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**RLI Corp.**  
**Audit Committee Charter**  
**Revised: August 19, 2010**

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**RLI CORP.**  
**AUDIT COMMITTEE CHARTER**

**Organization**

The Board of Directors ("Board") of RLI Corp. ("Company") has established an Audit Committee ("Committee") with authority, responsibility and specific duties as described herein. The Committee shall be composed of at least three members who are independent directors (as defined in the RLI Corp. Corporate Governance Guidelines) free of any relationship that, in the opinion of the Board, would interfere with their exercise of independent judgment as a Committee member. Such Committee members shall also be financially literate and at least one Committee member shall have accounting or related financial management expertise. At least one Committee member shall be an "audit committee financial expert" as defined by the Securities and Exchange Commission ("SEC"). Committee members shall be recommended by the Nominating/Corporate Governance Committee and appointed by the Board. They may be removed from the Committee at any time, with or without cause, by the Board. If any member of the Committee simultaneously serves on the audit committee of more than three public companies, the Board shall determine whether such simultaneous service would impair the ability of such member to effectively serve on the Committee.

The Committee also constitutes the Audit Committee for the Company's insurance company subsidiaries (RLI Insurance Company, Mt. Hawley Insurance Company and RLI Indemnity Company – "Insurance Companies") to the extent required and for purposes of compliance with Title 50, Part 925 of the Illinois Administrative Code, as amended ("Illinois Audit Rule"). References in this Charter to "Company" shall be deemed to include also the Insurance Companies to the extent required for compliance with the Illinois Audit Rule.

**Purpose**

The Committee shall provide assistance to the Board in fulfilling its responsibility to the shareholders, potential shareholders, and investment community relating to corporate accounting, reporting practices of the Company, the quality and integrity of the financial statements of the Company, the Company's compliance with legal and regulatory requirements, the independent auditor's qualifications and independence, and the performance of the Company's internal audit function and independent auditors. In so doing, it is the responsibility of the Committee to maintain free and open means of communication between the directors, the independent auditors, the internal auditors, and the financial management of the Company. The Committee shall also prepare a report to shareholders as required by the SEC in the Company's annual proxy statement.

**Responsibilities**

The Committee believes its policies and procedures should remain flexible, in order to best react to changing conditions and to ensure to the directors and shareholders that the corporate accounting and reporting practices of the Company are in accordance with all requirements and are of the highest quality. In carrying out these responsibilities, the Committee will:

***I. Review Procedures:***

1. Review with the independent auditor any audit problems or difficulties and management's response.
2. Review the financial statements contained in the annual report to shareholders with management and the independent auditors to determine that the independent auditors are satisfied with the

disclosure and content of the financial statements to be presented to the shareholders. Any changes in accounting principles should be reviewed.

3. Review and discuss earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies.
4. Review and pre-approve the Company's engagement of, including without limitation any public accounting firm, KPMG, PricewaterhouseCoopers, Ernst & Young, and Deloitte (or their successors). Approval of non-audit services may be made by the Chair of the Audit Committee, as its designated member. The Chair will report such hiring to the Committee no later than the next scheduled Committee meeting. [Also see Section II. Independent Auditors, Item 1.]
5. Review the Company's loss reserves.
6. Review 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 auditors.
7. Review and reassess the adequacy of this Charter at least annually. Submit the charter to the Board for approval and ensure the document is published at least every three years in accordance with SEC regulations.

## ***II. Independent Auditors***

1. Appoint, oversee the work of, determine compensation for, and provide for appropriate funding for payment of compensation to, and where appropriate, terminate or retain the independent auditors (including resolution of disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company. The independent auditors shall report directly to the Committee. [Also see Section I. Review Procedures, Item 4.]
2. Meet with the independent auditors and financial management of the Company to review the scope of the proposed audit for the current year and the audit procedures to be utilized, and at the conclusion thereof review such audit, including any comments or recommendations of the independent auditors.
3. Review with the independent auditors, the Company's internal auditor, and financial and accounting personnel, the adequacy and effectiveness of the accounting and financial controls of the Company, and elicit any recommendations for the improvement of such internal control procedures or particular areas where new or more detailed controls or procedures are desirable. Particular emphasis should be given to the adequacy of such internal controls to expose any payments, transactions, or procedures that might be deemed illegal or otherwise improper. Further, the Committee periodically should review Company adherence to the Code of Conduct as evidenced by results of the Company's annual compliance acknowledgment.
4. At least annually, obtain and review a report by the independent auditor describing: the firm's internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (to assess the auditor's independence) all relationships between the independent auditor and the Company.

5. Provide sufficient opportunity for the internal and independent auditors to meet with the members of the Committee without members of management present. Among the items to be discussed in these meetings are the independent auditors' evaluation of the Company's financial, accounting, and auditing personnel, and the cooperation that the independent auditors received during the course of the audit.
6. Meet to review and discuss the annual audited financial statements and quarterly financial statements with management and the independent auditor, including reviewing the Company's specific disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations."
7. Meet separately, periodically, with management, with internal auditors (or other personnel responsible for the internal audit function), and with independent auditors.

### ***III. Other Committee Responsibilities***

1. Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, including procedures for the confidential and anonymous submission by Company employees of concerns regarding questionable accounting or auditing matters.
2. Receive prior to each meeting, a summary of findings from completed internal audits and a progress report on the proposed internal audit plan, with explanations for any deviations from the original plan.
3. Set clear hiring policies for employees or former employees of the independent auditors.
4. Investigate any matter brought to its attention within the scope of its duties.
5. Have the authority to engage independent legal counsel, actuaries, accounting and other advisors as it determines necessary to carry out its duties, and to compensate such independent legal counsel, accounting and other advisors from appropriate funding provided by the Company.
6. Examine any "off balance sheet" structures and any use of "pro forma" or adjusted non-GAAP information.
7. Provide oversight of the Company's overall enterprise risk management, risk profile and risk assessment, in coordination with other Board committees as appropriate.
8. Discuss any earnings guidance provided to analysts and rating agencies.
9. Annually prepare a report to shareholders as required by the SEC to be included in the Company's annual proxy statement or other filings.
10. Submit the minutes of all meetings of the Committee to, or discuss the matters discussed at each Committee meeting with, the Board of Directors.
11. Develop and conduct, at least annually, an assessment of the Committee's performance on a continuing basis, individually and collectively.
12. Prepare and, through the Committee's Chair, submit periodic reports of the Committee's work and findings to the Board. Such reports will contain recommendations for Board actions when appropriate.
13. Provide appropriate funding for ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

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