restated By-Laws, which were filed with the SEC on Form 8-K on November 17, 2008.

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**OTHER BUSINESS**

The Board of Directors knows of no other business to be presented at the Annual Meeting; however, if any other matters do properly come before the meeting, it is intended that the persons appointed as proxies will vote in accordance with their best judgment.

It is important that proxies be voted promptly so the presence of a quorum may be assured well in advance of the Annual Meeting, thus avoiding the expense of follow-up solicitations. Accordingly, even if you expect to attend the Annual Meeting, you are requested to (1) date, execute and return the enclosed proxy in the postage-paid, self-addressed envelope provided, or (2) vote your proxy over the Internet or by telephone using the instructions on your proxy card.

By Order of the Board of Directors

Daniel O. Kennedy  
Vice President, General Counsel  
& Corporate Secretary

Peoria, Illinois

March 22, 2012

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**INVESTOR INFORMATION**

**ANNUAL SHAREHOLDERS MEETING**

The 2012 Annual Meeting of Shareholders will be held at 2 p.m., CDT, on May 3, 2012, at the Mt. Hawley Country Club, 7724 N. Knoxville Avenue, Peoria, Illinois 61614.

**INTERNET VOTING**

As a convenience, RLI shareholders may vote their proxies via the Internet at <http://www.proxyvote.com>. Instructions are in your E-Proxy Notice or in the proxy card that you receive. Registered shareholders may sign up to access RLI's Annual Report and Proxy Statement over the Internet in the future by following the instructions provided if you submit your proxy by telephone or over the Internet or provided in the E-Proxy Notice. Beneficial owners may contact the brokers, banks or other holders of record of their stock to find out whether electronic delivery is available.

**SHAREHOLDER INQUIRIES**

Shareholders of record with requests concerning individual account balances, stock certificates, dividends, stock transfers, tax information or address corrections should contact the transfer agent and registrar:

Wells Fargo Shareholder Services

P.O. Box 64854

St. Paul, MN 55164-0854

Phone: 800-468-9716 or 651-450-4064

Fax: 651-450-4033

Email: [stocktransfer@wellsfargo.com](mailto:stocktransfer@wellsfargo.com)

**DIVIDEND REINVESTMENT PLAN**

If you wish to sign up for an automatic dividend reinvestment and stock purchase plan or to have your dividends deposited directly into your checking, savings or money market accounts, send your request to the transfer agent and registrar.

#### **REQUESTS FOR ADDITIONAL INFORMATION**

Electronic versions of the following documents are available on our website: 2011 Annual Report, 2012 Proxy Statement and 2011 Annual Report on Form 10-K. Printed copies of these documents are available without charge to any shareholder. To be placed on a mailing list to receive shareholder materials, contact our corporate headquarters.

#### **MULTIPLE SHAREHOLDERS HAVING THE SAME ADDRESS**

If you and other residents at your mailing address own shares of common stock in street name, your broker or bank may have sent you a notice that your household will receive only one copy of our 2012 Proxy Statement, 2011 Annual Report to Shareholders and/or notice regarding Internet availability of our proxy materials. This practice, known as householding, is designed to reduce our printing and postage costs. If you did not respond that you did not want to participate in householding, the broker or bank will assume that you have consented. You may revoke your consent to householding at any time by sending your name, the name of your brokerage firm, and your account number to Broadridge, Household Department, 51 Mercedes Way, Edgewood, New York 11717. The revocation of your consent to householding will be effective 30 days following its receipt. In any event, if you did not receive an individual copy of this Proxy Statement, 2011 Annual Report to Shareholders and/or notice regarding Internet availability of our proxy materials, or if you wish to receive individual copies of our proxy statements, Annual Report to Shareholders and/or notice regarding Internet availability of our proxy materials for future meetings, we will send a copy to you. Please contact our Vice President, Corporate Development Aaron Jacoby at 309-693-5880 or at [aaron.jacoby@rlicorp.com](mailto:aaron.jacoby@rlicorp.com).

#### **CONTACTING RLI**

For investor relations requests and management's perspective on specific issues, contact Aaron Jacoby, Vice President, Corporate Development at 309-693-5880 or at [aaron.jacoby@rlicorp.com](mailto:aaron.jacoby@rlicorp.com).

#### **RLI ON THE WEB**

[www.rlicorp.com](http://www.rlicorp.com) (Information on the website is not incorporated by reference into this Proxy Statement.)

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[www.rlicorp.com](http://www.rlicorp.com)

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