THE ROAD TO DIFFERENT

RLI CORP. 2008 SUMMARY ANNUAL REPORT

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THE ROAD TO DIFFERENT

RLI CORP. 2008 SUMMARY ANNUAL REPORT

2008 WAS A YEAR SPENT FOCUSING NOT ON ECONOMIC TURMOIL OR A RECORD NUMBER OF DISASTER DECLARATIONS, BUT ON WHAT MAKES US DIFFERENT — OUR BUSINESS MODEL. IN CHALLENGING MARKETS LIKE THE ONE WE EXPERIENCED THIS YEAR, SOME INSURANCE CARRIERS ARE TEMPTED TO COMPROMISE THEIR UNDERWRITING STANDARDS TO ATTRACT MORE BUSINESS. RLI'S BUSINESS MODEL DRIVES US TO DO THINGS DIFFERENTLY. IT REQUIRES US TO REMAIN FOCUSED ON PROFITABLE UNDERWRITING WHATEVER THE MARKET CYCLE.

We continue to seek the right opportunities to add product groups and expand our existing coverages when we can do so profitably. We make significant investments in the processes and technologies that differentiate RLI and make it easy for our customers to do business with us. We focus on improving our internal processes and strengthening the skills of our talented people.

While no company is cycle-proof, we find our niche focus and diverse portfolio of products make a difficult market easier to navigate. We're better able to weather the tough times of a soft market and position our company for the benefit of the hard market to follow. Our long history of strength and stability — evidenced by our A+ ratings — validates our unique way of doing business. This successful business model guides us as we chart our course on *The Road to Different.*

PRESIDENT'S LETTER

IN TODAY'S MARKET, INVESTORS ARE LOOKING FOR COMPANIES THAT ARE FINANCIALLY SOUND AND THAT FOLLOW A CONSERVATIVE INVESTMENT POLICY. THEY'RE SEEKING COMPANIES WITH DEEP-ROOTED CORE COMPETENCIES THAT ARE PLANNING FOR THE FUTURE — INVESTING IN NEW PRODUCTS AND PEOPLE, AND IMPROVING PROCESSES TO TAKE ADVANTAGE OF MARKET OPPORTUNITIES. THEY'RE LOOKING FOR MANAGEMENT TEAMS THAT HAVE A HISTORY OF SUCCESS IN A VARIETY OF DIFFERENT MARKET CYCLES.

The market rewards insurance managers for delivering results in three key areas: underwriting and investment income, return on equity, and book value growth. These metrics drive our activities — and our track record in these areas has been excellent.

2008 was a year of unprecedented turbulence for the insurance marketplace — from record numbers of disasters to economic upheaval. The United States saw 75 disaster declarations, tying the highest year on record, according to FEMA. Severe storms, tornadoes, floods, landslides, wildfires, and a number of hurricanes, including Gustav and Ike, adversely impacted the industry with large property and catastrophe losses; while we were not immune to these events, we still posted a property combined ratio of 89.3 percent for the year.

Jonathan E. Michael
PRESIDENT & CEO

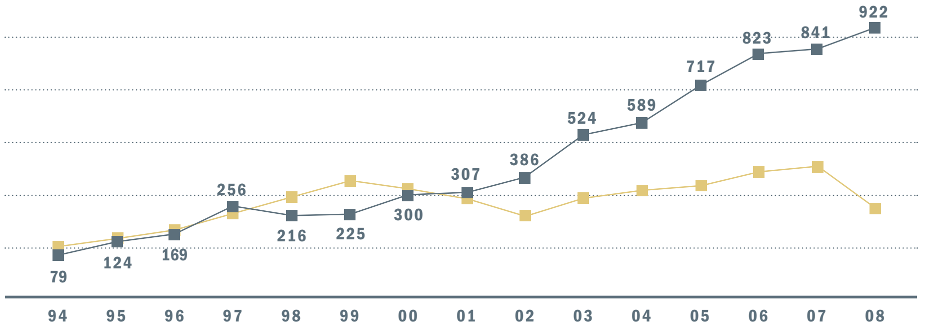
On the economic front, we also saw a year for the record books. The subprime mortgage fallout, asset problems, liquidity crisis, and the general economic downturn were a cascade of negative influences on our economy. The S&P 500 index experienced a decline of 37 percent for 2008, while RLI shareholders had a total return of 10 percent with dividends. We maintain a high quality fixed income portfolio, having steered clear of collateralized debt obligations, credit default swaps, and the subprime mortgage market. Our equity portfolio continues to emphasize dividend-paying stocks with less volatility than the general S&P 500. In fact, our overall investment portfolio's return for the year was down just 4.4 percent, compared to higher negative returns for other insurance companies and the financial sector in general. Again this year, our A+ ratings were reaffirmed by A.M. Best and Standard & Poor's. Our balance sheet remains ready to support growth as profitable opportunities arise.

Let me reiterate how RLI is different — and how we outperform the market in these turbulent times:

FOLLOWING A SUCCESSFUL ROADMAP

Successful strategies are the difference between a winning insurance company and an also-ran. Our 2008 combined ratio of 84.2 percent is proof of the winning strategies we employ and it marks the 13th consecutive year of underwriting income. Our company produced solid operating results in a year of unprecedented turmoil by following our key strategies:

- We allocate our capital to promising products where there is a market void, we can add value, and potential returns are attractive.
- We seek outstanding underwriting, claims, and support talent.
- We provide incentives to reward success and maximize shareholder value.



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, 1993, in RLI and the S&P 500, with reinvestment of dividends.
Comparison of 15-year annualized total return – RLI: 15.94%, S&P 500: 6.45%

15-YEAR CUMULATIVE SHAREHOLDER RETURN

■ RLI ■ S&P 500

RLI operates from a solid philosophy of keeping what works, improving everything we can, and changing those things that don't meet our standards of profitable performance.

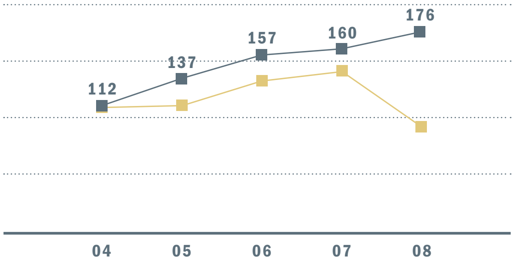
POWERED BY UNDERWRITING

As a specialty insurance company, we are constantly looking for ways to grow our business and enhance shareholder value. In 2008, 41 underwriters joined RLI and we added five new areas of business: fidelity (bonds), design professionals (architects and engineers), cyber liability (network security and privacy), and casualty coverages for real estate investment trusts and environmental exposures. We are confident in the underwriters who lead these teams and believe we can be an effective player in these sectors. We expect these products to grow across the country similar to our other products, which we built by finding talented underwriters with an entrepreneurial spirit. Like those in our other product groups, these underwriters have a compensation structure that rewards underwriting profit — so they'll grow their business when it makes sense and walk away from business that is inadequately priced. Our home office provides support and oversight functions to make sure these businesses are achieving desired results, along with leading-edge technologies that enable us to better serve our customers.

Building the future comes with a price — we are investing in people and improving our processes in a soft rate environment. However, when the market turns, we should be well positioned to capitalize on new business opportunities rather than to turn away business because of a lack of underwriting capabilities.

MAINTAINING OUR FOCUS

2008 was a challenging year with considerable volatility and turmoil — a situation that for some was exacerbated by risky activities taking place over a number of years. Non-traditional and unregulated risk transfers proved to be flaws that rattled the industry with some companies eventually relying on the federal government for funding. This has



$100 invested in RLI stock in 2003 would have grown to $176 by year-end 2008.
An identical investment in the S&P 500 would have decreased to just $90. Assumes $100 invested on December 31, 2003, in RLI and the S&P 500, with reinvestment of dividends.

5-YEAR CUMULATIVE SHAREHOLDER RETURN

■ RLI ■ S&P 500

resulted in major market uncertainty at a level never seen before, and has caused both producers and insureds to have concerns about how things they don't know could affect the financial stability of their business partners.

As a result of the changing landscape, we are seeing opportunities to serve new markets. We continue to stay true to our core skills, abilities, and underwriting standards, and we don't take unnecessary risks with the trust we have developed with our brokers, agents, and insureds. They can rest assured that they are protected by a financially sound insurance company.

Clearly there are more challenges ahead in 2009 — not only in our industry but also the economy as a whole. I believe prices will firm later in 2009 given the amount of industry capital that has been lost. We are seeing prices firm in reinsurance, which is usually a precursor to a hardening market. Insurance companies need to strengthen their balance sheets and I believe will raise prices to advance that effort.

However, a hardening market on its own doesn't translate into profits for insurers. We recognize that this is a challenging time for many of our current and potential customers. We will maintain our underwriting discipline to be a consistent and reliable market for our customers.

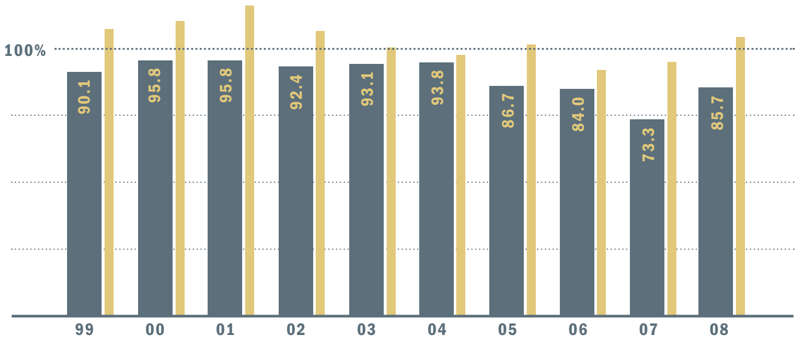
TRUSTING OUR DRIVERS

It's important to know that our underwriters have successfully steered through a variety of challenging market conditions and cycles. Our product vice presidents have extensive insight and knowledge in their respective markets and average more than 25 years of insurance industry experience. The members of our leadership team are seasoned veterans in the specialty insurance industry and are skilled stewards of corporate profitability. My point is simple — our team has the experience to successfully navigate through these extraordinary times.

FINANCIAL HIGHLIGHTS

In thousands, except combined ratio and per-share data

	2008	2007	% change
Gross premiums written	$ 681,169	739,334	(7.9)
Net premiums written	513,456	538,763	(4.7)
Consolidated revenue	561,012	652,345	(14.0)
Net earnings	78,676	175,867	(55.3)
GAAP combined ratio	84.2	71.4	17.9
Total shareholders' equity	708,154	774,422	(8.6)
Per-share data:			
Net earnings	$ 3.60	7.30	(50.7)
Cash dividends declared	0.99	0.87	13.8
Book value	32.98	34.95	(5.6)
Year-end closing stock price	61.16	56.79	7.7
Return on equity	10.7%	22.5%	(52.4)



Underwriting profitability requires a combined ratio under 100 percent. Our average statutory combined ratio has beaten the industry average by 14 points over the last decade.

RLI Industry (2008 estimated)

STATUTORY COMBINED RATIO

A great company is one composed of great people; by great people, I mean those who are creative and have the ability to think outside the box. Our employees realize that to be successful we have to do our jobs differently than the competition. We must work smarter and figure out better ways to deliver real value to our customers. We're constantly searching for new products and for ways to make existing products better for our customers. Our skilled, talented, and creative employees — equipped with the right technology and training — make a difference for RLI every day. In fact, they form the foundation for our future success.

LOOKING AT THE ROAD AHEAD

RLI continues to believe strongly in the ability of our people and profitability of our products and is poised to grow as market opportunities warrant. We have added underwriting capacity and diversified both geographically and by product line. Diversification limits the risk coming from any one product, and provides a wide range of growth opportunities as we look at the challenging road ahead in 2009.

I expect the market fallout will continue for those companies that built their foundations on shifting sands and didn't stay true to their core values and principles. But with RLI, you can be assured we remain committed to the fundamental principles that have historically guided us in the markets we serve. We have worked too hard over the last 44 years to jeopardize the trust and confidence of our customers. RLI is rock solid because we stay true to our values: integrity, respect, customer focus, and personal ownership in our business.

Jonathan E. Michael
PRESIDENT & CEO
FEBRUARY 25, 2009

RLI AT A GLANCE

OUR COMPANY, OUR MISSION, OUR LOCATIONS

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 more than $500 billion in direct written premiums. In 2008, we generated $681.2 million in gross written premiums — 59 percent casualty, 30 percent property, and 11 percent surety. 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 individually underwritten coverages, to highly automated, self-underwriting products, to highly complex coverages. We leverage technology to bring superior service to underserved customers. Our customers are businesses and individuals throughout the United States and its territories; in 2008, our premiums comprised 89 percent commercial lines and 11 percent personal lines. 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. Some coverages are more suited for general agencies. Page 27 shows how RLI products are distributed.

OUR MISSION, VISION & VALUES

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.

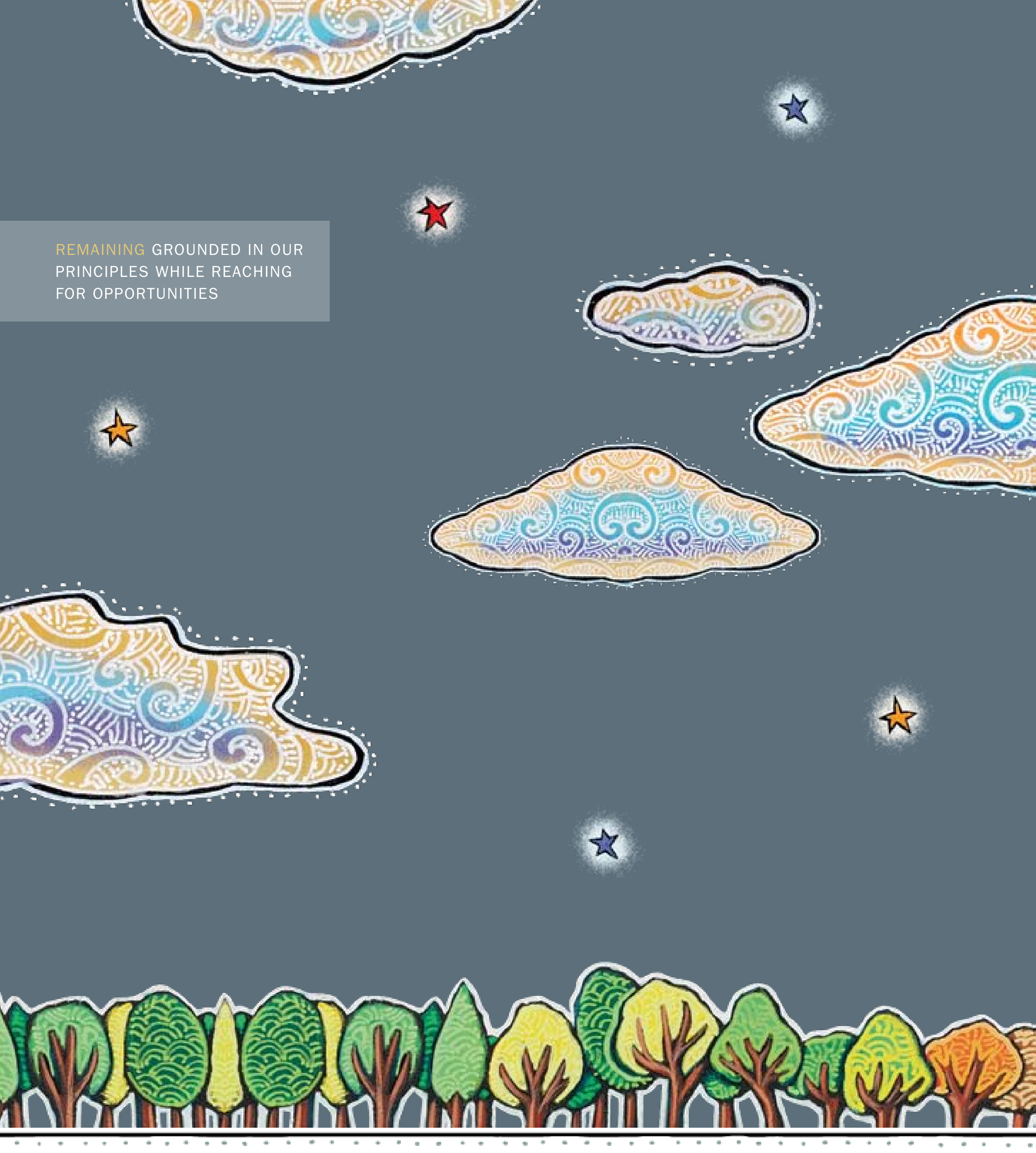
Vision: As the leading provider of specialized insurance and financial services, RLI is focused on building and managing a portfolio of innovative products and solutions that meet and surpass the expectations of shareholders.

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.

FROM THE FOLLOWING RLI OFFICE LOCATIONS, WE SERVE CUSTOMERS COAST TO COAST:

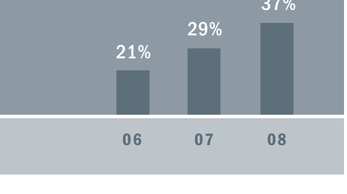
Alpharetta, Ga.
Atlanta, Ga.
Bala Cynwyd, Pa.
Boston, Mass.
Broadview Heights, Ohio
Carmel, Ind.
Charlotte, N.C.
Chesterfield, Mo.
Chicago, Ill.
DeWitt, N.Y.
Glastonbury, Conn.
Greensboro, Ga.
Green Valley, Ariz.
Hamburg, N.Y.
Harahan, La.
Honolulu, Hawaii
Houston, Texas
Indianapolis, Ind.
Irvine, Calif.
Irving, Texas
Lake Oswego, Ore.
Lee's Summit, Mo.
Lexington, N.C.
Los Angeles, Calif.
Lynnwood, Wash.
Madison, Wis.
Montvale, N.J.
Moorestown, N.J.
Nashville, Tenn.
Nashville, Texas
New York, N.Y.
Oakland, Calif.
Peoria, Ariz.
Peoria, Ill.
Raymond, Neb.
Roswell, Ga.
San Diego, Calif.
San Francisco, Calif.
Sarasota, Fla.
Saratoga Springs, N.Y.
Seattle, Wash.
Sioux Falls, S.D.
Stamford, Conn.
Stevensville, Md.
Summit, N.J.
Tempe, Ariz.
Uwchland, Pa.
West Des Moines, Iowa
Westlake, Ohio
Wexford, Pa.
Woodland Hills, Calif.

REMAINING GROUNDED IN OUR PRINCIPLES WHILE REACHING FOR OPPORTUNITIES



DATA BREACH TRENDS

*AS REPORTED BY THE IDENTITY THEFT RESOURCE CENTER



left/ The business community experienced a 76 percent increase in reports of data breaches in the last three years. In 2008, RLI recruited skilled underwriters to develop CyberSecure™ and provide liability coverage for this growing threat.

right/ For 10 years, RLI Transportation has focused on providing quality service, growing profitably, and diversifying product offerings.

1

A DIFFERENT VISION

A TOUGH MARKET IS THE PERFECT TIME TO FOCUS ON OPPORTUNITIES. THAT DOESN'T MEAN AGGRESSIVELY WRITING BUSINESS THAT ISN'T ATTRACTIVE; RATHER, IT MEANS BALANCING EVERY OPPORTUNITY FOR GROWTH WITH OUR FOCUS ON PROFITABLE UNDERWRITING, WHICH KEEPS US FINANCIALLY SECURE AND HELPS REAFFIRM OUR A+ RATINGS.

Over our history, we've successfully grown and strengthened RLI through new product development — seeking out new product groups that allow us to do what we do best: deliver custom underwriting solutions to niche markets. In 2008, that meant bringing on products like fidelity, which meets the market need for commercial crime coverages and fidelity bonds. We recruited a team of seasoned underwriters who have established relationships with top producers and the entrepreneurial zeal to lead a successful launch. In an environment where many underwriters are spread too thin, the RLI team is empowered to concentrate on addressing the unique requirements of this underserved market, delivering fidelity-focused solutions and expertise.

Similarly, our Executive Products Group examined current market trends and identified a need for a cyber liability product for network security and privacy — a coverage that was virtually unheard of a decade ago but today is imperative for those responsible for keeping a company's data secure. The expert team we brought on board is buoyed by the energy and time RLI has committed to getting this product launched.

We also focus on organic growth — looking for opportunities to build upon our successes in existing areas. For example, we recruited an underwriter to expand miscellaneous professional liability, a customized coverage for acts, errors and omissions, and negligence. The product itself is not new; what RLI will bring to the marketplace is underwriting talent with a dedicated focus and expertise to craft coverage designed specifically for a particular risk. Our surety division recruited new underwriters to expand their business into a number of new regions and local markets. This division continues to grow profitably across the board, thanks to a commitment to solid underwriting and superior service.

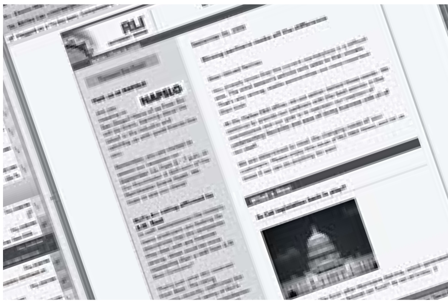
Both our Casualty Brokerage and E&S Property divisions experienced profitability through superior underwriting and a commitment to strengthening relationships with our producers. Our depth of underwriting experience and talent has positioned RLI to respond quickly to the changes within these major market segments. RLI Transportation, which recently celebrated its 10th anniversary, continues to focus on outstanding customer service, enhancing producer relationships, developing new market segments, and diversifying product offerings.

Market cycles come and go, each with its own set of challenges. And while RLI closely follows current trends, they don't dictate the way we manage our business. That's how we maintain consistency in the cyclical, soft and hard pricing environments of our chosen markets.

BUILDING BRIDGES
THAT SURMOUNT
BUSINESS CHALLENGES

left/ Agency owner Ron Schroeder appreciates the freedom provided by RLink2, which allows him to directly issue surety bonds.

right/ We're keeping producers well informed through new e-newsletters and electronic product updates.



2

A DIFFERENT RELATIONSHIP

RLI PRIDES ITSELF ON BEING A COMPANY THAT IS EASY TO DO BUSINESS WITH — SO WE'RE ALWAYS LOOKING FOR NEW WAYS TO HELP BROKERS AND AGENTS QUICKLY PROVIDE THE COVERAGE THEIR CUSTOMERS NEED. We continually invest in advanced system technologies that allow us to make prompt decisions and to quickly turn those decisions into quotes, binders, and policies. And we center underwriting authority with the underwriters rather than the home office — a structure that keeps the decision-makers more closely in touch with local market trends and needs. This unusual structure, combined with continuous technology improvements, enables us to be more responsive to our producers.

Our efforts in 2008 were focused on finding ways to streamline and simplify our systems and processes. For example, we developed the new PUP Access online system for issuing personal umbrella policies, which minimizes quoting time, improves work flow processes, and offers agile rate and form maintenance. We made improvements to Rlink2, a bond issuance system that allows agents to directly rate and issue bonds. This application makes available thousands of bond forms to our nationwide appointed agents. Our commercial package products allow retail agents to rate, quote, and bind a policy in just minutes. As a result of these and other technology initiatives, producers are finding that they can more quickly and easily serve their policyholders with superior results.

We focused on simplification in other areas, as well. For example, application forms and policies for RLI Marine's new yacht coverage use plain English instead of the complex language typical in the industry. And we removed a barrier to the issuance of professional liability policies by implementing best practices and creating a simple screening process that quickly gets producers to the application process.

We've also enhanced the value of our producer relationships by finding new ways to proactively communicate with the brokers and agents we serve. RLI's product-focused e-newsletters made more than 58,000 contacts in 2008 — communicating our appetite for risk in a variety of areas so producers are well-informed. Our electronic updates contain valuable product information and direct links to the application process. Our underwriters also keep producers informed — effectively communicating what they can and can't do, crafting solutions that provide the right coverage at the right time, and making the process of quoting and binding business both efficient and effective.

Making it easier to do business with RLI is one of our strategic goals. We made significant progress in 2008 and we'll continue to invest in working smarter through better systems and processes that make a difference for the brokers and agents we serve.

RELYING ON OUR STRONG FOUNDATION AND BUILDING FOR THE FUTURE

left/ RLI employees receive training on the common internal systems being launched to improve productivity throughout the company.

right/ RLI Marine's new yacht program reached its 2008 goals thanks to the rapid implementation of its web-based producer system.

3

A DIFFERENT FOUNDATION

RLI IS A SUCCESSFUL, FINANCIALLY STABLE INSURANCE COMPANY KNOWN FOR BEING DIFFERENT — IN PARTICULAR BECAUSE OF OUR UNIQUE BUSINESS MODEL DRIVEN BY PROFITABLE UNDERWRITING. But one of our biggest differentiators — and one of which our brokers, agents, and customers may not be aware — is the support that enables everyone in our organization to help our company and our customers achieve profitable results. We continually invest in our people, building on our talent and expertise. And we focus on improving the processes and technology support that help us better perform our jobs.

We're making strides in new product integration that allow us to efficiently integrate new groups or products and improve our time to market. Whether we're supporting a new opportunity or an existing line of business, we're speeding up the process by taking advantage of reusable technology components and proven strategies we have developed, rather than building systems from scratch. Not only are we able to deliver solutions more quickly, but because they are reusable, we're able to reduce costs while providing significant business value.

New and existing product groups took advantage of these new processes in 2008. Underwriters for new products like fidelity and design professionals shared their product knowledge with the information technology department, which turned that expertise into a functional system that allowed them to quickly enter their markets and begin providing coverage. We provided similar solutions to existing products and improved support for personal umbrella, surety, transportation, and contractors coverages.

In spite of the challenging market cycle, our financial strength allows us to continue building capabilities. We believe continued investments in our infrastructure and enterprise-wide software solutions will increase productivity through improved processes and increased communication and collaboration throughout the RLI organization. We continue to build the knowledge and skills of our people, too. In the last three years, we've hired 127 underwriters and placed a number of new associate underwriters into branch offices through our underwriter development program. More than 8 percent of our 725 employees hold the prestigious Chartered Property Casualty Underwriter designation (CPCU). In 2008 alone, employees increased their industry expertise by passing 218 separate professional exams offered through the Insurance Institute of America and the American Institute of CPCUs. Our technical expertise extends beyond underwriting into a number of areas, including claims, actuarial science, accounting, and information technology.

These investments in people and processes sustain our continued profitability, growth, and stability. And when we build on our own competitive advantages, we're able to deliver even more value to our producers and customers.

EXECUTIVE Q & A

1. WHY HAS RLI PERFORMED BETTER THAN THE MARKET AND INDUSTRY IN 2008?

There's no question that RLI is affected by what's happening with our economy and world market, yet we continue to outperform the market and industry. How do we do it? Simply put, it's our business model and underwriting talent that continue to be our greatest strengths. Achieving profitable underwriting and rewarding those responsible are a foundation of RLI's success. Our investments were down for the year — a reduction compared to last year's growth, but still much less than the significant negative returns for the broad markets and insurance industry in particular. Of course, the economic slowdown impacts our insureds too. By continuing to provide high-quality products and services, remaining responsive to their needs, and being good stewards of our assets, we're confident we can alleviate some of their concerns.

2. HOW DO YOU DETERMINE WHAT NEW PRODUCT LINES TO ENTER?

We're always looking for underserved markets and product segments that present good opportunities for profitable underwriting. In addition to communicating our interest through a variety of advertisements using our "Different Works" campaign, we proactively search for opportunities that fit our profit-first philosophy. We also seek out new underwriters, and they come to us, as well. Once we identify an opportunity, we thoroughly evaluate it, consider points of entry, and seek out highly skilled and experienced underwriters to lead the expansion effort. However, we always keep a keen eye on long-term profitable underwriting and will settle for nothing less. Few of the opportunities make the grade, but those that do demonstrate a strong potential for long-term success. Our primary goal is not premium volume, but quality, which leads to solid underwriting profits.

3. HOW DOES THE COMPANY MANAGE AND CONTROL RISK?

Risk management is the nature of our business and we take it very seriously. We have actively utilized risk management techniques to evaluate underwriting exposure for decades — long before it was a popular concept. And we rely on our years of experience and knowledge to interpret the data these techniques provide. Our insured exposures are managed through continuous monitoring, quality data collection, precise risk demographics, quantified geographic policy limits, and estimated loss scenarios. When events do occur, we conduct detailed claim and process reviews followed by changes to policy forms, computer systems, and internal processes. We manage our enterprise exposure through a variety of methodologies and techniques that consider everything from catastrophic probabilities to investment techniques. We focus on protecting our ability to meet future obligations and protect policyholder surplus and place special emphasis on maintaining high agency ratings from A.M. Best (A+ Superior) and Standard & Poor's (A+ Strong).

LEFT TO RIGHT:

Michael J. Stone
PRESIDENT & COO, RLI INSURANCE CO.

Joseph E. Dondanville
SENIOR VICE PRESIDENT & CFO, RLI CORP.

4. WHY WOULD A TEAM OF SKILLED UNDERWRITERS BE ATTRACTED TO RLI?

Because they get to do what they do best — and they're paid well to do it. Our superior business model has a long history of success, and it makes working with RLI an easy decision for any disciplined underwriter. We're different: We eliminate unnecessary bureaucracy, give our underwriters authority, and share the profits. Our entrepreneurial culture allows underwriters to use their experience and skill to develop crafted solutions. Our flat organizational structure creates a perfect environment to get decisions made quickly. And while we believe Peoria's a great place to live, we let underwriters stay where they are, keep their rooted relationships, and build on a track record of success. Our focus on underwriting for a profit is never lost and it's an element of each risk that is reviewed. We gladly sacrifice volume for profitability and successful underwriters appreciate this fact.

5. WHAT ROLE DOES THE ESOP PLAY IN RLI'S SUCCESS?

Introducing the Employee Stock Ownership Plan (ESOP) at RLI was an innovative decision made 35 years ago. We share the company profits with our employees and make them owners in the business. We believe that ownership is a key to our long-term success. The ESOP has been a fundamental source of that success and is a foundational element of what makes RLI different. As both shareholders and owners, our employees take a personal interest in the long-term success and profitability of our products and company. Employees know that RLI must stay focused on profitability as the true measure of success. In addition, they know that increasing efficiency, saving money, and reducing expenses brings profit to the bottom line. Sharing the rewards has always made strategic sense to RLI.

6. HOW DO YOU MEASURE SUCCESS?

We approach success by the numbers. It's a long view, much like an entire baseball season, rather than an individual pitch or inning. Like baseball, our business is played pitch by pitch and results in a number of wins and, yes, sometimes losses. So we must keep managing and making changes to improve our winning record. Looking at the numbers can seem cold at times, but it assures we don't lose our focus on what really matters. The driver of success is our philosophy of generating underwriting profits, which carries over into our asset and investment strategies, too. Success is the balance of several factors, including the lines of business we enter, the value we deliver to our customers, the underwriters we hire, how effectively we manage and deploy our capital, the employees we develop, and ultimately the financial results we achieve. To RLI, the ultimate measure of our success is bringing excellent financial returns to our customers, shareholders, and employees. Like baseball, it's all about working together as a team to give our best, sharing in the wins and celebrating together as champions of RLI.

REVIEW OF OPERATIONS

Consolidated revenue, as displayed in the table that follows, totaled $561.0 million for 2008, compared to $652.3 million in 2007 and $632.7 million in 2006.

	YEARS ENDED DECEMBER 31		
CONSOLIDATED REVENUE (IN THOUSANDS)	2008	2007	2006
Net premiums earned	$528,764	$544,478	$530,338
Net investment income	78,986	78,901	71,325
Net realized investment gains (losses)	(46,738)	28,966	31,045
Total consolidated revenue	$561,012	$652,345	$632,708

Revenue declined in 2008 as premiums earned from insurance operations were down and the financial market turmoil resulted in realized losses on investment securities. Net premiums earned declined 3 percent in 2008, returning to a level similar to 2006. Casualty premiums continued to decline due to overall rate softening and served to more than offset the increased premium writings our property and surety segments posted in the last three years and the subsequent earning of this premium as revenue. Despite a declining interest rate environment, investment income was flat compared to 2007, after posting a 10 percent increase in 2007. The result for 2007 was influenced by higher investment yields and an increased asset base over 2006. During 2008, we recorded $46.7 million in net realized investment losses, primarily from other-than-temporarily impaired securities. Impairment charges were recorded on a high-yield municipal bond fund and securities in the financial sector, as the credit crisis and financial turmoil negatively impacted fixed income and equity values in the latter half of 2008. In 2007 and 2006, net realized gains contributed significantly to revenue. Results in 2007 included gains associated with the sale of certain equity securities deemed to have reached their full potential. Funds received were used to further diversify the investment portfolio. Realized gains in 2006 were largely due to the sale of the equity in one of our investee holdings.

NET EARNINGS (IN THOUSANDS)	2008	2007	2006
Underwriting income	$ 83,063	$155,765	$ 84,056
Net investment income	78,986	78,901	71,325
Net realized investment gains (losses)	(46,738)	28,966	31,045
Debt interest	(6,704)	(6,997)	(6,581)
Corporate expenses	(6,853)	(9,474)	(8,069)
Investee earnings	4,844	7,315	15,117
Pretax earnings	$106,598	$254,476	$186,893
Income tax	(27,922)	(78,609)	(52,254)
Net earnings	$ 78,676	$175,867	$134,639

Net earnings declined in 2008 after two consecutive years of record earnings. The results for 2008 included $24.0 million in hurricane losses and were negatively impacted by net realized investment losses. As discussed previously, in 2008, we recorded $46.7 million in net realized investment losses, primarily from other-than-temporarily impaired securities.

Underwriting income remained positive at $83.1 million, compared to $155.8 million in 2007 and $84.1 million in 2006. For each of these periods, the results were the product of disciplined underwriting in the current accident year, coupled with favorable development on prior accident years' reserves. In a soft market, as we have seen in the past several years, disciplined underwriting can result in a reduction in premium revenue. This discipline, however, can differentiate us from the broader market by ensuring more adequate pricing of both new and renewal business and serves to slow the pace of deterioration in underwriting results. Included in underwriting income for each of the last three years were the effects of favorable development on prior years' loss reserves. The more significant of these developments occurred in our casualty and surety segments, where loss trends have remained favorable. In 2008, we experienced $55.7 million in favorable development on prior accident years' casualty and surety reserves, compared to favorable development for these segments of $98.5 million in 2007 and $41.6 million in 2006.

Bonuses earned by executives, managers, and associates are predominately influenced by corporate performance (operating earnings and return on capital). Bonus and profit sharing-related expenses attributable to the aforementioned favorable reserve developments totaled $6.0 million, $9.9 million, and $3.5 million, respectively, for 2008, 2007, and 2006. These performance-related expenses affected policy acquisition, insurance operating, and general corporate expenses. Partially offsetting the 2008 increase were reductions in bonus and profit-sharing earned due to hurricane losses and lower returns on capital. Hurricane losses resulted in a $2.8 million reduction in bonus-related expenses. Realized and unrealized losses on investment securities reduced our return on capital and resulted in reductions to and/or elimination of other bonus and profit-sharing expenses in 2008. In addition, we focused efforts on reducing non-acquisition/non-production expenses in 2008, which served to further reduce other insurance expenses.

Over the past several years, we have invested in our capacity to produce premium. We have expanded our geographic footprint of existing products by adding underwriters and entering new markets, and we have hired teams of underwriters to start new products. As a result, our policy acquisition costs, which include the expenses associated with this expansion, increased in 2008 and 2007. We believe this investment has positioned us well to capitalize on future market opportunities.

Investee earnings declined in 2008 and 2007. Investee results for 2008 were impacted by foreign exchange losses and the economic slowdown experienced during the last half of the year. The decline in 2007 was due in large part to the fourth quarter 2006 sale of the equity in one of our investee holdings.

RLI INSURANCE GROUP

In general, we have experienced continued softening in the marketplace over the last several years. As reflected in the table below, premium writings were down in 2008 and 2007. Increased competition and capacity in the marketplace have resulted in rate declines in our casualty and property segments. Our largest growth contributor in 2006, general liability, experienced a rate decline of 12 percent in 2008, following a similar rate decline in 2007. While rates have declined, this product continued to produce underwriting income. On the property side, in addition to a decline in rates, targeted reductions in our catastrophe exposure resulted in reduced writings in 2008 and 2007, as we continued to manage our exposure to catastrophic events. In 2008 and 2007, we posted moderate growth in our surety segment as we added underwriters and expanded geographically.

Our underwriting income and combined ratios are displayed in the table that follows. Solid underwriting results for the casualty and surety segments were magnified by favorable development on prior accident years' loss reserves in each of the last three years. The property segment was impacted by hurricane losses in 2008, while 2007 and 2006 benefited from light hurricane seasons. Excluding hurricanes, loss frequency and severity declined in 2008 and 2007, particularly with respect to the discontinued construction program and reduction in habitational fire exposures, both of which negatively impacted results for 2006. The following table and narrative provide a more detailed look at individual segment performance over the last three years.

GROSS PREMIUMS WRITTEN (IN THOUSANDS)	2008	2007	2006
Casualty	$403,337	$462,591	$506,887
Property	200,794	206,041	225,610
Surety	77,038	70,702	66,516
Total	$681,169	$739,334	$799,013
UNDERWRITING INCOME (IN THOUSANDS)			
Casualty	$ 46,507	$101,863	$ 68,393
Property	15,813	30,569	4,988
Surety	20,743	23,333	10,675
Total	$ 83,063	$155,765	$ 84,056
COMBINED RATIO			
Casualty	85.2	70.3	80.4
Property	89.3	77.9	95.9
Surety	69.7	62.8	82.1
Total	84.2	71.4	84.1

Casualty

Casualty gross premiums written of $403.3 million were down 13 percent in 2008 following a decline of 9 percent in 2007 and 2 percent in 2006. Personal umbrella, executive products, and specialty program business experienced modest premium 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 in 2008, following rate declines of 12 percent in 2007 and 8 percent in 2006. General liability posted gross premiums written of $140.0 million, down 21 percent from 2007 and 28 percent from 2006. While rates have deteriorated, this coverage continued to sustain a good margin and profitable results. Transportation and commercial umbrella also sustained declines in gross premiums written in 2008, down 15 percent each, due to continued rate and exposure declines. Our personal umbrella coverage posted a 3 percent increase in gross premiums written in 2008, after posting a 5 percent increase in 2007. Executive products posted a 4 percent increase in gross premiums written in 2008, as the marketplace for this product improved during the last quarter of the year. Increased submission activity and opportunities to write new business resulted in increased production in the last quarter of the year. Specialty program business posted a 1 percent increase in gross premiums as new production sources and product offerings served to offset declines in existing programs that were scaled back. 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 to challenge our ability to grow premium in this segment in 2009.

Underwriting income for the casualty segment was $46.5 million in 2008, compared to $101.9 million in 2007 and $68.4 million in 2006. These results translated into combined ratios of 85.2, 70.3, and 80.4, respectively for 2008, 2007, and 2006. Favorable development on prior accident years' loss reserves totaled $50.6 million, $87.4 million, and $40.0 million, respectively, for 2008, 2007, and 2006. This favorable emergence was concentrated in 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 more recent 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 3 percent in 2008 after posting a decline of 9 percent in 2007 and an increase of 28 percent in 2006. The decline in 2008 and 2007 was reflective of the softening marketplace for commercial property, impacted by two years (2006 and 2007) of benign hurricane activity. While the market experienced hurricane losses in 2008, we have not seen a significant increase in rates as capacity remains available. Softening rates for coastal wind-exposed risks, combined with increased competition for non-catastrophe exposed accounts, resulted in a reduction in premium writings in 2008 and 2007. In addition, targeted reductions in our catastrophe exposure to earthquake reduced property writings. Earthquake coverage premiums have dropped in each of the last three years as we focused on reducing our exposure. While still providing an adequate return, wind rates softened toward the end of 2006 and have remained soft through 2008. On a positive note, our marine division that was launched in 2005 posted gross writings of $61.4 million in 2008, compared to $45.3 million in 2007 and $28.7 million in 2006. In addition, facultative reinsurance added $4.8 million during 2008 in gross premiums written in its first full year of production.

Underwriting income was $15.8 million in 2008, compared to income of $30.6 million in 2007 and $5.0 million in 2006. Results for 2008 include $22.8 million in losses associated with hurricanes Gustav and Ike, which more than offset the improved loss performance of non-wind commercial fire accounts. Results for 2007 benefited from 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 2006, the segment's results for 2008 and 2007 were not adversely affected by losses on discontinued construction coverages. In fact, results for 2008 include favorable development on prior years' construction reserves as losses developed better than anticipated. For 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 prior years' hurricane reserves contributed $4.2 million to income 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.

Surety

Surety gross premiums written increased in each of the last three years, as all coverages in this segment produced increases in 2008. Net premiums earned followed suit, improving by 9 percent in 2008, 6 percent in 2007, and 15 percent in 2006. Investment in capacity, through underwriter additions and geographic expansion, fueled premium growth in mature coverages. In addition, we established a new fidelity division in late 2008 focusing on fidelity and crime coverage for commercial insureds and select financial institutions. While these investments resulted in increased acquisition costs, loss ratios remained low, resulting in positive underwriting income.

Underwriting income totaled $20.7 million in 2008, compared to $23.3 million in 2007 and $10.7 million in 2006. After doubling for two consecutive years, underwriting income declined modestly in 2008, but represented excellent results for this segment. Premium growth was achieved while maintaining underwriting discipline. Positive results on the current accident year were amplified by favorable development on prior accident years. In 2008, favorable development on prior accident years' loss reserves totaled $5.1 million, compared to $11.1 million in 2007 and $1.6 million in 2006. The majority of development in 2008 was from the 2007 accident year, as loss trends continued to be favorable. For 2007, the majority of the favorable 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

During 2008, net investment income was flat. The average annual yields on our investments were as follows for 2008, 2007, and 2006:

NET INVESTMENT INCOME	2008	2007	2006
Pretax yield			
Taxable (on book value)	5.58%	5.46%	5.22%
Tax-exempt (on book value)	3.99%	4.07%	4.02%
Equities (on fair value)	3.81%	3.03%	2.78%
After-tax yield			
Taxable (on book value)	3.63%	3.55%	3.40%
Tax-exempt (on book value)	3.78%	3.85%	3.81%
Equities (on fair value)	3.27%	2.60%	2.39%

The after-tax yield reflects the different tax rates applicable to each category of investment. Our taxable fixed income securities are subject to our corporate tax rate of 35 percent, our tax-exempt municipal securities are subject to a tax rate of 5.3 percent, and our dividend income is generally subject to a tax rate of 14.2 percent. During 2008, the average after-tax yield on the fixed income portfolio remained at 3.7 percent, the same yield as 2007. During the year, we focused on purchasing high-quality fixed income investments, primarily in the 5-15 year range of the yield curve.

GENERAL CORPORATE EXPENSE

General corporate expenses tend to fluctuate relative to our executive compensation plan. Our compensation 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 2008, the actual return was below the required return, resulting in no bonus earned on the current year and reductions to bonuses accrued but unpaid on prior years. In 2007 and 2006, we had generated earnings significantly above the required return, resulting in increased bonuses accrued.

INVESTEE EARNINGS

We maintain a 40 percent equity interest in Maui Jim, Inc. (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 2008, we recorded $4.8 million in earnings from this investment compared to $7.3 million in 2007 and $8.8 million in 2006. While sunglass sales advanced 7 percent in 2008 and 15 percent in 2007, costs associated with expansion efforts, foreign exchange losses, and the global economy affected earnings. In 2008, Maui Jim recorded over $5 million in foreign exchange loss and was negatively affected by the global economic slowdown. In 2007 and 2006, Maui Jim had recorded foreign exchange gains of $0.5 million and $1.9 million, respectively. 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.

In 2006, investee earnings included $6.3 million 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.

OUTLOOK FOR 2009

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"). It is expected that deteriorating industry results, the "financial meltdown" of 2008, and the economic recession that intensified in late 2008 will begin to have a moderating impact on the soft market that has been in existence for the past several years.

We expect to see premium growth in selected products in 2009 and underwriting income overall, absent any major catastrophe. Specific details regarding events in our insurance segments follow.

Casualty

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 in this segment. We do expect to see soft market pricing beginning to moderate as the year unfolds.

Continued rate declines will make it increasingly difficult to post underwriting profits. However, we look to our ability to continue to exercise underwriting discipline, and select quality risks to outperform the marketplace in 2009.

Property

We believe property pricing will start to flatten in the year ahead. 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 premium in 2009. We expect the segment to produce underwriting income in 2009 absent any major catastrophes.

Surety

The surety segment, like our other segments, is expected to feel the pressure of the stressed economic situation. In 2008, we expanded our geographic footprint and added fidelity coverages. We expect premium growth to continue in 2009. Our experienced underwriting staff coupled with our effective use of technology point to continued profitability in 2009.

Investments

We anticipate further volatility in the capital markets in 2009. The underlying factors that drove equity prices higher, including earnings growth, ease of credit, leverage, etc., are under pressure going into 2009. Because of this, we have allowed our equity allocations to drift below our 20 percent target. We would expect our allocation to remain below our target unless market conditions improve.

The low interest rate environment will put pressure on our investment income as cash flow is invested at lower yields.

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,” 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.

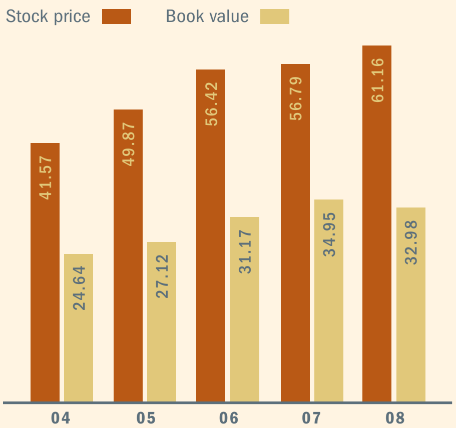
To view our comprehensive financial information, please refer to our 2008 RLI Corp. Financial Annual Report.

VISUAL REVIEW OF OPERATIONS

BOOK VALUE AND STOCK PRICE GROWTH

DOLLARS PER SHARE

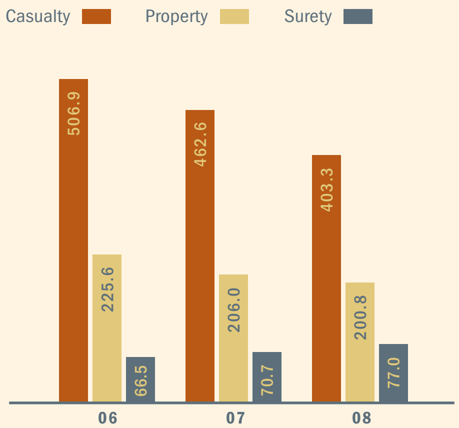
Since 2003, book value has grown 34 percent and our stock price has risen 47 percent.



SEGMENT PREMIUMS

DOLLARS IN MILLIONS

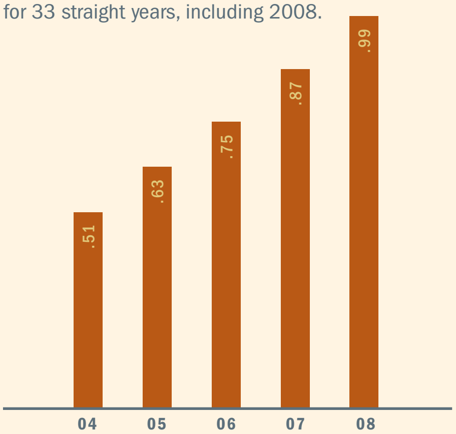
Overall gross premiums written decreased 8 percent in 2008, reflective of challenging market conditions.



DIVIDENDS PER SHARE

DOLLARS PER SHARE

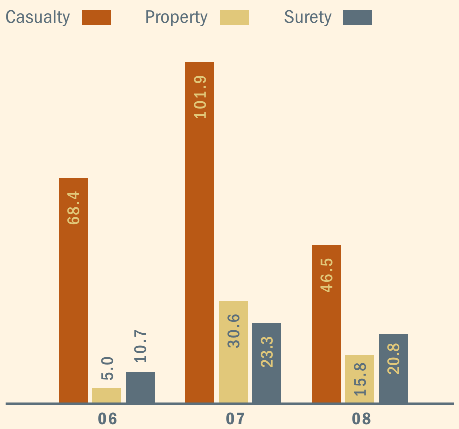
In an environment where many are looking to cut their dividends, we have paid and increased dividends for 33 straight years, including 2008.



SEGMENT PROFITS

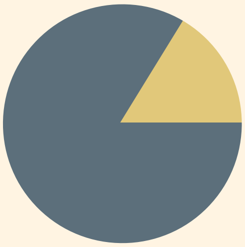
DOLLARS IN MILLIONS

Our three segments generated $83.1 million in 2008 underwriting profit.



INSIDER OWNERSHIP

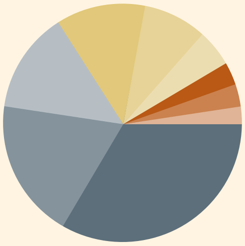
Seventeen percent of our stock is owned by RLI associates and other insiders.



- 83% Institutions & other public
- 17% ESOP & insiders

PREMIUM BY STATE

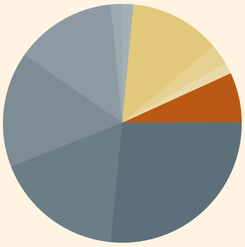
We operate in every state. Here are the top eight, by gross premiums written.



- 32% All other
- 19% California
- 16% New York
- 13% Florida
- 8% Texas
- 4% New Jersey
- 3% Illinois
- 3% Pennsylvania
- 2% Washington

INVESTMENT PORTFOLIO

In one of the worst financial markets in history, our diversified portfolio was down just 4.4 percent.



77% FIXED INCOME

- 27% Municipals
- 18% Agencies
- 17% Corporates
- 13% Mortgage-backed
- 1% Asset-backed
- 1% Treasuries

17% EQUITIES

- 14% Common stock
- 2% High-yield municipal fund
- 1% Preferred stock

6% SHORT TERM INVESTMENTS

VISUAL REVIEW OF OPERATIONS

COVERAGES	CUSTOMERS	COMPETITORS
Casualty Commercial automobile, commercial general liability, commercial umbrella/excess liability, 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 Travelers Insurance Company, 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, Travelers Insurance Company, CNA, 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 Liberty Mutual

DISTRIBUTION CHANNELS

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

GROSS PREMIUMS WRITTEN

	In millions	% change
General liability	$139.9	(21.1)
Commercial and personal umbrella	97.5	(4.6)
Transportation	55.4	(15.2)
Exec. products	55.1	4.4
Programs	33.7	1.1
Other	21.7	(31.3)
Total	**$403.3**	**(12.8)**

COMBINED RATIO

	Loss ratio	Exp ratio	Combined
2008	54.2	31.0	85.2
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

	Retail agent/broker	Wholesale broker	General agency
Commercial property		■	
Earthquake/ DIC		■	
Marine	■	■	
Personal lines	■		■

	In millions	% change
Commercial property	$73.9	(9.5)
Earthquake/DIC	47.5	(26.1)
Marine	61.4	35.7
Other	18.0	21.8
Total	**$200.8**	**(2.5)**

	Loss ratio	Exp ratio	Combined
2008	50.4	38.9	89.3
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

	Retail agent/broker	Wholesale broker	General agency
Miscellaneous	■		
Energy	■		
Commercial	■		
Contract	■		
Fidelity	■	■	

	In millions	% change
Miscellaneous	$23.6	4.7
Energy	19.2	4.1
Commercial	20.1	11.4
Contract	13.5	15.5
Fidelity	0.6	–
Total	**$77.0**	**9.0**

	Loss ratio	Exp ratio	Combined
2008	4.8	64.9	69.7
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

CONSOLIDATED BALANCE SHEETS

In thousands, except per share data	Years ended December 31	2008	2007
ASSETS			
Investments:			
Fixed income:			
Available-for-sale, at fair value (amortized cost — $1,236,676 in 2008 and $1,274,734 in 2007)		$1,224,215	$1,283,305
Held-to-maturity, at amortized cost (fair value — $41,421 in 2008 and $75,673 in 2007)		39,821	73,648
Trading, at fair value (amortized cost — $10,282 in 2008 and $15,350 in 2007)		10,020	15,413
Equity securities, available-for-sale, at fair value (cost — $251,283 in 2008 and $255,598 in 2007)		286,790	393,680
Short-term investments, at cost, which approximates fair value		97,982	73,731
Total investments		$1,658,828	1,839,777
Cash		—	—
Accrued investment income		17,226	18,296
Premiums and reinsurance balances receivable, net of allowances for uncollectible amounts of $14,740 in 2008 and $13,336 in 2007		92,149	105,937
Ceded unearned premiums		65,977	71,021
Reinsurance balances recoverable on unpaid losses and settlement expenses, net of allowances for uncollectible amounts of $15,803 in 2008 and $18,877 in 2007		350,284	417,250
Deferred policy acquisition costs, net		78,520	78,882
Property and equipment, at cost, net of accumulated depreciation of $43,218 in 2008 and $40,509 in 2007		21,565	20,050
Income taxes — deferred		24,141	—
Investment in unconsolidated investees		38,697	38,162
Goodwill		26,214	26,214
Other assets		45,800	10,934
Total assets		$2,419,401	$2,626,523

CONTINUED

In thousands, except per share data	Years ended December 31	2008	2007
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Unpaid losses and settlement expenses		$1,159,311	$1,192,178
Unearned premiums		335,170	355,522
Reinsurance balances payable		30,224	38,273
Notes payable, short-term debt		–	27,975
Income taxes – deferred		–	25,042
Bonds payable, long-term debt		100,000	100,000
Accrued expenses		32,894	39,303
Other liabilities		53,648	73,808
Total liabilities		$1,711,247	$1,852,101
Shareholders' equity:			
Common stock ($1 par value, authorized 50,000,000 shares, issued 32,106,085 shares in 2008 and 31,869,596 shares in 2007)		32,106	31,870
Paid-in capital		196,989	192,446
Accumulated other comprehensive earnings net of tax		15,130	95,701
Retained earnings		807,195	749,767
Deferred compensation		8,312	7,980
Treasury stock, at cost (10,631,656 shares in 2008 and 9,714,456 shares in 2007)		(351,578)	(303,342)
Total shareholders' equity		708,154	774,422
Total liabilities and shareholders' equity		$2,419,401	$2,626,523

The summary financial statements are excerpted from the audited financial statements contained in the 2008 RLI Corp. Financial Annual Report.

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE EARNINGS

In thousands, except per share data — Years ended December 31	2008	2007	2006
Net premiums earned	$ 528,764	$ 544,478	$ 530,338
Net investment income	78,986	78,901	71,325
Net realized investment gains (losses)	(46,738)	28,966	31,045
Consolidated revenue	561,012	652,345	632,708
Losses and settlement expenses	247,174	190,868	256,889
Policy acquisition costs	163,320	155,610	145,776
Insurance operating expenses	35,207	42,235	43,617
Interest expense on debt	6,704	6,997	6,581
General corporate expenses	6,853	9,474	8,069
Total expenses	459,258	405,184	460,932
Equity in earnings of unconsolidated investees	4,844	7,315	15,117
Earnings before income taxes	106,598	254,476	186,893
Income tax expense (benefit):			
Current	33,721	75,551	59,942
Deferred	(5,799)	3,058	(7,688)
Income tax expense	27,922	78,609	52,254
Net earnings	$ 78,676	$ 175,867	$ 134,639
Other comprehensive earnings (loss), net of tax			
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	$(111,152)	$ 9,339	$ 32,011
Less: Reclassification adjustment for losses (gains) included in net earnings	30,581	(18,783)	(9,651)
Other comprehensive earnings (loss)	(80,571)	(9,444)	22,360
Comprehensive earnings (loss)	$ (1,895)	$ 166,423	$ 156,999

In thousands, except per share data — Years ended December 31	2008	2007	2006
Earnings per share:			
Basic — Net earnings per share	$ 3.65	$ 7.46	$ 5.40
Comprehensive earnings (loss) per share	$ (0.09)	$ 7.06	$ 6.30
Earnings per share:			
Diluted — Net earnings per share	$ 3.60	$ 7.30	$ 5.27
Comprehensive earnings (loss) per share	$ (0.09)	$ 6.91	$ 6.14
Weighted average number of common shares outstanding:			
Basic	21,540	23,574	24,918
Diluted	21,848	24,085	25,571

The summary financial statements are excerpted from the audited financial statements contained in the 2008 RLI Corp. Financial Annual Report.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands, except per share data — Years ended December 31	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Net earnings	$ 78,676	$ 175,867	$ 134,639
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Net realized investment losses (gains)	46,738	(28,966)	(31,045)
Depreciation	3,596	3,567	3,503
Other items, net	17,287	10,137	5,783
Change in: Accrued investment income	1,070	332	(1,654)
Premiums and reinsurance balances receivable (net of direct write-offs and commutations)	13,788	20,084	873
Reinsurance balances payable	(8,049)	(16,702)	(12,480)
Ceded unearned premium	5,044	26,575	17,072
Reinsurance balances recoverable on unpaid losses	66,966	108,421	67,538
Deferred policy acquisition costs	362	(5,065)	(4,340)
Accounts payable and accrued expenses	(6,409)	4,613	3,005
Unpaid losses and settlement expenses	(32,867)	(126,599)	(13,089)
Unearned premiums	(20,352)	(32,289)	4,128
Income taxes: Current	2,163	(12,250)	6,823
Deferred	(5,799)	3,058	(7,688)
Stock option excess tax benefit	(4,929)	(2,042)	(2,930)
Changes in investment in unconsolidated investees: Undistributed earnings	(4,844)	(7,315)	(15,117)
Dividends received	3,960	5,940	16,500
Net loss (proceeds) from trading portfolio activity	4,933	(343)	254
Net cash provided by operating activities	$ 161,334	$ 127,023	$ 171,775

CONTINUED

In thousands, except per share data — Years ended December 31	2008	2007	2006
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of: Fixed income, held-to-maturity	$ –	$ –	$ –
Fixed income, available-for-sale	(445,778)	(339,334)	(412,019)
Equity securities, available-for-sale	(123,415)	(101,332)	(139,462)
Short-term investments, net	(88,838)	–	(61,548)
Property and equipment	(6,002)	(4,456)	(4,590)
Note receivable	–	–	(5,000)
Proceeds from sale of: Fixed income, held to maturity	5,230	–	–
Fixed income, available-for-sale	143,074	99,360	231,385
Equity securities, available-for-sale	89,032	77,040	146,635
Short-term investments, net	–	18,926	–
Property and equipment	891	1,429	1,356
Investment in unconsolidated investee	–	–	32,499
Proceeds from call or maturity of: Fixed income, held-to-maturity	28,870	32,722	28,215
Fixed income, available-for-sale	327,462	199,427	117,204
Note receivable	–	9,500	2,000
Net cash used in investing activities	$ (69,474)	$ (6,718)	$ (63,325)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of short-term debt	54,017	80,619	35
Payment on short-term debt	(81,992)	(52,644)	(15,576)
Stock option excess tax benefit	4,929	2,042	2,930
Proceeds from stock option exercises	(150)	2,952	3,254
Treasury shares purchased	(47,904)	(133,268)	(81,069)
Cash dividends paid	(20,760)	(20,006)	(18,024)
Net cash used in financing activities	$ (91,860)	$(120,305)	$(108,450)
Net decrease in cash	–	–	–
Cash at beginning of year	–	–	–
Cash at end of year	$ –	$ –	$ –

The summary financial statements are excerpted from the audited financial statements contained in the 2008 RLI Corp. Financial Annual Report.

SELECTED FINANCIAL DATA

The following is selected financial data of RLI Corp. and Subsidiaries for the 11 years ended December 31, 2008.

In thousands, except per share data	2008	2007	2006	2005
OPERATING RESULTS				
Gross premiums written [1]	$ 681,169	739,334	799,013	756,012
Consolidated revenue	$ 561,012	652,345	632,708	569,302
Net earnings	$ 78,676	175,867	134,639	107,134
Comprehensive earnings (loss) [2]	$ (1,895)	166,423	156,999	83,902
Net cash provided from operating activities	$ 161,334	127,023	171,775	198,027
FINANCIAL CONDITION				
Total investments	$ 1,658,828	1,839,777	1,828,241	1,697,791
Total assets	$ 2,419,401	2,626,523	2,771,296	2,735,870
Unpaid losses and settlement expenses	$ 1,159,311	1,192,178	1,318,777	1,331,866
Total debt	$ 100,000	127,975	100,000	115,541
Total shareholders' equity	$ 708,154	774,422	756,520	692,941
Statutory surplus [3]	$ 678,041	752,004	746,905	690,547
SHARE INFORMATION				
Net earnings per share:				
Basic	$ 3.65	7.46	5.40	4.21
Diluted	$ 3.60	7.30	5.27	4.07
Comprehensive earnings (loss) per share: [2]				
Basic	$ (0.09)	7.06	6.30	3.30
Diluted	$ (0.09)	6.91	6.14	3.19
Cash dividends declared per share	$ 0.99	0.87	0.75	0.63
Book value per share	$ 32.98	34.95	31.17	27.12
Closing stock price	$ 61.16	56.79	56.42	49.87
Stock split				
Weighted average shares outstanding: [4] [7]				
Basic	21,540	23,574	24,918	25,459
Diluted	21,848	24,085	25,571	26,324
Common shares outstanding	21,474	22,155	24,273	25,551
OTHER NON-GAAP FINANCIAL INFORMATION [1]				
Net premiums written to statutory surplus [3]	76%	72%	74%	72%
GAAP combined ratio [5]	84.2	71.4	84.1	86.0
Statutory combined ratio [3] [5]	85.7	73.3	84.0	86.7

(1) See page 2-3 of the RLI Corp. Financial Annual Report for information regarding non-GAAP financial measures.

(2) See note 1.Q of the RLI Corp. Financial Annual Report.

(3) Ratios and surplus information are presented on a statutory basis.

As discussed further in the MD&A and note 9 of the RLI Corp. Financial Annual Report, 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.

CONTINUED

2004	2003	2002	2001	2000	1999	1998
752,5883	742,477	707,453	511,985	437,867	339,575	291,073
578,800	519,886	382,153	309,354	263,496	225,756	168,114
73,036	71,291	35,852	31,047	28,693	31,451	28,239
81,354	97,693	13,673	11,373	42,042	20,880	51,758
188,962	191,019	161,971	77,874	53,118	58,361	23,578
1,569,718	1,333,360	1,000,027	793,542	756,111	691,244	677,294
2,468,775	2,134,364	1,719,327	1,390,970	1,281,323	1,170,363	1,012,685
1,132,599	903,441	732,838	604,505	539,750	520,494	415,523
146,839	147,560[6]	54,356	77,239	78,763	78,397	39,644
623,661	554,134	456,555[4]	335,432	326,654	293,069	293,959
605,967[6]	546,586[6]	401,269[4]	289,997	309,945	286,247	314,484
2.90	2.84	1.80	1.58	1.46	1.55	1.34
2.80	2.76	1.75	1.55	1.44	1.54	1.33
3.23	3.89	0.69	0.58	2.14	1.03	2.46
3.12	3.78	0.67	0.57	2.11	1.02	2.43
0.51	0.40	0.35	0.32	0.30	0.28	0.26
24.64	22.02	18.50[4]	16.92	16.66	14.84	14.22
41.57	37.46	27.90	22.50	22.35	17.00	16.63
		200%[7]				125%
25,223	25,120	19,937	19,630	19,634	20,248	21,028
26,093	25,846	20,512	20,004	19,891	20,444	21,276
25,316	25,165	24,681	19,826	19,608	19,746	20,670
84%	87%	103%	109%	84%	79%	46%
92.2	92.0	95.6	97.2	94.8	91.2	88.2
93.8	93.1	92.4	95.8	95.8	90.1	88.4

(5) The GAAP and statutory combined ratios are impacted by favorable development on prior accident years' loss reserves. See note 6 of the RLI Corp. Financial Annual Report for further discussion.

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

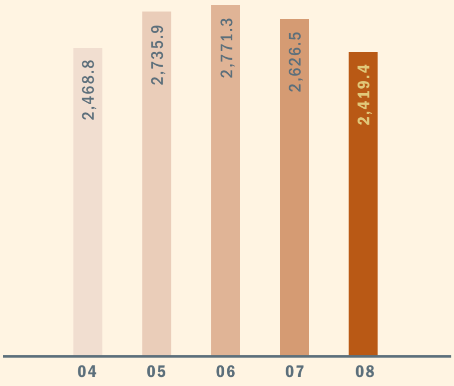
(7) On October 15, 2002, our stock split on a 2-for-1 basis. All share and per share data has been retroactively stated to reflect this split.

SELECTED FINANCIAL GRAPHS

TOTAL ASSETS

DOLLARS IN MILLIONS

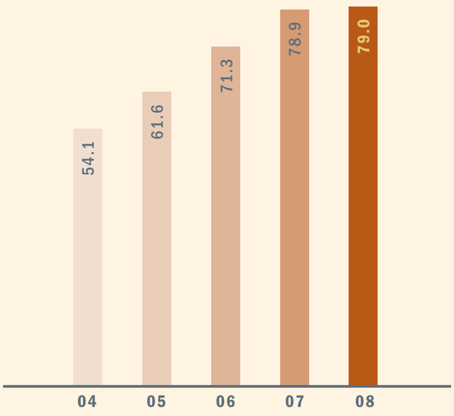
Our balance sheet remains strong. The decline in total assets in 2008 was largely due to recent economic conditions.



INVESTMENT INCOME

DOLLARS IN MILLIONS

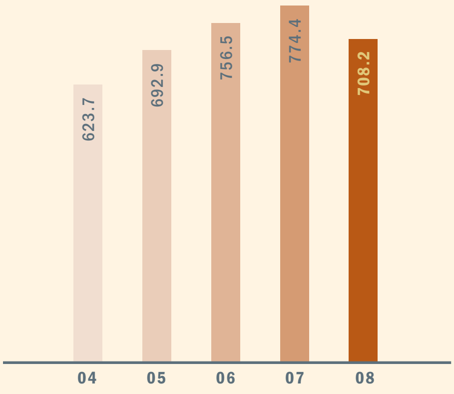
Strong cash flows have driven consistent investment income growth.



SHAREHOLDERS' EQUITY

DOLLARS IN MILLIONS

Shareholders' equity has increased $85 million since 2003, while returning over $300 million in share repurchases and dividends to our shareholders.



NET EARNINGS PER SHARE

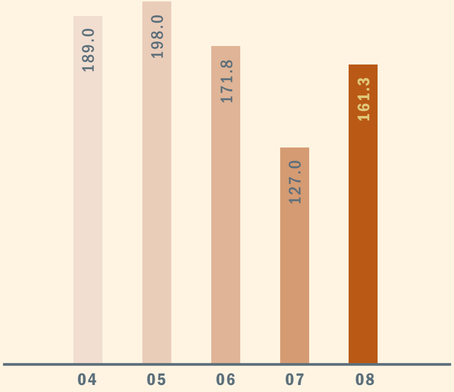
DOLLARS PER SHARE

Each share of our stock has generated $23.04 of diluted earnings since 2003.

CASH FLOWS FROM OPERATIONS

DOLLARS IN MILLIONS

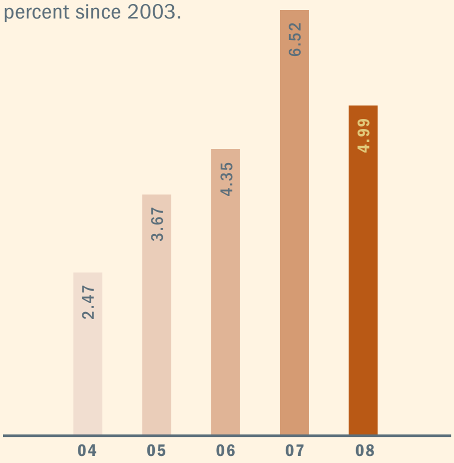
As a company focused on underwriting profit, we have maintained an average of $169 million in cash flows since 2003.



OPERATING EARNINGS PER SHARE

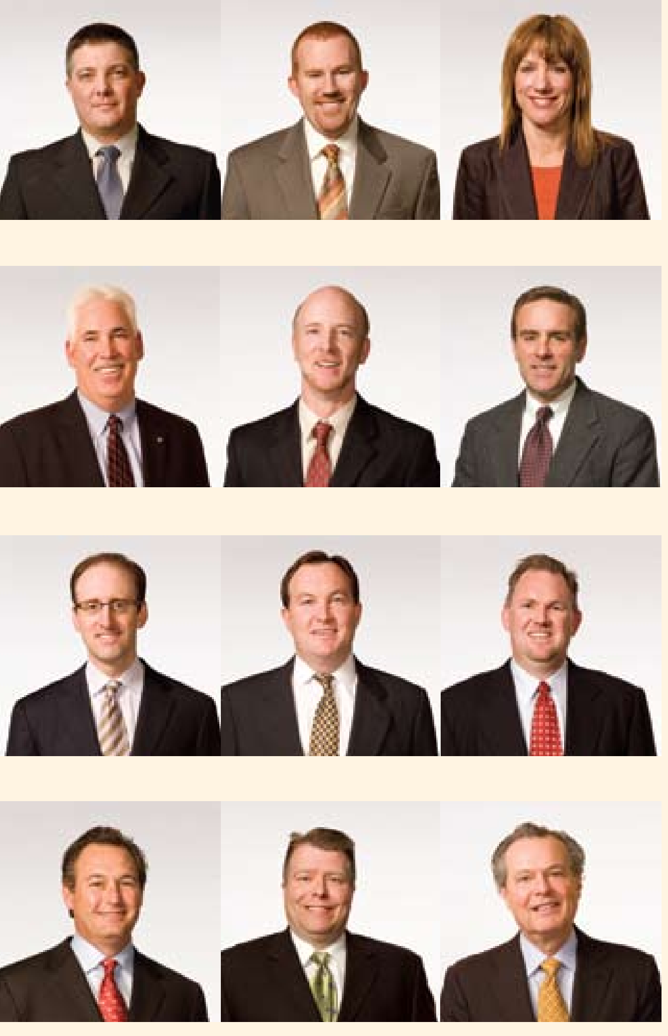
DOLLARS PER SHARE

Operating earnings per share have risen 102 percent since 2003.



COMPANY LEADERS

EXECUTIVE TEAM (left to right, top to bottom)



1: RLI Corp.

2: RLI Insurance Company

3: Mt. Hawley Insurance Company

4: RLI Indemnity Company

Todd. W. Bryant, CPA, CPCU: Vice President, Controller (1, 2, 3, 4) · Industry experience: 15 years · Joined RLI in 1993 · Prior positions include chief accountant and AVP financial reporting. Promoted to current position in 2009.

Seth A. Davis, CFA, CIA, CPCU: Vice President, Internal Audit (2, 3, 4) · Industry experience: 13 yrs · Joined RLI in 2004. Prior position includes: manager, internal audit. Promoted to current position in 2005.

Carol J. Denzer: Vice President, Chief Information Officer (2, 3, 4) · Industry experience: 23 years · Joined RLI in 1987. Prior positions include: accounting and reinsurance, AVP and VP of reinsurance and catastrophe management. Promoted to current position in 2006.

Joseph E. Dondanville, CPA: Sr. Vice President, CFO (1, 2, 3, 4) Industry experience: 31 years · Joined RLI in 1984. · Prior positions include: chief accountant, controller and VP. Promoted to current position in 2002. Also serves as director of Maui Jim, Inc.

Donald J. Driscoll: Vice President, Claim (2, 3, 4) · Industry experience: 23 years · Joined RLI in 1996. · Prior positions include: director of coverage and casualty claims and AVP. Promoted to current position in 2000.

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

Aaron H. Jacoby: Vice President, Corporate Development (1, 2, 3, 4) · Industry experience: 7 years · Joined RLI in 2001. · Prior position includes: director of corporate development. Promoted to current position in 2004.

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.

Craig W. Kliethermes, FCAS, MAAA, CPCU: Sr. Vice President, Risk Services (2, 3, 4) · Industry experience: 24 years · Joined RLI in 2006 · Prior position includes: VP of actuarial and risk services · Promoted to current position in 2009.

Jonathan E. Michael: President & CEO (1), Chairman & CEO (2, 3, 4) · Industry experience: 32 years · Joined RLI in 1982. Prior positions include: controller, vice president of finance and CFO, executive vice president, president and CEO/COO of principal insurance subsidiaries.

John E. Robison: Treasurer (1, 2, 3, 4) · Industry experience: 18 years · Joined RLI in 2004 in current position.

Michael J. Stone: President & COO (2, 3, 4) · Industry experience: 39 years · Joined RLI in 1996. · Prior positions include: vice president, claim; senior VP and executive VP. Promoted to current position in 2002.

BOARD OF DIRECTORS

Kaj Ahlmann (4,5): Director since 2009. Retired chairman, president and CEO of Employers Reinsurance Corporation, a division of GE. Currently operates a consulting business offering advice to financial services firms, including insurance companies. Director for the Deutsche Bank Advisory Council, Cyrus Re, the American Institute for Chartered Property Casualty Underwriters, and the Reinsurance Association of America.

Barbara R. Allen (1, 5): Director since 2006. Retired president of Proactive Partners, a division of Tennis Corporation of America. Former marketing and executive management leader with Quaker Oats Co. Former director for Lance, Inc., Maytag Corp., Tyson Foods, Converse, and Charthouse, Inc.

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., NYMAGIC, Inc., and Albright College.

Richard H. Blum (1, 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 and CEO of Guy Carpenter & Company, Inc.

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

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.

Charles M. Linke (3, 4): 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.

F. Lynn McPheeters (2, 3, 5): Director since 2000. Retired in Feb. 2005 as vice president and CFO of Caterpillar Inc. Held various finance positions, including corporate treasurer, before becoming a Caterpillar vice president in 1998. Member of the Southern Illinois Univ. College of Business and Administration's External Advisory Board, the Southern Illinois Univ. Foundation Board, and Director for Microlution, Inc., and Crosslink USA.

Jonathan E. Michael (4, 5): Director since 1997. President and CEO of RLI Corp. and chairman and CEO of its principal subsidiaries, member of PCI board of governors, and director of Maui Jim, Inc.

Gerald D. Stephens, CPCU (4): Director since 1965. Chairman of the board since 2001. Company founder, former president and 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.

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 (1996-2008). Executive limited partner, Pfingsten Executive Fund III, L.P. Member, advisory committee, North American Sports Media, L.L.C.

Robert O. Viets, JD, CPA (1, 2): Director since 1993. President of ROV Consultants, LLC. Retired president and CEO of CILCORP Inc., a holding company whose principal subsidiary was a utility company. Director for Patriot Coal Corp. 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

FIELD OFFICERS

CASUALTY

David A. Dunn: President, RLI Transportation
Industry experience: 32 years (Atlanta, Ga.)

A. Quentin Orza II: Vice President, Executive Products Group
Industry experience: 32 years (Summit, N.J.)

Richard W. Quehl: Vice President,
RLI Specialty Markets, Personal & Commercial Lines
Industry experience: 39 years (Peoria, Ill.)

Paul J. Simoneau: Vice President, Casualty Brokerage
Industry experience: 31 years (Glastonbury, Conn.)

Leonard Waldenhauser IV: Vice President, RLI Design Professionals · Industry experience: 15 years (Philadelphia, Pa.)

PROPERTY

Kevin Brawley, CPCU, ARM, AMIM: President, RLI Re
Industry experience: 31 years (Stamford, Conn.)

Kevin McDonough: Vice President, West Coast Property
Industry experience: 27 years (Los Angeles, Calif.)

Robert J. Schauer: President, RLI Marine
Industry experience: 21 years (New York, N.Y.)

Jeffrey S. Wefer: Senior Vice President, E&S Property
Industry experience: 37 years (Chicago, Ill.)

SURETY

Michael D. Beranek: Vice President, RLI Fidelity
Industry experience: 17 years (New York, N.Y.)

Roy C. Die: Vice President, Surety
Industry experience: 21 years (Houston, Texas)

David C. Sandoz: Vice President, Surety
Industry experience: 32 years (Peoria, Ill.)

CLAIMS

Brian Casey: VP and Claim Counsel
Industry experience: 24 years (Greensboro, Ga.)

INVESTOR INFORMATION

ANNUAL MEETING

The annual meeting of shareholders will be held at 2 p.m., CDT, on May 7, 2009, at our offices at 9025 N. Lindbergh Drive, Peoria, Ill.

TRADING AND DIVIDEND INFORMATION

	Closing Stock Price			Dividends
2008	High	Low	Ending	Declared
1st Quarter	$56.68	$48.48	$49.57	$.23
2nd Quarter	54.03	46.93	49.47	.25
3rd Quarter	66.61	44.64	62.09	.25
4th Quarter	62.38	46.71	61.16	.26

	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

RLI common stock trades on the New York Stock Exchange under the symbol RLI. RLI has paid and increased dividends for 33 consecutive years.

STOCK OWNERSHIP

December 31, 2008	Shares	%
Insiders	2,255,824	10.5
ESOP	1,476,635	6.9
Institutions & other public	17,741,970	82.6
Total outstanding	21,474,429	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
Email: 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 website: 2008 summary annual report; 2008 financial annual report; 2009 proxy statement; 2008 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

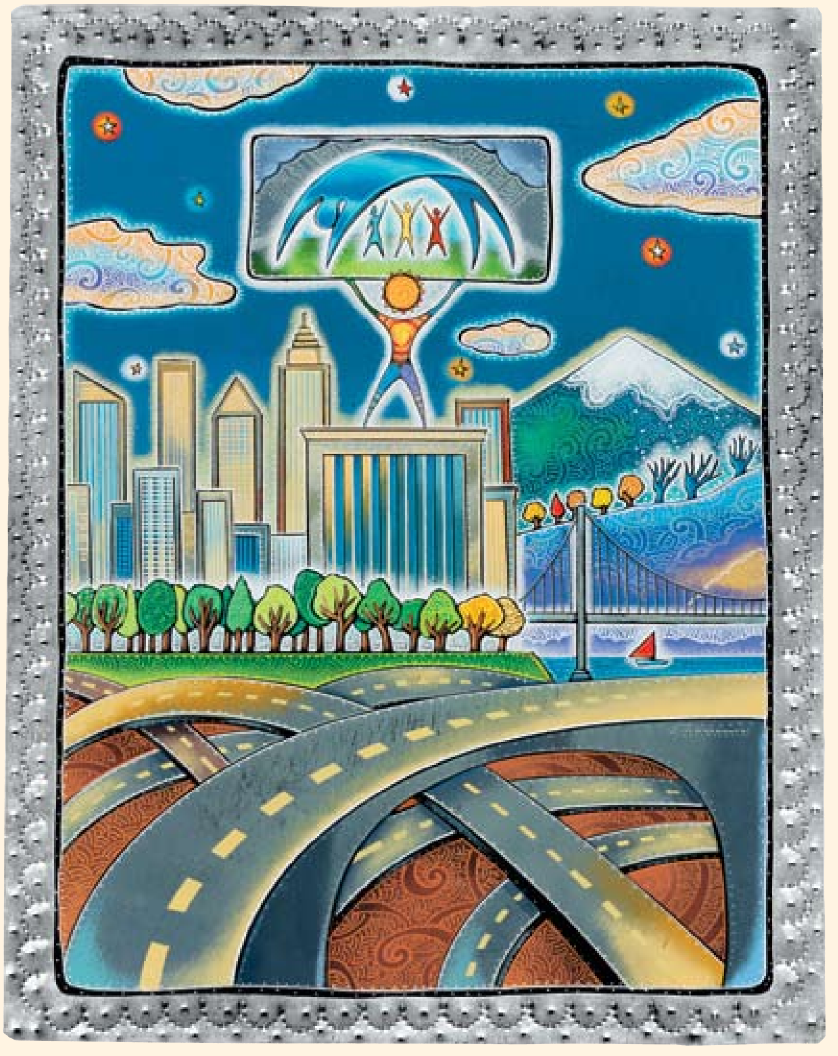
A.M. Best:	A+ (Superior)	RLI Group
Standard & Poor's:	A+ (Strong)	RLI Insurance Company
	A+ (Strong)	Mt. Hawley Insurance Company
Moody's:	A2 (Good)	RLI Insurance Company
	A2 (Good)	Mt. Hawley Insurance Company
	A2 (Good)	RLI Indemnity Company

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.



THE ICON STANDING ATOP THE BUILDING PERSONIFIES RLI'S BRAND AND THE PROMISES OUR BRAND MAKES. AFFECTIONATELY NICKNAMED SONNY, THE FIGURE REPRESENTS AN RLI UNDERWRITER OR EMPLOYEE PROVIDING STRENGTH, STABILITY, AND EXPERTISE TO THE CUSTOMERS WE SERVE.

Elements of this illustration are featured throughout this annual report as well as in many other company communications. These elements represent the multitude of risks we are uniquely equipped to handle. As the unmistakable style of this illustration ties these elements together, so too does RLI's underwriting-focused business model tie together the many specialized, niche coverages we offer. At RLI, this is how *different works*.

RLI®

DIFFERENT WORKS

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www.rlicorp.com FP0309 3M