AT RLI, WE'RE DIFFERENT.

And that's good for you.

RLI CORP. 2007 SUMMARY ANNUAL REPORT

TABLE OF CONTENTS

PRESIDENT'S LETTER 02
FINANCIAL HIGHLIGHTS 04
RLI AT A GLANCE 08

WE'RE DIFFERENT. AND THAT'S GOOD FOR YOU. 10
We have the best underwriters in the industry. 12
We have a specialty focus. 14
We are profitable year after year. 16
We give our people freedom to succeed. 18
We give back to our employees and communities. 20
We put our customers first and serve them well. 22

WE'RE DIFFERENT. AND YOU CAN COUNT ON IT. 24

FINANCIALS 26
Review of operations 28
Financial information 38
Selected financial data 44
Glossary 48
Investor information 49

COMPANY LEADERS 50
ABOUT THE ILLUSTRATION 52

"Two roads diverged in a wood and I, I took the one less traveled by, and that has made all the difference." So said Robert Frost in 1920 and so believes RLI. We have built an insurance company that is different — more entrepreneurial and, not coincidentally, more successful than most.

AT RLI, WE'RE DIFFERENT.

And that's good for you.

Jonathan E. Michael, PRESIDENT & CEO

WE'VE BUILT AN INSURANCE COMPANY THAT'S DIFFERENT.

"Two roads diverged in a wood and I, I took the one less traveled by, and that has made all the difference." So said Robert Frost in 1920 and so believes RLI. We have built an insurance company that is different — more entrepreneurial and, not coincidentally, more successful than most.

We know that most of the good ideas don't come from the top, so we hire smart people and give them the freedom to think and act and make a difference. We let our underwriters, the people closest to our customers, make underwriting decisions within the lines of business they know best. They are on the front lines making the critical and timely decisions that meet their customers' needs. This entrepreneurial spirit permeates our organization and fosters high levels of technical and customer support.

Year after year, we have shown that our underwriting-driven model leads to bottom-line profits. 2007 is a great example. Once again, underwriting results were outstanding, investment income set a new record, cash flow was strong, and our balance sheet has never been more solid. We had record operating earnings of $157.0 million or $6.52 per share. The combined ratio for 2007 was 71.4. Our return on equity was over 22 percent, and we returned over $153.5 million to shareholders in dividends and share repurchases.

2007 was a year of few natural disasters and relatively low interest rates. Some insurance companies, rich with capital, reduced their prices to gain market share. We stayed the course. Whether markets are soft or hard, we always concentrate on writing business that benefits our bottom line. This is important to policyholders as well as shareholders. We will continue to be a consistent, financially sound company dedicated to protecting policyholders from peril. In 2007, we wrote business that was good for our customers and for us, and we had another great year.

FINANCIAL HIGHLIGHTS

In thousands, except per diluted share and combined ratio data

	2007		2006		% change
Gross premiums written	$ 739,334		799,013	*	(7.5)
Net premiums written	538,763		551,536	*	(2.3)
Consolidated revenue	652,345	*	632,708		3.1
Net earnings	175,867	*	134,639		30.6
Comprehensive earnings	166,423	*	156,999		6.0
GAAP combined ratio	71.4	*	84.1		(15.1)
Total shareholders' equity	774,422	*	756,520		2.4
Per-share data:					
Net earnings	$ 7.30	*	5.27		38.5
Comprehensive earnings	6.91	*	6.14		12.5
Cash dividends declared	0.87	*	0.75		16.0
Book value	34.95	*	31.17		12.1
Year-end closing stock price	56.79	*	56.42		0.7
Return on equity	22.5%		19.1%		17.8
Comprehensive return on equity	21.3%		22.2%		(4.1)

* Year-end company records

Underwriting results

Whereas some insurance companies rely on investment income to support a "quantity over quality" underwriting philosophy, we focus on underwriting for profit. Money earned in our underwriting operations drives our success and enables us to sustain our performance in differing market cycles. When an underwriting opportunity makes good business sense, we write the business. When the return is not justified by the risk, we walk away. 2007 was the 12th consecutive year of underwriting income for RLI and the 27th time we have produced underwriting profit in the last 31 years.

As evidence of our underwriters' ability, the quality of business we wrote the last few years was better than anticipated, resulting in favorable development in prior years' loss reserves.

Investment results

Investment income grew 11 percent in spite of a relatively low interest rate environment and our having returned more than $153.5 million to shareholders in the form of share repurchases and dividends. Our high-quality investment portfolio protects policyholders and provides long-term growth in value. We have very little exposure to subprime investments. Shareholders' equity of $774 million is supported by $1.8 billion in invested assets.

Balance sheet strength

While our priority is to deploy capital effectively, we recognize the fact that shareholders have placed trust in our ability to manage that capital. When we cannot find suitable opportunities and have excess capital, we will return it to our shareholders. Such was the case this year. We returned $133.3 million by repurchasing 2.3 million shares.

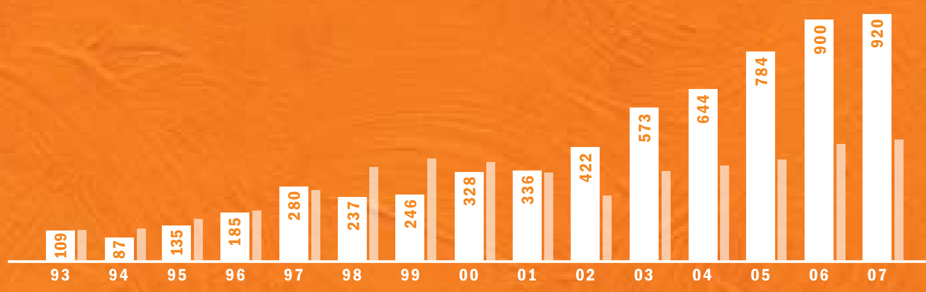
Our balance sheet remains strong as demonstrated by our A+ (Superior) rating from A.M. Best, a distinction held by fewer than 10 percent of all property and casualty insurance companies in the country. We are well positioned to enhance shareholder value even as we pursue opportunities. Rest assured, we will adhere to our principle of underwriting for profit in all of our growth initiatives — through new products and existing products.

Smart, empowered employees

Taking the road less traveled means we're not afraid of being different. We are not the typical insurance company. And even within the specialty property and casualty industry there is no replica of RLI. Our business model, based on having smart, empowered employees, makes us different. Very successfully different, I might add. I am excited about the look and message of our new advertising campaign, "Different Works," because it makes business leaders, underwriters, and potential employees more aware of RLI than ever before. And, the great response we are getting from it can only help fuel our growth.

Another difference is that our long-ingrained culture of ownership gives employees a piece of the pie. Our Employee Stock Ownership Plan causes people to think and act responsibly. They watch expenses and continually seek process improvements as if RLI were their own company, because it is. We all share the responsibility of making this a place that works better as well as making it a better place to work.

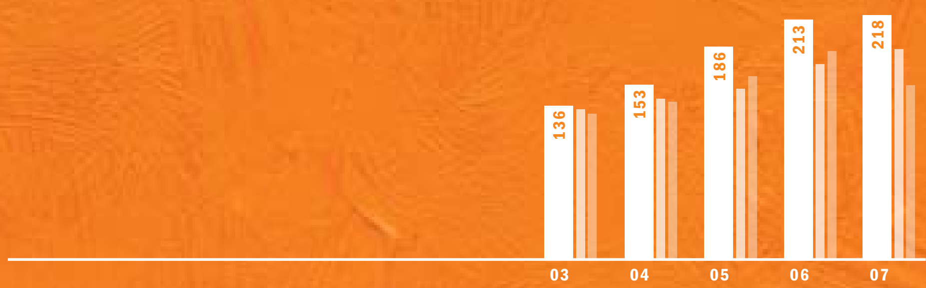
15-YEAR CUMULATIVE SHAREHOLDER RETURN



Over the past 15 years, RLI's total return to shareholders has been significantly better than that of the S&P 500.
Assumes $100 invested on December 31, 1992, in RLI and the S&P 500, with reinvestment of dividends.
Comparison of 15-year annualized total return: RLI — 15.93%, S&P 500 — 10.48%

RLI S&P 500

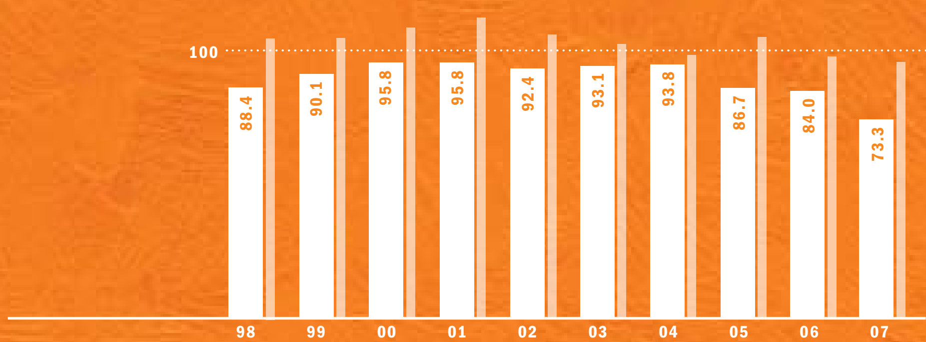
5-YEAR CUMULATIVE SHAREHOLDER RETURN



$100 invested in RLI stock in 2002 would have grown to $218 by year-end 2007.
An identical investment in the S&P 500 would have grown to just $183.

RLI S&P 500 S&P Ins.

STATUTORY COMBINED RATIO



Underwriting profitability requires a combined ratio under 100.
Our average statutory combined ratio has beaten the industry average by 14.1 points over the last decade.

RLI Industry

Looking ahead

I believe that this is an unprecedented time in the insurance industry and for RLI. Our balance sheet is stronger than ever. Information technology has advanced to the point where we receive real-time data that enhances our underwriting decisions and enables us to effectively manage our portfolio of products.

2008 will continue to be a challenging rate environment for us. The industry's capital position has grown 71 percent over the past five years versus premium growth of 17 percent. Companies will look for ways to deploy this capital, and when supply exceeds demand, prices will fall. Regardless, we will continue to be a good steward of our capital. When we need it, we will tap the capital markets; when we don't, we will return it.

We have an enviable track record of success in terms of delivering underwriting profit and shareholder value. I am confident we can sustain this performance, as our shareholders have come to expect. We will look for opportunities in underserved markets just as we have done in the past, continuing to be a highly profitable specialty property and casualty insurance company with a diverse portfolio of profitable products. We are not immune to recessions or slowdowns in the marketplace, but we are well positioned. We are able to retrench, find opportunity, and take action.

As we navigate through this soft market cycle, I would expect to see further consolidation within the industry. With capital at record levels and premium growth not keeping pace, the industry will look for growth via mergers and acquisitions. We have and will continue to look cautiously at opportunities. For an acquisition to make sense, it must achieve the return shareholders have come to expect from us.

Our growth will most likely come from product expansion, like marine and surety, or by bringing entrepreneurial people on board with books of business and knowledge of customers that foster our growth. We have the underwriting talent, information technology capacity, and support functions to address market needs and write new products.

RLI is different and we are proud of it. We see market challenges as opportunities to create new solutions. 2007 had its complications and obstacles, as will the year ahead. We are ready. We maintain our focus on the customer and give our people the freedom to make decisions and make things happen. We're different, and that's good for all of our shareholders.

Jonathan E. Michael

Jonathan E. Michael
PRESIDENT & CEO
FEBRUARY 22, 2008

RLI AT A GLANCE

OUR COMPANY

Who We Are

We are a specialty property and casualty insurer operating nationwide on both an admitted (regulated) and excess and surplus lines (less regulated) basis. We 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 nearly $500 billion in direct written premiums. In 2007, we wrote $793.3 million of coverage, 90 percent commercial lines, 10 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 37 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.
We are owners.

WEST

HONOLULU, HAWAII
LOS ANGELES, CALIF.
OAKLAND, CALIF.
PHOENIX, ARIZ.
SAN FRANCISCO, CALIF.
SEATTLE, WASH.

MID AMERICA

CHICAGO, ILL.
CLEVELAND, OHIO
DALLAS, TEXAS
HOUSTON, TEXAS
INDIANAPOLIS, IND.
KANSAS CITY, MO.
LINCOLN, NEB.
PEORIA, ILL.
ST. LOUIS, MO.

EAST

ATLANTA, GA.
BOSTON, MASS.
CHARLOTTE, N.C.
HARTFORD, CONN.
MONTVALE, N.J.
NEW YORK, N.Y.
PHILADELPHIA, PA.
PITTSBURGH, PA.
SARASOTA, FLA.
STAMFORD, CONN.
SUMMIT, N.J.

RLI office locations from which we serve customers coast to coast

AT RLI, WE'RE DIFFERENT. AND THAT'S GOOD FOR YOU.

WE HAVE THE BEST UNDERWRITERS IN THE INDUSTRY. WE HAVE A SPECIALTY FOCUS. WE ARE PROFITABLE YEAR AFTER YEAR. WE GIVE OUR PEOPLE FREEDOM TO SUCCEED. WE GIVE BACK TO OUR EMPLOYEES AND COMMUNITIES. WE PUT OUR CUSTOMERS FIRST AND SERVE THEM WELL.

WE'RE DIFFERENT.

WE HAVE THE BEST UNDERWRITERS IN THE INDUSTRY

The specialty insurance industry is a competitive environment. And in soft markets like the one we faced in 2007, it becomes even more competitive.

Flush with capital, many insurance companies drop prices in an attempt to gain market share. The spiral continues until there is no more room to cut prices. When the next hard market suddenly hits — and it will — many companies will find themselves unable to keep up.

While RLI is not immune to market trends, our way of doing business keeps us steady on our course. We have the most talented underwriters in the industry on the front line, with the power to make the tough decisions — whether that's taking on risk, or turning it down.

Our underwriters aren't rewarded for selling policies; they're rewarded for doing what's best for our customers, our company, and our shareholders. Whenever possible, they use their deep industry knowledge and niche expertise to come up with creative solutions to meet their customers' needs. At the same time, they make sure those solutions adhere to our company's focus on profitable underwriting.

In soft markets like this one, we focus on the opportunities to come with the next market turn. Our underwriters help us identify and develop new coverage areas and new products, so we're prepared to grow when the time is right. And we're always seeking out proven underwriting talent to grow our existing products or expand our product portfolio.

Our remarkable underwriters make RLI stand out among the competition. They helped make 2007 one of our best years ever.

AND THAT’S GOOD FOR YOU.

"RLI has historically employed one of the premier sets of underwriters. They are professionals with many years of experience who strive to do the best job for all involved in the transaction. I can always depend on them to work with me to try to resolve any issue."

–**KIM L. RANDALL,** Property Director, Senior Vice President
Worldwide Facilities Inc., Los Angeles, Calif.
Property products, primarily earthquake/DIC and all risk

"My RLI underwriters are the first people I call when I need answers to difficult insurance issues. And when I have last-minute deals or need a quick turnaround, I turn to RLI because I trust in their underwriters' decision-making."

–**SHANE PALMER,** Senior Vice President
Colemont Insurance Brokers, San Francisco, Calif.
Specializing in earthquake/DIC, hurricane/wind storm, complex layered accounts, construction and cargo/stock throughput for Fortune 1000 clients

"The market has softened radically and quickly. Our underwriter has recognized the change and offered reasonable solutions in both form and price without sacrificing underwriting integrity — proving it's not all about price.

RLI knows what my company objectives are, knows the market realities, and can assist me with meshing both to retain my good renewals and write new opportunities that arise."

–TIM DOWNEY,
Senior Vice President
Colemont Insurance Brokers, Phoenix, Ariz.
General property and casualty insurance products

WE'RE DIFFERENT.

WE HAVE A SPECIALTY FOCUS

When you think of typical insurance companies, RLI may not come to mind. That doesn't surprise us, because we're not like anyone else. We're a specialty insurance company, serving niche markets that most standard insurance companies don't have the resources — or the expertise — to handle.

Our diversified portfolio of property and casualty insurance and surety bonds allows us to offer nearly 40 different types of coverage. Each of our coverages addresses a niche, and each product group is under the leadership of underwriting experts who have years of experience in their particular line. If an existing product doesn't exactly meet a customer's needs, they have the talent — and the authority — to customize coverage to address those challenges.

When you look at RLI next year, you may not see the exact same company you see today. We'll keep offering products that make sense for our company and our customers; we'll discontinue the ones that don't. We count on our talented underwriters to grow their existing product lines and help us expand our portfolio. We're always on the lookout for underserved niches, books of business, other companies, and innovative products that will allow us to better meet the needs of our brokers, agents, and policyholders.

For example, in 2007 we launched RLI Reinsurance (RLI Re) — a new division based in Stamford, Conn., under the leadership of reinsurance veteran Kevin Brawley. RLI Re will underwrite property facultative reinsurance.

Also in 2007, we added coverages to the specialty lines we already offer. We're meeting the need for small-fleet coverage in RLI Transportation. RLI Marine added specialty cargo coverage to its product line, focusing on products like high-tech goods, capital equipment, temperature-sensitive products, and medications. And our Target Market Specialists group identified a need for coverage for the sports/leisure market.

At RLI, we don't follow a cookie cutter approach to underwriting. We've been customizing products to serve the specialty market for over 40 years.

AND THAT'S GOOD FOR YOU.

“When construction defect claims started surfacing, prompting many insurers to vacate the residential general contractor market,

RLI was innovative and came up with a way to write this class of business.”

–GARY SELINE, BROKER

Erickson-Larsen, Inc., Maple Grove, Minn.

General liability and excess

"We work in a very specialized niche of the insurance industry. Without RLI's ability and willingness to offer customized coverage forms for us, we would not be able to work with them. In our initial discussions with RLI, they quickly analyzed our form needs and developed a list of questions in a fraction of the time their competitors took to perform the same analysis. This was a huge factor in our decision to go with RLI."

–**MATT SACKETT,** President
Leisure/Sports Specialists, LLC, Fort Wayne, Ind.
General liability and property coverage for clients with participant liability and spectator liability exposures

"RLI's concept of selling a stand-alone personal umbrella was very innovative, providing a solution for the insured who may not be able to buy an umbrella policy from their primary home or auto carrier. Our sub-niche is to provide insurance solutions for unusual or difficult-to-place risks. That makes RLI a perfect fit for us. And the longevity of the program also engenders confidence. In over 20 years, the program has expanded to meet the needs of the agents selling the policy and the consumers buying the policy. Innovation and steadfastness are two of the best characteristics I think an insurance company can have."

–**JINNY TUSCANO,** Vice President, Administration
W.N. Tuscano Agency, Greensburg, Pa.
Personal and commercial surplus lines

WE'RE DIFFERENT.

WE ARE PROFITABLE YEAR AFTER YEAR

There is no question this was a challenging year. We saw competition intensify and prices come down. Our response? To stick with our principles — maintaining our pricing discipline and working to produce a profit despite a loss of market share. Overall, we experienced the best results in our history, thanks to our relentless pursuit of profitable underwriting. And while we didn't achieve premium growth in 2007, we preserved and maintained our profitability while positioning ourselves for the future.

We've been a part of this industry for a long time, so we know that soft markets are only temporary. In 2007, we focused on setting ourselves up for a changing marketplace. We made process improvements and implemented ways to obtain more efficient data and metrics to better manage our business.

We used our surplus capital to build support infrastructure, add talented people across all of our product lines, and create new product groups. We worked to implement the support and resources necessary to attract talented underwriters and to be ready to bring them on board when the time is right. And we further managed the surplus by repurchasing $133.3 million worth of our stock.

2007 also meant a renewed focus on enterprise risk management — identifying, measuring, and looking for ways to mitigate risks and maximize returns. We made significant reductions in our earthquake portfolio and brought wind exposures down in Hawaii where the risk-adjusted returns weren't justified.

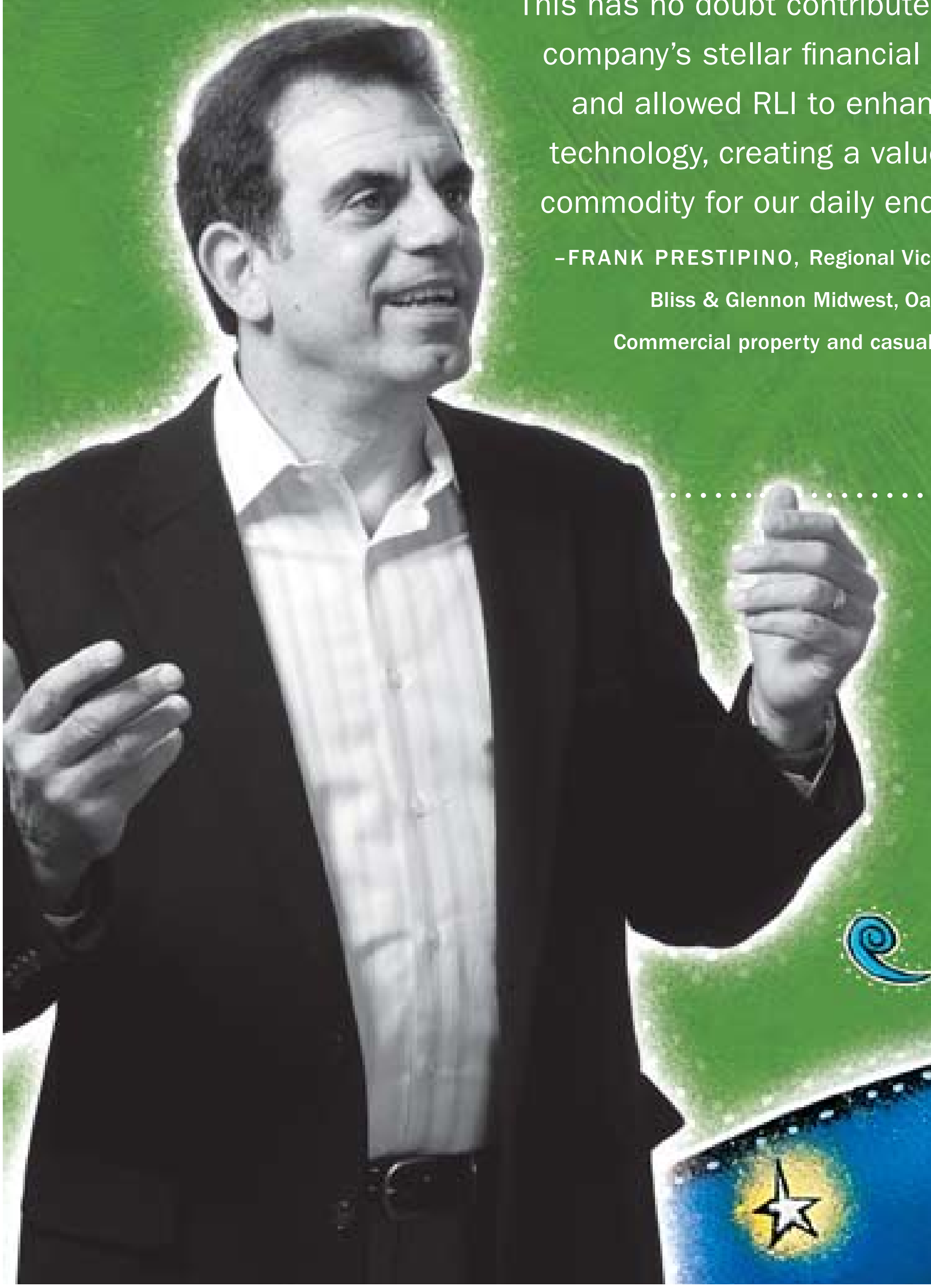
We also developed ongoing monitoring and target thresholds that help us manage risks and make RLI a stronger company overall. This helps us maintain our A+ rating by A.M. Best Company. And most importantly, it keeps RLI financially strong to meet our customers' future needs.

We have the potential to perform in the next 20 years as we have in the past 20. Our business model creates a tremendous opportunity for growth. When the time is right, we'll be ready.

AND THAT'S GOOD FOR YOU.

“RLI underwriters have exhibited flexibility in creating insurance programs within their appetite and provided comprehensive coverage at a fair premium — yet protected the assets of RLI. This has no doubt contributed to the company's stellar financial stability and allowed RLI to enhance their technology, creating a value-added commodity for our daily endeavors.”

–FRANK PRESTIPINO, Regional Vice President
Bliss & Glennon Midwest, Oak Brook, Ill.
Commercial property and casualty products



"RLI's long-term financial strength and ability to withstand several hard hits are two of the main reasons I do business with them with confidence. I know for a fact, based on past experience, that they will be there when I need them at claims time."

–KIM RANDALL, Property Director, Senior Vice President
Worldwide Facilities Inc., Los Angeles, Calif.
Property products, primarily earthquake/DIC and all risk

"RLI is a steady, long-term market, not a fast food, in-and-out market that requires you to replace coverage every couple of years as they change underwriting philosophy."

–JOHN KREBS, President
W. Brown & Associates, Irvine, Calif.
Property and casualty insurance products

WE'RE DIFFERENT.

WE GIVE OUR PEOPLE FREEDOM TO SUCCEED

We have a lot of talented people at RLI. People who are experts at information technology. Underwriters who are the best in the industry. Claims people who know how to deliver top-notch service to our customers in their time of need. And leaders who give these smart people the freedom to do their jobs.

Ask the people who work at RLI and they'll tell you how our entrepreneurial culture makes them feel. Empowered. Supported. Autonomous. Free. Free to expand their horizons, get out of their comfort zones, take risks, make mistakes — and learn from them.

We've grown by leaps and bounds over the last four decades. In 2007, we added new products like sports/leisure, and a new division called RLI Reinsurance. Those additions don't reduce the impact of the people and products we already have. Everyone influences and contributes to his or her individual area — and to the company as a whole.

RLI's product leaders are just that — leaders. They run their divisions day-to-day. They decide when it makes sense to grow, and when it doesn't. And underwriters are authorized to make quick decisions without waiting days for approval from someone at the home office.

These individual groups are supported by executives who have decades of experience in this industry and consider it their responsibility to clear away as many obstacles to performance as possible. Our people benefit from the latest in technology and expert support from the home office. Metrics are gathered and data delivered every day to help underwriters make faster, better decisions, and to help product leaders manage their portfolios.

In 2007, we developed a faster way to deliver catastrophe modeling data — putting more information and better tools into the hands of our underwriters. We're building a solid foundation of information technology systems that help us quickly get new products to market — a true differentiator in the industry.

As our founder Gerald Stephens said, "Traditional management focuses on what is. Creative management focuses on what can be." RLI people are always on the lookout for new and better solutions.

AND THAT'S GOOD FOR YOU.

“Having authority in the underwriters’ hands is one of the main reasons I like dealing with RLI.

It helps streamline the process and gives me an advantage over a competitor when I can return a decision quicker than another market or wholesaler.”

–RODNEY NUBIN,

Assistant Vice President
Socius Insurance Services Inc., Elgin, Ill.
Property, casualty, and
excess liability products

“RLI makes me look good in front of my customers. They think it’s me alone giving them lightning fast turnaround, no red tape, and quick decisions. But it’s a combination of me, my staff, and RLI together. When an issue arises that is outside my underwriting box, I go directly to Target Market Specialists and a decision is made. I don’t go through layers of bureaucracy.”

–**BRAD BROWN**, President
Southern Hospitality Underwriters, Griffin, Ga.
Program administrator for the lodging product
provided by RLI’s Target Market Specialists

“Ours is often a business driven by short timeframes or quick deadlines. Sifting through managerial layers is counterproductive not only from a time standpoint, but it also hinders relationship building — another industry key.”

–**DOMINIC GIAMBRONE**, Vice President
Travis-Pedersen and Associates, Chicago, Ill.
Commercial general liability and umbrella liability

WE'RE DIFFERENT.

WE GIVE BACK TO OUR EMPLOYEES AND COMMUNITIES

RLI is a company founded on the principles of the Golden Rule: Do unto others as you would have them do unto you.

No matter who you are, we want you to be rewarded by your relationship with RLI. Customers can expect top-notch support if they have a claim. Shareholders can be confident that RLI is a solid investment. Our local communities can count on our support for charitable causes. And our employees — from the executive team to those in the trenches — know that when they succeed, we reward them financially.

Unlike some companies, RLI earnings aren't enjoyed only by those who sit in the executive offices. All employees participate in incentive plans and earn contributions to their Employee Stock Ownership Plan (ESOP) and 401(k). We've been an ESOP company for more than 30 years. That means every person who works here is an owner of this company. But the ESOP isn't a gift; every dollar our employees earn is a direct result of their collective success. The more successful, the better the reward. So far the rewards have helped our employees achieve financial success they could never have imagined. In 2007, the ESOP/401(k) profit-sharing contributions were 15 percent of eligible earnings.

As we share monetarily with our employees, they in turn share those rewards with the communities in which they live. RLI employees and the company as a whole have donated millions of dollars — and hundreds of hours of time — to charitable causes throughout the country. We've collected toys and canned goods, participated in 5Ks and sat in dunk tanks in support of worthy causes. Our matching fund donates dollar to dollar up to $3,000 per employee for contributions made to qualified organizations. In 2007 alone, RLI and our employees contributed nearly $1.5 million to charitable and community endeavors.

If you invest in RLI, we'll invest in you. That's the Golden Rule at work.

AND THAT'S GOOD FOR YOU.

“For many years, RLI has partnered with Children’s Home to ensure children receive the care and support needed to become healthy, contributing members of our community. RLI’s investment in the Children’s Home mission includes funding for new pilot projects, matching of their employees’ gifts, and certainly the involvement of corporate executives on our Board of Trustees.

RLI’s philanthropic reach touches all ages — enhancing our community and helping build our future generation of leaders.”

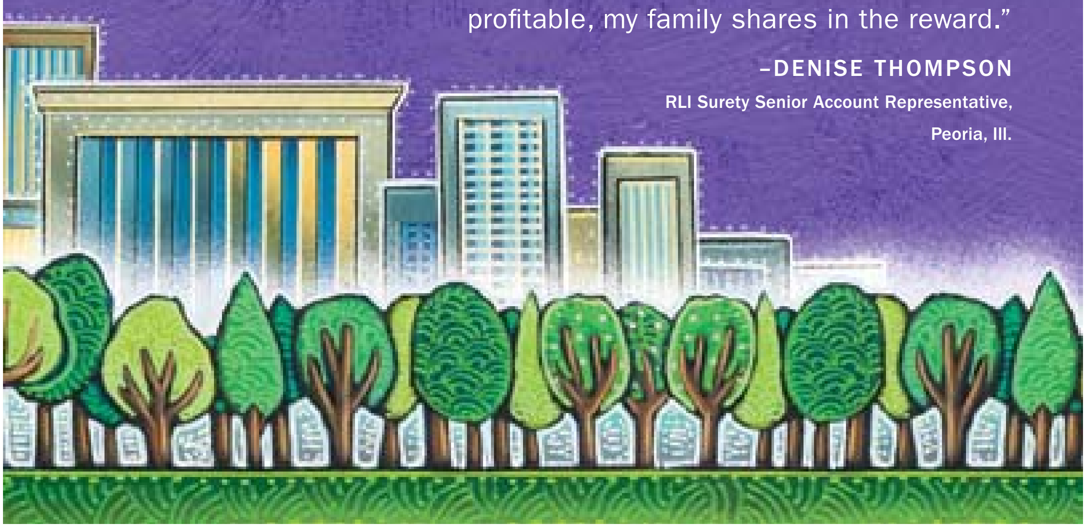
–BRIGITTE GRANT, Vice President of Development
Children’s Home Association of Illinois,
Peoria, Ill.

"Those in need tremendously benefit from the generosity and volunteer support RLI and its employees provide in supporting organizations that have a positive impact on our community. Consistently, RLI ranks as a top 10 organization in overall support of the community through the United Way. I have found the employees of RLI are proud to be an integral part of our community and committed to continuously improving the quality of life for everyone who lives here."

–**MICHAEL STEPHAN**, President
Heart of Illinois United Way, Peoria, Ill.

"Because RLI is an employee-owned company, each employee has a specific obligation and commitment to aid in this growth and evolution. As an employee and owner, I take great pride in knowing that my efforts, in conjunction with the efforts of every owner, help create the bottom line, and as RLI becomes more successful and profitable, my family shares in the reward."

–**DENISE THOMPSON**
RLI Surety Senior Account Representative,
Peoria, Ill.



WE'RE DIFFERENT.

WE PUT OUR CUSTOMERS FIRST AND SERVE THEM WELL

RLI is an enormously successful company with decades of profitability, a top-notch portfolio, and hundreds of talented, empowered employees. But without our customers, we cease to exist. Everything we do at RLI is focused on quickly providing the best possible support to those we serve — whether it's a broker, agent, policyholder, investor, or fellow employee. We consider everyone our customer, and putting others first is the way we do business.

In 2007, we made a lot of progress toward making our organization more efficient and improving work flow so we can provide more timely service. Our information technology experts are second-to-none. For our internal customers, they've built new data warehousing capabilities that make it easier to access internal information, so what once took four to five hours a month now takes 15 minutes. And they're constantly busy with new innovations and upgrades to applications that make it easier to do business with RLI.

Those technology services are a real benefit for our brokers and agents. They win business and build relationships when they are able to quickly make a decision, offer a quote, issue a policy, or take care of a claim.

We don't consider customer claims a burden; rather, they're an opportunity to keep our promises and build relationships. Our claim department is staffed with experts who have the knowledge to move claims along quickly. We work to understand every situation and determine the most appropriate adjustment.

Our employees who deal directly with policyholders spend significant effort building relationships. In soft markets like the one we are currently experiencing, those relationships go a long way toward keeping our customers when the competition drops prices, or bringing them back when the hard market returns.

Everyone at RLI — from our technology experts to our claims representatives, our receptionists to our attorneys — has a job for one reason: to serve the customer. That's a promise.

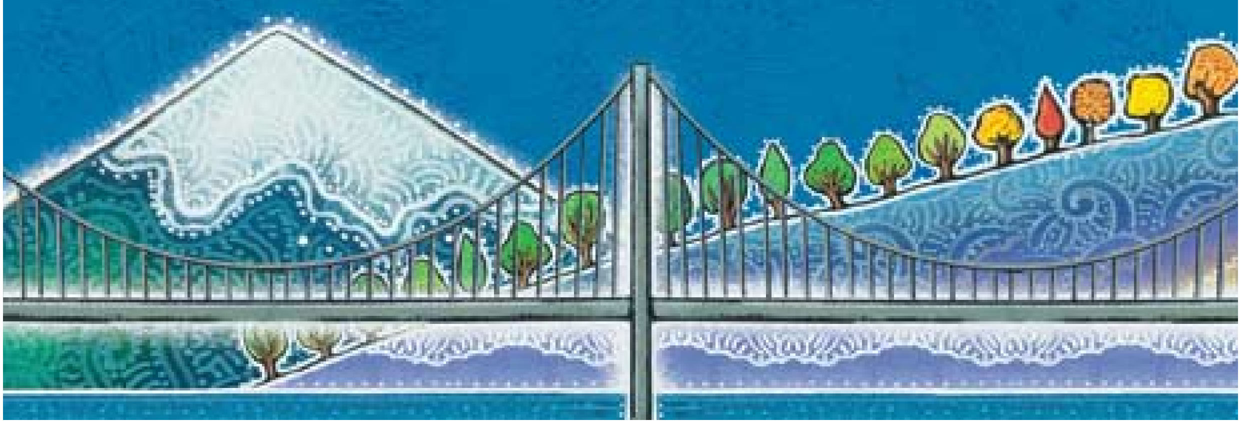
AND THAT'S GOOD FOR YOU.

“RLI’s claims staff is experienced and has quickly developed strong relationships with our insureds, some of whom have difficult personalities. RLI’s claims handling platform provides quick and timely responses while at the same time offering the flexibility to meet individual insureds’ needs.”

–**MATT SACKETT**, President
Leisure/Sports Specialists, LLC, Fort Wayne, Ind.
General liability and property coverage for clients with participant liability and spectator liability exposures

“Our systems are designed to make our branch staff more efficient. When efficiencies are gained, cost savings are realized. So if we can ensure that the systems do what they’re supposed to, then we eliminate the need for manual workarounds.”

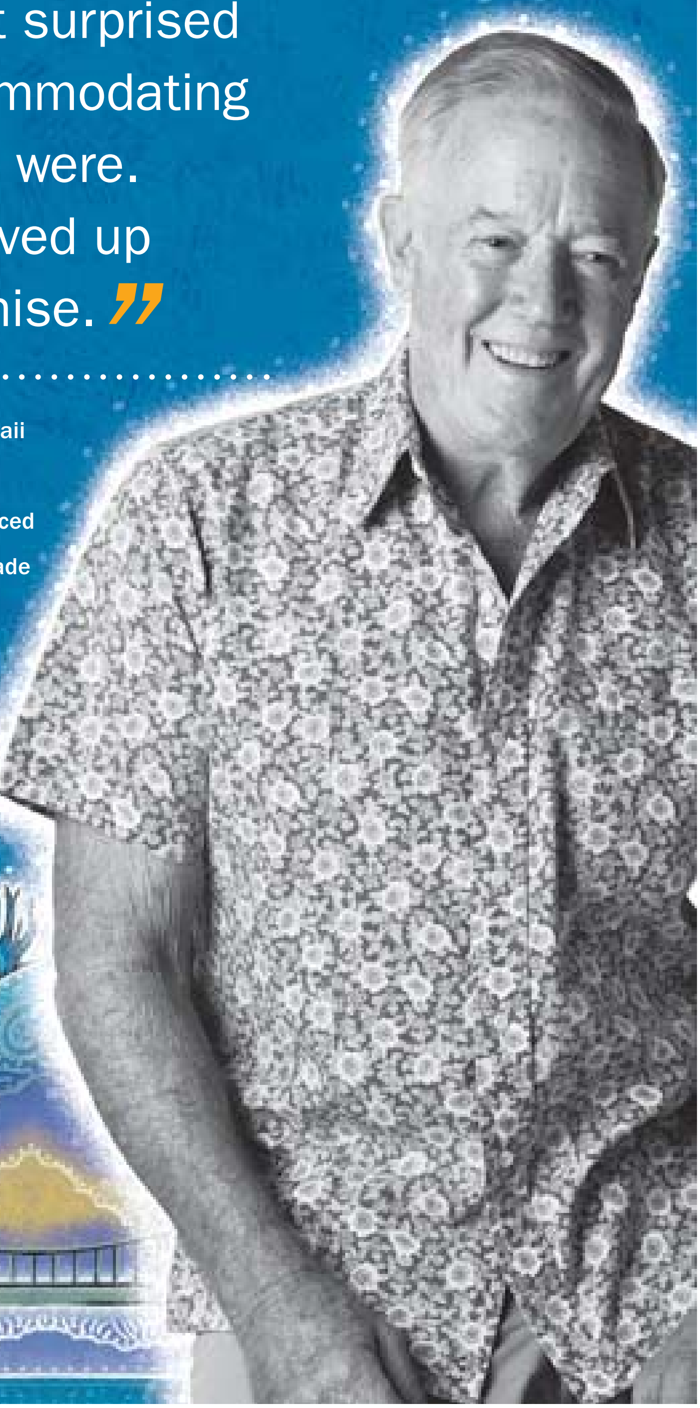
–**RHONDA JOHNSON**, Systems Liaison Director
RLI Branch Administration Department, Green Valley, Ariz.



“This claim ended up being a happy situation — and with the unusual aspects of this job, it could have easily gone the other way. There was flexibility in RLI’s viewing of our loss and in their assistance. We trusted each other.

I was almost surprised at how accommodating and fair they were. They really lived up to their promise.”

–DAVID GRAY, Maui, Hawaii
Homeowner whose RLI insurance policy replaced a water-damaged floor made of rare ohia wood in his remote Maui home



27
YEARS OF UNDERWRITING PROFIT IN LAST 31 YEARS.

38
new millionaires since 2005, thanks to our ESOP, which creates on average two new millionaires with each 10 percent increase in stock price.

WE'RE DIFFERENT.

AND YOU CAN COUNT ON IT.

25
YEARS OF SERVICE
TO RLI BY PRESIDENT AND CEO JON MICHAEL, ADDING TO THE 203 COMBINED YEARS OF LEADERSHIP PROVIDED BY KEY MANAGEMENT PEOPLE AND PRODUCT LEADERS.

11
new CPCUs who were awarded their designation in Hawaii in 2007.

$1 MILLION
pledged to expand the Children's Hospital of Illinois in Peoria.

$240 MILLION

GIVEN BACK TO SHAREHOLDERS

IN THE LAST TWO YEARS IN THE FORM OF DIVIDENDS AND BUYBACKS.

5K

DISTANCE RUN BY RLI TRANSPORTATION EMPLOYEES IN THE KAISER PERMANENTE CORPORATE RUN/WALK & FITNESS PROGRAM, WHICH PROMOTES HEALTH AND FITNESS AMONG METRO ATLANTA COMPANIES WHILE RAISING FUNDS FOR THE ATLANTA BRAVES FOUNDATION AND BOYS & GIRLS CLUBS OF METRO ATLANTA.

SIX TONS

of food collected by home office employees to support the Peoria Area Food Bank — the largest contribution in the food bank's history.

12 MEMBERS,

including RLI, in the National Underwriters' "Profit Hall of Fame," selected based on lowest average combined ratios over the past 12 years.

10 YEARS

RLI Transportation has been a part of the company.

7

NEW UNDERWRITERS GOING OUT TO DIFFERENT BRANCHES WHO ARE HOME-GROWN THROUGH RLI'S TRAINING PROGRAM – A UNIQUE PROJECT BEGUN BY THE LATE FRANK CLAIRMONT.

$128,562.70

Average account balance of the 687 participants in the RLI ESOP, which ended 2007 with a value of nearly $90 million.

FINANCIALS

DIFFERENT WORKS. RLI HAS SHOWN THAT REWARDING PEOPLE FOR A JOB WELL DONE DRIVES BOTTOM-LINE PROFIT. 2007 IS A GREAT EXAMPLE. ONCE AGAIN, EMPOWERED EMPLOYEES WITH STRONG INCENTIVE TO MEET CUSTOMER NEEDS DROVE OUR FINANCIAL SUCCESS. UNDERWRITING RESULTS WERE OUTSTANDING, INVESTMENT RESULTS SET RECORDS, AND OUR BALANCE SHEET HAS NEVER BEEN STRONGER.

REVIEW OF OPERATIONS

Net earnings for 2007 and 2006 represented consecutive record earnings as both underwriting and investment income improved. Included in underwriting income were the effects of favorable development on prior years' loss reserves. The more significant of these developments occurred in our casualty and surety segments. In 2007, favorable development on prior accident years' casualty and surety reserves totaled $98.5 million. In 2006 and 2005, underwriting income included favorable development on prior accident years' loss reserves of $43.4 million and $62.5 million, respectively, predominantly from the casualty segment.

During 2007, we performed a detailed analysis of recent favorable loss trends and reserve risk factors in 2007. Our review included an assessment of industry information. The review resulted in certain refinements and enhancements to our reserving methodologies to include a more detailed consideration of the impact of risk factors on total recorded reserves. Overall, the enhancements and improved information provide better and faster feedback to management regarding loss development, resulting in greater overall confidence in the actuarial estimates. This, and the increased stability in our business in the last few years, has diminished the needed level of carried reserves above the actuarial point estimate. We believe that these reserve methodology enhancements have improved the overall accuracy of our best estimate of loss and loss adjustment expense reserves. Over half of the favorable prior years' loss development recorded in 2007 was the result of this detailed assessment and resulting changes in our booked reserves.

Bonuses earned by executives, managers, and associates are predominantly influenced by corporate performance (operating earnings and return on capital). Bonus and profit sharing-related expenses related to the aforementioned favorable prior years' reserve developments totaled $9.9 million, $3.5 million, and $4.2 million, respectively, for 2007, 2006, and 2005. These performance-related expenses affected policy acquisition, insurance operating, and general corporate expenses. Investee earnings declined in 2007 due in large part to the fourth quarter 2006 sale of the equity in one of our investee holdings.

Net earnings (in thousands)	2007	2006	2005
Underwriting income	**$155,765**	$ 84,056	$ 68, 883
Net investment income	**78,901**	71,325	61,641
Net realized investment gains	**28,966**	31,045	16,354
Debt interest	**(6,997)**	(6,581)	(7,118)
Corporate expenses	**(9,474)**	(8,069)	(6,780)
Investee earnings	**7,315**	15,117	10,896
Pretax earnings	**$254,476**	$186,893	$143,876
Income tax	**(78,609)**	(52,254)	(36,742)
Net earnings	$175,867	$134,639	$107,134

RLI INSURANCE GROUP

In general, we have experienced continued softening in the marketplace over the last several years. As reflected in the table on the next page, premium writings were down in 2007. Increased competition and capacity in the marketplace have resulted in rate declines in our casualty and property segments. In addition, targeted reductions in our catastrophe exposure resulted in reduced property writings in

2007, as we continue to manage our exposure to catastrophic events (wind and earthquake). In 2006, we posted moderate growth overall, as the property segment saw significant premium increases through the first three quarters of the year. Rates in catastrophe-prone areas, particularly those exposed to wind, were up markedly during this period. Wind rates softened toward the end of 2006. Underwriting income was up considerably in our insurance operations for both 2007 and 2006. Strong underwriting results for the casualty and surety segments were magnified by favorable development on prior accident years' loss reserves. The property segment benefited from light hurricane seasons in 2007 and 2006, following a severe hurricane season in 2005. In addition, loss frequency and severity declined in 2007, particularly with respect to the discontinued construction program and habitational fire. The following table and narrative provide a more detailed look at individual segment performance over the last three years.

Gross premiums written (in thousands)	2007	2006	2005
Casualty	**$ 462,591**	$506,887	$519,115
Property	**206,041**	225,610	176,228
Surety	**70,702**	66,516	60,669
Total	**$ 739,334**	$799,013	$756,012
Underwriting income (loss) (in thousands)			
Casualty	**$ 101,863**	$ 68,393	$ 72,024
Property	**30,569**	4,988	(8,342)
Surety	**23,333**	10,675	5,201
Total	**$ 155,765**	$ 84,056	$ 68,883
Combined ratio			
Casualty	**70.3**	80.4	80.0
Property	**77.9**	95.9	110.3
Surety	**62.8**	82.1	90.0
Total	**71.4**	84.1	86.0

CASUALTY

Casualty gross premiums written were down 9 percent in 2007 following a decline of 2 percent in 2006 and virtually flat results in 2005. Only the personal umbrella and specialty program coverages experienced growth while all other lines were down by varying degrees as marketplace conditions for this segment continued to soften. General liability, our largest product in this segment, experienced a rate decline of 12 percent during 2007. General liability posted gross writings of $177.3 million, down 9 percent from 2006 and 13 percent from 2005. While rates have deteriorated, this coverage continued to sustain a good margin and profitable results. Transportation and executive products also sustained declines in gross writings in 2007, down 15 percent and 21 percent, respectively, due to continued rate and volume declines. Our personal umbrella coverage, which is less susceptible to softening market conditions, posted a 5 percent increase in gross writings in 2007. Despite competitive pressures in the casualty segment, we remained disciplined in writing only those accounts which we believe will provide adequate returns. The soft marketplace is likely to continue suppressing premium growth in 2008.

Underwriting income for the casualty segment was $101.9 million in 2007, compared to $68.4 million in 2006 and $72.0 million in 2005. These results translated into combined ratios of 70.3, 80.4 and 80.0, respectively, for 2007, 2006, and 2005. Favorable development on prior accident years' loss reserves totaled $87.4 million, $40.0 million, and $57.5 million, respectively, for 2007, 2006, and 2005. This favorable emergence was concentrated on accident years 2002-2006, with the more recent years representing a larger portion of the release. In each of these years, actuarial studies indicated that cumulative experience attributable to some casualty coverages for mature accident years was considerably lower than the reserves booked, resulting in the release of reserves. The 2007 result was further impacted by a detailed analysis of recent favorable loss trends and reserve risk factors. This review resulted in certain refinements to our reserving methodologies. This and the increased stability in our business in the last few years diminished the needed level of carried reserves above the actuarial point estimate. Over half of the favorable prior years' loss development recorded in 2007 was the result of this detailed assessment and resulting reductions to our booked reserves.

PROPERTY

Gross premiums written in the property segment declined 9 percent in 2007 after posting a 28 percent increase in 2006 and a 1 percent decline in 2005. The decline in 2007 was reflective of the softening marketplace for commercial property, impacted by a second consecutive year of benign hurricane activity. Softening rates for coastal wind-exposed risks, combined with increased competition for non-catastrophe exposed accounts, resulted in a reduction in premium writings. In addition, targeted reductions in our catastrophe exposure reduced property writings in 2007, as we continued to manage our exposure to catastrophic events (wind and earthquake). In 2006, we posted higher premiums, as the property segment saw significant premium increases through the first three quarters of the year, while our actual exposure to these events declined. Rates in catastrophe-prone areas, particularly those exposed to wind, were up markedly during this period. Wind rates softened toward the end of 2006. In 2005, we experienced a significant decline in our construction coverage, which we exited during the fourth quarter of that year. Earthquake coverage premiums had dropped in 2005 as we focused on reducing our exposure. Our marine division that was launched in 2005 posted gross writings of $45.3 million in 2007, compared to $28.7 million in 2006 and $12.5 million in 2005.

Underwriting income was $30.6 million in 2007, compared to income of $5.0 million in 2006 and a loss of $8.3 million in 2005. Results for 2007 were impacted by a benign hurricane season, a decline in losses from tornadoes and hail storms, as well as lower frequency and severity of commercial fire losses. Additionally, unlike the previous two years, the segment's results for 2007 were not adversely affected by losses on discontinued construction coverages. In 2006, although we experienced a light hurricane season, other catastrophe losses such as tornadoes and hailstorms, along with increased severity of commercial fire losses, served to hamper the segment's income. Favorable loss reserve development from the two prior years' hurricane reserves contributed $4.2 million to profits in 2006. However, additional charges were incurred from the run-off of the previously exited construction coverage, which amounted to $13.7 million in 2006 compared to charges of $13.5 million in 2005. The 2005 results were also affected by the second straight year of severe hurricane activity, which negatively impacted the segment by $22.3 million.

SURETY

Surety gross premiums written increased for the fourth straight year. With the exception of contract coverages, all major coverages in this segment produced increases in 2007. Total segment revenue followed suit, improving by 6 percent in 2007, compared to 15 percent and 9 percent in 2006 and 2005, respectively.

Underwriting income totaled $23.3 million in 2007, doubling for the second straight year. Underwriting income totaled $10.7 million in 2006, compared to $5.2 million in 2005. These results reflect the benefit of re-underwriting efforts initiated during 2003 and 2004, particularly with respect to contract surety coverages. In addition, underwriting income in 2007 included

$11.1 million of favorable development on prior accident years' loss reserves. The majority of this development was the result of our actuary's risk reassessment and reflection of significantly lower reserve risk, following continued favorable loss trends and further progress on the Commercial Money Center litigation.

NET INVESTMENT INCOME AND REALIZED INVESTMENT GAINS

During 2007, net investment income increased by 11 percent due to asset allocation changes which resulted in an increased yield. On an after-tax basis, net investment income increased by 10 percent. The average annual yields on our investments were as follows for 2007, 2006, and 2005:

	2007	2006	2005
Pretax yield			
Taxable (on book value)	**5.46%**	5.22%	4.90%
Tax-exempt (on book value)	**4.07%**	4.02%	3.98%
Equities (on market value)	**3.03%**	2.78%	2.80%
After-tax yield			
Taxable (on book value)	**3.55%**	3.40%	3.19%
Tax-exempt (on book value)	**3.85%**	3.81%	3.77%
Equities (on market value)	**2.60%**	2.39%	2.40%

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 percent, our tax-exempt municipal bonds are subject to a tax rate of 5 percent, and our dividend income is generally subject to a tax rate of 14 percent. During the year, we focused on purchasing high-quality fixed-income investments, primarily in the 5- to 15-year range of the yield curve.

INTEREST AND GENERAL CORPORATE EXPENSE

Interest on debt was higher in 2007 and 2005 as our short-term debt obligations were higher in those years. In 2006, we paid down our short-term debt during the year. We incur short-term debt through the use of reverse repurchase transactions. The use and repayment of such agreements remains an investment decision, based on whether the allocation of available cash flow to purchase debt securities generates a greater amount of investment income than would be paid in interest expense. Decisions regarding future short-term debt management will be based on available cash flow and the interest rate environment.

In 2007, 2006, and 2005, we incurred $6.0 million in interest on our long-term debt. Our long-term debt consists of $100.0 million in senior notes that mature on January 15, 2014, and pay interest semi-annually at the rate of 5.95 percent.

General corporate expenses tend to fluctuate relative to our executive compensation plan and have increased in each of the last three years due to strong operating results. Our model measures comprehensive earnings against a minimum required return on our capital. Bonuses are earned as we generate earnings in excess of this required return. In each of the last three years, we have generated earnings significantly above the required return, resulting in increased bonuses earned. Additionally, director fees and travel rose in each of the last three years. Legal expense increased in 2006 and 2005, but declined in 2007, due to the settlement of certain anti-trust litigation. The settlement was reached in May 2007, resulting in a full release from the lawsuit without payment of any damages or settlement fees.

INVESTEE EARNINGS

We maintain a 40 percent equity interest in Maui Jim, a manufacturer of high-quality polarized sunglasses. Maui Jim's chief executive officer owns a controlling majority of the outstanding shares of Maui Jim. In 2007, we recorded $7.3 million in earnings from this investment compared to $8.8 million in 2006 and $8.4 million in 2005. While sunglass sales advanced 15 percent in 2007, costs associated with expansion efforts and the discontinuance of certain sunglass styles resulted in a decline in earnings. In 2007, Maui Jim invested heavily in new sales and distribution offices (nationally and internationally), a new state-of-the-art Rx lab for prescription sunglasses, as well as new display programs and duty free and corporate gift channels across the world. In addition, the company recorded higher-than-normal expense associated with the discontinuance of some slow-moving styles and the replacement of temples on a specific product line.

Also included in investee earnings in 2006 and 2005 were $6.3 million and $2.5 million, respectively, from our investment in Taylor, Bean & Whitaker Mortgage Corp. (TBW). In the fourth quarter of 2006, we sold our equity in TBW for $32.5 million, resulting in a pretax realized gain of $16.2 million.

INCOME TAXES

Our effective tax rates were 30.9 percent, 28.0 percent, and 25.5 percent for 2007, 2006, and 2005, respectively. Effective rates are dependent upon components of pretax earnings and the related tax effects. The effective rate for 2007 was higher than 2006 and 2005 due to the increase in underwriting income and net realized gains, which were taxed at 35.0 percent. Partially offsetting tax expense in 2007 was a $2.4 million tax benefit recorded in the third quarter to reflect the benefit expected to be realized upon the future payment of certain accrued compensation. Results for 2006 include the favorable resolution of a tax examination. During 2006, the Internal Revenue Service concluded an examination of our tax years 2000 through 2004. As a result of this exam, we recorded a $3.2 million tax benefit, resulting from a change in tax estimate related to the sale of assets. In 2006 and 2005, a tax benefit was realized associated with a dividend declared and paid in 2007 and 2006, respectively, from our unconsolidated investee, Maui Jim. As required under Statement of Financial Accounting Standards (SFAS) 109, "Accounting for Income Taxes," the tax benefit results from 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. In addition, our pretax earnings in 2007 included $29.8 million of investment income that is wholly or partially exempt from federal income tax, compared to $28.7 million and $28.2 million in 2006 and 2005, respectively.

OUTLOOK FOR 2008

The insurance marketplace, and in particular the excess and surplus lines segment, is subject to cycles involving alternating periods of price increases ("hard markets") and price decreases ("soft markets"). Pricing in the overall insurance marketplace has been on the decline for the past several years. We expect this trend to continue, although each of our insurance segments will likely be impacted by varying degrees. We expect to see premium growth in selected products in 2008 and underwriting income in all three of our insurance segments absent any major catastrophe. Specific details regarding events in our insurance segments follow.

CASUALTY

We expect the price softening seen in 2007 to continue in 2008. We will maintain our profit-focused strategy and look to broaden our production sources and product offerings as a means to holding our market position and potentially growing this segment. Rising profitability and rising levels of capital for the industry will serve to intensify competition for this segment. We look to our ability to exercise underwriting discipline and select quality risks to continue our profitability in 2008.

PROPERTY

The industry has taken advantage of recent quiet Atlantic hurricane seasons to rebuild capital depleted by hurricane events in 2005. We believe property pricing will continue to soften in the year ahead. Pricing actions continue to be tempered by greater rating agency focus on catastrophe claims-paying ability. We expect our marine business to grow moderately due to new product offerings and an increased focus on writing inland marine coverages. In addition, the recently launched facultative reinsurance product will be additive to premiums in 2008. We expect the segment to produce underwriting income in 2008, absent any major catastrophes.

SURETY

The surety segment, like our other segments, will feel the pressure of a softening marketplace. Our experienced underwriting staff coupled with our effective use of technology (IT platforms and decision-support tools) point to continued profitability. We expect to see modest premium growth in this segment in 2008.

INVESTMENTS

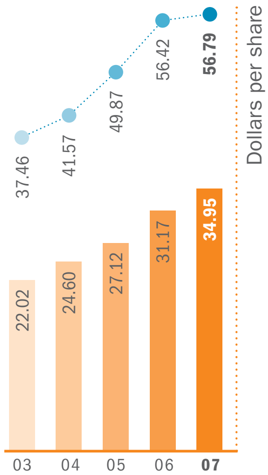
Within our investment portfolio, we expect investment income to be relatively flat due to cash flow from operations funding a share repurchase program. At December 31, t we have $85.7 million remaining on the authorized repurchase plan. In addition, reinvestment rates into fixed income securities may be less than previous rates. Twenty percent of our portfolio is invested in equity securities. We expect the dividend income on these securities to grow and the value of this portfolio will be dictated by the performance of the general stock market, which is difficult to predict.

FORWARD LOOKING STATEMENTS

Forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 appear throughout this report. These statements relate to our current expectations, beliefs, intentions, goals, or strategies regarding the future and are based on certain underlying assumptions by us. These forward looking statements generally include words such as “expect,” “will,” “should,” “anticipate,” “believe,” and similar expressions. Such assumptions are, in turn, based on information available and internal estimates and analyses of general economic conditions, competitive factors, conditions specific to the property and casualty insurance industry, claims development, and the impact thereof on our loss reserves, the adequacy of our reinsurance programs, developments in the securities market and the impact on our investment portfolio, regulatory changes and conditions, and other factors. Actual results could differ materially from those expressed in, or implied by, these forward looking statements. We assume no obligation to update any such statements. You should review the various risks, uncertainties, and other factors listed from time to time in our Securities and Exchange Commission filings.

To view our comprehensive financial information, please refer to our 2007 RLI Corp. Financial Report.

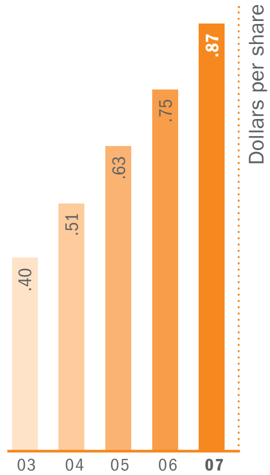
VISUAL REVIEW OF OPERATIONS



BOOK VALUE AND STOCK PRICE GROWTH

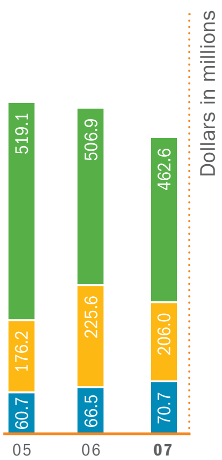
Since 2002, book value has grown 59 percent and our stock price has risen 52 percent.

Stock price
Book value



DIVIDENDS PER SHARE

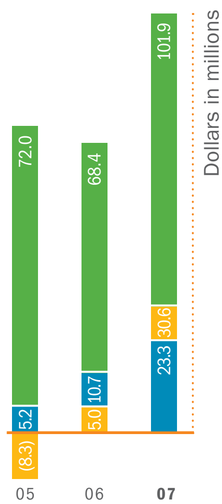
We have paid and increased dividends for 32 straight years.



SEGMENT PREMIUMS

Overall gross premiums written decreased 7 percent in 2007.

Casualty
Property
Surety



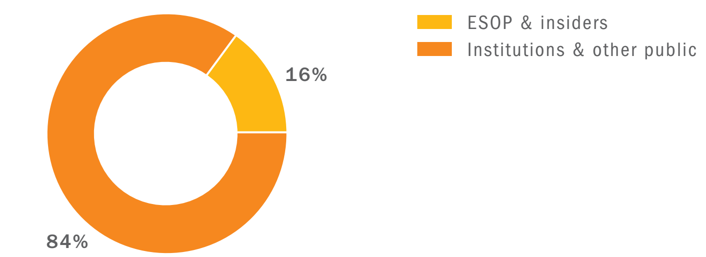
SEGMENT PROFITS

Our three segments generated $155.8 million in 2007 underwriting profit.

Casualty
Property
Surety

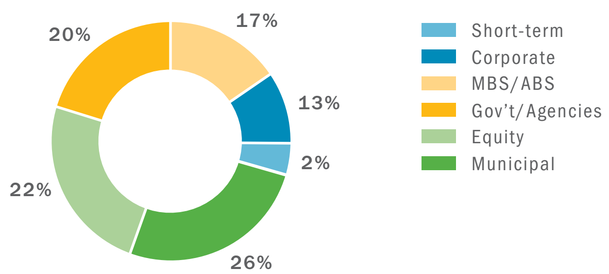
INSIDER OWNERSHIP

Sixteen percent of our stock is owned by RLI associates and other insiders.



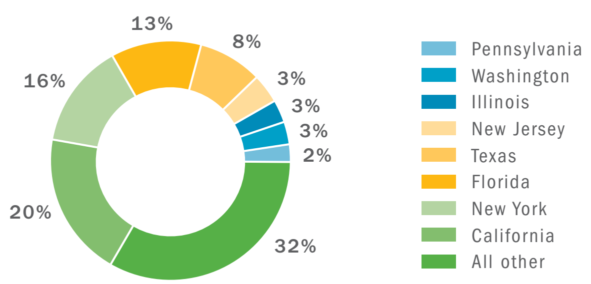
INVESTMENT PORTFOLIO

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



PREMIUM BY STATE

We operate in every state. Here are the top eight, by gross premiums written.



VISUAL REVIEW OF OPERATIONS, cont.

	COVERAGES	CUSTOMERS	COMPETITORS
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, commercial contracting risks, small non-profits, multinational and national corporations, personal lines accounts such as personal umbrella customers nationwide, transportation fleets, and truck owners/operators.	Competitors vary by product, but generally include St. Paul/Travelers, Scottsdale Insurance, Lexington Insurance Company, General Star, Great West Casualty, AIG, CNA, and Chubb.
PROPERTY	All risk, commercial property, commercial earthquake, difference in conditions, fire and associated perils, facultative reinsurance, homeowners insurance, inland marine, and marine cargo, hull, and other liabilities.	Our commercial property insureds include smaller business owners to large companies 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, MOAC, AIG, and Fireman's Fund in commercial lines. Hawaii competitors include First Insurance Company.
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 principals 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 ACE, SAFECO, CNA Surety, and St. Paul/Travelers.

DISTRIBUTION CHANNELS

GROSS PREMIUMS WRITTEN

COMBINED RATIO

	retail agent/broker	wholesale broker	general agency
General liability		●	
Commercial and personal umbrella	●	●	●
Transportation	●		
Executive products	●	●	
Programs	●		●

	in millions	% change
General liability	$177.3	(8.9)
Commercial and personal umbrella	102.2	0.3
Transportation	65.3	(15.3)
Exec. products	52.8	(21.1)
Programs	33.3	5.0
Other	31.7	(8.4)
Total	**$462.6**	**(8.7)**

	loss ratio	exp ratio	combined
2007	**39.6**	**30.7**	**70.3**
2006	51.1	29.3	80.4
2005	50.6	29.4	80.0
2004	67.3	27.4	94.7
2003	72.1	26.3	98.4

	retail agent/broker	wholesale broker	general agency
E&S property		●	
Earthquake / DIC		●	
Marine	●	●	
Personal lines	●		●

	in millions	% change
E&S property	$ 81.7	(25.9)
Earthquake/DIC	64.3	(9.3)
Marine	45.3	57.8
Other	14.7	(7.0)
Total	**$206.0**	**8.7**

	loss ratio	exp ratio	combined
2007	**40.3**	**37.6**	**77.9**
2006	56.0	39.9	95.9
2005	68.7	41.6	110.3
2004	42.6	36.6	79.2
2003	30.1	33.7	63.8

	retail agent/broker	wholesale broker	general agency
Miscellaneous bonds	●		
Energy bonds	●		
Commercial bonds	●		
Contract bonds	●		

	in millions	% change
Miscellaneous	$ 22.5	5.6
Energy	18.4	14.3
Commercial	18.1	9.7
Contract	11.7	(8.6)
Total	**$ 70.7**	**6.3**

	loss ratio	exp ratio	combined
2007	**(1.3)**	**64.1**	**62.8**
2006	17.3	64.8	82.1
2005	27.6	62.4	90.0
2004	38.5	61.7	100.2
2003	50.2	64.0	114.2

CONSOLIDATED BALANCE SHEETS

The summary financial statements are excerpted from the audited financial statements contained in the 2007 RLI Corp. Financial Report.

in thousands, except per share data — Years Ended December 31	2007	2006
ASSETS		
Investments:		
Fixed income:		
Available-for-sale, at fair value (amortized cost – $1,274,734 in 2007 and $1,240,020 in 2006)	**$1,283,305**	$1,234,571
Held-to-maturity, at amortized cost (fair value – $75,673 in 2007 and $108,730 in 2006)	**73,648**	106,310
Trading, at fair value (amortized cost – $15,350 in 2007 and $15,125 in 2006)	**15,413**	14,960
Common stock available-for-sale, at fair value (cost – $216,465 in 2007 and $201,443 in 2006)	**359,513**	368,195
Preferred stock available-for-sale, at fair value (cost – $39,133 in 2007)	**34,167**	–
Short-term investments, at cost, which approximates fair value	**73,731**	104,205
Total investments	**$1,839,777**	**$1,828,241**
Cash	**–**	–
Accrued investment income	**18,296**	18,628
Premiums and reinsurance balances receivable, net of allowances for uncollectible amounts of $13,336 in 2007 and $21,620 in 2006	**105,937**	126,021
Ceded unearned premiums	**71,021**	97,596
Reinsurance balances recoverable on unpaid losses and settlement expenses, net of allowances for uncollectible amounts of $18,877 in 2007 and $16,806 in 2006	**417,250**	525,671
Deferred policy acquisition costs, net	**78,882**	73,817
Property and equipment, at cost, net of accumulated depreciation of $40,509 in 2007 and $38,060 in 2006	**20,050**	20,590
Investment in unconsolidated investees	**38,162**	36,667
Goodwill, net of accumulated amortization of $4,700 in 2007 and 2006	**26,214**	26,214
Other assets	**10,934**	17,851
Total assets	**$2,626,523**	**$2,771,296**

(continued)

Years Ended December 31	2007	2006
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Unpaid losses and settlement expenses	**$1,192,178**	$1,318,777
Unearned premiums	**355,522**	387,811
Reinsurance balances payable	**38,273**	54,975
Notes payable, short-term debt	**27,975**	–
Income taxes – current	**–**	8,318
Income taxes – deferred	**25,042**	27,069
Bonds payable, long-term debt	**100,000**	100,000
Accrued expenses	**39,303**	34,690
Other liabilities	**73,808**	83,136
Total liabilities	**$1,852,101**	**$2,014,776**
Shareholders' equity:		
Common stock ($1 par value, authorized 50,000,000 shares, issued 31,869,596 shares in 2007 and 31,689,740 shares in 2006)	**31,870**	31,690
Paid-in capital	**192,446**	187,632
Accumulated other comprehensive earnings net of tax	**95,701**	105,145
Retained earnings	**749,767**	594,147
Deferred compensation	**7,980**	7,744
Treasury stock, at cost (9,714,456 shares in 2007 and 7,416,762 shares in 2006)	**(303,342)**	(169,838)
Total shareholders' equity	**774,422**	756,520
Total liabilities and shareholders' equity	**$2,626,523**	**$2,771,296**

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE EARNINGS

The summary financial statements are excerpted from the audited financial statements contained in the 2007 RLI Corp. Financial Report.

in thousands, except per share data — Years Ended December 31	2007	2006	2005
Net premiums earned	**$ 544,478**	$ 530,338	$ 491,307
Net investment income	**78,901**	71,325	61,641
Net realized investment gains	**28,966**	31,045	16,354
Consolidated revenue	**652,345**	632,708	569,302
Losses and settlement expenses	**190,868**	256,889	251,170
Policy acquisition costs	**155,610**	145,776	136,058
Insurance operating expenses	**42,235**	43,617	35,196
Interest expense on debt	**6,997**	6,581	7,118
General corporate expenses	**9,474**	8,069	6,780
Total expenses	**405,184**	460,932	436,322
Equity in earnings of unconsolidated investees	**7,315**	15,117	10,896
Earnings before income taxes	**254,476**	186,893	143,876
Income tax expense (benefit):			
Current	**75,551**	59,942	40,481
Deferred	**3,058**	(7,688)	(3,739)
Income tax expense	**78,609**	52,254	36,742
Net earnings	**$ 175,867**	$ 134,639	$ 107,134
Other comprehensive earnings (loss), net of tax			
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	**$ 9,339**	$ 32,011	$ (12,594)
Less: Reclassification adjustment for gains included in net earnings	**(18,783)**	(9,651)	(10,638)
Other comprehensive earnings (loss)	**(9,444)**	22,360	(23,232)
Comprehensive earnings	**$ 166,423**	$ 156,999	$ 83,902

(continued)

in thousands, except per share data — Years Ended December 31	2007	2006	2005
Earnings per share:			
Basic — Net earnings per share	**$7.46**	$5.40	$4.21
Comprehensive earnings per share	**$7.06**	**$6.30**	**$3.30**
Earnings per share:			
Diluted — Net earnings per share	**$7.30**	$5.27	$4.07
Comprehensive earnings per share	**$6.91**	**$6.14**	**$3.19**
Weighted average number of common shares outstanding:			
Basic	**23,574**	24,918	25,459
Diluted	**24,085**	25,571	26,324

CONSOLIDATED STATEMENTS OF CASH FLOWS

The summary financial statements are excerpted from the audited financial statements contained in the 2007 RLI Corp. Financial Report.

in thousands, except per share data — Years Ended December 31	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Net earnings	**$ 175,867**	$ 134,639	$ 107,134
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Net realized investment gains	**(28,966)**	(31,045)	(16,354)
Depreciation	**3,567**	3,503	3,228
Other items, net	**10,137**	5,783	11,311
Change in: Accrued investment income	**332**	(1,654)	(1,791)
Premiums and reinsurance balances receivable (net of direct write-offs and commutations)	**20,084**	873	19,773
Reinsurance balances payable	**(16,702)**	(12,480)	19,464
Ceded unearned premium	**26,575**	17,072	(13,221)
Reinsurance balances recoverable on unpaid losses	**108,421**	67,538	(129,029)
Deferred policy acquisition costs	**(5,065)**	(4,340)	(2,331)
Accounts payable and accrued expenses	**4,613**	3,005	9,693
Unpaid losses and settlement expenses	**(126,599)**	(13,089)	199,267
Unearned premiums	**(32,289)**	4,128	16,479
Income taxes: Current	**(12,250)**	6,823	(7,187)
Deferred	**3,058**	(7,688)	(3,739)
Stock option excess tax benefit	**(2,042)**	(2,930)	–
Changes in investment in unconsolidated investees: Undistributed earnings	**(7,315)**	(15,117)	(10,896)
Dividends received	**5,940**	16,500	–
Net loss (proceeds) from trading portfolio activity	**(343)**	254	(3,774)
Net cash provided by operating activities	**$ 127,023**	**$ 171,775**	**$ 198,027**

(continued)

in thousands, except per share data	Years Ended December 31	2007	2006	2005
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of: Fixed income, held-to-maturity		**$ –**	$ –	$ (3,024)
Fixed income, available-for-sale		**(339,334)**	(412,019)	(407,658)
Equity securities, available-for-sale		**(101,332)**	(139,462)	(73,519)
Short-term investments, net		**–**	(61,548)	–
Property and equipment		**(4,456)**	(4,590)	(10,538)
Note receivable		**–**	(5,000)	(6,000)
Proceeds from sale of: Fixed income, available-for-sale		**99,360**	231,385	149,724
Equity securities, available-for-sale		**77,040**	146,635	72,374
Short-term investments, net		**18,926**	–	38,506
Property and equipment		**1,429**	1,356	4,787
Investment in unconsolidated investee		**–**	32,499	–
Proceeds from call or maturity of: Fixed income, held-to-maturity		**32,722**	28,215	25,363
Fixed income, available-for-sale		**199,427**	117,204	55,578
Note receivable		**9,500**	2,000	1,500
Net cash used in investing activities		**$ (6,718)**	$ (63,325)	$ (152,907)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of short-term debt		**80,619**	35	214
Payment on short-term debt		**(52,644)**	(15,576)	(31,512)
Stock option excess tax benefit		**2,042**	2,930	–
Proceeds from stock option exercises		**2,952**	3,254	1,437
Treasury shares purchased		**(133,268)**	(81,069)	–
Cash dividends paid		**(20,006)**	(18,024)	(15,259)
Net cash used in financing activities		**$ (120,305)**	$ (108,450)	$ (45,120)
Net decrease in cash		**–**	–	–
Cash at beginning of year		**–**	–	–
Cash at end of year		**$ –**	$ –	–

SELECTED FINANCIAL DATA

The following is selected financial data of RLI Corp. and Subsidiaries for the 11 years ended December 31, 2007.

in thousands, except per share data	2007	2006	2005	2004
OPERATING RESULTS				
Gross premiums written (1)	**$ 739,334**	799,013	756,012	752,588
Consolidated revenue	**$ 652,345**	632,708	569,302	578,800
Net earnings	**$ 175,867**	134,639	107,134	73,036
Comprehensive earnings (2)	**$ 166,423**	156,999	83,902	81,354
Net cash provided from operating activities	**$ 127,023**	171,775	198,027	188,962
FINANCIAL CONDITION				
Total investments	**$ 1,839,777**	1,828,241	1,697,791	1,569,718
Total assets	**$ 2,626,523**	2,771,296	2,735,870	2,468,775
Unpaid losses and settlement expenses	**$ 1,192,178**	1,318,777	1,331,866	1,132,599
Total debt	**$ 127,975**	100,000	115,541	146,839
Total shareholders' equity	**$ 774,422**	756,520	692,941	623,661
Statutory surplus (3)	**$ 752,004**	746,905	690,547	605,967 (6)
SHARE INFORMATION (3)				
Net earnings per share:				
Basic	**$ 7.46**	5.40	4.21	2.90
Diluted	**$ 7.30**	5.27	4.07	2.80
Comprehensive earnings per share: (2)				
Basic	**$ 7.06**	6.30	3.30	3.23
Diluted	**$ 6.91**	6.14	3.19	3.12
Cash dividends declared per share	**$ 0.87**	0.75	0.63	0.51
Book value per share	**$ 34.95**	31.17	27.12	24.64
Closing stock price	**$ 56.79**	56.42	49.87	41.57
Stock split				
Weighted average shares outstanding: (4)				
Basic	**23,574**	24,918	25,459	25,223
Diluted	**24,085**	25,571	26,324	26,093
Common shares outstanding	**22,155**	24,273	25,551	25,316
OTHER NON-GAAP FINANCIAL INFORMATION (1)				
Net premiums written to statutory surplus (3)	**72%**	74%	72%	84%
GAAP combined ratio (5)	**71.4**	84.1	86.0	92.2
Statutory combined ratio (3) (5)	**73.3**	84.0	86.7	93.8

(1) See pages 2-3* for information regarding non-GAAP financial measures.

(2) See note 1.P.*

(3) 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.

(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) The GAAP and statutory combined ratios are impacted by favorable development on prior accident years' loss reserves. See note 6* for further discussion.

(6) On December 12, 2003, we successfully completed a public debt offering, issuing

(continued)

2003	2002	2001	2000	1999	1998	1997
742,477	707,453	511,985	437,867	339,575	291,073	278,843
519,886	382,153	309,354	263,496	225,756	168,114	169,424
71,291	35,852	31,047	28,693	31,451	28,239	30,171
97,693	13,673	11,373	42,042	20,880	51,758	66,415
191,019	161,971	77,874	53,118	58,361	23,578	35,022
1,333,360	1,000,027	793,542	756,111	691,244	677,294	603,857
2,134,364	1,719,327	1,390,970	1,281,323	1,170,363	1,012,685	911,741
903,441	732,838	604,505	539,750	520,494	415,523	404,263
147,560 (6)	54,356	77,239	78,763	78,397	39,644	24,900
554,134	456,555 (4)	335,432	326,654	293,069	293,959	266,552
546,586 (6)	401,269 (4)	289,997	309,945	286,247	314,484	265,526
2.84	1.80	1.58	1.46	1.55	1.34	1.45
2.76	1.75	1.55	1.44	1.54	1.33	1.33
3.89	0.69	0.58	2.14	1.03	2.46	3.19
3.78	0.67	0.57	2.11	1.02	2.43	2.88
0.40	0.35	0.32	0.30	0.28	0.26	0.24
22.02	18.50 (4)	16.92	16.66	14.84	14.22	12.35
37.46	27.90	22.50	22.35	17.00	16.63	19.93
	200% (7)				125%	
25,120	19,937	19,630	19,634	20,248	21,028	20,804 (8)
25,846	20,512	20,004	19,891	20,444	21,276	23,428 (8)
25,165	24,681	19,826	19,608	19,746	20,670	21,586
87%	103%	109%	84%	79%	46%	54%
92.0	95.6	97.2	94.8	91.2	88.2	86.8
93.1	92.4	95.8	95.8	90.1	88.4	90.4

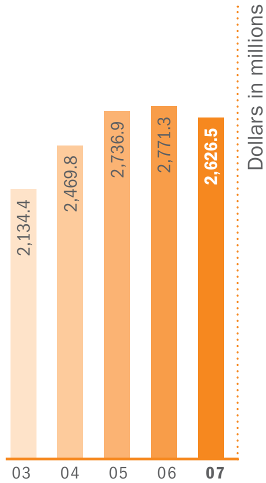
$100.0 million in Senior Notes maturing January 15, 2014. This offering generated proceeds, net of discount and commission, of $98.9 million. Of the proceeds, capital contributions were made in 2003 and 2004 to our insurance subsidiaries to increase their statutory surplus in the amounts of $50.0 million and $15.0 million, respectively. Remaining funds were retained at the holding company.

(7) 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.

(8) 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.

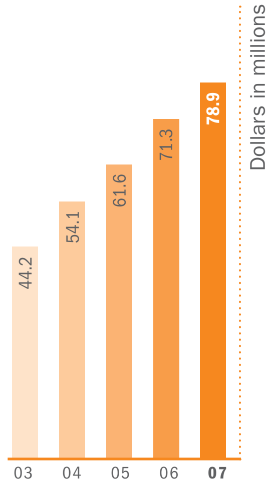
*From the audited financial statements contained in the 2007 RLI Corp. Financial Report.

SELECTED FINANCIAL GRAPHS



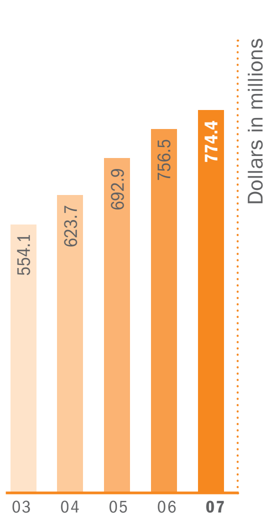
TOTAL ASSETS

Our total assets have expanded by 23 percent since 2002.



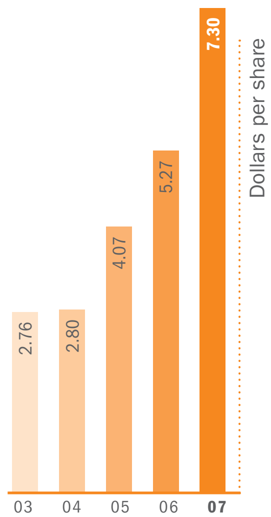
INVESTMENT INCOME

Strong cash flows have driven consistent investment income growth.



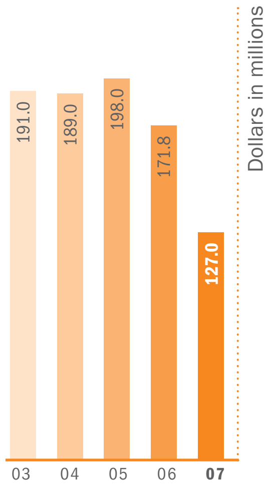
SHAREHOLDERS' EQUITY

We have created 10 percent average annual growth rate in shareholders' equity since 2002.



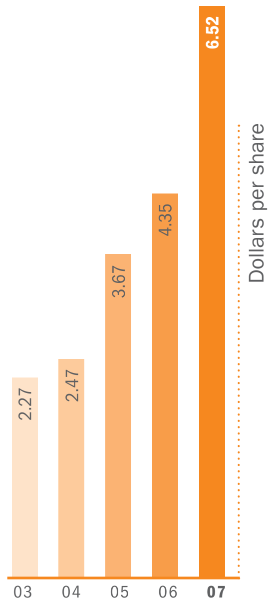
NET EARNINGS PER SHARE

Each share of our stock has returned $22.20 of diluted earnings since 2002.



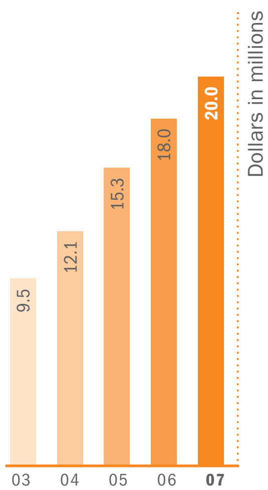
CASH FLOWS FROM OPERATIONS

Most cash flows in 2006 and 2007 were used in financing activities and our stock repurchase program.



OPERATING EARNINGS PER SHARE

Operating earnings per share have risen 187 percent since 2002.



CASH DIVIDENDS PAID

Since 2002, we have paid a cumulative $74.9 million in cash dividends to shareholders.

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, which are based on premiums earned.

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 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.

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.

MARKET VALUE POTENTIAL (MVP) An RLI incentive plan covering all employees that requires we first generate a return in excess of our cost of capital, aligning our interests with those of shareholders.

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 In most states, an insurer not licensed to do business in that 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.

UNREALIZED GAINS (LOSSES) The result of an increase (decrease) in fair value of an asset which is not recognized in the traditional statement of income. The difference between an asset's fair and book values.

INVESTOR INFORMATION

ANNUAL MEETING

The annual meeting of shareholders will be held at 2 p.m., CDT, on May 1, 2008, at the company's offices at 9025 N. Lindbergh Drive, Peoria, Ill.

TRADING AND DIVIDEND INFORMATION

	Closing Stock Price			Dividends
2007	High	Low	Ending	Declared
1st Quarter	$58.38	$51.00	$54.93	$.20
2nd Quarter	58.11	54.79	55.95	.22
3rd Quarter	60.82	55.82	56.72	.22
4th Quarter	60.60	55.13	56.79	.23

	Closing Stock Price			Dividends
2006	High	Low	Ending	Declared
1st Quarter	$57.35	$50.65	$57.30	$.17
2nd Quarter	57.25	45.85	48.18	.19
3rd Quarter	51.62	45.16	50.79	.19
4th Quarter	57.41	49.75	56.42	.20

RLI common stock trades on the New York Stock Exchange under the symbol RLI. RLI has paid and increased dividends for 32 consecutive years.

STOCK OWNERSHIP

December 31, 2007	Shares	%
Insiders	2,080,149	9.4
ESOP	1,474,495	6.7
Institutions & other public	18,600,496	83.9
Total outstanding	22,155,140	100.0

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
E-mail: stocktransfer@wellsfargo.com

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 are, or will be made, available on our Web site: 2007 summary annual report; 2007 financial report; 2008 proxy statement; 2007 annual report on form 10-K; code of conduct, corporate governance guidelines; and charters of the executive resources, audit, finance and investment, strategy, and nominating/ corporate governance committees of our board. 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.

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
Moody's:	A2 (Good)	RLI Insurance Company
	A2 (Good)	Mt. Hawley Insurance Company
	A2 (Good)	RLI Indemnity Company

CONTACTING RLI

For investor relations requests and management's perspective on specific issues, contact:

John Robison, treasurer, at (309) 693-5846 or at john_robison@rlicorp.com.

Turn to the back cover for corporate headquarters contact information.

Find comprehensive investor information at www.rlicorp.com.

EXECUTIVE TEAM

MICHAEL J. STONE
President & COO (2, 3, 4) · Industry experience: 38 years · Joined RLI in 1996. · Positions include: vice president, claim; senior VP and executive VP. Promoted to current position in 2002.

JOSEPH E. DONDANVILLE, CPA
Sr. Vice President, CFO (1, 2, 3, 4) · Industry experience: 30 years · Joined RLI in 1984. · Positions include: chief accountant, controller and VP. Promoted to current position in 2002. Also serves as director of Maui Jim, Inc.

JONATHAN E. MICHAEL
President & CEO (1)
Chairman & CEO (2, 3, 4) · Industry experience: 31 years · Joined RLI in 1982. · Positions include: controller, vice president of finance and CFO, executive vice president, president and CEO/COO of principal insurance subsidiaries.

SETH A. DAVIS, CFA, CIA, CPCU
Vice President, Internal Audit (2, 3, 4) · Industry experience: 12 yrs · Joined RLI in 2004. · Positions include: manager, internal audit. Promoted to current position in 2005.

ANDREW B. MCCRAY
Vice President, Home Office Underwriting (2, 3, 4) · Industry experience: 23 years · Joined RLI in 2006 in current position.

JOHN E. ROBISON
Treasurer (1, 2, 3, 4) · Industry experience: 17 years · Joined RLI in 2004 in current position.

BOARD OF DIRECTORS

1.BARBARA R. ALLEN (1, 5)
Director since 2006. President of Proactive Partners, a division of Tennis Corporation of America – Professional Services. Former marketing & executive management leader with Quaker Oats Co. Current director of Lance, Inc., and former director for Maytag Corp., Tyson Foods, Converse, and Charthouse, Inc.

2.JOHN T. BAILY (2, 3)
Director since 2003. Retired National Insurance Industry chairman and partner for Coopers & Lybrand LLP, now PricewaterhouseCoopers. President of Swiss Re Capital Partners 1999-2002. Current director of Endurance Specialty Holdings, Ltd., Erie Indemnity Co., NYMAGIC, Inc., and Albright College.

3.RICHARD H. BLUM (3, 4, 5)
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 & CEO of Guy Carpenter & Company, Inc.

4.JORDAN W. GRAHAM (4, 5)
Director since 2004. Managing director, North American business development with a division of Citigroup's corporate and investment bank. Former vice president of Cisco Systems, Inc.'s Services Industry Consulting, providing executive advisory and strategy consulting to insurance and financial services industries. Former director of Securitas Capital,

UNDERWRITING OFFICERS

SURETY

ROY C. DIE
Vice President, Surety
Industry experience: 20 years (Houston, TX)

DAVID C. SANDOZ
Vice President, Surety
Industry experience: 31 years (Peoria, IL)

PROPERTY

KEVIN BRAWLEY, CPCU, ARM, AMIM
President, RLI Re
Industry experience: 30 years (Stamford, CT)

KEVIN MCDONOUGH
Vice President, West Coast Property
Industry experience: 26 years (Los Angeles, CA)

ROBERT J. SCHAUER
President, RLI Marine
Industry experience: 20 years (New York, NY)

JEFFREY S. WEFER
Senior Vice President, E&S Property
Industry experience: 36 years (Chicago, IL)

CASUALTY

JAMES S. DAVIS
Vice President, Target Market Specialists
Industry experience: 32 years (Dallas, TX)

DAVID A. DUNN
President, RLI Transportation
Industry experience: 31 years (Atlanta, GA)

A. QUENTIN ORZA I
Vice President, Executive Products Group
Industry experience: 31 years (Summit, NJ)

RICHARD W. QUEHL
Vice President, RLI Specialty Markets, Personal & Commercial Lines
Industry experience: 38 years (Peoria, IL)

PAUL J. SIMONEAU
Vice President, Casualty Brokerage
Industry experience: 30 years (Glastonbury, CT)

DONALD J. DRISCOLL

Vice President, Claim (2, 3, 4) · Industry experience: 22 years · Joined RLI in 1996. · Positions include: director of coverage and casualty claims and AVP. Promoted to current position in 2000.

CAROL J. DENZER

Chief Information Officer (2, 3, 4) · Industry experience: 22 years · Joined RLI in 1987. · Positions include: accounting and reinsurance, AVP and VP of reinsurance and catastrophe management. Promoted to current position in 2006.

JEFFREY D. FICK

Vice President, Human Resources (1, 2, 3, 4) · Industry experience: 3 years · Joined RLI in 2005 in current position.

CRAIG W. KLIETHERMES, FCAS, MAAA, CPCU

Vice President, Actuarial and Risk Services (2, 3, 4) · Industry experience: 23 years · Joined RLI in 2006 in current position.

DANIEL O. KENNEDY

Vice President, General Counsel (1, 2, 3, 4), Corporate Secretary (1) · Industry experience: 3 years · Joined RLI in 2006 in current position.

AARON H. JACOBY

Vice President, Corporate Development (1, 2, 3, 4) · Industry experience: 6 years · Joined RLI in 2001. · Positions include: director of corporate development. Promoted to current position in 2004.

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

LLC, which invested in insurance and risk related ventures. Current director of Technology Credit Union and ColdSpark, Inc.

5.GERALD I. LENROW, ESQ. (2, 3)
Director since 1993. Former consultant to General Reinsurance Corp., a partner in Coopers & Lybrand LLP, now PricewaterhouseCoopers. In private law practice, providing consultation services to members of the insurance industry since 1999. Well-known authority on insurance, widely published, has spoken before most industry groups.

6.CHARLES M. LINKE (1, 4, 5)
Director since 2003. Professor emeritus of finance at the Univ. of Illinois (Urbana-Champaign). CEO of Economics, Et Cetera, Inc., a financial economics consulting firm.

7.F. LYNN MCPHEETERS (2, 3)
Director since 2000. Retired in Feb. 2005 as vice president & CFO of Caterpillar Inc. Held various finance positions, including corporate treasurer, before becoming a Caterpillar vice president in 1998. Member of the Southern Illinois Univ. College of Business and Administration's External Advisory Board, the Southern Illinois Univ. Foundation Board, and Director for Microlution, Inc. and Crosslink USA.

8.JONATHAN E. MICHAEL (4, 5)
Director since 1997. President & CEO of RLI Corp. and chairman & CEO of its principal subsidiaries, member of PCI board of governors, director of Maui Jim, Inc., and Fieldstone Investment Corp.

9.GERALD D. STEPHENS, CPCU (4)
Director since 1965. Chairman of the board since 2001. Company founder, former president & CEO of RLI Corp. Director for the American Institute of CPCU. Serves as chairman of the board of Maui Jim, Inc. Former president of the National Society of CPCU.

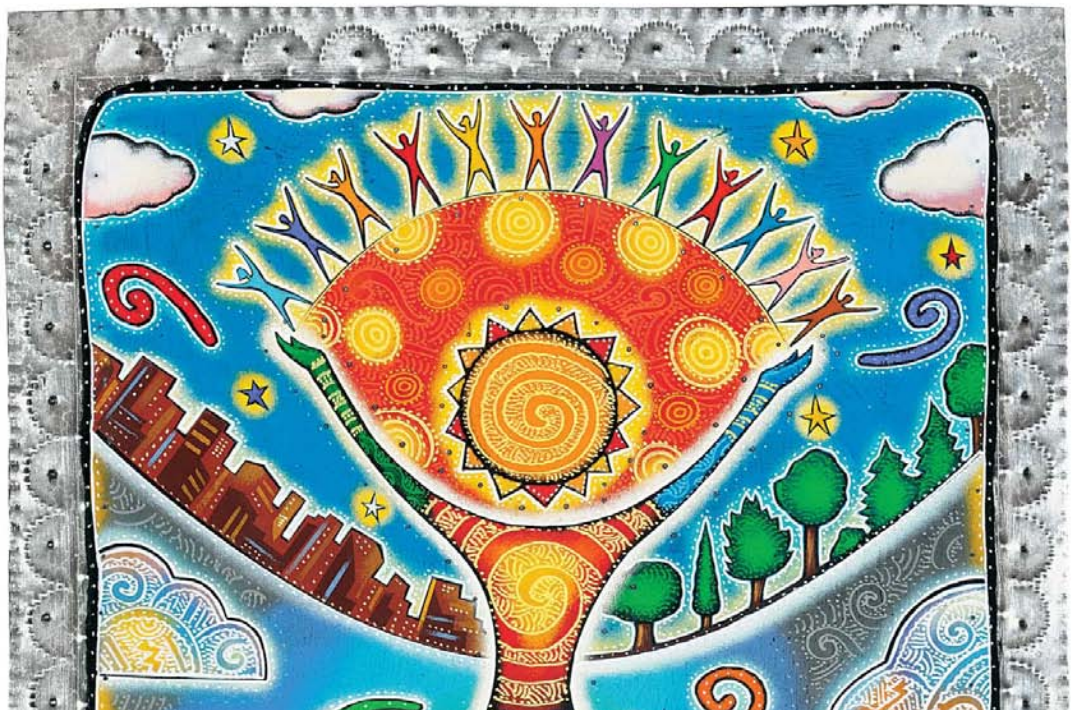
10.EDWARD F. SUTKOWSKI, ESQ. (1, 4)
Director since 1975. President of Sutkowski & Rhoads Ltd., a firm engaged in tax, wealth transfer, and ERISA law. Outside general counsel from 1975–2002. Adjunct professor at the Univ. of Illinois College of Law. Executive limited partner, Pfingsten Executive Fund III, L.P. Member, advisory committee, North American Sports Media, L.L.C.

11.ROBERT O. VIETS, JD, CPA (1, 2)
Director since 1993. President of ROV Consultants, LLC. Retired president & CEO of CILCORP Inc., a holding company whose principal subsidiary was a utility company. Director for Patriot Coal Corp. and chairman of the board of Advanced Medical Transport of Central Illinois. Former chair of the Bradley Univ. board of trustees.

1: Executive Resources Committee
2: Audit Committee
3: Nominating/Corporate Governance Committee
4: Finance and Investment Committee
5: Strategy Committee

ABOUT THE ILLUSTRATION

RLI is a place where talented people experience the magic of entrepreneurship and the power of the rewards it fosters. It is also a place that provides protection against the threat of misfortune and the peril of mishap. The central figure in this illustration represents the RLI underwriter, who holds his brokers' and customers' best interests above everything else. It also represents the RLI employee serving customers and coworkers in cities, towns, and countrysides throughout our land. He protects our insureds from the swirling clouds that threaten their businesses and their world.



RLI®
DIFFERENT WORKS

9025 N. Lindbergh Drive, Peoria, IL 61615-1431 • T 309-692-1000, 800-331-4929 F 309-692-1068 • www.rlicorp.com

FP0308 5M