

PRESIDENT'S LETTER TO SHAREHOLDERS



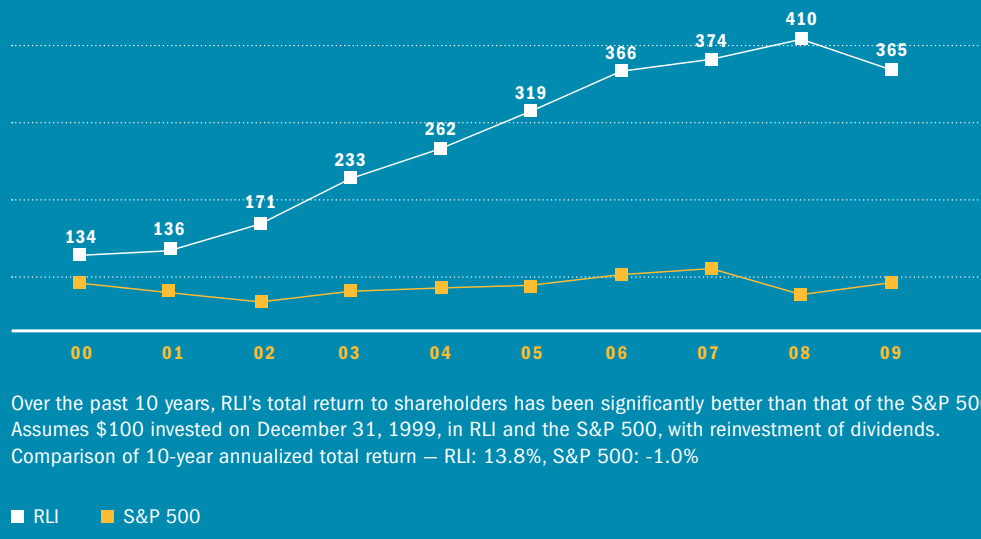
different. It's not a word you'd normally use to describe an insurance company. But at RLI, being different defines us. Whether it's our entrepreneurial culture, our disciplined underwriting, our dedication to profitability, or our employee ownership, there are so many reasons to say "That's different" when you're talking about RLI.

But it's not just about doing this differently. It's about what these differences mean for our company and our shareholders. It means that not only did we weather the economic storm of the last two years, but we remained profitable. The things that make us unique are what have allowed us to succeed in a variety of market cycles. It's a way of doing

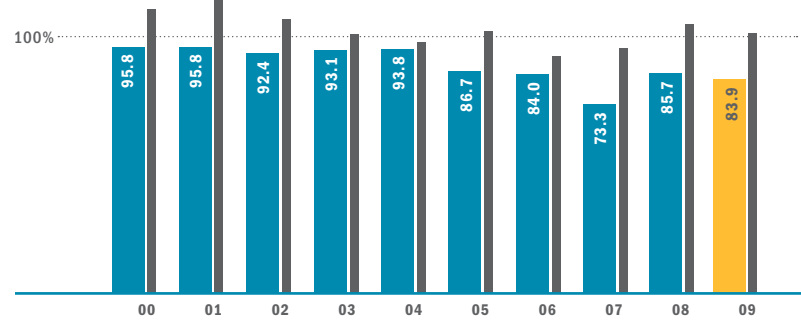
business that has paid off not just in the past year, but in the 45 years of our existence.

Although we don't look much like the RLI of 1965, the fundamental principles on which this company was founded remain in place today. They're different. And at RLI, different works.

10-YEAR CUMULATIVE SHAREHOLDER RETURN



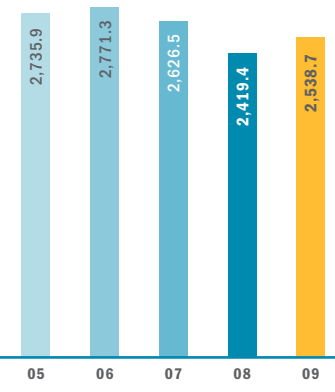
STATUTORY COMBINED RATIO



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

■ RLI ■ Industry (2009 estimated)

TOTAL ASSETS



DOLLARS IN MILLIONS
Our balance sheet remains strong despite difficult economic conditions.

DISCIPLINED. THAT'S DIFFERENT

If I had to choose a word to describe the RLI in 2009, that word would be disciplined. As the nation's economy continued to deal with the fallout of the recent downturn and recession, our focus this year was to be more efficient, to manage our exposures and expenses and to stick to our guiding principle of underwriting for profit.

Some economists have called this period the great recession. The recession has affected RLI through lower gross written premiums from cheap capacity vying for increased market share, reduced insured revenues, a downturn in property values and our reluctance to unnecessarily increase risk. We are wise to the temptation of underwriting business that is inadequately priced, and we know that when embraced, it can lead to a downward spiral. So we take the path less traveled — one of being disciplined.

Despite economic contractions, RLI focused on achieving profitability by continually reviewing and managing each of our business segments. We met with our executives and product managers throughout 2009 to understand market dynamics and develop strategies to respond to those changes. We also looked for opportunities and implemented strategies to increase overall cost efficiency and effectiveness.

PROFITABLE. THAT'S DIFFERENT.

Because of excess capacity in the insurance industry, the market continues to be soft. We believe that as an industry, the combined ratio for 2009 — a year nearly void of catastrophes — will be around 100 and is clearly trending higher. The additional deterioration of industry underwriting performance will ultimately result in pricing increases, changes in underwriting philosophies and market exits by overly aggressive competitors.

But again, RLI is different. Our results in this difficult economic and business climate have been very good. Underwriting income is positive and results are excellent — proof of the abilities of our people to adapt their strategies to changing conditions, remain focused and deliver positive results for our shareholders.

Of course, because we maintained our underwriting discipline during the year, our top-line results decreased. As the economy falters and more aggressive companies raid business with pricing we believe is less than adequate, we let it go. Gross written premiums declined 7 percent in 2009. As the economy struggled, we continued to place a strong emphasis on the quality of the accounts we underwrote. In addition, we aggressively managed claims and related loss expense, while working to protect our policyholders from the negative impact of poor loss experience.

New products we brought on last year supported our top-line results. The expansion of our business into the markets of fidelity (bonds), design professionals (architects and engineers), cyber liability (network security and privacy) and casualty coverages for environmental liability and real estate investment trusts contributed \$20.3 million to our gross written premiums. Our product leaders in each of these areas have worked diligently to positively contribute to our revenue. In 2009, we also added coverages to existing product lines in addition to expanding surety geographically.

The rewards of our effectiveness in 2009 are demonstrated in an excellent GAAP combined ratio of 82.3, which was 2 percent better than 2008. RLI achieved \$86.8 million of underwriting income, compared to \$83.1 million on an 84.2 combined ratio in 2008. This marks our 14th consecutive year of underwriting income. Our many years of underwriting profitability are a testament to our culture and validate our reputation as an excellent underwriting company. We also benefited from a year devoid of major catastrophes.

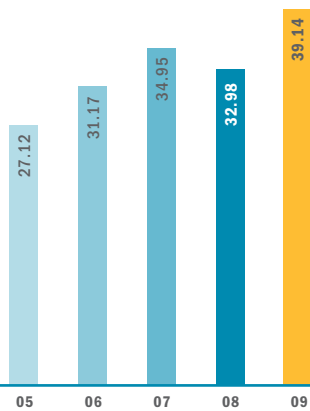
As the financial markets rebounded, our total assets grew to exceed \$2.5 billion. We maintain a high quality fixed income portfolio, and our overall investment portfolio's return for the year was 10.0 percent. Also in 2009, our net earnings increased 19 percent to \$93.8 million and underwriting income increased 5 percent to \$86.8 million.

FINANCIAL HIGHLIGHTS

In thousands, except combined ratio and per-share data

	2009	2008	% change
Gross premiums written	\$ 631,200	681,169	(7.3)
Net premiums written	469,916	513,456	(8.5)
Consolidated revenue	546,552	561,012	(2.6)
Net earnings	93,845	78,676	19.3
GAAP combined ratio	82.3	84.2	(2.3)
Total shareholders' equity	832,250	708,154	17.5
Per-share data:			
Net earnings	\$ 4.32	3.60	20.0
Cash dividends declared	1.08	0.99	9.1
Book value	39.14	32.98	18.7
Year-end closing stock price	53.25	61.16	(12.9)
Return on equity	12.2%	10.7%	14.0

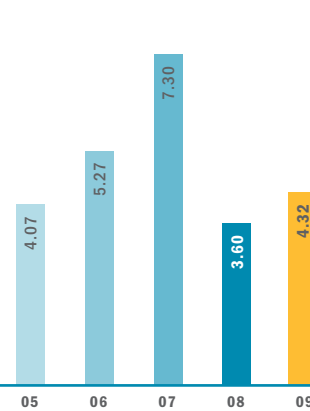
BOOK VALUE PER SHARE



DOLLARS PER SHARE

Since 2004, book value has grown 44 percent.

NET EARNINGS PER SHARE



DOLLARS PER SHARE

Each share of our stock has generated \$24.56 of diluted earnings since 2004.

While our performance in these trying economic times has been remarkable, our long-term business success and return to shareholders are truly extraordinary. In the last decade, the average shareholder in S&P 500 stocks lost 9 percent after dividends, while shareholders of RLI achieved a 265 percent increase in value including dividends. Our employees and shareholders can be proud of these results by any measure.

Again this year, our A+ ratings were reaffirmed by A.M. Best and Standard & Poor's. We are also proud to have been named again as one of the insurance industry's top performing companies by the Ward's 50 Top Performers List. RLI is one of only five property and casualty insurers — from over 3,100 companies, to be recognized every year since the list's inception 19 years ago.

EMPOWERED. THAT'S DIFFERENT

There are many things about RLI that make it possible for us to achieve the results we experience year after year. But what it really boils down to is our people — and the entrepreneurial culture in which they thrive.

We have the industry's best underwriting, claims and support talent. They work in an environment that empowers them with the freedom and authority to make decisions, and the resources to make things happen for our customers and our company. Our employees are supported by executives who have decades of experience in this industry. And when they succeed, we reward them.

Our underwriters have a compensation structure that rewards them for achieving underwriting profit — profits that are then returned to our shareholders. So they'll grow their business when it makes sense and walk away from business that is inadequately priced. And because of our Employee Stock Ownership Plan (ESOP), every employee of RLI is also an owner, and a shareholder, in this company. It shows in their commitment to going above and beyond to make the operation a success.

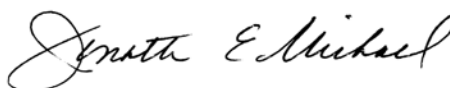
OPTIMISTIC. THAT'S DIFFERENT.

Although many economists have declared this recession over, its lingering effects will likely continue to chip away at commercial property and casualty premiums through 2010. But not only am I confident in our abilities to respond to the challenges in the year ahead, I'm optimistic that we will continue to succeed as we rely upon the proven expertise and talent of our people to serve our customers, achieve profitability and seek new opportunities for growth.

As the world changes, RLI will change as well. We'll add new products and new divisions, and exit those that don't perform to our standards. That flexibility is one of the things that make us different. As always, we will maintain our discipline and approach every opportunity for growth with profitability as the goal. We're continue to seek product and market opportunities that fit our model of profitable underwriting.

We have a very solid foundation and a strong balance sheet, which position us well for changes in our markets. I am optimistic about the prospects 2010 will bring and I'm certain we will continue to successfully respond to future challenges that come our way.

We were a different RLI in the first decade of the 2000s than we were in the 1990s. And we'll see a different RLI in the next decade. However, we'll remain disciplined and continue the culture of success started over 45 years ago — a foundation that's different. A foundation that works.



Jonathan E. Michael
PRESIDENT & CEO
FEBRUARY 24, 2010