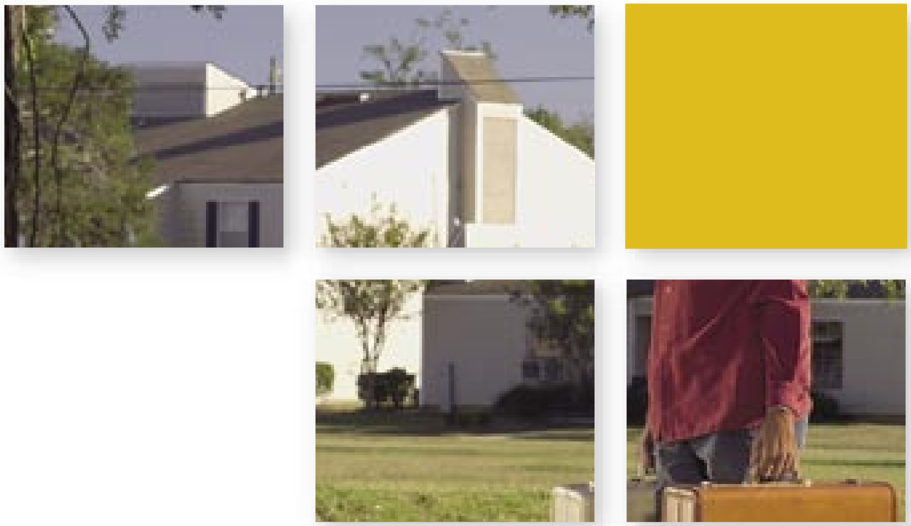
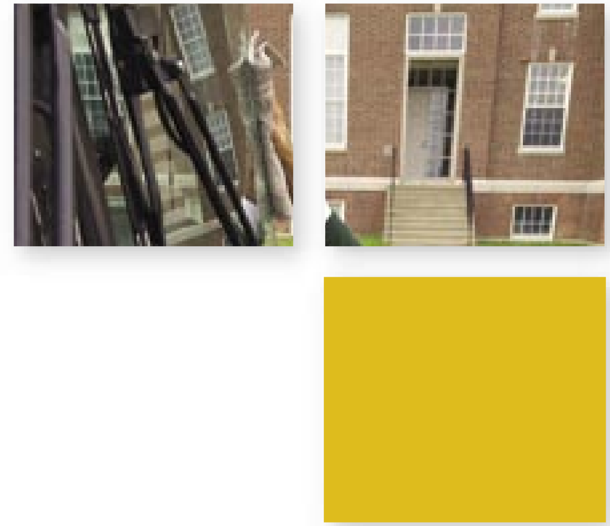
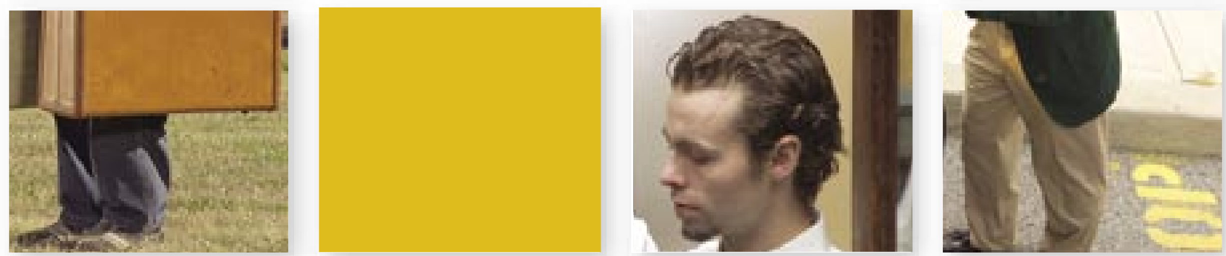
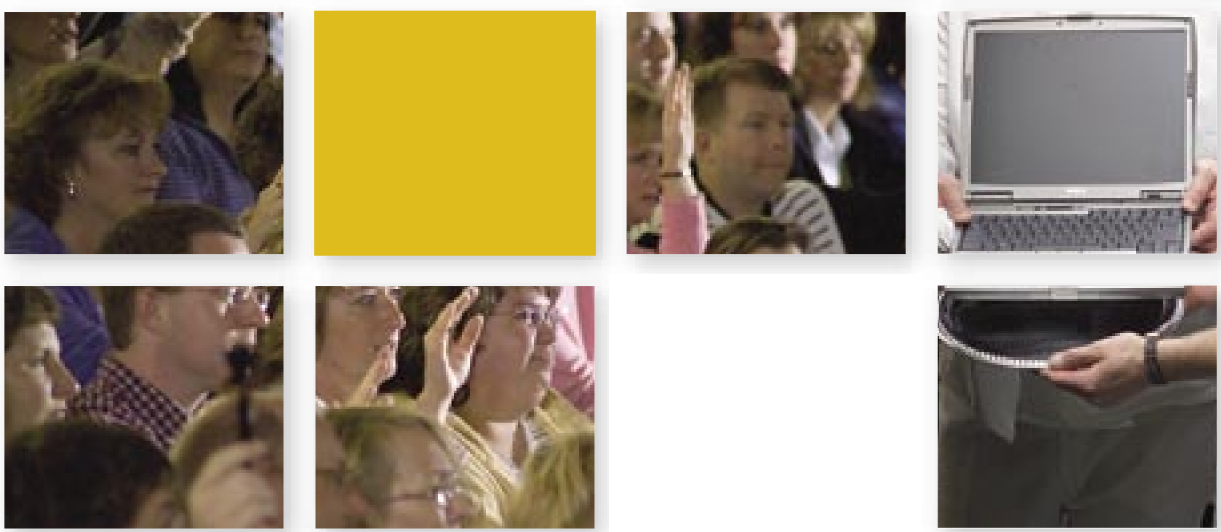




RLI

2005 Summary Annual Report





more *to the story*

Contents

This report's numbers tell only part of the RLI story. They quantify the results of our efforts to bring coverages and services to our customers. But they do not describe how we accomplished those results.

There's always more to tell. A small detail that changes everything. A real-person narrative that goes to the root of what we do. An anecdote that puts all the numbers into perspective.

We believe our results tell a compelling story by themselves. But there's always

more
to the story

Financial Highlights

(in thousands, except per diluted share and combined ratio data)		2005	2004	% change
Gross revenues	$	**834,007** ❖	820,040	1.7
Gross premiums written	$	**756,012** ❖	752,588	0.5
Net premiums written	$	**494,565**	511,212	(3.3)
Consolidated revenue	$	**569,302**	578,800	(1.6)
Net earnings	$	**107,134** ❖	73,036	46.7
Comprehensive earnings	$	**83,902** ❖	81,354	3.1
GAAP combined ratio		**86.0**	92.2	(6.7)
Total shareholders' equity	$	**692,941** ❖	623,661	11.1
Per-share data:				
Net earnings	$	**4.07** ❖	2.80	45.4
Comprehensive earnings	$	**3.19**	3.12	2.2
Cash dividends declared	$	**0.63** ❖	0.51	23.5
Book value	$	**27.12** ❖	24.64	10.1
Year-end closing stock price	$	**49.87** ❖	41.57	20.0
Return on equity		**16.2%**	12.5%	29.6
Comprehensive return on equity		**12.7%**	14.0%	(9.3)

❖ *Year-end company record*

Jonathan E. Michael
President & CEO

We have performed very well in a difficult environment and are in an excellent position heading into an improving marketplace.

This was your company's best year ever. *We finished with very strong financial results, solid operations and an enviable position of financial strength. We surpassed many of the records set last year, including gross premiums written, net earnings, assets and shareholders' equity. But that's just part of our story this year.*

The "more" to our story is that this was achieved against a backdrop of unmatched hurricane losses for our industry. These results proved the mettle of our business model and the advantages of a diversified portfolio of specialty insurance products.

For the year, our GAAP combined ratio was 86.0, significantly better than the industry's estimated 2005 combined ratio of 105.3. I am proud of this achievement in its own right, but even more so as it was our 10th straight year of underwriting profits and our 25th in 29 years. We have outperformed the industry's combined ratio by an average of 14.3 points over the past 10 years.

The year's pros — and its few cons — are borne out in our three insurance segments' results.

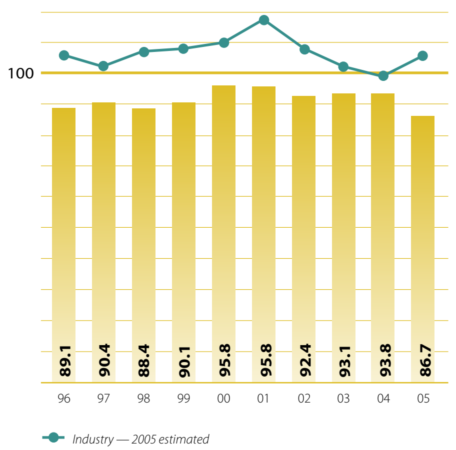
Casualty business continued to shine in 2005 although marketplace conditions limited its ability to grow. Gross premiums written were off slightly, but an exceptional combined ratio of 80.0 created underwriting profits of $72.0 million. Yes, these results were improved by $46.0 million of favorable development in loss reserves, but the segment would have posted a strong 92.8 combined ratio without them. Great results in anyone's book.

Our surety segment improved significantly; its combined ratio was a solid 90.0 — its second consecutive improvement of more than 10 points. Better yet, gross premiums written jumped 12 percent. Improved risk selection fueled most of 2005's progress.

Property recorded its first underwriting loss in 10 years, reflected in its 110.3 combined ratio. This incorporates $19.6 million of hurricane losses. In addition, the segment incurred a $13.2 million loss from our 2005 withdrawal from certain construction coverages in our property segment. Part of the resiliency of our business plan is that we have the agility to enter promising lines of business. This nimbleness also means we can exit a coverage that isn't performing up to expectations.

Statutory combined ratio

Underwriting profitability requires a combined ratio under 100. Our average statutory combined ratio has beaten the industry average by 14.3 points over the last decade.



Highlights for the property segment include a 30 percent increase in excess and surplus (E&S) property business and the opening of marine operations nationwide. Our patience in seeking a good opportunity to enter the marine market was rewarded with a unit of strong underwriters. Good growth opportunities exist, and we are confident we can find the best of them.

A solid balance sheet and reserve strength have always been RLI hallmarks. In fact, our balance sheet has never been stronger. Assets of $2.7 billion are at a record level; for every share you own, you have $66.45 of invested assets working for you. We decreased our short-term debt significantly and now maintain a debt leverage ratio of only 14 percent. Shareholders' equity of $692.9 million grew by 11 percent. And despite a low interest rate environment and modest returns on our stock portfolio, book value per share grew by a robust 10 percent.

Presently, our company is somewhat overcapitalized and underleveraged, which is why our board approved a $100 million share repurchase in February of 2006. This program, which I expect to take 12 to 18 months to complete, represents our continued confidence in the value of our company. As a result of stronger earnings growth over the last few years, our financial position has never been stronger. I remain optimistic about our prospects to continue to grow earnings over the long run, but the fact is, we have grown book value faster than we could identify opportunities for its use.

Our investments performed well in a low interest rate environment. Record cash flows of $198 million fueled an 11 percent growth in invested assets. Investment income was up a strong 14 percent.

Our total investment portfolio generated a 3.3 percent return — a good result in last year's investment marketplace. The bond portion of our portfolio returned 3.1 percent, which outpaced many relevant indices.

Our equity portfolio returned 4.4 percent compared to the S&P 500 return of 4.9 percent. We favor higher dividend paying stocks and less volatility than the S&P 500. While we underperformed the S&P 500, our long-term equity performance far exceeds that index and has a significantly higher dividend yield.

We remain committed to building a diversified investment portfolio which provides a stable stream of cash flows to support our operations.

This was our 30th consecutive year of paying and increasing dividends. Over the last five years, the company's quarterly dividend has grown by an average of 18 percent per year, and 13 percent per year over the last decade.

I grade our hurricane losses over the past two years as "acceptable." After all, we are in this business to take care of insureds in their time of need. Despite ourlosses, we've posted very strong results. In managing catastrophe risks, losses within a certain range indicate a well-run product line. We remain committed to this historically profitable coverage and believe current marketplace conditions will create opportunities for us (see page 20 for more discussion).

One reason for our confidence is the experience of our underwriters, who average 23 years on the job. If recent catastrophe losses proved anything, it is that companies cannot rely solely on computer models to underwrite such risks. Models are integral to our catastrophe management; we pioneered their development 16 years ago. But we put them in the hands of knowledgeable experts. Our five-year property combined ratio is 83.0, including the 2004-2005 hurricanes. These results speak for themselves. If pricing becomes attractive, we will pursue select opportunities in wind risks to balance, or diversify, our catastrophe portfolio.

This is not the insurance marketplace we anticipated. Last year, I predicted that the firm pricing environment had ended. All symptoms at that time — a firm market from 2001 to 2003, followed by a stable/soft 2004 — pointed to a softening marketplace. But the severity of recent hurricanes has disrupted the industry's macro trends.

Pricing is expected to be up in 2006 as companies look to recoup hurricane losses, earn an adequate return on what is now perceived to be a higher risk of catastrophe losses and pass along the higher cost of reinsurance. Our own catastrophe reinsurance costs were up about 25 percent, despite our hurricane losses being less than many companies'. We suspect others experienced comparable or higher increases depending upon their actual hurricane losses.

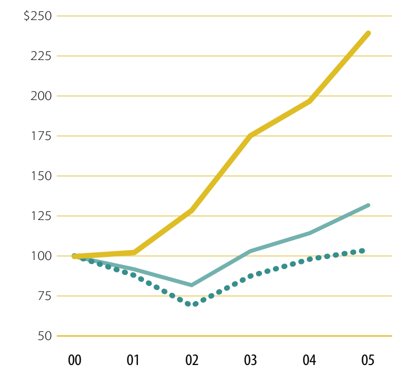
RLI is in an enviable position. We have capital to deploy and are bullish about putting it to work in the specialty products for which we are known.

We have performed very well in a difficult environment, and are in an excellent position heading into an improving marketplace.

This optimism is rooted in the business model that has driven our historic success. The cornerstone of that model is finding the talent to lead us in new directions. The marine group we launched this year embraced that strategy by establishing a strong

5-year cumulative shareholder return

$100 invested in RLI stock in 2000 would have grown to $239 by year end 2005. An identical investment in the S&P 500 would have grown to just $103.



RLI	$100	102	128	175	196	239
S&P 500	$100	88	69	88	98	103
S&P Ins	$100	92	82	103	114	132

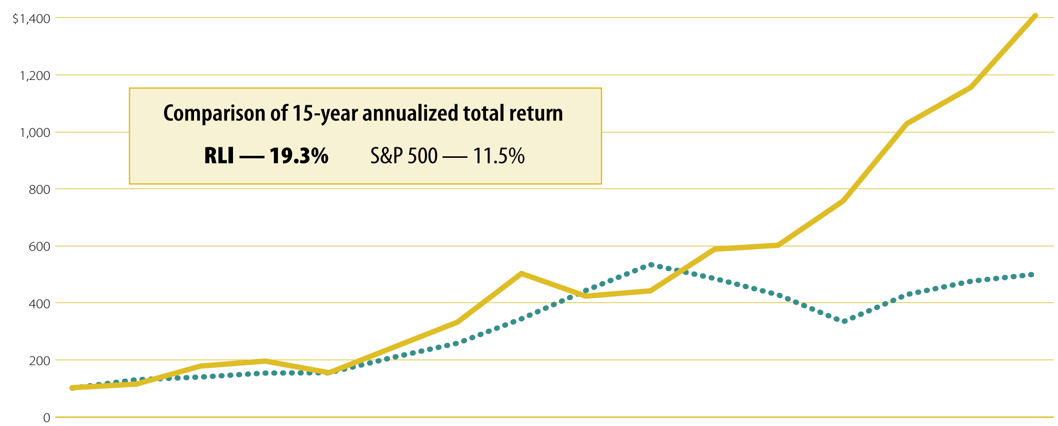
Assumes $100 invested on December 31, 2000, in RLI, the S&P 500, and S&P Ins., with reinvestment of dividends.

Comparison of 5-year annualized total return

RLI – 18.98% S&P 500 – 0.54% S&P Ins – 5.62%

15-year cumulative shareholder return

Over the past 15 years, RLI's total return to shareholders has been significantly better than that of the S&P 500.



	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05
RLI	$100	117	180	197	156	244	333	504	426	443	591	604	759	1,032	1,160	1,411
S&P 500	$100	130	140	154	156	210	259	345	444	537	488	430	335	431	478	502

Assumes $100 invested on December 31, 1990, in RLI and the S&P 500, with reinvestment of dividends.

presence and booking $12.5 million in gross written premiums.

We will also continue to leverage technology to improve process efficiencies, lower transaction costs and render RLI the carrier of choice across several coverages. See page 15 for an example of this in practice.

I have been with RLI since 1982, when we had total revenue of $28.9 million and total assets of $47.2 million. Given how far we have come, it is difficult to think of RLI as a small company. But with less than 1 percent of the property and casualty industry, we are who we are: a relatively small, but uncommonly profitable, company.

Being ourselves also means there are still plenty of profitable business opportunities for us to explore. We will continue to pursue profitable growth, and deliver the results to our shareholders.

RLI's compounded annual total return to shareholders over the last five years was 19.0 percent, far outpacing both the S&P 500 Index and the S&P Insurance Index. Over 15 years our total return was 19.3 percent versus the S&P 500's 11.5 percent.

That's the real story behind RLI.

Jonathan E. Michael

Jonathan E. Michael
President & CEO
February 24, 2006

***The RLI Story** goes back to 1965, when our founder and chairman pioneered contact lens insurance. The company we have become today is far larger and more diversified, yet we haven't lost that same sense of innovation or customer-focused initiative. Every year, we write **more to the story**, adding to the legacy of which we are justifiably proud. With each chapter of success, we grow. We change. We prosper. And we become **more** than we were before.*

Our Company

Who We Are

We are a specialty property and casualty insurer operating on both an admitted and excess and surplus lines basis. We attempt to combine profitable underwriting, solid investment returns and effective capital management to deliver consistent, long-term growth in shareholder value. Our officers and employees are rewarded on metrics that align with our shareholders' interests.

Insurance is an industry with $477 billion in direct written premiums. In 2005, we wrote $756 million of coverage, 91 percent commercial lines, 9 percent personal lines. A.M. Best Company rates all three of our insurance subsidiaries A+ (Superior), a distinction held by fewer than 10 percent of all property and casualty insurance companies in the country.

How We Do It

We develop coverages designed to meet specific needs. These range from highly automated, self-underwriting products to highly complex, individually underwritten coverages. In all cases, we leverage technology to bring superior service to underserved customers. Our customers are businesses and individuals throughout the United States.

Insurance coverages are distributed through many means. Wholesale brokers help retail agencies place complex commercial coverages. Other products are more common, are "value added" coverages, or are specialized for an industry, and are delivered through retailers. Other coverages are more suited for general agencies. Page 11 shows how RLI products are distributed.

Our Mission

We provide our customers with outstanding service through innovative risk management products and solutions.

We are dedicated to carefully chosen niche markets.

We attract outstanding talent and continuously develop our expertise.

We constantly re-evaluate, enhance, and reinvigorate our business model to create new products, services and delivery systems.

We create long-term shareholder value by pursuing profitable growth, underwriting for a profit, and earning returns that significantly exceed our cost of capital.

Our Vision

As the leading provider of specialized insurance and financial services, RLI is focused on building and managing a portfolio of innovative products and solutions that meet and surpass the expectations of shareholders.

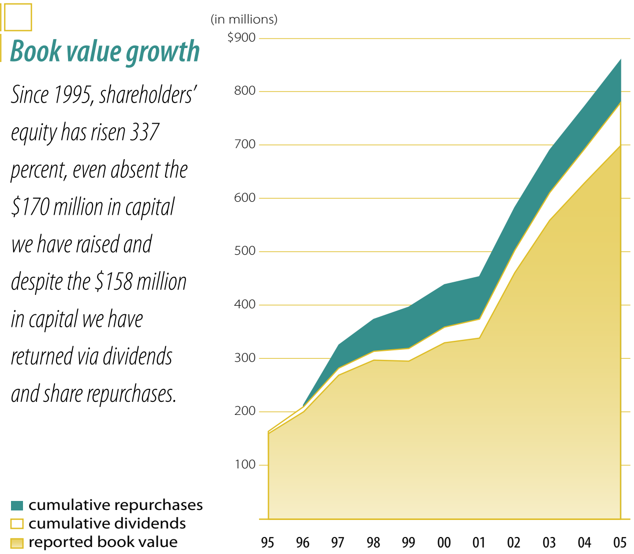
Our Values

We are talented.
We are innovative.
We are customer focused.
We are driven.
We are people of integrity.
We are respectful.

Numbers, charts and graphs can give a good overview of where a company stands. And we proudly stand by our numbers! Most of the trends are moving in decidedly positive directions.

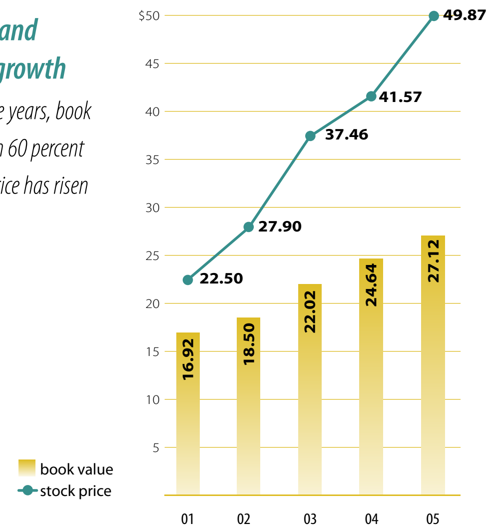
Book value growth

Since 1995, shareholders' equity has risen 337 percent, even absent the $170 million in capital we have raised and despite the $158 million in capital we have returned via dividends and share repurchases.



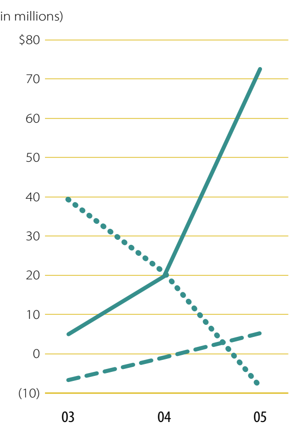
Book value and stock price growth

Over the last five years, book value has grown 60 percent and our stock price has risen 122 percent.



Segment profits

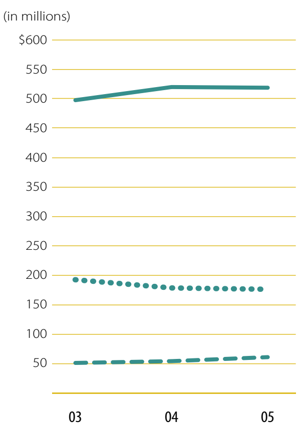
Our three segments generated $68.9 million in 2005 underwriting profit.



	03	04	05
Casualty	5.0	19.6	72.0
Property	39.0	20.4	(8.3)
Surety	(6.6)	(0.1)	5.2

Segment premiums

Overall gross written premiums remained relatively flat.

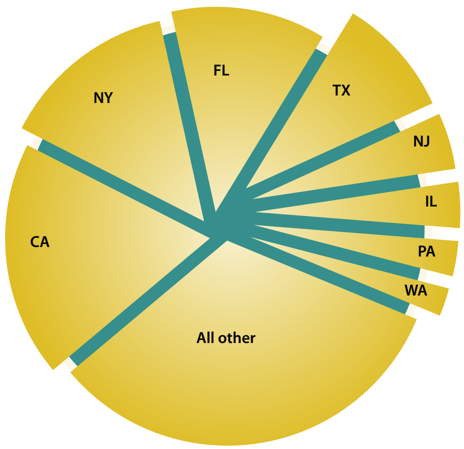


	03	04	05
Casualty	497.7	519.8	519.1
Property	193.4	178.6	176.2
Surety	51.4	54.1	60.7

Premiums by state

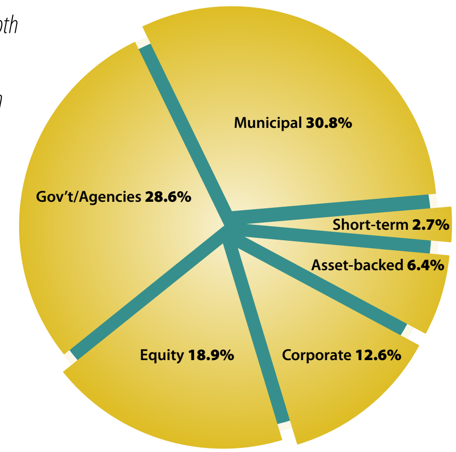
RLI operates in every state. Here are the top eight.

California	18.6%
New York	14.0%
Florida	12.2%
Texas	9.4%
New Jersey	4.4%
Illinois	3.6%
Pennsylvania	2.8%
Washington	2.4%
All other	32.6%



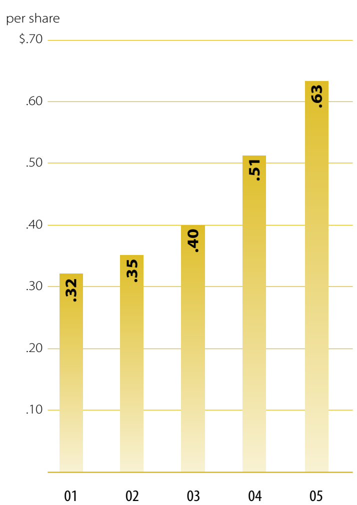
Investment portfolio

Our investment portfolio is well diversified to both minimize risks and maximize long-term returns.



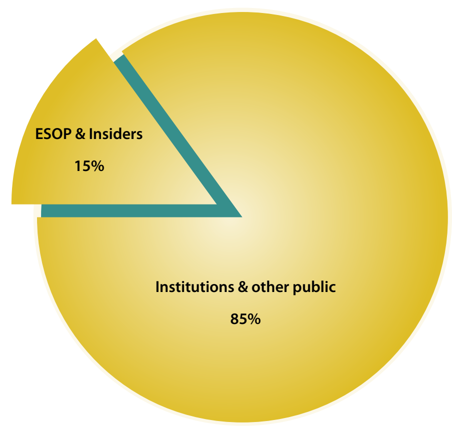
Dividends per share

RLI has paid and increased dividends for 30 straight years.



Insider ownership

Fifteen percent of RLI stock is owned by 612 RLI associates and other insiders.



	Coverages	Customers	Competitors	Outlook
Casualty	Commercial automobile, commercial general liability, commercial umbrella/excess liability, deductible buy-back, directors and officers liability, employers indemnity, employment practices liability, fiduciary liability, @Home business owners, labor management trust, miscellaneous professional liability, motor truck cargo, personal umbrella liability, private and non-profit liability, products liability, and programs	Our casualty insureds include habitational accounts, small non-profits, multinational and national corporations, personal lines accounts such as personal umbrella customers nationwide, commercial contracting risks and transportation fleets like Leprechaun Lines.	Competitors vary by product, but generally include St. Paul/Travelers, Scottsdale Insurance, Lexington Insurance Company, General Star, Great West Casualty Company, AIG, CNA and Chubb.	Casualty lines experienced softening market conditions in 2005. This trend is expected to continue at a moderate pace throughout 2006. Excellent relationships with producer sources should allow us to maintain a good flow of new business submissions. Our underwriters continued to focus on good risk selection, which should bode well for this segment in 2006.
Property	All risk, commercial property, commercial earthquake, difference in conditions, fire and associated perils, homeowners insurance, inland marine and marine cargo, hull and other liabilities	Our commercial property insureds include smaller business owners to large companies such as Summit Asset Management, with a wide range of customers. Personal lines insureds involve Hawaii homeowners and renters, as well as home-based businesses nationwide. Marine insureds are shipping operations, including vessels and land facilities.	Competitors vary by product, but generally include Lexington Insurance Company, ARCH Insurance Company, St. Paul/Travelers, General Star, and Markel in commercial lines. Hawaii competitors include First Insurance Company.	Property rates are expected to increase overall, but particularly in catastrophe coverages. However, these will be offset by increased reinsurance costs, so we anticipate slow, measured growth in this segment. The market's acceptance of our marine facility was very strong, which we believe will continue in 2006.
Surety	Commercial bonds, contract bonds, court bonds, federal bonds, fidelity bonds, license and permit bonds, notary bonds, energy-related bonds, probate bonds, and public official bonds	Surety insureds include individuals, contractors, small business owners, small to large corporations, and businesses operating in the energy, petrochemical and refining industries.	Competitors vary by product, but generally include North American Specialty Insurance Co., CNA Surety and St. Paul/Travelers.	Overall economic conditions improved in 2005, creating a favorable environment for most products. In general, this marketplace is expected to continue in the coming year. Combined with additional underwriting staff, these factors should contribute to continued profitable growth.

Distribution Channels

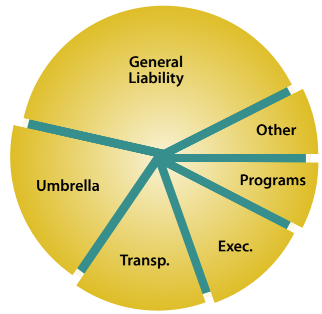
	Retail agent/broker	Wholesale broker	General agency
Executive products	X	X	
General liability		X	
Commercial and personal umbrella	X	X	X
Programs	X		X
Transportation	X		

	Retail agent/broker	Wholesale broker	General agency
Earthquake		X	
E&S Property		X	
Personal lines	X		X
Marine	X	X	

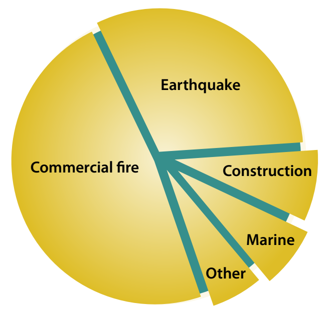
	Retail agent/broker	Wholesale broker	General agency
Contract bonds	X		
Commercial bonds	X		
Miscellaneous bonds	X		
Oil & gas bonds	X		

Gross Premiums Written

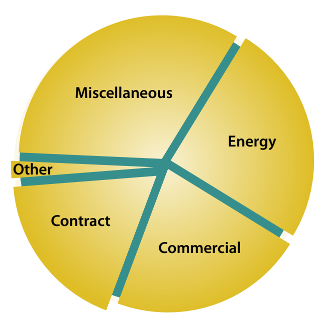
(in millions)		% change
General liability	$203.9	1.0
Commercial and personal umbrella	98.6	6.0
Transportation	79.4	(0.9)
Exec. products	60.4	30.7
Programs	38.6	(34.9)
Other	38.2	2.5
TOTAL	$519.1	(0.1)



(in millions)		% change
Commercial fire	$84.9	29.8
Earthquake/DIC	53.8	(18.4)
Construction	14.2	(62.2)
Marine	12.5	–
Other	10.8	11.7
TOTAL	$176.2	(1.3)

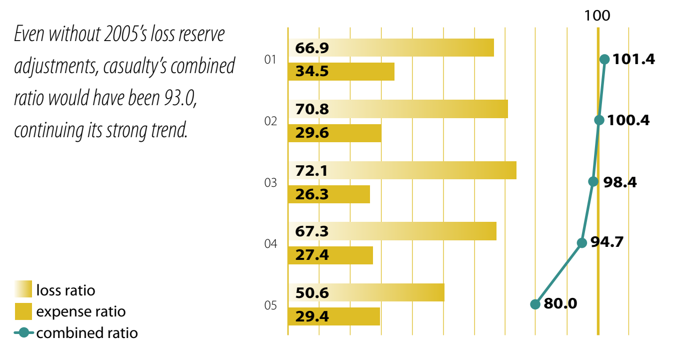


(in millions)		% change
Miscellaneous	$19.8	11.9
Energy	15.4	2.0
Commercial	13.5	21.6
Contract	11.0	20.9
Other	1.0	(9.1)
TOTAL	$60.7	12.2

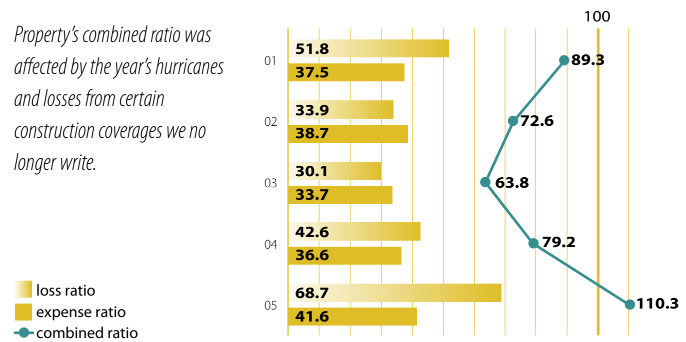


Combined Ratio

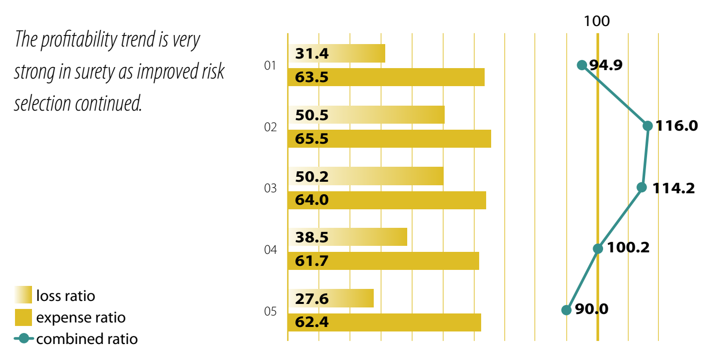
Even without 2005's loss reserve adjustments, casualty's combined ratio would have been 93.0, continuing its strong trend.



Property's combined ratio was affected by the year's hurricanes and losses from certain construction coverages we no longer write.



The profitability trend is very strong in surety as improved risk selection continued.




835

In a relationship business like insurance, some ties last for decades.

Few associations represent this better than the link between Leprechaun Lines of Newburgh, N.Y., and the P.A. Post agency of Hackensack, N.J. Leprechaun first purchased bus insurance from the agency in 1946. Today, third and fourth generation family members run both companies and their relationship is as strong as ever. So when insurance broker Brad Post (left in photo on facing page) recommended RLI to Leprechaun's Frank Gallagher, the bus boss listened.

Post knew RLI's commitment to transportation coverages complements its agency/client connection. "I know I'm doing business with people who aren't looking for today's quick buck," said Post. "They have a vision for tomorrow as well."

more *to the story*

RLI Transportation works with customers to improve risk management techniques. Instilling a philosophy of risk avoidance creates an environment of enhanced safety.

In Leprechaun, RLI recognized a customer that embraces this concept with enthusiasm. With nearly three quarters of a century in business, Leprechaun has "road tested" most risk management tools exhaustively. They understand that "small" things often make the biggest differences.

Case in point: Leprechaun paints all bus drivers' names right on the side of their coaches, where every customer can see it. The resulting sense of pride and ownership means Leprechaun drivers are highly protective of "their" vehicles. And they return with far fewer dings, dents and scratches on their coaches.

With a partner like that at the wheel, RLI is settling in for a long ride.


whyRLI
EverGuard
whyRLI

Serving up e-commerce insurance solutions has long been a staple of the RLI menu.

We launched our first e-commerce venture in 1998, when producers of our Hawaii homeowners insurance first quoted and bound policies online. Nearly every year since then, RLI's vision for technology has driven our talented developers and business leaders to extend ever-increasing levels of service to additional lines of business.

A recent example is program insurance which combines a variety of coverages — from property insurance to employee theft coverage to liability protection — for restaurants, bars and taverns.

Today, RLI underwriters use a web-based application that quotes, rates and binds new and renewal business, as well as manages business submissions companywide. Insurance fundamentals with technological innovation!

more *to the story*

Nearly every RLI e-commerce venture to date has been developed by our outstanding internal development staff. But a company known for flexibility in searching for business opportunities is always looking for new and better ways to do business.

In this instance, we partnered with Everguard Insurance Services, which had developed an easy-to-use, front-end data entry system. Merging it with our robust back-end system, we created a seamless customer-to-company system that makes it easier for producers to process our restaurant/bar/tavern insurance program. Producers can quote, bind and print policies anywhere, even over lunch at restaurants such as longtime Seattle favorite, al Boccalino. Everguard's Erwin Dow was the master chef who helped develop this recipe for success that satisfies both companies' appetites for growth.

Day Two after Hurricane Katrina bellowed across the Louisiana bayous, RLI received a claim from Summit Asset Management. The property management company from Montgomery, Ala., had 10 damaged apartment complexes across two states. Our claim staff jumped into action, personally contacting our customer within 24 hours with pledges of prompt action.

Not an easy promise to live up to, in the aftermath of such a catastrophe. Everything is in short supply: people, gasoline, communications, building materials. Independent adjusters inspected the properties by Day 17, triggering an advance loss payment by Day 25. Such swift response helped Summit be proactive in securing scarce contractors to repair units for current and future tenants of its properties, including South Bay Apartments in Mobile, Ala. The last of the South Bay repairs were completed by Day 54.

Even 150 mph winds can't uproot RLI from our Gulf Coast customers.

more *to the story*

Even though RLI's customer was Summit Asset Management, the effectiveness of our response had an impact far beyond the property management company. Our actions also directly affected the lives of more than 3,700 tenants who call those locations home.

Residents like Robert Hixon were surprised, but happy, to return home so quickly. "I was fortunate enough to find a temporary place to live just on the other side of Mobile – luckier than others. But I didn't know anybody over there, some of my things were stolen, and I had to pay double rent the whole time."

If the storm surge had been four feet higher in Mobile, experts contend Mr. Hixon's home would have been underwater. "Some folks just a few miles west of here are still in shelters," said Mr. Hixon. "I was just glad to get home as soon as I did."

As fellow shareholders, RLI associates have a fierce interest in our company's success. Having insiders own a sizeable chunk of the company — 15 percent at year end and growing — aligns our interest with those of external shareholders. We both seek profitable growth.

In fact, our underwriters are rewarded only if the business they write is profitable over time, up to eight years in the future!

One year's success can be tempered by a following year's losses. But consistent underwriting results can also create rewards among the best in our industry.

From the moment new associates join our company, they find themselves knee-deep in a culture of owners driven to exceed every customer's expectation. RLI's model of employee involvement puts the power to protect our future and our ESOP — holding an average balance of $169,034 — into our own hands.

more *to the story*

We're invested. We're involved. So RLI associates take employee empowerment a bit further than those of other companies. Every quarter, all home office associates are invited to an off-site meeting where management presents a business update and employees are welcome to ask questions, no subject barred. This helps everyone get on the same page regarding issues such as:

> *"What changes can we expect if we are to achieve our corporate goals?"*
>
> *"In what line of business or in what region of the country is RLI's next expansion likely to occur?"*

This frank atmosphere of empowerment allows each of us to become a catalyst for change, resulting in improved processes and increased efficiencies. We take our responsibilities as owners seriously. As shareholders should.

Answers to investors' questions — by RLI Corp. President & CEO Jonathan E. Michael and RLI Insurance Company President & COO Michael J. Stone.

What changed at RLI this year?

Stone: In keeping with our underwriting model, we made some significant changes to our product portfolio in 2005. We ended our six-year property venture into the construction market in the fourth quarter. We had nourished this product through a rough beginning to show some profitability in 2004. But we were not able to sustain this presence in an increasingly competitive environment. In the end, we decided that we did not have the recipe for success in that line. That's one of the benefits of our business model; we can exit lines quite quickly.

We can enter or expand lines just as quickly, and 2005 gave two examples. In executive products, our underwriters recognized a growing need for clause one coverage, which protects the personal assets of corporate directors and officers from litigation. So our people developed and marketed the product, which helped this group's premiums grow by more than 30 percent. We also launched a new marine division, which offers a full array of marine coverages. We acquired outstanding product leadership, which has built a terrific team. First-year premiums of $12 million were right on track with our forecast. We have great expectations for this business.

Can you tell us about your reinsurance renewals?

Michael: Fifty percent of our reinsurance contracts renew on January 1; others are due in the second and third quarters. On the property side, which includes the catastrophe lines, our rates increased about 25 percent. Casualty treaties remained flat or slightly changed in our favor. We also increased retentions in certain areas, which also affected our costs. I believe we have fared better than most in our reinsurance negotiations.

What do you expect for rates in 2006?

Stone: The largest changes will be in property coverages, where prices are anticipated to rise industry-wide. These changes are driven primarily by the perception that risk of catastrophic loss has increased, and this is not an unreasonable assumption given the significant hurricane activity of the past two years. In addition to higher prices, some of our competitors are expected to write less catastrophe-exposed business, and this will create opportunities for us. For instance, risks once insured by a single $50 million policy may instead be covered by five policies. This will give us more opportunities to write the smaller $5 million to $10 million commercial property policies we prefer. Our strategy will be one of cautious, measured growth.

We expect casualty prices to be off slightly. Increased competition — some from property insurers seeking less volatile business — will keep prices from increasing. Even in a softening rate environment, our underwriting margins should remain attractive. We expect to continue showing a strong performance in this segment.

How would you describe RLI's underwriting model?

Stone: We have thrived on what some call "smart underwriting," which can profitably price policies for unusual coverages larger insurers don't always offer. The majority of our policies are handled by our own underwriters, who assess each application independently. But some products also allow for Internet-based transactions that are completely hands off — from the application process, to the underwriting based on parameters set by our underwriters, all the way through to policy issuance. We plan to develop more of these e-commerce products, particularly for lower-premium products where process efficiencies are especially meaningful.

We also have an unusual way of compensating underwriters that recruits and retains top talent. A lot of companies have production goals, but we take an opposite approach. Bonuses are based on the profitability, not volume. They are also calculated over a period of up to eight years — the same long-term approach that you expect as shareholders. Underwriters earn a piece of the underwriting profits and their compensation has no cap; the more profitable business they write, the more they earn. Some of our underwriters are among the best paid in the industry. This compensation program aligns our underwriters' incentives with your interests as shareholders and creates long-term, sustainable underwriting profit. As a result, our combined ratio has been below 100 for 25 of the last 29 years, including the last 10.

What are you focusing on over the next five years?

Michael: My top priority has been, and remains, talent: how to acquire it, how to develop it and how to keep it. Our success is directly attributable to our employees, and we will keep finding innovative ways to make sure our people are the best in the industry. This will help us focus on growth, enterprise risk management, and building our image in the marketplace.

What is RLI's tie to Maui Jim?

Michael: Maui Jim is the last remaining link to our origins, when we were the nation's top contact lens insurer. Even after entering the P&C marketplace in 1977, we marketed many products and services to the eye care community under the RLI Vision name. Of course, disposable contacts eliminated the need for contact lens insurance. In 1996, RLI Vision merged with Maui Jim and focused on the growth potential of high-end sunglasses. Today, we hold a 41 percent interest in Maui Jim through which we have recorded $18.9 million in earnings the past three years. When the time is right, we plan to divest ourselves of this investment. And when we do, we will be cutting the last bond to our past. But we'll retain the lessons we've learned along the way.

We have shortened our financial statements into the condensed form appearing on the following pages of this summary annual report. They are more readable, yet they provide a complete overview of our performance in 2005.

To read our comprehensive financial information, please refer to our 2005 financial report.

Contact information for RLI Investor Relations can be found on page 35.

RLI Insurance Group

In general, we have experienced continued softening in the market over the last three years. However, results vary by segment and coverage as we explore new opportunities and withdraw or exit other offerings. Profitability was subject to volatility during 2005 as we experienced our second consecutive year of elevated hurricane activity as well as underwriting losses on our construction coverage. Casualty results once again included favorable development on prior years' loss reserves. Our surety segment returned to consistent profitability, reflecting the re-underwriting efforts expended over the last three years. The following table and narrative provide a more detailed look at individual segment performance.

Gross premiums written (in thousands)	**2005**	2004	2003
Casualty	**$519,115**	$519,817	$497,692
Property	**176,228**	178,625	193,359
Surety	**60,669**	54,146	51,426
Total	**$756,012**	$752,588	$742,477
Underwriting profits (losses) (in thousands)			
Casualty	**$ 72,024**	$ 19,560	$ 4,968
Property	**(8,342)**	20,400	38,959
Surety	**5,201**	(69)	(6,590)
Total	**$ 68,883**	$ 39,891	$ 37,337
Combined ratio			
Casualty	**80.0**	94.7	98.4
Property	**110.3**	79.2	63.8
Surety	**90.0**	100.2	114.2
Total	**86.0**	92.2	92.0

Casualty gross premiums written were virtually flat in 2005 after growth of 4 percent, or $22.1 million, in 2004 and a 15 percent increase in 2003. This was the outcome from mixed results across coverages; increases of varying degrees in executive products, umbrellas and general liability were offset by a large decline in specialty program business, where we exited specific accounts. Despite competitive pressures, we remained disciplined in writing only those accounts which we believe will provide adequate returns. This soft marketplace is likely to continue suppressing premium growth in this segment in 2006.

The 80.0 combined ratio for the casualty segment in 2005 compared to 94.7 and 98.4 in 2004 and 2003, respectively. Over the course of the year, actuarial studies indicated that cumulative experience attributable to some casualty coverages for mature accident years was considerably lower than the reserves booked. Therefore, we released reserves totaling $46.0 million, net of bonus impacts. While we had been experiencing robust price improvements in this segment the last several years, we also produced significant new business with new exposures. Our reserving evaluation process requires adequate time periods to elapse to assess the impact of such changes in marketplace conditions on our book of casualty business.

Gross premiums written in the property segment fell 1 percent in 2005, following declines of 8 percent in each of the last two years. Softening market conditions affected all of our property coverages in 2004 and 2003. In 2005, we experienced a significant decline in our construction coverage, which we exited during the fourth quarter. Earthquake coverage premiums continued to decline as we focused on reducing our exposure. Our domestic fire coverages performed well and our entry into the marine market met 2005 production expectations, helping to mitigate the other coverages' declines. Segment revenues decreased disproportionately as we incurred charges of approximately $10.0 million to meet minimum reinsurance premium requirements as well as to reinstate reinsurance coverage exhausted by loss activity on our construction coverage.

The property segment experienced an underwriting loss of $8.3 million in 2005 on a combined ratio of 110.3. This compared to combined ratios of 79.2 in 2004 and 63.8 in 2003. The 2005 results were affected by the second straight year of severe hurricane activity, which impacted the segment by $21.7 million net of bonus impacts. While the property charge in 2004 from hurricane activity was $9.8 million, there was some favorable development of those reserves in 2005 which provided a benefit of $2.1 million. Greater than anticipated losses on our construction coverages of about $3.4 million were incurred in addition to the premium charges mentioned previously.

Surety gross premiums written increased for the second consecutive year, following a decline in 2003, as we re-underwrote our contract coverage following poor loss experience. All major coverages in this segment produced increases in 2005. Total segment revenue followed suit, improving over each of the last two years after it had declined in 2003.

This year marked the return to profitability for the surety segment as it posted an underwriting profit of $5.2 million on a 90.0 combined ratio, compared to 100.2 and 114.2 for 2004 and 2003, respectively. The results for 2004 and 2003 came as a consequence of poor experience on our contract bonds. Re-underwriting efforts over this time period exceeded expectations as favorable prior year loss reserve development resulted in a $1.6 million benefit, net of bonus impacts. We are encouraged by the improvement in the segment's underwriting results and have added additional underwriters with the expectation of modest growth in the future.

Investment Income and Realized Investment Gains

During 2005, net investment income increased by 14 percent due to continued operating cash flow. On an after-tax basis, investment income increased by 14 percent. Operating cash flows were $198.0 million in 2005, up from $189.0 million in 2004, and $191.0 million in 2003. Cash flows in excess of current needs were primarily used to purchase fixed income securities, which continue to be comprised primarily of high-grade, tax-exempt, corporate and U.S. government/agency issues. The average annual yields on our investments were as follows for 2005, 2004 and 2003:

	2005	2004	2003
Pretax yield			
Taxable (on book value)	**4.90%**	4.92%	5.11%
Tax-exempt (on book value)	**3.98%**	4.10%	4.41%
Equities (on market value)	**2.80%**	3.26%	3.10%
After-tax yield			
Taxable (on book value)	**3.19%**	3.20%	3.32%
Tax-exempt (on book value)	**3.77%**	3.88%	4.18%
Equities (on market value)	**2.40%**	2.79%	2.66%

The after-tax yield reflects the different tax rates applicable to each category of investment. Our taxable bonds are subject to our corporate tax rate of 35.0 percent, our tax-exempt municipal bonds are subject to a tax rate of 5.3 percent and our dividend income is generally subject to a tax rate of 14.2 percent. During 2005, the average after-tax yield of the fixed income portfolio decreased 0.04 percent (3.43 percent vs. 3.47 percent) due to decreases in both taxable and tax-exempt yields on new purchases. The decline in yields is primarily due to fluctuations in interest rates and the subsequent reinvestment of called and matured bonds at lower yields. Despite the lower yields, the overall impact on investment income has been limited due to the investment of continued operating cash flow. During the year, we again focused on purchasing high-quality investments, including U.S. government and agency securities, municipal bonds, mortgage-backed securities and asset-backed securities, primarily in the 0-10 year part of the yield curve.

Interest and General Corporate Expense

While debt interest was basically flat in 2005, the 2004 increase resulted from the issuance of $100 million in 10-year maturity senior notes in December 2003. Interest expense on short-term debt has declined as we have reduced our usage of short-term facilities. Decisions regarding future short-term debt management will be based on available cash flow and the interest rate environment. General corporate expenses generally fluctuate relative to our executive compensation plan called the Market Value Potential (MVP) Executive Incentive Plan and have increased in 2004 and 2005 due to strong operating results. This model measures comprehensive earnings against a minimum required return on our capital. Additionally, director fees and travel rose in 2004 relative to 2003, due to increased activities and liability for directors resulting from Sarbanes-Oxley compliance.

Income Taxes

Our effective tax rates were 25.5 percent, 27.2 percent, and 24.4 percent for 2005, 2004, and 2003, respectively. The lower rate in 2003 was due to the tax benefit associated with the sale of an insurance shell. In 2005, a tax benefit was realized associated with a dividend declared and payable in 2006 from an unconsolidated investee, Maui Jim, Inc. As required under Statement of Financial Accounting Standards (SFAS) 109, "Accounting for Income Taxes", the gain reflects the tax benefit of applying the lower tax rate applicable to affiliated dividends (7 percent) as compared to the corporate capital gains tax rate (35 percent) on which previous tax estimates were based. Effective rates are dependent upon components of pretax earnings and the related tax effects. Our pretax earnings in 2005 included $28.2 million of investment income that is wholly or partially exempt from federal income tax, compared to $25.2 million and $21.5 million in 2004 and 2003, respectively.

Investee Earnings

We maintain a 41 percent interest in Maui Jim, Inc., primarily a manufacturer of high-quality polarized sunglasses. Maui Jim's chief executive officer owns the majority of the remaining outstanding shares of Maui Jim, Inc. In 2005, we recorded $8.4 million in earnings from this investment, compared to $5.0 million in 2004 and $5.5 million in 2003. The 2005 increase was the result of improved operating performance. Also included in this caption were $2.5 million in earnings in 2005, compared to $0.5 million in 2004, from our investment in Taylor, Bean, and Whitaker Mortgage Corp. During the fourth quarter of 2004, we converted warrants to common stock in this private mortgage origination company, which increased our ownership interest to 21 percent. Prior to the conversion, earnings from this ownership were reflected in investment income.

Outlook for 2006

The insurance marketplace, and in particular the excess and surplus segment, is subject to cycles involving alternating periods of price increases and decreases. Over the last three years, continuing soft market conditions have resulted in either decelerating growth rates or in some cases, actual declines. This will likely continue although it will vary greatly between our various coverages, and we do expect to experience some organic growth in 2006. We also expect to see underwriting profits in all three insurance segments absent any major catastrophe. Specific details regarding events in our business segments follow.

Casualty

We expect stability in this market to continue through 2006. We will continue to maintain a profit-focused strategy and look to broaden our production sources as a means of holding our market position, and of potentially growing this segment. We believe that pricing in the overall casualty insurance marketplace will remain generally stable, as companies continue sound underwriting practices in a low interest rate environment. There is, however, the risk that pricing will deteriorate if the level of capital in the industry continues to grow and if interest rates increase, allowing for investment returns to offset declines in some organizations' underwriting discipline. This outlook varies slightly by coverage as we find competitive pressures across the board. We anticipate continued profitability in 2006 as a result of our ability to select quality risks. As volume levels off, some pressure on the expense ratio may occur without a significant impact on expected underwriting profit. The benefits to our performance over the last two years from reductions in reserves related to prior years cannot be expected to reoccur.

Property

We expect the growth pattern that was beginning to develop in the latter part of 2005 to extend and strengthen in 2006. We expect a general increase in property rates and a significant rate increase catastrophe exposures. These improvements will be mitigated by increases in our reinsurance costs in this segment. Aside from our construction coverage losses and severe hurricane seasons of the last two years, our other property coverages continue to exhibit favorable loss experience.

Surety

Having addressed the loss experience issues related to our contract surety coverage over the last three years, additional underwriting staff and improving marketplace conditions should contribute growth in 2006. It is further expected that the surety segment will continue its profitability in 2006.

Investments

Within our investment portfolio, we expect to continue to increase investment income as the balance of our portfolio grows from operating and investing cash flow. Interest rates for bonds with maturities of greater than five years, where a majority of our fixed income portfolio is concentrated, have remained relatively stable in the last couple of years, although they are below the historical average. If interest rates increase, we will be able to invest our cash flow into higher-yielding investments which would improve investment income. However, rising interest rates will depress the value of our bond portfolio which will negatively impact comprehensive earnings and book value. Twenty percent of our portfolio is invested in common stocks. While we expect the dividend income on these stocks to remain stable, the value of this portfolio will be dictated by the performance of the general stock market, which is difficult to predict. We anticipate adding asset classes to further diversify our investment portfolio. The purpose of the additional classes is to improve the risk and reward profile of our consolidated investment portfolio. We expect to make modest changes to increase the risk profile of our investment portfolio in 2006.

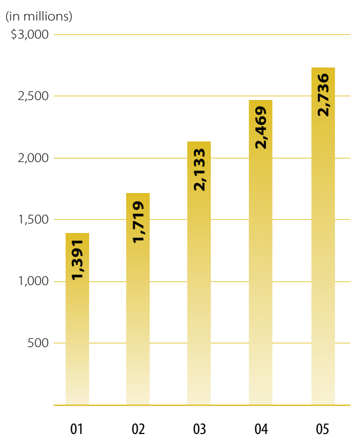
Consolidated Balance Sheets

The summary financial statements are excerpted from the audited 2005 RLI Corp. financial report.

(in thousands, except share data)	December 31,	2005	2004
Assets			
Investments:			
Fixed maturities:			
Available-for-sale, at fair value (amortized cost — $1,189,408 in 2005 and $992,650 in 2004)		**$1,181,636**	$1,008,949
Held-to-maturity, at amortized cost (fair value — $138,902 in 2005 and $166,293 in 2004)		**134,451**	156,787
Trading, at fair value (amortized cost — $15,465 in 2005 and $11,756 in 2004)		**15,312**	11,939
Equity securities available-for-sale, at fair value (cost — $186,417 in 2005 and $169,479 in 2004)		**321,096**	315,875
Short-term investments, at cost which approximates fair value		**45,296**	76,168
Total investments		**1,697,791**	1,569,718
Cash		—	—
Accrued investment income		**16,974**	15,183
Premiums and reinsurance balances receivable, net of allowances for uncollectible amounts of $19,987 in 2005 and $16,164 in 2004		**126,894**	146,667
Ceded unearned premiums		**114,668**	101,446
Reinsurance balances recoverable on unpaid losses and settlement expenses, net of allowances for uncollectible amounts of $18,605 in 2005 and $13,837 in 2004		**593,209**	464,180
Deferred policy acquisition costs, net		**69,477**	67,146
Property and equipment, at cost, net of accumulated depreciation of $35,306 in 2005 and $36,777 in 2004		**20,859**	18,335
Investment in unconsolidated investees		**54,340**	43,398
Goodwill, net of accumulated amortization of $4,700 in 2005 and 2004		**26,214**	26,214
Other assets		**15,444**	16,488
Total assets		**$2,735,870**	$2,468,775

Total assets

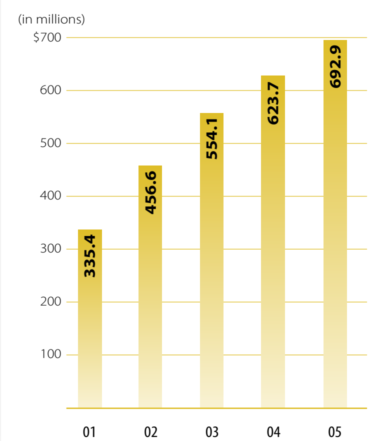
RLI's total assets have expanded by 97 percent over the last five years.



(continued) December 31,	2005	2004
Liabilities and shareholders' equity		
Liabilities:		
Unpaid losses and settlement expenses	**$1,331,866**	$1,132,599
Unearned premiums	**383,683**	367,205
Reinsurance balances payable	**97,526**	78,062
Notes payable, short-term debt	**15,541**	46,839
Income taxes — current	**4,425**	11,612
Income taxes — deferred	**22,717**	38,966
Bonds payable, long-term debt	**100,000**	100,000
Other liabilities	**87,171**	69,831
Total liabilities	**2,042,929**	1,845,114
Shareholders' equity:		
Common stock ($1 par value, authorized 50,000,000 shares, issued 31,344,058 shares in 2005 and 31,108,607 shares in 2004)	**31,344**	31,109
Paid-in capital	**181,794**	180,592
Accumulated other comprehensive earnings net of tax	**82,785**	106,017
Retained earnings	**478,043**	386,968
Deferred compensation	**7,735**	6,891
Treasury stock, at cost (5,792,753 shares in 2005 and 2004)	**(88,760)**	(87,916)
Total shareholders' equity	**692,941**	623,661
Total liabilities and shareholders' equity	**$2,735,870**	$2,468,775

Shareholders' equity

We have created a 16 percent compound annual growth rate in shareholders' equity over the last five years.



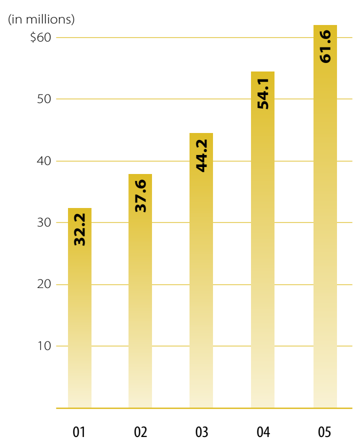
Consolidated Statements of Earnings and Comprehensive Earnings

The summary financial statements are excerpted from the audited 2005 RLI Corp. financial report.

(in thousands, except per share data) Years ended December 31,	2005	2004	2003
Net premiums earned	**$491,307**	$511,348	$463,597
Net investment income	**61,641**	54,087	44,151
Net realized investment gains	**16,354**	13,365	12,138
Consolidated revenue	**569,302**	578,800	519,886
Losses and settlement expenses	**251,170**	306,131	278,990
Policy acquisition costs	**136,058**	134,595	119,281
Insurance operating expenses	**35,196**	30,731	27,989
Interest expense on debt	**7,118**	6,894	1,010
General corporate expenses	**6,780**	5,536	3,886
Total expenses	**436,322**	483,887	431,156
Equity in earnings of unconsolidated investees	**10,896**	5,429	5,548
Earnings before income taxes	**143,876**	100,342	94,278
Income tax expense (benefit):			
Current	**40,481**	32,495	23,760
Deferred	**(3,739)**	(5,189)	(773)
Income tax expense	**36,742**	27,306	22,987
Net earnings	**$107,134**	$ 73,036	$ 71,291
Other comprehensive earnings (loss), net of tax			
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	**$ (12,594)**	$ 16,871	$ 31,793
Less: Reclassification adjustment for gains (losses) included in net earnings	**(10,638)**	(8,553)	(5,391)
Other comprehensive earnings (loss)	**(23,232)**	8,318	26,402
Comprehensive earnings	**$83,902**	$ 81,354	$ 97,693

Investment income

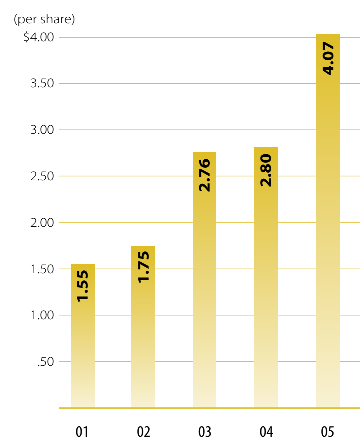
Record cash flows have driven consistent investment income growth.



(continued) Years ended December 31,	**2005**	2004	2003
Earnings per share:			
Basic			
Net earnings per share	**$4.21**	$2.90	$2.84
Comprehensive earnings per share	**$3.30**	$3.23	$3.89
Diluted			
Net earnings per share	**$4.07**	$2.80	$2.76
Comprehensive earnings per share	**$3.19**	$3.12	$3.78
Weighted average number of common shares outstanding:			
Basic	**25,459**	25,223	25,120
Diluted	**26,324**	26,093	25,846

Net earnings per share

Each share of RLI stock has returned $12.93 of diluted earnings over the last five years.



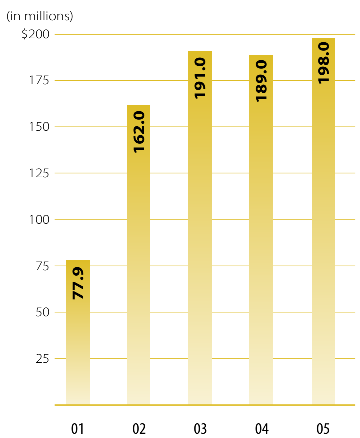
Consolidated Statements of Cash Flows

The summary financial statements are excerpted from the audited 2005 RLI Corp. financial report.

(in thousands) Years ended December 31,	2005	2004	2003
Cash flows from operating activities			
Net earnings	**$ 107,134**	$ 73,036	$ 71,291
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Net realized investment gains	**(16,354)**	(13,365)	(12,138)
Depreciation	**3,228**	3,033	3,234
Other items, net	**11,311**	10,738	164
Change in: Accrued investment income	**(1,791)**	(2,378)	(5,209)
Premiums and reinsurance balances receivable (net of direct write-offs and commutations)	**19,773**	6,193	(30,602)
Reinsurance balances payable	**19,464**	(14,320)	14,151
Ceded unearned premium	**(13,221)**	302	(6,342)
Reinsurance balances recoverable on unpaid losses	**(129,029)**	(92,132)	(31,162)
Deferred policy acquisition costs	**(2,331)**	(3,409)	(3,635)
Accounts payable and accrued expenses	**9,693**	2,411	5,107
Unpaid losses and settlement expenses	**199,267**	229,158	170,603
Unearned premiums	**16,479**	(437)	16,839
Income taxes: Current	**(7,187)**	4,460	5,365
Deferred	**(3,739)**	(5,189)	(773)
Changes in investment in unconsolidated investees: Undistributed earnings	**(10,896)**	(5,429)	(5,548)
Net proceeds from trading portfolio activity	**(3,774)**	(3,710)	(326)
Net cash provided by operating activities	**$ 198,027**	$ 188,962	$ 191,019

Cash flows from operations

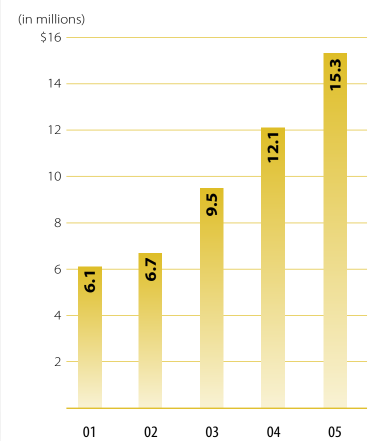
Strong performance has generated a 154 percent improvement in operating cash flows since 2000.



(continued) Years ended December 31,	2005	2004	2003
Cash flows from investing activities			
Purchase of: Fixed maturities, held-to-maturity	**$ (3,024)**	$ —	$ (3,002)
Fixed maturities, available-for-sale	**(407,658)**	(360,162)	(508,785)
Equity securities, available-for-sale	**(73,519)**	(58,675)	(31,505)
Short-term investments, net	—	(2,219)	—
Property and equipment	**(10,538)**	(4,051)	(4,403)
Note receivable	**(6,000)**	—	—
Proceeds from sale of: Fixed maturities, held-to-maturity	—	—	6,340
Fixed maturities, available-for-sale	**149,724**	108,088	116,047
Equity securities, available-for-sale	**72,374**	39,638	31,907
Short-term investments, net	**38,506**	—	13,816
Property and equipment	**4,787**	1,298	311
Insurance shell (UIH)	—	—	5,100
Proceeds from call or maturity of: Fixed maturities, held-to-maturity	**25,363**	24,080	48,079
Fixed maturities, available-for-sale	**55,578**	71,814	40,684
Note receivable	**1,500**	3,000	1,500
Net cash used in investing activities	**$(152,907)**	$(177,189)	$(283,911)
Cash flows from financing activities			
Proceeds from stock offering	**$ —**	$ —	$ 10,048
Proceeds from issuance of long-term debt — bonds	—	—	98,463
Proceeds from issuance of short-term debt	**214**	366	1,185
Payment on short-term debt	**(31,512)**	(1,088)	(7,981)
Shares issued under stock option plan	**1,437**	1,059	708
Treasury shares purchased	—	(10)	(22)
Cash dividends paid	**(15,259)**	(12,100)	(9,509)
Net cash provided by (used in) financing activities	**$ (45,120)**	$ (11,773)	$ 92,892
Net decrease in cash	—	—	—
Cash at beginning of year	—	—	—
Cash at end of year	**$ —**	$ —	$ —

Cash dividends paid

Over the last five years, RLI has paid a cumulative $49.6 million in cash dividends to shareholders.



Company Leaders

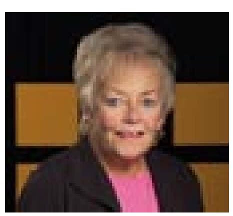












Officers

left column, top to bottom

Seth A. Davis, CFA, CIA, CPCU
Vice President, Internal Audit (2, 3, 4)
34 — Industry experience: 10 years
Joined the company in 2004 as manager, internal audit and promoted to current position in 2005. Previously served as an internal audit director for CNA.

Carol J. Denzer
Chief Information Officer (2, 3, 4)
42 — Industry experience: 20 years
RLI career began in 1987 as a reinsurance accountant, promoted to various accounting and reinsurance positions. Named AVP in 1998, to VP of reinsurance and catastrophe management in 2004, and to current title in 2006. Treaty accountant with E.W. Blanch Company before joining RLI.

Joseph E. Dondanville, CPA
Sr. Vice President, CFO (1, 2, 3, 4)
49 — Industry experience: 28 years
Began RLI career in 1984 as chief accountant, promoted to controller in 1985, VP in 1992 and current position in 2002. Spent the prior six years with Arthur Andersen & Co. Director of Maui Jim, Inc.

Donald J. Driscoll
Vice President, Claim (2, 3, 4)
46 — Industry experience: 20 years
Started with RLI in 1996 as director of coverage and casualty claims, promoted to AVP in 1998, to current position in 2000. Director of strategic claims for The Travelers Insurance Company for five years before joining RLI.

Jeffrey D. Fick
Vice President, Human Resources (1, 2, 3, 4)
44 — Industry experience: 1 year
Joined RLI in 2005 in current position. Previously served as vice president, human resources and community relations at HNI Corporation.

Kim J. Hensey
Vice President & Corporate Secretary (1, 2, 3, 4)
64 — Industry experience: 37 years
Joined the company in 1970, serving as corporate secretary from 1974–1984. Rejoined the company in the same capacity in 1987.

right column, top to bottom

Aaron H. Jacoby
Vice President, Corporate Development (1, 2, 3, 4)
35 — Industry experience: 4 years
RLI career began in 2001 as director, corporate development. Promoted to current position in 2004. Prior three years spent primarily at PricewaterhouseCoopers, most recently as director, transaction services group.

Daniel O. Kennedy
Vice President, General Counsel (1, 2, 3, 4)
41 — Industry experience: 1 year
Joined RLI in 2006. Spent prior 16 years in corporate law practice specializing in securities, finance and corporate governance. Former partner with Hunton & Williams LLP in Atlanta, Ga.

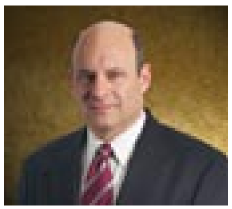
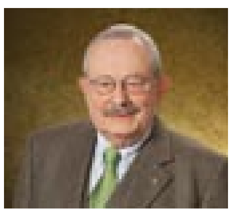
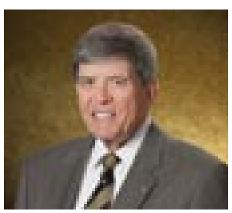
Jonathan E. Michael
President & CEO (1)
Chairman & CEO (2, 3, 4)
52 — Industry experience: 29 years
Joined RLI in 1982. Served as controller, vice president of finance and CFO, executive vice president, and as president and CEO/COO of principal insurance subsidiaries.

John E. Robison
Treasurer (1, 2, 3, 4)
38 — Industry experience: 15 years
Came to RLI in 2004 from National Interstate Insurance, where he was director of investments. Spent 11 years with Westfield Companies, most recently as investment portfolio manager.

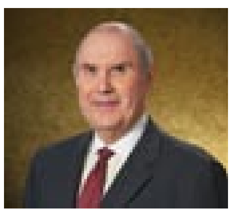
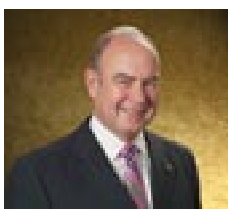
Michael J. Stone
President & COO (2, 3, 4)
57 — Industry experience: 36 years
Joined the company in 1996 as vice president, claim. Promoted to senior VP and executive VP in 1998, has held current title since 2002. Served the prior 18 years with The Travelers Insurance Company, most recently as vice president, liability division and strategic claim.

Officer of:
1. RLI Corp.
2. RLI Insurance Company
3. Mt. Hawley Insurance Company
4. RLI Indemnity Company





Board of Directors

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John T. Baily (2, 3)
62. Director since 2003. Retired National Insurance Industry chairman and director for Coopers & Lybrand LLP, now PricewaterhouseCoopers, retiring in 1999 after 23 years as partner. President of Swiss Re Capital Partners 1999-2002. Currently director of Endurance Specialty Holdings, Ltd., Erie Indemnity Co., NYMAGIC, Inc. and Albright College.

Richard H. Blum (3, 4)
67. Director since 2000. Previously chairman of AXIS Specialty U.S. Holdings, Inc. (Feb 2002 - Jan. 2006). Was senior advisor to Marsh & McLennan Companies, Inc. (MMC), a professional services firm in risk and insurance services, investment management and consulting. Former director of MMC, vice chairman of J&H Marsh & McLennan, and chairman and CEO of Guy Carpenter & Company, Inc.

Jordan W. Graham (1, 4)
45. Director since 2004. Managing director at Quotient Partners, providing strategic services to global financial services firms. Former vice president of Cisco Systems, Inc.'s Services Industry Consulting (1988-2004), where he provided executive advisory and strategy consulting services to insurance and financial services industries. Former director of Securitas Capital, LLC, which invested in insurance and risk related ventures. Current director of Technology Credit Union and Coldspark, Inc.

Gerald I. Lenrow, Esq. (2, 3)
78. Director since 1993. Former consultant to General Reinsurance Corp. and partner in Coopers & Lybrand, LLP. Since 1999, in private law practice providing consultation services to certain members of the insurance industry. A well-known authority on insurance, Lenrow has been widely published and has spoken before most industry groups. He has advised congressional tax-writing committees, the Treasury and the IRS on tax legislation.

Charles M. Linke (1, 4)
68. Director since 2003.
Professor emeritus of finance at the University of Illinois (Urbana-Champaign). He is also CEO of Economics, Et Cetera, Inc., a financial economics consulting firm.

right column, top to bottom

F. Lynn McPheeters (2, 3)
63. Director since 2000. Retired in February 2005 as vice president and CFO of Caterpillar Inc. Held various finance positions, including corporate treasurer, before becoming a Caterpillar vice president in 1998. Member of the Southern Illinois University College of Business and Administration's External Advisory Board, the Southern Illinois University Foundation Board, the OSF Saint Francis Medical Center Foundation Council and The First United Methodist Church of Peoria Foundation Board.

Jonathan E. Michael (4)
52. Director since 1997. President and CEO of RLI Corp. and chairman and CEO of its principal subsidiaries. Director of Maui Jim, Inc. and Fieldstone Investment Corporation.

Gerald D. Stephens, CPCU (4)
73. Director since 1965. Chairman of the board since 2001. Company founder, former president and CEO of RLI Corp. Member of PCI board of governors and the executive committee of the American Institute of CPCU board. Serves as chairman of the board of Maui Jim, Inc. Former president of the National Society of CPCU.

Edward F. Sutkowski, Esq. (1, 4)
67. Director since 1975. President of Sutkowski & Rhoads Ltd., a firm engaged in tax, fiduciary litigation, pension and ERISA law. Outside general counsel from 1975 – 2002. Adjunct professor at the University of Illinois College of Law. Executive limited partner, Pfingsten Executive Fund III, L.P.

Robert O. Viets, JD, CPA (1, 2)
62. Director since 1993. President of ROV Consultants, LLC. Retired president and CEO of CILCORP Inc., a holding company whose principal subsidiary was a utility company. Also chairman of the board of Advanced Medical Transport of Central Illinois. Former chair of the Bradley University board of trustees.

Committees
1. Executive Resources Committee
2. Audit Committee
3. Nominating/Corporate Governance Committee
4. Finance and Investment Committee

Underwriting Officers

CASUALTY

James S. Davis
Vice President, Specialty Programs
51 – Industry experience: 30 years
Dallas, Texas

David A. Dunn, CPCU
President, RLI Transportation
51 – Industry experience: 29 years
Atlanta, Ga.

A. Quentin Orza II
Vice President, Executive Products Group
51 – Industry experience: 29 years
Summit, N.J.

Richard W. Quehl
Vice President, Specialty Markets, Personal and Commercial Lines
59 – Industry experience: 36 years
Peoria, Ill.

Paul J. Simoneau
Vice President, Casualty Brokerage
50 – Industry experience: 28 years
Glastonbury, Conn.

PROPERTY

Kevin McDonough
Vice President, West Coast Property
57 – Industry experience: 24 years
Los Angeles, Calif.

Robert J. Schauer
President, RLI Marine
40 – Industry experience: 18 years
New York, N.Y.

Jeff S. Wefer
Sr. Vice President, Property
56 – Industry experience: 34 years
Chicago, Ill.

SURETY

Roy C. Die
Vice President, Surety
51 – Industry experience: 18 years
Houston, Texas

David C. Sandoz
Vice President, Surety
51 – Industry experience: 29 years
Peoria, Ill.

Glossary

Admitted company
An insurer domiciled in one state licensed to do business in one or more other states.

Combined ratio (GAAP)
A common measurement of underwriting profit (less than 100) or loss (more than 100). The sum of the expense and the loss ratios.

Combined ratio (statutory)
The same as a GAAP combined ratio, except in calculating the expense ratio, the denominator used is net premiums written instead of net premiums earned.

Comprehensive earnings
The sum of net after-tax earnings and net after-tax unrealized gains (losses) on investments.

Commercial general liability insurance
Liability coverage for all premises and operations, other than personal, for non-excluded general liability hazards.

Consolidated revenue
Net premiums earned plus net investment income and realized gains (losses).

Difference in conditions (DIC) insurance
Coverage for loss normally excluded in standard commercial or personal property policies, particularly flood and earthquake.

Excess and surplus lines
Property/casualty coverage that isn't available from insurers licensed by the state (admitted insurers) and must be purchased from a non-admitted carrier.

Excess insurance
A policy or bond covering against certain hazards, only in excess of a stated amount.

Expense ratio
The percentage of the premium used to pay all the costs of acquiring, writing and servicing business.

Fire insurance
Property insurance on which the predominant peril is fire, but generally includes wind and other lines.

GAAP
Generally accepted accounting principles.

Gross revenues
As defined at RLI: gross premiums written, net investment income and realized gains (losses).

Hard/firm market
When the insurance industry has limited capacity available to handle the amount of business written, creating a seller's market, driving insurance prices upward.

Inland marine insurance
Property coverage for perils arising from transportation of goods or covering types of property that are mobile, and other hazards.

Loss ratio
The percentage of premium used to pay for losses incurred.

Market cap
Short for market capitalization. The value of a company as determined by the market. Multiply the share price by the number of outstanding shares. Can change daily.

Professional liability insurance
Insures against claims for damages due to professional misconduct or lack of ordinary care in the performance of a service.

Reinsurer/reinsurance
A company that accepts part or all of the risk of loss covered by another insurer. Insurance for insurers.

Reserves
Funds set aside by an insurer for meeting estimated obligations when due. Periodically readjusted.

Soft market
When the insurance industry has excess capacity to handle the amount of business written, creating a buyer's market, lowering insurance prices overall.

Standard lines vs. specialty lines
Those insurance coverages or target market segments that are commonly insured through large, admitted insurers using standard forms and pricing are in contrast to unique insurance coverages or selected market niches that are served by only a single insurer or a select group of insurers, often with unique coverage forms and pricing approach.

Surety bond
Provides for compensation if specific acts are not performed within a stated period.

Surplus lines company
An insurer not licensed to do business in a given state, but which may sell insurance in the state if admitted insurers decline to write a risk.

Transportation insurance
Coverage for transporting people or goods by land. For RLI, this involves motor vehicle transportation and focuses on automobile liability and physical damage, with incidental public liability, umbrella and excess liability, and motor truck cargo insurance.

Underwriting profit
That portion of earnings after deducting incurred losses and expenses from earned premiums.

Unrealized gains (losses)
The result of an increase (decrease) in market value of an asset which is not recognized in the traditional statement of income. The difference between an asset's market and book values.

Annual Meeting

The annual meeting of shareholders will be held at 2 p.m., CDT, on May 4, 2006, at the company's offices at 9025 N. Lindbergh Drive, Peoria, Ill.

Trading And Dividend Information

	Stock Price			Dividends		Stock Price			Dividends
2005	High	Low	Close	Declared	2004	High	Low	Close	Declared
1st Qtr.	**$44.99**	**$40.28**	**$41.45**	**$.14**	1st Qtr.	$41.25	$36.09	$38.60	$.11
2nd Qtr.	**46.80**	**40.73**	**44.60**	**.16**	2nd Qtr.	39.50	33.55	36.50	.13
3rd Qtr.	**48.75**	**44.79**	**46.26**	**.16**	3rd Qtr.	39.28	35.52	37.55	.13
4th Qtr.	**55.68**	**44.00**	**49.87**	**.17**	4th Qtr.	43.20	36.02	41.57	.14

RLI common stock trades on the New York Stock Exchange under the symbol RLI. RLI has paid and increased dividends for 30 consecutive years. RLI dividends qualify for the enterprise zone dividend subtraction modification for Illinois state income tax returns.

Stock Ownership

December 31, 2005	Shares	%
Insiders	**1,927,734**	**7.5**
ESOP	**1,954,073**	**7.7**
Institutions & other public	**21,669,498**	**84.8**
Total outstanding	**25,551,305**	**100.0**
RLI common stock shareholders	**12,704**	

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 (address at right).

Dividend Reinvestment Plans

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 will be made available on our website: 2005 summary annual report; 2005 financial report; 2006 proxy statement; annual report on form 10-K; code of conduct, corporate governance guidelines; and charters of the executive resources, audit, finance and investment, and nominating/corporate governance committees. Printed copies of these documents will be made available without charge to any shareholder. To be placed on a mailing list to receive shareholder materials, contact our corporate headquarters.

Company Financial Strength Ratings

A.M. Best:	A+ (Superior)	RLI Group
Standard & Poor's:	A+ (Strong)	RLI Insurance Company
	A+ (Strong)	Mt. Hawley Insurance Company

For help with your shareholder account or for information about RLI stock or dividends, contact our transfer agent:

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

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.

Turn to the back cover for corporate headquarters contact information.

Find comprehensive investor information at www.rlicorp.com.

Selected Financial Data

The following is selected financial data of RLI Corp. and Subsidiaries for the 11 years ended December 31, 2005.

(amounts in thousands, except per share data)		**2005**	2004	2003	2002
Operating Results					
Gross revenues	$	**834,007**	820,040	798,766	741,541
Total revenue	$	**569,302**	578,800	519,886	382,153
Net earnings	$	**107,134**	73,036	71,291	35,852
Comprehensive earnings[(1)]	$	**83,902**	81,354	97,693	13,673
Net cash provided from operating activities	$	**198,027**	188,962	191,019	161,971
Financial Condition					
Total investments	$	**1,697,791**	1,569,718	1,333,360	1,000,027
Total assets	$	**2,735,870**	2,468,775	2,134,364	1,719,327
Unpaid losses and settlement expenses	$	**1,331,866**	1,132,599	903,441	732,838
Total debt	$	**115,541**	146,839	147,560[(7)]	54,356
Total shareholders' equity	$	**692,941**	623,661	554,134	456,555[(4)]
Statutory surplus[(2)]	$	**690,547**	605,967[(7)]	546,586[(7)]	401,269[(4)]
Share Information[(3)]					
Net earnings per share:					
Basic	$	**4.21**	2.90	2.84	1.80
Diluted	$	**4.07**	2.80	2.76	1.75
Comprehensive earnings per share:[(1)]					
Basic	$	**3.30**	3.23	3.89	0.69
Diluted	$	**3.19**	3.12	3.78	0.67
Cash dividends declared per share	$	**0.63**	0.51	0.40	0.35
Book value per share	$	**27.12**	24.64	22.02	18.50[(4)]
Closing stock price	$	**49.87**	41.57	37.46	27.90
Stock split					
Weighted average shares outstanding:[(4)(5)]					
Basic		**25,459**	25,223	25,120	19,937
Diluted		**26,324**	26,093	25,846	20,512
Common shares outstanding		**25,551**	25,316	25,165	24,681
Other Financial Information[(6)]					
Net premiums written to statutory surplus[(2)]		**72%**	84%	87%	103%
GAAP combined ratio		**86.0**	92.2	92.0	95.6
Statutory combined ratio[(2)]		**86.7**	93.8	93.1	92.4

2001	2000	1999	1998	1997	1996	1995
548,331	469,759	370,057	316,863	306,383	301,500	293,922
309,354	263,496	225,756	168,114	169,424	155,354	155,954
31,047	28,693	31,451	28,239	30,171	25,696	7,950
11,373	42,042	20,880	51,758	66,415	41,970	31,374
77,874	53,118	58,361	23,578	35,022	48,947	24,649
793,542	756,111	691,244	677,294	603,857	537,946	471,599
1,390,970	1,281,323	1,170,363	1,012,685	911,741	845,474	810,200
604,505	539,750	520,494	415,523	404,263	405,801	418,986
77,239	78,763	78,397	39,644	24,900	46,000	48,800
335,432	326,654	293,069	293,959	266,552	200,039	158,608
289,997	309,945	286,247	314,484	265,526	207,787	172,313
1.58	1.46	1.55	1.34	1.45	1.30	0.41[8]
1.55	1.44	1.54	1.33	1.33	1.14	0.41[8]
0.58	2.14	1.03	2.46	3.19	2.13	1.60[8]
0.57	2.11	1.02	2.43	2.88	1.81	1.39[8][9]
0.32	0.30	0.28	0.26	0.24	0.22	0.21
16.92	16.66	14.84	14.22	12.35	10.23	8.08
22.50	22.35	17.00	16.63	19.93	13.35	10.00
200%			125%			125%
19,630	19,634	20,248	21,028	20,804	19,742	19,624
20,004	19,891	20,444	21,276	23,428	24,210	19,624
19,826	19,608	19,746	20,670	21,586	19,554	19,628
109%	84%	79%	46%	54%	64%	76%
97.2	94.8	91.2	88.2	86.8	87.4	107.5
95.8	95.8	90.1	88.4	90.4	89.1	106.5

(1) See note 1.M to the consolidated financial statements.

(2) Ratios and surplus information are presented on a statutory basis. As discussed further in the MD&A and note 9, statutory accounting principles differ from GAAP and are generally based on a solvency concept. Reporting of statutory surplus is a required disclosure under GAAP.

(3) On October 15, 2002, our stock split on a 2-for-1 basis. All share and per share data has been retroactively stated to reflect this split.

(4) On December 26, 2002, we closed an underwritten public offering of 4.8 million shares of common stock. This offering generated $115.1 million in net proceeds. Of this, $80.0 million was contributed to the insurance subsidiaries. Remaining funds were used to pay down lines of credit.

(5) In July 1993, we issued $46.0 million of convertible debentures. In July 1997, these securities were called for redemption. This conversion created an additional 4.4 million new shares of RLI common stock.

(6) See page 2 of the 2005 financial report for information regarding non-GAAP financial measures.

(7) On December 12, 2003, we successfully completed a public debt offering, issuing $100.0 million in Senior Notes maturing January 15, 2014. This offering generated proceeds, net of discount and commission, of $98.9 million. Of the proceeds, capital contributions were made in 2003 and 2004 to our insurance subsidiaries to increase their statutory surplus in the amounts of $50.0 million and $15.0 million, respectively. Remaining funds were retained at the holding company.

(8) The combined effects of the Northridge earthquake — including losses, expenses and the reduction in revenue due to the reinstatement of reinsurance coverages — reduced 1995 after-tax earnings by $18.6 million ($0.95 per basic share, $0.77 per diluted share).

(9) For 1995, diluted earnings per share on a GAAP basis were antidilutive. As such, GAAP diluted and basic earnings per share were equal. Diluted comprehensive earnings per share, however, were not antidilutive. The number of diluted shares used for this calculation was 24,047.

for **more** *to the story...*

visit our website at www.rlicorp.com

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