



ANNUAL STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006
OF THE CONDITION AND AFFAIRS OF THE
RLI INSURANCE COMPANY

NAIC Group Code 0783 (Current Period) 0783 (Prior Period) NAIC Company Code 13056 Employer's ID Number 37-0915434
Organized under the Laws of Illinois, State of Domicile or Port of Entry Illinois
Country of Domicile United States
Incorporated/Organized 06/04/1959 Commenced Business 11/15/1960
Statutory Home Office 9025 N. Lindbergh Drive, Peoria, IL 61615
Main Administrative Office 9025 N. Lindbergh Drive, Peoria, IL 61615 309-692-1000
Mail Address 9025 N. Lindbergh Drive, Peoria, IL 61615
Primary Location of Books and Records 9025 N. Lindbergh Drive, Peoria, IL 61615 309-692-1000-5468
Internet Website Address www.rlicorp.com
Statutory Statement Contact Todd Wayne Bryant, 309-692-1000-5468
Policyowner Relations Contact 9025 N. Lindbergh Drive, Peoria, IL 61615 309-692-1000-5848

OFFICERS

Table with 4 columns: Name, Title, Name, Title. Includes Joseph Edward Dondanville (Sr. V.P., CFO), John Edward Robison (Treasurer), Jean Marie Stephenson # (Corporate Secretary), Michael Joseph Stone (President & COO).

OTHER OFFICERS

Table with 4 columns: Name, Title, Name, Title. Includes Jonathan Edward Michael (Chairman & CEO), Carol Jeanne Denzer (V.P., Chief Information Officer), Jeffrey Dean Fick (V.P., Human Resources), Daniel O'Connor Kennedy # (V.P., General Counsel), Andrew Brook McCray # (V.P., Home Office Underwriting), Aaron Howard Jacoby (V.P., Corporate Development), Donald John Driscoll (V.P., Claims), Seth Anthony Davis (V.P., Internal Audit), Craig William Kliethermes # (V.P., Actuarial Services).

DIRECTORS OR TRUSTEES

Table with 4 columns: Name, Name, Name, Name. Includes Jonathan Edward Michael, Donald John Driscoll, Michael Joseph Stone, Jeffrey Dean Fick, Joseph Edward Dondanville, Carol Jeanne Denzer, Aaron Howard Jacoby.

State of Illinois

County of Peoria ss

The officers of this reporting entity, being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures Manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

Joseph Edward Dondanville
Sr. V.P., CFO

Jean Marie Stephenson
Corporate Secretary

John Edward Robison
Treasurer

Subscribed and sworn to before me this 23rd day of February, 2007

a. Is this an original filing? Yes [X] No []
b. If no,
1. State the amendment number
2. Date filed
3. Number of pages attached

Karen Schauble, Tax Assistant
September 20, 2009

ANNUAL STATEMENT FOR THE YEAR 2006 OF THE RLI INSURANCE COMPANY

ASSETS

	Current Year			Prior Year
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	4 Net Admitted Assets
1. Bonds (Schedule D).....	570,395,254		570,395,254	571,645,536
2. Stocks (Schedule D):				
2.1 Preferred stocks	0		0	104
2.2 Common stocks	656,827,155	1,166,551	655,660,604	611,816,232
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens			0	0
3.2 Other than first liens			0	0
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less \$ encumbrances).....	6,414,189	330,970	6,083,219	6,081,232
4.2 Properties held for the production of income (less \$ encumbrances)			0	0
4.3 Properties held for sale (less \$ encumbrances)			0	0
5. Cash (\$ (3,369,399) , Schedule E, Part 1), cash equivalents (\$ 0 , Schedule E, Part 2) and short-term investments (\$ 30,302,492 , Schedule DA).....	26,933,093		26,933,093	14,035,782
6. Contract loans, (including \$ premium notes)			0	0
7. Other invested assets (Schedule BA)	9,500,000	0	9,500,000	6,500,000
8. Receivables for securities			0	0
9. Aggregate write-ins for invested assets	0	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9)	1,270,069,691	1,497,521	1,268,572,170	1,210,078,886
11. Title plants less \$ charged off (for Title insurers only).....			0	0
12. Investment income due and accrued	8,008,485		8,008,485	7,330,537
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in the course of collection	52,176,651	1,999,765	50,176,886	54,880,790
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ earned but unbilled premium).....			0	0
13.3 Accrued retrospective premium.....			0	0
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers	33,767,293		33,767,293	21,397,323
14.2 Funds held by or deposited with reinsured companies	4,000		4,000	4,000
14.3 Other amounts receivable under reinsurance contracts			0	0
15. Amounts receivable relating to uninsured plans			0	0
16.1 Current federal and foreign income tax recoverable and interest thereon			0	0
16.2 Net deferred tax asset			0	0
17. Guaranty funds receivable or on deposit			0	0
18. Electronic data processing equipment and software.....	4,876,345	3,808,628	1,067,717	1,490,986
19. Furniture and equipment, including health care delivery assets (\$).....	2,764,417	2,764,417	0	0
20. Net adjustment in assets and liabilities due to foreign exchange rates			0	0
21. Receivables from parent, subsidiaries and affiliates			0	0
22. Health care (\$) and other amounts receivable.....			0	0
23. Aggregate write-ins for other than invested assets	6,706,489	1,992,945	4,713,544	5,088,054
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23).....	1,378,373,371	12,063,276	1,366,310,095	1,300,270,576
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			0	0
26. Total (Lines 24 and 25)	1,378,373,371	12,063,276	1,366,310,095	1,300,270,576
DETAILS OF WRITE-INS				
0901.				
0902.				
0903.				
0998. Summary of remaining write-ins for Line 9 from overflow page	0	0	0	0
0999. Totals (Lines 0901 thru 0903 plus 0998)(Line 9 above)	0	0	0	0
2301. Goodwill.....	133,256	133,256	0	0
2302. Other Miscellaneous Assets.....	6,573,233	1,859,689	4,713,544	5,088,054
2303.			0	0
2398. Summary of remaining write-ins for Line 23 from overflow page	0	0	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398)(Line 23 above)	6,706,489	1,992,945	4,713,544	5,088,054

ANNUAL STATEMENT FOR THE YEAR 2006 OF THE RLI INSURANCE COMPANY

LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Year	2 Prior Year
1. Losses (Part 2A, Line 34, Column 8)	303,516,754	300,208,388
2. Reinsurance payable on paid losses and loss adjustment expenses (Schedule F, Part 1, Column 6)	256,554	357,089
3. Loss adjustment expenses (Part 2A, Line 34, Column 9)	55,500,855	51,456,920
4. Commissions payable, contingent commissions and other similar charges	15,825,241	15,199,322
5. Other expenses (excluding taxes, licenses and fees)	32,836,149	29,076,498
6. Taxes, licenses and fees (excluding federal and foreign income taxes)	1,085,442	2,030,629
7.1 Current federal and foreign income taxes (including \$ 4,484,711 on realized capital gains (losses))	4,065,449	3,990,602
7.2 Net deferred tax liability	19,846,085	7,413,465
8. Borrowed money \$ and interest thereon \$		6,254,554
9. Unearned premiums (Part 1A, Line 37, Column 5) (after deducting unearned premiums for ceded reinsurance of \$ 50,347,366 and including warranty reserves of \$)	130,212,740	128,759,357
10. Advance premium	3,500,752	3,897,814
11. Dividends declared and unpaid:		
11.1 Stockholders		0
11.2 Policyholders		0
12. Ceded reinsurance premiums payable (net of ceding commissions)	30,883,761	30,710,750
13. Funds held by company under reinsurance treaties (Schedule F, Part 3, Column 19)	918,936	605,482
14. Amounts withheld or retained by company for account of others	13,485,228	18,299,338
15. Remittances and items not allocated		0
16. Provision for reinsurance (Schedule F, Part 7)	3,847,000	4,779,400
17. Net adjustments in assets and liabilities due to foreign exchange rates		0
18. Drafts outstanding		0
19. Payable to parent, subsidiaries and affiliates	1,024,009	3,293,020
20. Payable for securities	1,082,820	1,990,357
21. Liability for amounts held under uninsured plans		0
22. Capital notes \$ and interest thereon \$		0
23. Aggregate write-ins for liabilities	1,516,905	1,400,919
24. Total liabilities excluding protected cell liabilities (Lines 1 through 23)	619,404,680	609,723,904
25. Protected cell liabilities		0
26. Total liabilities (Lines 24 and 25)	619,404,680	609,723,904
27. Aggregate write-ins for special surplus funds	0	0
28. Common capital stock	10,000,375	10,000,375
29. Preferred capital stock		0
30. Aggregate write-ins for other than special surplus funds	0	0
31. Surplus notes		0
32. Gross paid in and contributed surplus	242,451,084	242,451,084
33. Unassigned funds (surplus)	494,453,956	438,095,213
34. Less treasury stock, at cost:		
34.1 shares common (value included in Line 28 \$)		0
34.2 shares preferred (value included in Line 29 \$)		0
35. Surplus as regards policyholders (Lines 27 to 33, less 34) (Page 4, Line 39)	746,905,415	690,546,672
36. Totals (Page 2, Line 26, Col. 3)	1,366,310,095	1,300,270,576
DETAILS OF WRITE-INS		
2301. Loss Recoverable Clearing.....	1,516,905	1,400,919
2302.		
2303.		
2398. Summary of remaining write-ins for Line 23 from overflow page	0	0
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	1,516,905	1,400,919
2701.		
2702.		
2703.		
2798. Summary of remaining write-ins for Line 27 from overflow page	0	0
2799. Totals (Lines 2701 through 2703 plus 2798) (Line 27 above)	0	0
3001.		
3002.		
3003.		
3098. Summary of remaining write-ins for Line 30 from overflow page	0	0
3099. Totals (Lines 3001 through 3003 plus 3098) (Line 30 above)	0	0

ANNUAL STATEMENT FOR THE YEAR 2006 OF THE RLI INSURANCE COMPANY

STATEMENT OF INCOME

	1 Current Year	2 Prior Year
UNDERWRITING INCOME		
1. Premiums earned (Part 1, Line 34, Column 4)	227,970,972	223,431,678
DEDUCTIONS:		
2. Losses incurred (Part 2, Line 34, Column 7)	74,520,277	85,715,627
3. Loss expenses incurred (Part 3, Line 25, Column 1)	30,225,828	31,703,888
4. Other underwriting expenses incurred (Part 3, Line 25, Column 2)	100,130,312	93,407,002
5. Aggregate write-ins for underwriting deductions	0	0
6. Total underwriting deductions (Lines 2 through 5)	204,876,417	210,826,517
7. Net income of protected cells	0	0
8. Net underwriting gain (loss) (Line 1 minus Line 6 plus Line 7)	23,094,555	12,605,161
INVESTMENT INCOME		
9. Net investment income earned (Exhibit of Net Investment Income, Line 17)	32,235,270	33,204,519
10. Net realized capital gains (losses) less capital gains tax of \$ 13,629,952 (Exhibit of Capital Gains (Losses))	25,312,767	5,878,732
11. Net investment gain (loss) (Lines 9 + 10)	57,548,037	39,083,251
OTHER INCOME		
12. Net gain (loss) from agents' or premium balances charged off (amount recovered \$ amount charged off \$ (160,488))	(160,488)	(42,295)
13. Finance and service charges not included in premiums	0	0
14. Aggregate write-ins for miscellaneous income	885,221	939,867
15. Total other income (Lines 12 through 14)	724,733	897,572
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15)	81,367,325	52,585,984
17. Dividends to policyholders	0	0
18. Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Line 16 minus Line 17)	81,367,325	52,585,984
19. Federal and foreign income taxes incurred	5,656,825	14,287,821
20. Net income (Line 18 minus Line 19) (to Line 22)	75,710,500	38,298,163
CAPITAL AND SURPLUS ACCOUNT		
21. Surplus as regards policyholders, December 31 prior year (Page 4, Line 39, Column 2)	690,546,672	605,966,803
22. Net income (from Line 20)	75,710,500	38,298,163
23. Net transfers (to) from Protected Cell accounts	0	0
24. Change in net unrealized capital gains or (losses) less capital gains tax of \$ 7,040,268	45,421,257	62,831,923
25. Change in net unrealized foreign exchange capital gain (loss)	0	0
26. Change in net deferred income tax	(5,392,352)	1,477,537
27. Change in nonadmitted assets (Exhibit of Nonadmitted Assets, Line 26, Col. 3)	(817,254)	7,772,461
28. Change in provision for reinsurance (Page 3, Line 16, Column 2 minus Column 1)	932,400	(2,224,000)
29. Change in surplus notes	0	0
30. Surplus (contributed to) withdrawn from protected cells	0	0
31. Cumulative effect of changes in accounting principles	0	0
32. Capital changes:		
32.1. Paid in	0	0
32.2. Transferred from surplus (Stock Dividend)	0	0
32.3. Transferred to surplus	0	0
33. Surplus adjustments:		
33.1. Paid in	0	28,235
33.2. Transferred to capital (Stock Dividend)	0	0
33.3. Transferred from capital	0	0
34. Net remittances from or (to) Home Office	0	0
35. Dividends to stockholders	(59,495,808)	(13,036,489)
36. Change in treasury stock (Page 3, Lines 34.1 and 34.2, Column 2 minus Column 1)	0	0
37. Aggregate write-ins for gains and losses in surplus	0	(10,567,961)
38. Change in surplus as regards policyholders for the year (Lines 22 through 37)	56,358,743	84,579,869
39. Surplus as regards policyholders, December 31 current year (Line 21 plus Line 38) (Page 3, Line 35)	746,905,415	690,546,672
DETAILS OF WRITE-INS		
0501.	0	0
0502.	0	0
0503.	0	0
0598. Summary of remaining write-ins for Line 5 from overflow page	0	0
0599. Totals (Lines 0501 through 0503 plus 0598) (Line 5 above)	0	0
1401. Gain (Loss) on Sale/Disposal of Fixed Assets	(3,210)	1,701
1402. Miscellaneous Income	888,431	938,166
1403.	0	0
1498. Summary of remaining write-ins for Line 14 from overflow page	0	0
1499. Totals (Lines 1401 through 1403 plus 1498) (Line 14 above)	885,221	939,867
3701. Goodwill write-off	0	(10,567,961)
3702.	0	0
3703.	0	0
3798. Summary of remaining write-ins for Line 37 from overflow page	0	0
3799. Totals (Lines 3701 through 3703 plus 3798) (Line 37 above)	0	(10,567,961)

CASH FLOW

	1 Current Year	2 Prior Year
Cash from Operations		
1. Premiums collected net of reinsurance.....	233,477,057	244,677,272
2. Net investment income.....	34,509,285	36,583,974
3. Miscellaneous income.....	724,730	904,979
4. Total (Lines 1 through 3).....	268,711,072	282,166,225
5. Benefit and loss related payments.....	83,682,416	83,766,797
6. Net transfers to Separate, Segregated Accounts and Protected Cell Accounts.....	0	0
7. Commissions, expenses paid and aggregate write-ins for deductions.....	122,871,822	109,981,258
8. Dividends paid to policyholders.....	0	0
9. Federal and foreign income taxes paid (recovered) \$ 13,629,952 net of tax on capital gains (losses)	19,211,930	20,461,911
10. Total (Lines 5 through 9).....	225,766,168	214,209,966
11. Net cash from operations (Line 4 minus Line 10).....	42,944,904	67,956,259
Cash from Investments		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds.....	150,832,163	111,411,512
12.2 Stocks.....	75,172,615	19,977,240
12.3 Mortgage loans.....	0	0
12.4 Real estate.....	0	0
12.5 Other invested assets.....	2,000,000	1,500,000
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments.....	0	0
12.7 Miscellaneous proceeds.....	11,995	1,991,053
12.8 Total investment proceeds (Lines 12.1 to 12.7).....	228,016,773	134,879,805
13. Cost of investments acquired (long-term only):		
13.1 Bonds.....	154,986,257	133,273,332
13.2 Stocks.....	25,779,237	19,604,736
13.3 Mortgage loans.....	0	0
13.4 Real estate.....	688,390	1,002,976
13.5 Other invested assets.....	5,000,000	6,000,000
13.6 Miscellaneous applications.....	907,537	0
13.7 Total investments acquired (Lines 13.1 to 13.6).....	187,361,421	159,881,044
14. Net increase (decrease) in contract loans and premium notes.....	0	0
15. Net cash from investments (Line 12.8 minus Line 13.7 minus Line 14).....	40,655,353	(25,001,239)
Cash from Financing and Miscellaneous Sources		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes.....	0	0
16.2 Capital and paid in surplus, less treasury stock.....	0	28,238
16.3 Borrowed funds.....	(6,254,554)	(25,986,665)
16.4 Net deposits on deposit-type contracts and other insurance liabilities.....	0	0
16.5 Dividends to stockholders.....	59,495,808	13,036,489
16.6 Other cash provided (applied).....	(4,952,584)	(696,124)
17. Net cash from financing and miscellaneous sources (Line 16.1 to Line 16.4 minus Line 16.5 plus Line 16.6).....	(70,702,946)	(39,691,040)
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS		
18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and Line 17).....	12,897,311	3,263,980
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year.....	14,035,782	10,771,802
19.2 End of year (Line 18 plus Line 19.1).....	26,933,093	14,035,782

ANNUAL STATEMENT FOR THE YEAR 2006 OF THE RLI INSURANCE COMPANY

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1 - PREMIUMS EARNED

Lines of Business		1	2	3	4
		Net Premiums Written per Column 6, Part 1B	Unearned Premiums Dec. 31 Prior Year - per Col. 3, Last Year's Part 1	Unearned Premiums Dec. 31 Current Year - per Col. 5 Part 1A	Premiums Earned During Year (Cols. 1 + 2 - 3)
1.	Fire	5,690,731	2,297,464	1,814,874	6,173,321
2.	Allied lines	1,218,867	1,316,753	1,700,703	834,917
3.	Farmowners multiple peril	0	0	0	0
4.	Homeowners multiple peril	8,114,998	4,321,273	4,953,157	7,483,114
5.	Commercial multiple peril	3,565,914	1,824,207	1,800,061	3,590,060
6.	Mortgage guaranty	0	0	0	0
8.	Ocean marine	21,810,488	6,371,956	12,036,274	16,146,170
9.	Inland marine	(3,852,537)	7,495,892	2,720,921	922,434
10.	Financial guaranty	0	0	0	0
11.1	Medical malpractice - occurrence	0	0	0	0
11.2	Medical malpractice - claims-made	0	0	0	0
12.	Earthquake	6,679,047	5,298,006	2,319,889	9,657,164
13.	Group accident and health	0	0	0	0
14.	Credit accident and health (group and individual)	0	0	0	0
15.	Other accident and health	0	0	0	0
16.	Workers' compensation	0	0	0	0
17.1	Other liability - occurrence	64,145,401	30,045,476	31,205,043	62,985,834
17.2	Other liability - claims-made	12,632,573	6,120,878	6,108,595	12,644,856
18.1	Products liability - occurrence	55,014	276,205	42,090	289,129
18.2	Products liability - claims-made	0	0	0	0
19.1,19.2	Private passenger auto liability	3,436	1,731	1,107	4,060
19.3,19.4	Commercial auto liability	38,811,078	24,759,947	23,115,384	40,455,641
21.	Auto physical damage	8,428,822	3,729,015	4,532,482	7,625,355
22.	Aircraft (all perils)	0	0	0	0
23.	Fidelity	1,556,044	965,669	1,051,245	1,470,468
24.	Surety	60,563,034	33,924,344	36,810,915	57,676,463
26.	Burglary and theft	1,445	10,541	0	11,986
27.	Boiler and machinery	0	0	0	0
28.	Credit	0	0	0	0
29.	International	0	0	0	0
30.	Reinsurance - Nonproportional Assumed Property	0	0	0	0
31.	Reinsurance - Nonproportional Assumed Liability	0	0	0	0
32.	Reinsurance - Nonproportional Assumed Financial Lines	0	0	0	0
33.	Aggregate write-ins for other lines of business	0	0	0	0
34.	TOTALS	229,424,355	128,759,357	130,212,740	227,970,972
DETAILS OF WRITE-INS					
3301.	.....	0	0	0	0
3302.	.....			
3303.	.....			
3398.	Summary of remaining write-ins for Line 33 from overflow page	0	0	0	0
3399.	Totals (Lines 3301 through 3303 plus 3398) (Line 33 above)	0	0	0	0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1A - RECAPITULATION OF ALL PREMIUMS

Line of Business		1 Amount Unearned (Running One Year or Less from Date of Policy) (a)	2 Amount Unearned (Running More Than One Year from Date of Policy) (a)	3 Earned but Unbilled Premium	4 Reserve for Rate Credits and Retrospective Adjustments Based on Experience	5 Total Reserve for Unearned Premiums Cols. 1 + 2 + 3 + 4
1.	Fire	1,814,874				1,814,874
2.	Allied lines	1,700,703				1,700,703
3.	Farmowners multiple peril					0
4.	Homeowners multiple peril	4,953,157				4,953,157
5.	Commercial multiple peril	1,800,052	.9			1,800,061
6.	Mortgage guaranty					0
8.	Ocean marine	11,771,597	264,677			12,036,274
9.	Inland marine	31,157	2,689,764			2,720,921
10.	Financial guaranty					0
11.1	Medical malpractice - occurrence					0
11.2	Medical malpractice - claims-made					0
12.	Earthquake	2,304,760	15,129			2,319,889
13.	Group accident and health					0
14.	Credit accident and health (group and individual)					0
15.	Other accident and health					0
16.	Workers' compensation					0
17.1	Other liability - occurrence	30,413,554	791,489			31,205,043
17.2	Other liability - claims-made	5,580,724	527,871			6,108,595
18.1	Products liability - occurrence	42,090				42,090
18.2	Products liability - claims-made					0
19.1,19.2	Private passenger auto liability	1,107				1,107
19.3,19.4	Commercial auto liability	22,715,174	400,210			23,115,384
21.	Auto physical damage	4,402,278	130,204			4,532,482
22.	Aircraft (all perils)					0
23.	Fidelity	504,283	546,962			1,051,245
24.	Surety	24,280,514	12,530,401			36,810,915
26.	Burglary and theft					0
27.	Boiler and machinery					0
28.	Credit					0
29.	International					0
30.	Reinsurance - Nonproportional Assumed Property					0
31.	Reinsurance - Nonproportional Assumed Liability					0
32.	Reinsurance - Nonproportional Assumed Financial Lines					0
33.	Aggregate write-ins for other lines of business	0	0	0	0	0
34.	TOTALS	112,316,024	17,896,716	0	0	130,212,740
35.	Accrued retrospective premiums based on experience					
36.	Earned but unbilled premiums					
37.	Balance (Sum of Line 34 through 36)					130,212,740
DETAILS OF WRITE-INS						
3301.	.....				
3302.	.....				
3303.	.....				
3398.	Summary of remaining write-ins for Line 33 from overflow page	0	0	0	0	0
3399.	Totals (Lines 3301 thru 3303 plus 3398) (Line 33 above)	0	0	0	0	0

(a) State here basis of computation used in each case . Monthly Pro-Rata.....

ANNUAL STATEMENT FOR THE YEAR 2006 OF THE RLI INSURANCE COMPANY

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1B - PREMIUMS WRITTEN

Line of Business	1 Direct Business (a)	Reinsurance Assumed		Reinsurance Ceded		6 Net Premiums Written Cols. 1 + 2 + 3 - 4 - 5
		2 From Affiliates	3 From Non-Affiliates	4 To Affiliates	5 To Non-Affiliates	
1. Fire	1,607,451	4,450,354			367,074	5,690,731
2. Allied lines	1,335,450	141,695			258,278	1,218,867
3. Farmowners multiple peril						0
4. Homeowners multiple peril	9,540,612				1,425,614	8,114,998
5. Commercial multiple peril	3,945,178	31,565			410,829	3,565,914
6. Mortgage guaranty						0
8. Ocean marine	26,918,541				5,108,053	21,810,488
9. Inland marine	5,174,129				9,026,666	(3,852,537)
10. Financial guaranty						0
11.1 Medical malpractice - occurrence						0
11.2 Medical malpractice - claims-made						0
12. Earthquake	6,834,989		1,979,507		2,135,449	6,679,047
13. Group accident and health						0
14. Credit accident and health (group and individual)						0
15. Other accident and health						0
16. Workers' compensation						0
17.1 Other liability - occurrence	72,875,874	383,991			9,114,464	64,145,401
17.2 Other liability - claims-made	65,222,095				52,589,522	12,632,573
18.1 Products liability - occurrence	105,496				50,482	55,014
18.2 Products liability - claims-made						0
19.1,19.2 Private passenger auto liability	3,436					3,436
19.3,19.4 Commercial auto liability	64,672,021		2,055,746		27,916,689	38,811,078
21. Auto physical damage	8,195,040		475,204		241,422	8,428,822
22. Aircraft (all perils)						0
23. Fidelity	1,675,499				119,455	1,556,044
24. Surety	63,589,256	375,176	409,242		3,810,640	60,563,034
26. Burglary and theft	1,666				221	1,445
27. Boiler and machinery	12,327				12,327	0
28. Credit						0
29. International						0
30. Reinsurance - Nonproportional Assumed Property	XXX					0
31. Reinsurance - Nonproportional Assumed Liability	XXX					0
32. Reinsurance - Nonproportional Assumed Financial Lines	XXX					0
33. Aggregate write-ins for other lines of business	0	0	0	0	0	0
34. TOTALS	331,709,060	5,382,781	4,919,699	0	112,587,185	229,424,355
DETAILS OF WRITE-INS						
3301.						
3302.						
3303.						
3398. Summary of remaining write- ins for Line 33 from overflow page	0	0	0	0	0	0
3399. Totals (Lines 3301 through 3303 plus 3398) (Line 33 above)	0	0	0	0	0	0

(a) Does the company's direct premiums written include premiums recorded on an installment basis? Yes [] No [X]

If yes: 1. The amount of such installment premiums \$

2. Amount at which such installment premiums would have been reported had they been reported on an annualized basis \$

ANNUAL STATEMENT FOR THE YEAR 2006 OF THE RLI INSURANCE COMPANY

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2 - LOSSES PAID AND INCURRED

Line of Business	Losses Paid Less Salvage				5 Net Losses Unpaid Current Year (Part 2A, Col. 8)	6 Net Losses Unpaid Prior Year	7 Losses Incurred Current Year (Cols. 4 + 5 - 6)	8 Percentage of Losses Incurred (Col. 7, Part 2) to Premiums Earned (Col. 4, Part 1)
	1 Direct Business	2 Reinsurance Assumed	3 Reinsurance Recovered	4 Net Payments (Cols. 1 + 2 - 3)				
1. Fire	3,163,001	1,520,133	3,753,576	929,558	3,827,283	3,810,955	945,886	15.3
2. Allied lines	1,972,374	5,611,813	5,169,526	2,414,661	2,909,018	5,686,756	(363,077)	(43.5)
3. Farmowners multiple peril	221,196	.0	110,598	110,598	.0	94,454	16,144	0.0
4. Homeowners multiple peril	1,521,699	.0	.0	1,521,699	710,256	729,621	1,502,334	20.1
5. Commercial multiple peril	3,520,447	.0	2,265,931	1,254,516	3,267,209	3,820,091	701,634	19.5
6. Mortgage guaranty	.0	.0	.0	.0	.0	.0	.0	0.0
8. Ocean marine	5,177,836	.0	1,653,160	3,524,676	8,989,518	1,857,594	10,656,600	66.0
9. Inland marine	50,123,077	.0	39,184,310	10,938,767	23,822,693	24,179,326	10,582,134	1,147.2
10. Financial guaranty	.0	.0	.0	.0	.0	.0	.0	0.0
11.1 Medical malpractice - occurrence	.0	.0	.0	.0	.0	.0	.0	0.0
11.2 Medical malpractice - claims-made	.0	.0	.0	.0	.0	.0	.0	0.0
12. Earthquake	.0	.0	(750,000)	750,000	243,002	847,142	145,860	1.5
13. Group accident and health	.0	.0	.0	.0	64,669	73,672	(9,003)	0.0
14. Credit accident and health (group and individual)	.0	.0	.0	.0	.0	.0	.0	0.0
15. Other accident and health	.0	.0	.0	.0	.0	.0	.0	0.0
16. Workers' compensation	.0	.0	.0	.0	.0	.0	.0	0.0
17.1 Other liability - occurrence	28,605,746	.0	9,057,010	19,548,736	106,397,153	106,872,698	19,073,191	30.3
17.2 Other liability - claims-made	50,305,518	.0	46,976,449	3,329,069	29,838,744	33,595,439	(427,626)	(3.4)
18.1 Products liability - occurrence	1,453,010	.0	242,860	1,210,150	4,117,542	4,947,929	379,763	131.3
18.2 Products liability - claims-made	.0	.0	.0	.0	.0	(357)	357	0.0
19.1,19.2 Private passenger auto liability	85,000	.0	.0	85,000	74,449	166,828	(7,379)	(181.7)
19.3,19.4 Commercial auto liability	32,981,919	1,036,821	15,250,470	18,768,270	75,831,445	77,436,173	17,163,542	42.4
21. Auto physical damage	3,530,096	604,173	67,670	4,066,599	4,607,448	5,161,505	3,512,542	46.1
22. Aircraft (all perils)	.0	.0	.0	.0	.0	105,934	(105,934)	0.0
23. Fidelity	31,196	.0	34	31,162	393,090	321,206	103,046	7.0
24. Surety	1,388,180	23,512	(340,899)	1,752,591	26,169,290	23,226,119	4,695,762	8.1
26. Burglary and theft	57,493	.0	2,455	55,038	77,658	192,515	(59,819)	(499.1)
27. Boiler and machinery	.0	.0	.0	.0	260	.0	260	0.0
28. Credit	.0	.0	.0	.0	.0	.0	.0	0.0
29. International	.0	.0	.0	.0	.0	.0	.0	0.0
30. Reinsurance - Nonproportional Assumed Property	XXX	.0	.0	.0	1,218,862	.0	1,218,862	0.0
31. Reinsurance - Nonproportional Assumed Liability	XXX	1,534,054	613,233	920,821	10,957,165	7,082,788	4,795,198	0.0
32. Reinsurance - Nonproportional Assumed Financial Lines	XXX	.0	.0	.0	.0	.0	.0	0.0
33. Aggregate write-ins for other lines of business	.0	.0	.0	.0	.0	.0	.0	0.0
34. TOTALS	184,137,788	10,330,506	123,256,383	71,211,911	303,516,754	300,208,388	74,520,277	32.7
DETAILS OF WRITE-INS								
3301.				.0	.0	.0	.0	0.0
3302.								
3303.								
3398. Summary of remaining write-ins for Line 33 from overflow page	.0	.0	.0	.0	.0	.0	.0	0.0
3399. Totals (Lines 3301 through 3303 + 3398) (Line 33 above)	0	0	0	0	0	0	0	0.0

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ANNUAL STATEMENT FOR THE YEAR 2006 OF THE RLI INSURANCE COMPANY

**UNDERWRITING AND INVESTMENT EXHIBIT
PART 2A - UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES**

Line of Business	Reported Losses				Incurred But Not Reported			8 Net Losses Unpaid (Cols. 4 + 5 + 6 - 7)	9 Unpaid Loss Adjustment Expenses
	1 Direct	2 Reinsurance Assumed	3 Deduct Reinsurance Recoverable from Authorized and Unauthorized Companies	4 Net Losses Excl. Incurred But Not Reported (Cols. 1 + 2 - 3)	5 Direct	6 Reinsurance Assumed	7 Reinsurance Ceded		
1. Fire	336,734	1,457,651	1,206,534	587,851	2,226,080	1,063,502	50,150	3,827,283	1,102,893
2. Allied lines	174,215	202,504	301,205	75,514	2,893,408	.0	59,904	2,909,018	1,161,925
3. Farmowners multiple peril	.0	.0	.0	.0	.0	.0	.0	.0	.0
4. Homeowners multiple peril	271,443	25,000	.0	296,443	413,813	.0	.0	710,256	135,347
5. Commercial multiple peril	1,188,655	.0	1,026,351	162,304	3,686,937	.0	582,032	3,267,209	563,019
6. Mortgage guaranty	.0	.0	.0	.0	.0	.0	.0	.0	.0
8. Ocean marine	4,988,070	.0	377,998	4,610,072	7,822,977	.0	3,443,531	8,989,518	965,600
9. Inland marine	23,629,132	852,241	12,955,573	11,525,800	10,566,395	3,029,144	1,298,646	23,822,693	2,486,283
10. Financial guaranty	.0	.0	.0	.0	.0	.0	.0	.0	.0
11.1 Medical malpractice - occurrence	.0	.0	.0	.0	.0	.0	.0	.0	.0
11.2 Medical malpractice - claims-made	.0	.0	.0	.0	.0	.0	.0	.0	.0
12. Earthquake	.0	.0	.0	.0	243,530	.0	528	243,002	27,073
13. Group accident and health	4	.0	.0	4	178,333	.0	113,668	(a) 64,669	10,685
14. Credit accident and health (group and individual)	.0	.0	.0	.0	.0	.0	.0	.0	.0
15. Other accident and health	.0	.0	.0	.0	.0	.0	.0	(a) .0	.0
16. Workers' compensation	.0	.0	.0	.0	.0	.0	.0	.0	.0
17.1 Other liability - occurrence	61,696,683	.0	21,529,585	40,167,098	121,249,229	1,593,263	56,612,437	106,397,153	24,097,443
17.2 Other liability - claims-made	28,742,037	.0	24,056,737	4,685,300	104,463,989	(3,415,170)	75,895,375	29,838,744	4,629,968
18.1 Products liability - occurrence	2,536,552	.0	745,845	1,790,707	4,303,550	.0	1,976,715	4,117,542	1,732,197
18.2 Products liability - claims-made	.0	.0	.0	.0	.0	.0	.0	.0	.0
19.1,19.2 Private passenger auto liability	.0	.0	.0	.0	74,449	.0	.0	74,449	8,273
19.3,19.4 Commercial auto liability	74,175,358	6,342,347	24,064,078	56,453,627	38,317,531	551,851	19,491,564	75,831,445	10,972,737
21. Auto physical damage	658,296	91,787	42,203	707,880	3,965,476	7,986	73,894	4,607,448	967,829
22. Aircraft (all perils)	.0	.0	.0	.0	.0	.0	.0	.0	.0
23. Fidelity	22,009	.0	.0	22,009	507,729	.0	136,648	393,090	24,929
24. Surety	4,139,613	9,161	3,259,061	889,713	33,615,517	691,135	9,027,075	26,169,290	5,618,393
26. Burglary and theft	8,015	.0	404	7,611	73,432	.0	3,385	77,658	18,228
27. Boiler and machinery	.0	.0	.0	.0	.0	.0	(260)	260	29
28. Credit	.0	.0	.0	.0	.0	.0	.0	.0	.0
29. International	.0	.0	.0	.0	.0	.0	.0	.0	.0
30. Reinsurance - Nonproportional Assumed Property	XXX	.0	(1,218,862)	1,218,862	XXX	.0	.0	1,218,862	58,613
31. Reinsurance - Nonproportional Assumed Liability	XXX	9,303,764	4,167,936	5,135,828	XXX	6,508,575	687,238	10,957,165	919,391
32. Reinsurance - Nonproportional Assumed Financial Lines	XXX	.0	.0	.0	XXX	.0	.0	.0	.0
33. Aggregate write-ins for other lines of business	.0	.0	.0	.0	.0	.0	.0	.0	.0
34. TOTALS	202,566,816	18,284,455	92,514,648	128,336,623	334,602,375	10,030,286	169,452,530	303,516,754	55,500,855
DETAILS OF WRITE-INS									
3301.									
3302.									
3303.									
3398. Summary of remaining write-ins for Line 33 from overflow page	.0	.0	.0	.0	.0	.0	.0	.0	.0
3399. Totals (Lines 3301 through 3303 + 3398) (Line 33 above)	0	0	0	0	0	0	0	0	0

(a) Including \$ for present value of life indemnity claims.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - EXPENSES

	1 Loss Adjustment Expenses	2 Other Underwriting Expenses	3 Investment Expenses	4 Total
1. Claim adjustment services:				
1.1 Direct	35,557,469			35,557,469
1.2 Reinsurance assumed	1,192,960			1,192,960
1.3 Reinsurance ceded	16,797,253			16,797,253
1.4 Net claim adjustment services (1.1 + 1.2 - 1.3)	19,953,176	0	0	19,953,176
2. Commission and brokerage:				
2.1 Direct, excluding contingent		48,788,260		48,788,260
2.2 Reinsurance assumed, excluding contingent		2,347,845		2,347,845
2.3 Reinsurance ceded, excluding contingent		22,052,646		22,052,646
2.4 Contingent-direct		4,045,647		4,045,647
2.5 Contingent-reinsurance assumed		123,528		123,528
2.6 Contingent-reinsurance ceded		2,027,076		2,027,076
2.7 Policy and membership fees				0
2.8 Net commission and brokerage (2.1 + 2.2 - 2.3 + 2.4 + 2.5 - 2.6 + 2.7)	0	31,225,558	0	31,225,558
3. Allowances to manager and agents				0
4. Advertising		144,578	15,275	159,853
5. Boards, bureaus and associations		1,032,585		1,032,585
6. Surveys and underwriting reports		371,778		371,778
7. Audit of assureds' records				0
8. Salary and related items:				
8.1 Salaries	5,406,310	29,482,364	638,396	35,527,070
8.2 Payroll taxes	335,807	2,014,964	20,011	2,370,782
9. Employee relations and welfare	1,644,255	9,571,576	126,272	11,342,103
10. Insurance	156	642,274	190	642,620
11. Directors' fees				0
12. Travel and travel items	162,766	2,729,220	46,150	2,938,136
13. Rent and rent items	154,141	2,602,054	(1,335)	2,754,860
14. Equipment	99,544	1,719,341	8,749	1,827,634
15. Cost or depreciation of EDP equipment and software	99,203	1,083,616	2,331	1,185,150
16. Printing and stationery	30,171	691,454	21,979	743,604
17. Postage, telephone and telegraph, exchange and express	69,420	1,312,228	13,021	1,394,669
18. Legal and auditing		1,414,902	131,030	1,545,932
19. Totals (Lines 3 to 18)	8,001,773	54,812,934	1,022,069	63,836,776
20. Taxes, licenses and fees:				
20.1 State and local insurance taxes deducting guaranty association credits of \$		6,638,563		6,638,563
20.2 Insurance department licenses and fees		348,982	310	349,292
20.3 Gross guaranty association assessments	36,644	2,778,056	2,867	2,817,567
20.4 All other (excluding federal and foreign income and real estate)		10,822		10,822
20.5 Total taxes, licenses and fees (20.1 + 20.2 + 20.3 + 20.4)	36,644	9,776,423	3,177	9,816,244
21. Real estate expenses	17,874	343,199	4,534	365,607
22. Real estate taxes	4,815	83,889	815	89,519
23. Reimbursements by uninsured plans				0
24. Aggregate write-ins for miscellaneous expenses	2,211,546	3,888,309	1,830,927	7,930,782
25. Total expenses incurred	30,225,828	100,130,312	2,861,522	(a) 133,217,662
26. Less unpaid expenses - current year	55,500,855	49,652,683	94,149	105,247,687
27. Add unpaid expenses - prior year	51,456,920	46,143,250	163,199	97,763,369
28. Amounts receivable relating to uninsured plans, prior year	0	0	0	0
29. Amounts receivable relating to uninsured plans, current year				0
30. TOTAL EXPENSES PAID (Lines 25 - 26 + 27 - 28 + 29)	26,181,893	96,620,879	2,930,572	125,733,344
DETAILS OF WRITE-INS				
2401. Management Fee	227,735	830,324		1,058,059
2402. Contracted Services	65,567	2,132,597	16,015	2,214,179
2403. Outside Investment Fees			1,814,912	1,814,912
2498. Summary of remaining write-ins for Line 24 from overflow page	1,918,244	925,388	0	2,843,632
2499. Totals (Lines 2401 through 2403 plus 2498) (Line 24 above)	2,211,546	3,888,309	1,830,927	7,930,782

(a) Includes management fees of \$ 1,058,059 to affiliates and \$ to non-affiliates.

ANNUAL STATEMENT FOR THE YEAR 2006 OF THE RLI INSURANCE COMPANY

EXHIBIT OF NET INVESTMENT INCOME

	1 Collected During Year	2 Earned During Year
1. U.S. Government bonds	(a) 5,770,436	5,844,221
1.1 Bonds exempt from U.S. tax	(a) 12,862,617	12,981,964
1.2 Other bonds (unaffiliated)	(a) 7,721,921	8,059,143
1.3 Bonds of affiliates	(a)	
2.1 Preferred stocks (unaffiliated)	(b)	
2.11 Preferred stocks of affiliates	(b)	
2.2 Common stocks (unaffiliated)	6,005,753	6,118,055
2.21 Common stocks of affiliates		
3. Mortgage loans	(c)	
4. Real estate	(d) 1,105,800	1,105,800
5. Contract loans		
6. Cash, cash equivalents and short-term investments	(e) 1,016,141	1,051,430
7. Derivative instruments	(f)	
8. Other invested assets	690,000	690,000
9. Aggregate write-ins for investment income	16,015	16,015
10. Total gross investment income	35,188,683	35,866,628
11. Investment expenses		(g) 2,861,522
12. Investment taxes, licenses and fees, excluding federal income taxes		(g)
13. Interest expense		(h)
14. Depreciation on real estate and other invested assets		(i) 555,782
15. Aggregate write-ins for deductions from investment income		214,054
16. Total (Lines 11 through 15)		3,631,358
17. Net Investment Income - (Line 10 minus Line 16)		32,235,270
DETAILS OF WRITE-INS		
0901. Miscellaneous Interest	16,015	16,015
0902.		
0903.		
0998. Summary of remaining write-ins for Line 9 from overflow page	0	0
0999. Totals (Lines 0901 through 0903 plus 0998) (Line 9, above)	16,015	16,015
1501. Interest Expense - Short term borrowing		214,054
1502.		
1503.		
1598. Summary of remaining write-ins for Line 15 from overflow page		0
1599. Total (Lines 1501 through 1503 plus 1598) (Line 15, above)		214,054

- (a) Includes \$ 262,620 accrual of discount less \$ 2,658,802 amortization of premium and less \$ paid for accrued interest on purchases.
 (b) Includes \$ accrual of discount less \$ amortization of premium and less \$ paid for accrued dividends on purchases.
 (c) Includes \$ accrual of discount less \$ amortization of premium and less \$ paid for accrued interest on purchases.
 (d) Includes \$ 1,105,800 for company's occupancy of its own buildings; and excludes \$ interest on encumbrances.
 (e) Includes \$ accrual of discount less \$ amortization of premium and less \$ paid for accrued interest on purchases.
 (f) Includes \$ accrual of discount less \$ amortization of premium.
 (g) Includes \$ investment expenses and \$ investment taxes, licenses and fees, excluding federal income taxes, attributable to segregated and Separate Accounts.
 (h) Includes \$ interest on surplus notes and \$ interest on capital notes.
 (i) Includes \$ depreciation on real estate and \$ depreciation on other invested assets.

EXHIBIT OF CAPITAL GAINS (LOSSES)

	1 Realized Gain (Loss) On Sales or Maturity	2 Other Realized Adjustments	3 Unrealized Increases (Decreases) by Adjustment	4 Total
1. U.S. Government bonds	(644,636)			(644,636)
1.1 Bonds exempt from U.S. tax	(967,977)			(967,977)
1.2 Other bonds (unaffiliated)	(1,395,580)			(1,395,580)
1.3 Bonds of affiliates	0	0	0	0
2.1 Preferred stocks (unaffiliated)	75		(104)	(29)
2.11 Preferred stocks of affiliates	0	0	0	0
2.2 Common stocks (unaffiliated)	22,825,400		22,149,395	44,974,795
2.21 Common stocks of affiliates	19,117,198	0	30,312,234	49,429,432
3. Mortgage loans				0
4. Real estate				0
5. Contract loans				0
6. Cash, cash equivalents and short-term investments				0
7. Derivative instruments				0
8. Other invested assets				0
9. Aggregate write-ins for capital gains (losses)	8,239	0	0	8,239
10. Total capital gains (losses)	38,942,719	0	52,461,525	91,404,244
DETAILS OF WRITE-INS				
0901. Securities Litigation Settlement	8,239			8,239
0902.				
0903.				
0998. Summary of remaining write-ins for Line 9 from overflow page	0	0	0	0
0999. Totals (Lines 0901 through 0903 plus 0998) (Line 9, above)	8,239	0	0	8,239

ANNUAL STATEMENT FOR THE YEAR 2006 OF THE RLI INSURANCE COMPANY

EXHIBIT OF NONADMITTED ASSETS

	1	2	3
	Current Year Total Nonadmitted Assets	Prior Year Nonadmitted Assets	Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D).....	0	0	0
2. Stocks (Schedule D):			
2.1 Preferred stocks	0	0	0
2.2 Common stocks	1,166,551	0	(1,166,551)
3. Mortgage loans on real estate (Schedule B):			
3.1 First liens	0	0	0
3.2 Other than first liens	0	0	0
4. Real estate (Schedule A):			
4.1 Properties occupied by the company	330,970	204,104	(126,866)
4.2 Properties held for the production of income.....	0	0	0
4.3 Properties held for sale	0	0	0
5. Cash, (Schedule-E, Part 1), cash equivalents (Schedule-E, Part 2) and short-term investments (Schedule DA).....	0	0	0
6. Contract loans	0	0	0
7. Other invested assets (Schedule BA)	0	0	0
8. Receivables for securities	0	0	0
9. Aggregate write-ins for invested assets	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9)	1,497,521	204,104	(1,293,417)
11. Title plants (for Title insurers only).....	0	0	0
12. Investment income due and accrued	0	0	0
13. Premiums and considerations:			
13.1 Uncollected premiums and agents' balances in the course of collection	1,999,765	1,572,614	(427,151)
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due.....	0	0	0
13.3 Accrued retrospective premium.....	0	0	0
14. Reinsurance:			
14.1 Amounts recoverable from reinsurers	0	0	0
14.2 Funds held by or deposited with reinsured companies	0	0	0
14.3 Other amounts receivable under reinsurance contracts	0	0	0
15. Amounts receivable relating to uninsured plans	0	0	0
16.1 Current federal and foreign income tax recoverable and interest thereon	0	0	0
16.2 Net deferred tax asset.....	0	0	0
17. Guaranty funds receivable or on deposit	0	0	0
18. Electronic data processing equipment and software.....	3,808,628	3,391,796	(416,832)
19. Furniture and equipment, including health care delivery assets.....	2,764,417	2,681,991	(82,426)
20. Net adjustment in assets and liabilities due to foreign exchange rates	0	0	0
21. Receivables from parent, subsidiaries and affiliates	0	0	0
22. Health care and other amounts receivable.....	0	0	0
23. Aggregate write-ins for other than invested assets	1,992,945	3,395,517	1,402,572
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23).....	12,063,276	11,246,022	(817,254)
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....	0	0	0
26. Total (Lines 24 and 25)	12,063,276	11,246,022	(817,254)
DETAILS OF WRITE-INS			
0901.			
0902.			
0903.			
0998. Summary of remaining write-ins for Line 9 from overflow page	0	0	0
0999. Totals (Lines 0901 through 0903 plus 0998)(Line 9 above)	0	0	0
2301. Goodwill.....	133,256	533,264	400,008
2302. Other Miscellaneous Assets.....	1,859,689	2,862,253	1,002,564
2303.			
2398. Summary of remaining write-ins for Line 23 from overflow page	0	0	0
2399. Totals (Lines 2301 through 2303 plus 2398)(Line 23 above)	1,992,945	3,395,517	1,402,572

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

a. Accounting Practices

The financial statements of RLI Insurance Company (the Company) are presented on the basis of accounting practices prescribed or permitted by the Illinois Department of Financial and Professional Regulation, Division of Insurance.

The Illinois Department of Financial and Professional Regulation, Division of Insurance recognizes only statutory accounting practices prescribed or permitted by the state of Illinois for determining and reporting the financial condition and results of operations of an insurance company for determining its solvency under the Illinois Insurance Law. The National Association of Insurance Commissioners' (NAIC) Accounting Practices and Procedures manual (NAIC SAP) has been adopted as a component of prescribed or permitted practices by the state of Illinois. The state has not adopted any prescribed accounting practices that differ from those found in NAIC SAP.

b. Use of Estimates in the Preparation of the Financial Statements

The preparation of statutory financial statements requires management to make estimates and assumptions that affect the reported financial statement balances as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. The most significant of these amounts is the liability for unpaid losses and loss adjustment expenses. Management continually updates its estimates as additional data becomes available and adjusts the statutory financial statements as deemed necessary. Other estimates such as the recoverability of reinsurance balances are constantly monitored, evaluated, and adjusted. Although recorded estimates are supported by actuarial computations and other data, the estimates are ultimately based on management's expectations of future events. It is reasonably possible that expectations associated with these accounts can change in the near term (i.e., one year) and that the effect of these changes could be material to the statutory financial statements.

c. Accounting Policy

Premiums, net of reinsurance, are earned and recognized as revenue ratably over the periods of the policies. Unearned premiums, which are reflected net of reinsurance, represent the pro rata portion of premiums written which are applicable to the unexpired terms of the policies in force.

The costs of acquiring insurance premiums (principally commissions and premium taxes) are charged to current operations as incurred.

In addition, the Company uses the following accounting policies:

- (1) Short-term investments are valued at cost, which approximates market, and are considered cash equivalents in the statutory financial statements.
- (2) Bonds, which are qualified for such treatment by the NAIC, are stated at amortized cost, while all other bonds are included at the NAIC-specified values, which approximate market.
- (3) Unaffiliated common stocks are carried at values assigned by the NAIC, which approximates market value. Stocks of affiliates in which the Company has an interest of 20% or more are carried on the equity basis.
- (4) Unaffiliated preferred stocks are carried at values assigned by the NAIC, which approximates market value.
- (5) Real estate is valued at cost less accumulated depreciation, which is computed on a straight-line basis over the estimated useful lives of the properties per SSAP 40. The fair value of the properties is determined by third party appraisals, the results of which indicate the properties are not impaired.
- (6) Loan-backed securities are stated at either amortized cost or the lower of amortized cost or fair market value, and are valued using the prospective method.
- (7) The Company owns 100% of the common stock of Mt. Hawley Insurance Company (Mt. Hawley), Safefleet Insurance Services, Inc. (Safe Fleet), RLI Insurance Ltd. (RLI Ltd), Underwriters Indemnity General Agency (UIGA), and RLI Underwriting Services (RLI US). Mt. Hawley is valued on the statutory equity basis, as described in SSAP No. 88. Additionally, as prescribed in SSAP No. 88, Safefleet, RLI Ltd., UIGA, and RLI US are valued based on their underlying equity adjusted to a statutory basis of accounting. Per SSAP 88, the Company has non-admitted its investment in Safefleet, UIGA, and RLI US since external audits are not conducted individually for these subsidiaries.

On January 7, 2006, an affiliate of the Company, Maui Jim, Inc., declared a dividend payable in the first quarter of 2006 to shareholders of record on January 23, 2006. The Company's share of the Maui Jim dividend was \$16.5 million. The Company therefore recognized a statutory deferred tax benefit in December 2005 in the amount of \$3.9 million from applying the lower tax rate applicable to affiliated dividends, as compared to the corporate capital gains rate on which the deferred tax liabilities were previously estimated.

On January 23, 2006, the Company paid a dividend of shares from the Company to its parent, RLI Corp., as approved by the Illinois Department of Financial and Professional Regulation, Division of Insurance for 100% of the carrying value of its investment in Maui Jim, which was valued at \$35.2 million.

On April 28, 2006, the Company paid a dividend of shares from the Company to its parent, RLI Corp., as filed with the Illinois Department of Financial and Professional Regulation, Division of Insurance for 100% of the carrying value of its investment in Taylor, Bean and Whitaker Mortgage Corp., which was valued at \$13.4 million.
- (8) The company has no investments in joint ventures, partnerships or limited liability companies.
- (9) The Company has no derivative instruments.

NOTES TO FINANCIAL STATEMENTS

- (11) The estimated liability for unpaid losses and loss adjustment expenses includes provision for reported and unpaid losses as well as estimates of losses incurred but not reported, net of amounts covered by reinsurance. It is the Company's policy on certain underwriting programs not to recognize profits or losses until a sufficient amount of statistically reliable information has been obtained. Management periodically reviews estimates for unpaid losses and loss adjustment expenses and changes are recorded in income currently. As these amounts are determined based upon estimates, the ultimate liability may be more or less than such estimates.
- (12) The Company has not modified its capitalization policy from the prior period.
- (13) The Company has no pharmaceutical rebate receivables.

2. Accounting Changes and Correction of Errors

The Company has none to report.

3. Business Combinations and Goodwill

a,b,c In January 1999, the Company acquired Lexon Holding Company (Lexon) (formerly known as Underwriters Indemnity Holding) located in Houston, Texas for \$40.7 million. Goodwill recorded from this acquisition totaled \$27.8 million and was scheduled to amortize over 10 years – the statutory maximum. On July 1, 2003, the Company sold 100% of its investment in Lexon to an unaffiliated entity for \$25.6 million. The sale of Lexon resulted in a write-down of \$1.1 million of goodwill from the original state licenses acquired as part of the acquisition. Goodwill amortization relating to the remaining value of the purchase of Lexon totaled \$2.6 million for 2004. In June 2005, the Company took a write-down to unassigned funds for the remaining unamortized value of Lexon of \$10.6 million based on guidance set forth in SSAP 68 and SSAP 3 and discussions with the Illinois Department of Financial and Professional Regulation, Division of Insurance. During 2004, the Company had non-admitted this asset; therefore, there was no impact to the surplus from 2004 to 2005 as a result of this write-down.

In March 1997, the Company acquired the Hawaii Residential Insurance Program (a book of business) from the Hawaii Property Insurance Association. The transaction was accounted for using the statutory purchase method, resulting in goodwill of \$4.0 million. Goodwill amortization relating to the purchase of this book of business was \$400,000 for 2006 and 2005, respectively. The Company did not recognize an impairment loss on the transaction.

4. Discontinued Operations

The Company has none to report.

5. Investments

a, b, c. Mortgage Loans, Debt Restructuring & Reverse Mortgages

The Company has none to report.

d. Loan-Backed Securities

All of the Company's loan-backed securities were purchased subsequent to January 1, 1994. Loan-backed securities are stated at either amortized cost or the lower of amortized cost or fair market value, and are valued using the prospective method.

Prepayment assumptions for single class and multi-class mortgage-backed securities were obtained from external sources and through management estimates.

The Company used an external pricing service, FT Interactive Data, to determine the market value of its loan-backed/asset-backed securities.

e. Repurchase Agreements

The Company has none to report.

f. Real Estate

The Company has none to report.

6. Joint Ventures, Partnerships, Limited Liability Companies

The Company has no investments in Joint Ventures, Partnerships or Limited Liability Companies that exceed 10% of its admitted assets.

The Company did not recognize any impairment write down for its investments in Joint Ventures, Partnerships and Limited Liability Companies during the statement periods.

7. Investment Income

Due and accrued income over 90 days past due is excluded from surplus. The Company has no accrued income over 90 days past due. As a result, no adjustment to surplus has been made.

8. Derivative Instruments

The Company has no financial instruments defined as derivatives for statutory purposes.

NOTES TO FINANCIAL STATEMENTS

9. Income Taxes

- a. The components of the net deferred tax asset (liability) at December 31 are as follows:

	<u>2006</u>	<u>2005</u>
Total of gross deferred tax assets	\$ 31,855,839	\$ 31,417,420
Total of deferred tax liabilities	<u>51,701,924</u>	<u>38,830,885</u>
Net deferred tax asset	(19,846,085)	(7,413,465)
Deferred tax asset nonadmitted	<u>-</u>	<u>-</u>
Net admitted deferred tax (liability)	<u>\$ (19,846,085)</u>	<u>\$ (7,413,465)</u>
(Increase) decrease in nonadmitted asset	<u>\$ -</u>	

- b. Regarding deferred tax liabilities that are not recognized:

There are no deferred tax liabilities that are not recognized for amounts described in SSAP No. 10, Income Taxes, paragraph 6d.

- c. Federal and foreign income taxes incurred consist of the following major components:

Current tax expense or benefit at December 31 is as follows:

	<u>2006</u>	<u>2005</u>
Federal	<u>\$ 19,286,777</u>	<u>\$ 14,287,821</u>

The main components of the deferred tax amounts at December 31 are as follows:

	<u>2006</u>	<u>2005</u>
Deferred tax assets:		
Discounting of unpaid losses	\$ 14,386,349	\$ 14,307,154
Change in unearned premium reserve	9,114,892	9,013,156
Change in nonadmitted assets	3,813,854	3,936,108
Deferred compensation	249,154	385,303
Accrued expenses	3,656,612	2,715,041
Capital loss carryforward	-	703,918
Defined benefit pension plan	128,499	312,025
Goodwill	506,479	-
Other	<u>-</u>	<u>44,715</u>
Total deferred tax assets	<u>31,855,839</u>	<u>31,417,420</u>
Nonadmitted deferred tax assets	<u>-</u>	<u>-</u>
Admitted deferred tax assets	31,855,839	31,417,420
Deferred tax liabilities:		
Amortization of bond discount	207,553	170,293
Unrealized capital gains	45,100,060	38,059,792
Accrued dividends	184,747	145,441
Intercompany transactions	5,970,544	-
Goodwill	46,640	186,642
Other	<u>192,380</u>	<u>268,717</u>
Total deferred tax liabilities	<u>51,701,924</u>	<u>38,830,885</u>
Net admitted deferred tax asset (liability)	<u>\$ (19,846,085)</u>	<u>\$ (7,413,465)</u>

NOTES TO FINANCIAL STATEMENTS

The changes in net deferred income taxes are as follows:

	<u>2006</u>	<u>2005</u>	<u>Change</u>
Total deferred tax assets	\$ 31,855,839	\$ 31,417,420	\$ 438,419
Total deferred tax liabilities	<u>51,701,924</u>	<u>38,830,885</u>	<u>12,871,039</u>
Net deferred tax asset	<u>\$ (19,846,085)</u>	<u>\$ (7,413,465)</u>	(12,432,620)
Tax effect of unrealized gains (losses)			<u>7,040,268</u>
Change in net deferred income tax			<u>\$ (5,392,352)</u>

d. Among the more significant book to tax adjustments were the following:

	<u>December 31, 2006</u>	<u>Effective Tax Rate</u>
Income before taxes, which includes net realized capital gains	<u>94,997,277</u>	
Provision computed at statutory rate	\$ 33,249,047	35.0%
Tax exempt income deduction	(2,730,869)	-2.9%
Dividends received deduction	(1,190,173)	-1.3%
Nondeductible expenses	125,661	0.1%
Prior Year Tax Adjustment	(3,170,975)	-3.3%
Other	<u>(1,603,562)</u>	-1.6%
Total	<u>\$ 24,679,129</u>	<u>26.0%</u>
Federal and foreign taxes incurred	\$ 5,656,825	6.0%
Change in net deferred income taxes	5,392,352	5.7%
Tax on Net Realized Gains	<u>13,629,952</u>	14.3%
Total statutory income taxes	<u>\$ 24,679,129</u>	<u>26.0%</u>

- e. (1) At December 31, 2006, the Company had no operating loss carryforwards available to offset future net income subject to federal income tax.
- (2) The following are income taxes incurred in the current and prior years that will be available for recoupment in the event of future net losses:

2006	\$ 24,196,700
2005	\$ 13,726,900
2004	\$ 13,153,400

- f. (1) The Company's federal income tax return is consolidated with the following entities:

RLI Corp.
 Mt. Hawley Insurance Company
 RLI Aviation, Inc.
 RLI Indemnity Company
 RLI Underwriting Services, Inc.
 Underwriters Indemnity General Agency, Inc.
 Safe Fleet Insurance Services, Inc.

- (2) The method of allocation between the companies is subject to written agreement, approved by the Board of Directors. Allocation is based on the ratio of that portion of the separate company taxable income each member bears to the total taxable income of the group. Intercompany balances are settled annually.

NOTES TO FINANCIAL STATEMENTS

10. Information Concerning Parent, Subsidiaries and Affiliates

- a, b, c. During 2006, the Company paid dividends to its parent, RLI Corp., of \$59,495,808. This includes dividends of shares of \$35.2 million for the 100% carrying value of the company's investment in Maui Jim and \$13.4 million for the 100% carrying value of the company's investment in Taylor Bean and Whitaker Mortgage Corp., as approved by the Illinois Department of Financial and Professional Regulation, Division of Insurance. During the same period in 2005, the Company paid cash dividends to its parent of \$13,036,499.

At December 31, 2006, the Company owns 100% of the common stock of its subsidiaries, Mt. Hawley, Safe Fleet, RLI Ltd., UIGA, and RLI US, having statement values of \$416,424,635; \$71,979; \$1,106,908; \$980,995; and \$113,577; respectively.

- d. At December 31, 2006, the Company reported \$1,024,009 as net amounts due to affiliates. At December 31, 2005, the Company reported \$3,293,020 as net amounts due to affiliates.
- e. On January 1, 2003, the Company and its affiliate, RIC, entered into an intercompany reinsurance agreement. Under the terms of the agreement, after all of RIC's unaffiliated reinsurance cessions are effected, the Company assumes premium from RIC under a 90% quota share reinsurance agreement for all policies with effective dates of 1/1/2003 or later. This agreement was amended in 2004 to include the assuming of 100% of RIC's existing net loss reserves and any future development on these reserves. The Illinois Department of Financial and Professional Regulation, Division of Insurance approved the amendment on June 29, 2004.
- On or about April 1, 2004, the Company entered into an intercompany guarantee with its wholly owned subsidiary, RLI Ltd., a Bermuda corporation. The Company has guaranteed the performance of RLI Ltd. with respect to a punitive damages wrap policy over an excess policy with the Company. The policy has been renewed with an effective date of April 1, 2006. The guarantee is in the amount of \$20,000,000.
- f. The Company allocates certain expenses to RLI Corp. and affiliated companies, Mt. Hawley, RIC, RLI US and Safe Fleet, based upon the accounting principles set forth in NAIC SAP. The intercompany services agreement allows a portion of the expenses incurred by the Company for the benefit of these affiliates, excluding Safe Fleet, to be charged back to the affiliates at a specified rate. The adequacy of this rate is reviewed and adjusted quarterly. This agreement further allows the expenses incurred by Safe Fleet for the benefit of the Company to be charged back to the Company on a cost reimbursement basis.
- g. RLI Corp., a holding company listed on the New York Stock Exchange and incorporated in the state of Illinois, owns 100% of the outstanding shares of the Company.
- h. The wholly owned subsidiary of the Company, Mt. Hawley, owns 1,996,058 shares of RLI Corp., the Company's ultimate parent. This investment is being accounted for in accordance with the NAIC Securities Valuation Office guidelines.
- i. The Company owns a 100% interest in Mt. Hawley, whose carrying value exceeds 10% of the admitted assets of the Company. The Company carries Mt. Hawley at the statutory equity basis of \$416,424,635. The statement value of Mt. Hawley assets and liabilities as of December 31, 2006 was \$1,024,693,618 and \$608,268,983, respectively. Net income of Mt. Hawley was \$59,087,493 for the year ended December 31, 2006.
- j. The Company did not recognize any impairment write down for its investment in subsidiary, controlled or affiliated companies during the statement period.
- k. The Company does not have an investment in a foreign insurance subsidiary.

11. Debt

The Company has no debt outstanding at December 31, 2006.

12. Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans

a. Defined Benefit Plan

The Company participated with its parent and other affiliates in a noncontributory defined benefit pension plan covering substantially all employees meeting the age and service eligibilities. It was the Company's policy to fund pension costs as accrued, except that in no case will the Company contribute amounts less than the minimum contribution required under the Employee Retirement Income Security Act of 1974, or more than the maximum tax deductible contribution for the year. Contributions of \$1,809,000, \$1,825,000, and \$500,000 were made in 2006, 2005, and 2004, respectively, to fund the plan by all participating companies.

The Company has made various amendments to the plan in order to comply with certain Internal Revenue Code changes.

Additionally, on December 31, 2003, the Company's pension plan was amended to freeze benefit accruals as of March 1, 2004. As a result, the Company expensed the entire unrecognized service cost as of December 31, 2003. The plan was also closed to new participants after December 31, 2003.

Effective December 31, 2005, all participant's benefits were frozen and future pay will not alter a participant's accrued benefit. In 2005, the Company shortened the amortization of the plan's unfunded gain/loss to fully amortize it over the next two years. The Company terminated the plan in 2006. All participants either elected and were paid lump sum amounts or had an insurance contract for their benefit purchased on their behalf during 2006.

A breakdown of pension information by participating company is not available. However, such information on a consolidated basis is provided below.

NOTES TO FINANCIAL STATEMENTS

(1) The following table sets forth the change in benefit obligation at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Projected benefit obligation at January 1	\$ 11,365,480	\$ 13,780,874
Service Cost	-	-
Interest Cost	582,589	756,613
Actuarial losses	1,537,718	1,669,392
Benefits payments	(14,420,152)	(1,456,761)
Curtailment Cost	-	(3,384,638)
Special Termination Benefit Cost	<u>934,365</u>	<u>-</u>
Projected benefit obligation at December 31	\$ -	\$ 11,365,480

At December 31, 2005, all future plan benefits were frozen which results in a curtailment.

(2) The following table sets forth the change in plan assets at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Fair value of plan assets at January 1	\$ 11,514,072	\$ 10,728,843
Actual return on plan assets	1,099,148	416,990
Employer contributions	1,808,500	1,825,000
Benefits paid	<u>(14,420,152)</u>	<u>(1,456,761)</u>
Fair value of plan assets at December 31	<u>\$ 1,568</u>	<u>\$ 11,514,072</u>

(3)-(5) The following table sets forth the funded status of the plan at December 31, 2006 and 2005:

Actuarial present value of benefit obligation - accumulated benefit obligation:

	<u>2006</u>	<u>2005</u>
Vested	\$ -	\$ 11,091,207
Nonvested	<u>-</u>	<u>274,273</u>
	<u>\$ -</u>	<u>\$ 11,365,480</u>
Projected benefit obligation	\$ -	\$ 11,365,480
Plan assets at fair market value	<u>1,568</u>	<u>11,514,072</u>
Excess of plan assets over projected benefit obligation	1,568	\$ 148,592
Unamortized prior service cost	-	-
Unrecognized net loss	-	683,789
Unrecognized net asset at January 1	<u>-</u>	<u>-</u>
Accrued pension asset	<u>\$ 1,568</u>	<u>\$ 832,381</u>

NOTES TO FINANCIAL STATEMENTS

(6) The following table sets forth the components of net periodic pension costs:

	<u>2006</u>	<u>2005</u>
Service cost	\$ -	\$ -
Interest cost	582,589	756,613
Expected return on plan assets	(481,123)	(459,791)
Recognized prior service cost	-	-
Recognized net loss	1,603,482	1,760,575
Net amortization and deferral	-	-
Settlement loss	-	-
FAS 88 Events	934,365	398,453
Net pension expense	<u>\$ 2,639,313</u>	<u>\$ 2,455,850</u>
Accumulated benefit obligation	\$ -	\$ 11,365,480

The pension plan had benefit payments in excess of the sum of service cost and interest cost. This resulted in the recognition of settlement expense in 2006.

(7) The fair value of plan assets exceeds the actuarial present value of accumulated benefit obligations. As a result, the Company has no minimum pension liability adjustment.

(8) Weighted-average assumptions used to determine its projected benefit obligation are as follows:

	<u>2006</u>	<u>2005</u>
Discount Rate	4.75%	5.75%
Rate of compensation increase	N/A	N/A
Expected return on plan assets	4.75%	4.75%

The expenses of this plan were shared between the Company, its affiliate, Mt. Hawley Insurance Company, and the ultimate parent in accordance with an intercompany cost sharing agreement. The Company's share of the pension plan expense was \$1,461,479 and \$1,370,926 for 2006 and 2005, respectively.

At December 31, 2006, plan assets at fair market value were comprised of 100% invested cash.

(9) A measurement date of December 31, 2006 was used to determine the above.

(10) The Company does not provide post-retirement benefits to employees.

(11)-(14) The Company has none to report.

b. Defined Contribution Plans

The Company has none to report.

c, d. Multi-employer & Consolidated/Holding Company Plans

The Company, along with its affiliates and ultimate parent, has an Employee Stock Ownership Plan (ESOP) and a 401k Plan, which covered substantially all employees. The Company provides a base contribution to the 401k plan of 3% of eligible compensation and allows voluntary contributions by employees. Additionally, annual discretionary profit-sharing contributions may be made to both plans, subject to the achievement of certain overall financial goals. The total amount of expense for these plans for 2006 and 2005 was \$7,983,865 and \$7,376,790, respectively. The Company's share of this expense was \$3,106,223 and \$3,001,614, respectively for the years ended 2006 and 2005.

The Company, along with its affiliate and ultimate parent, also has bonus and incentive plans covering executives, management, and associates. These plans are subject to the achievement of certain overall financial targets, and to a lesser extent, management incentive plans are affected by other performance measures. The total amount of expense for these plans for 2006 and 2005 was \$15,079,864 and \$9,173,458, respectively. The Company's share of this plan's expense was \$10,739,789 and \$5,037,792, respectively, for the years ended 2006 and 2005.

e. Postemployment Benefits and Compensated Absences

In 2002, the Company, along with its affiliate and ultimate parent, began offering certain eligible employees post-employment medical coverage. Under the Company's plan, employees, who retire at age 55 or older with 20 or more years of company service, may continue medical coverage under the Company's health plan. Employees who elect continuation of coverage pay the full COBRA (Consolidated Omnibus Budget Reconciliation Act of 1985) rate and coverage terminates upon reaching age 65. The Company expects a relatively small number of employees will become eligible for this benefit. The COBRA rate established for participating employees covers the cost of providing this coverage. The Company does not provide compensated absences.

13. Capital and Surplus, Dividend Restrictions and Quasi-Reorganizations

(1)-(9) The Company has 1,000,000 shares authorized and 80,003 issued and outstanding. Par value equals \$125 per share. The Company has no preferred stock outstanding.

NOTES TO FINANCIAL STATEMENTS

Dividend payments from the Company to its parent are restricted by state insurance laws as to the amount that may be paid without prior approval from the regulatory authorities of Illinois and California. The maximum dividend distribution that can be paid by the Company during 2007 without prior approval is \$75,710,500.

State insurance laws also restrict dividend payments to the Company from Mt. Hawley. The maximum dividends that can be paid to the Company by Mt. Hawley during 2007 without prior approval are \$59,087,493.

The Company has no restrictions on unassigned surplus. No stock of the Company is being held for special purposes.

Unassigned surplus includes \$79,938,540 in net unrealized gains on investments and has been reduced by \$12,063,276 relating to nonadmitted assets. Additionally, surplus has been reduced by \$3,847,000 for the provision for reinsurance.

(10)-(12) The Company has no surplus notes. The Company has not been part of a quasi-reorganization

14. Contingencies

a. Contingent Commitments

The Company has none to report.

b. Assessments

The Company has an accrual for assessments as December 31, 2006, of \$1,800,000. A related asset for premium tax credits has been established in the amount of \$180,000. It is not possible at this time to determine the periods over which the assessments are expected to be paid, or the period over which the recorded premium tax offsets are expected to be realized.

c. Gain Contingencies

The Company is involved in certain legal proceedings and disputes considered by management to be ordinary and incidental to the business or which have no foundation in fact. The Company believes that valid defenses exist as to all such litigation and disputes. Management is of the opinion that these will not have a material effect on the Company's financial statements.

d. All Other Contingencies

There is litigation regarding surety bonds for the purpose of guaranteeing equipment leases performance. While it is impossible to ascertain the ultimate outcome for this matter at this time, we believe, based upon facts known to date and the opinion of trial counsel, that our position is meritorious. Management's opinion is that the final resolution of this matter will not have a material adverse effect on our financial statements taken as a whole.

15. Leases

The Company leases regional office facilities and computers under operating leases. These leases expire in various years through 2011. Minimum future rental payments under noncancellable leases are as follows:

2007	\$	3,337,448
2008		2,723,222
2009		2,454,811
2010		2,148,837
2011		<u>1,539,488</u>
Total minimum future rental payments	\$	12,203,806

The Company shares rental expense with its affiliate, Mt. Hawley, through the intercompany cost sharing agreement. The Company's portion of rental expense for 2006 and 2005 was \$1,363,061 and \$1,496,990 respectively.

16. Information About Financial Instruments With Off-Balance Sheet Risk And Concentrations of Credit Risk

The Company has none to report.

17. Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities

The Company has none to report.

18. Gain or Loss from Uninsured A&H Plans and the Uninsured Portion of Partially Insured Plans

The Company has none to report.

19. Direct Premium Written by Managing General Agents/Third Party Administrators

The Company has none to report.

20. September 11 Events

The Company received a total of 44 claims related to the terrorist attacks of September 11, 2001. Of these, 43 claims have been closed with incurred losses and loss adjustment expense of \$355,926. The Company has established \$14,504 of case reserves, in addition to prior to loss adjustment expense payments of \$43,208, to close out the one remaining claim.

21. Other Items

The Company elected to use rounding in reporting amounts in this statement.

During 2006, the Company recognized no losses for the other-than-temporary decline in market values (impairments).

NOTES TO FINANCIAL STATEMENTS

22. Events Subsequent

The Company has none to report.

23. Reinsurance

a. Unsecured Reinsurance Recoverables; Greater Than 3% of Policyholder Surplus

<u>NAIC CO. #</u>	<u>FEIN #</u>	<u>COMPANY NAME</u>	<u>GROUP AFFILIATION</u>	<u>AMOUNT</u>
32603	47-0574325	Berkley Insurance Company	W.R. Berkley Group	24,645,000
26921	22-2005057	Everest Reinsurance	Everest Reinsurance Group	23,816,000
22039	13-2673100	General Rein Corp	General Gologne Re Group	47,328,000
10227	13-4924125	Munich Re American	Munich Re American Corp Group	67,921,000
42439	13-2918573	TOA Reinsurance	No Group Affiliation	<u>31,048,000</u>
				\$ 194,758,000

b. Reinsurance Recoverable in Dispute

There are no recoverables in dispute that exceed 5% of surplus.

c. Reinsurance Assumed and Ceded

(1)

	ASSUMED REINSURANCE		CEDED REINSURANCE		NET	
	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity	Premium Reserve	Commission Equity
	(1)	(2)	(3)	(4)	(5)	(6)
Affiliates	2,387,329	-	-	-	2,387,329	-
All Other	<u>2,376,219</u>	<u>-</u>	<u>50,347,366</u>	<u>11,335,136</u>	<u>(47,971,147)</u>	<u>(11,335,136)</u>
Total	\$ 4,763,548	\$ -	\$ 50,347,366	\$ 11,335,136	\$ (45,583,818)	\$ (11,335,136)

Direct Unearned Premium Reserve - \$175,796,558

(2)

	DIRECT	REINSURANCE		NET
		Assumed	Ceded	
Contingent Commission	631,116	-	-	631,116
Sliding Scale Adjustment	-	-	-	-
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	\$ 631,116	\$ -	\$ -	\$ 631,116

(3) The Company has no risks attributable to protected cells.

NOTES TO FINANCIAL STATEMENTS

d. Uncollectible Reinsurance

The Company has taken a charge against income in the current year of \$507,905 for reinsurance balances deemed uncollectible from the companies listed below. This charge is reflected as:

1)	Losses/Loss adjustment expenses incurred	\$	507,905
2)	Premiums Earned	\$	-

<u>COMPANY NAME</u>	<u>AMOUNT</u>
American Druggists	(3,726)
Anglo American	(5,467)
Banco De Seguros Del Esta	50,760
Chancellor	7,315
Cherokee Ins Co	73,440
Classic Fire & Marine	95,522
Danielson (Mission) Ins Co	(3,076)
Heartland Group, Inc	1,771
Home Insurance Company	(88)
Kansas General Ins Co Ltd	(13,239)
Kansas Re	61,678
Lumberman's Mutual	3
Mentor U.K.	(10,208)
National Employers Mutual	4,015
National Underwriters	11,165
Orion Insurance	4,619
Pine Top Ins Co	2,233
Pine Top Syndicate	161
Reliance Insurance Co	120,117
Southern American	(1,756)
Union Indemnity Ins Co	(4,106)
W.F. Poe	<u>116,772</u>
Total	\$ 507,905

e. Commutation of Ceded Reinsurance

The Company has taken a charge against income in the current year of \$1,954,180 for reinsurance balances commuted from the companies listed below. This charge is reflected as:

1)	Losses/Loss adjustment expenses incurred	\$	1,954,180
2)	Premiums earned	\$	-

<u>COMPANY NAME</u>	<u>AMOUNT</u> <u>(income)/expense</u>
Continental Casualty Company	<u>1,954,180</u>
Total	\$ 1,954,180

f. Retroactive Reinsurance

The Company has none to report.

g. Reinsurance Accounted for as a Deposit

The Company has none to report.

24. Retrospectively Rated Contracts & Contracts Subject to Redetermination

The Company has none to report.

25. Change in Incurred Losses and Loss Adjustment Expenses

Total incurred losses and defense and cost containment expenses attributable to insured events which occurred prior to January 1, 2006 have decreased by approximately \$7,821,000 from approximately \$921,415,000 as of December 31, 2005 to \$913,594,000 as of December 31, 2006. The change in incurred losses and defense and containment expenses is a result of the settlement during 2006 of some of the claims reserved as of December 31, 2005 for amounts different than they were reserved for at December 31, 2005 and re-estimation of unpaid losses and loss adjustment expenses during 2006, as represented by the reserve held on those claims as of December 31, 2006. The change in incurred losses and defense and cost containment expenses is principally attributable the following lines of business: Other Liability, Commercial Auto Liability, Auto Physical Damage and Surety. In 2006, the IBNR reserve on products that flow through these lines of business was reduced. These decreases offset increases for Reinsurance and Products Liability lines of business. The Company does not write any retrospectively rated business.

NOTES TO FINANCIAL STATEMENTS

26. Intercompany Pooling Arrangements

The Company has none to report.

27. Structured Settlements

The Company enters into a very limited number of structured settlements. In each instance, the Company receives a full release of liability from the claimant. No contingent liability exists, should the issuer of the annuity fail to perform under the terms of the annuity.

28. Health Care Receivables

The Company has none to report.

29. Participating Policies

The Company has none to report.

30. Premium Deficiency Reserves

The Company has none to report.

31. High Deductibles

The Company has not recorded a reserve credit for high deductibles on unpaid claims.

32. Discounting of Liabilities for Unpaid Losses or Unpaid Loss Adjustment Expenses

The Company has none to report.

33. Asbestos/Environmental Reserves

The Company has exposure to asbestos and environmental claims. The Company's exposure arises from both primary and excess general liability coverage and from reinsurance assumed in the early 1980's. As with other types of claims, The Company estimates the ultimate settlement value of known asbestos and environmental claims through the establishment of case reserves by its claims staff. Bulk IBNR reserves are estimated using past company experience in combination with industry reserving practices because the company's data does not provide reliable patterns on its own. Use of a higher survival ratio this year is the primary cause of the generally higher IBNR and incurred amounts.

The Company's asbestos related losses (including the cost of coverage dispute) for each of the five most recent calendar years is as follows:

<u>RLI DIRECT ASBESTOS</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Beginning reserves	\$ 2,314,494	\$ 2,380,865	\$ 2,754,776	\$ 2,965,728	\$ 1,481,084
Incurred losses and loss adjustment expense	1,907,197	-	(371,733)	(208,374)	3,039,051
Calendar year payments for losses and loss adjustment expenses	27,291	66,371	2,178	2,578	1,554,407
Total ending reserves	<u>\$ 4,194,400</u>	<u>\$ 2,314,494</u>	<u>\$ 2,380,865</u>	<u>\$ 2,754,776</u>	<u>\$ 2,965,728</u>
Ending IBNR (b) & (c)	<u>\$ 2,197,166</u>	<u>\$ 306,346</u>	<u>\$ 469,881</u>	<u>\$ 991,096</u>	<u>\$ 1,977,536</u>
(b) IBNR - Losses	2,020,375	275,711	422,893	891,986	1,779,782
(c) IBNR - LAE	176,791	30,635	46,988	99,110	197,754
 <u>RLI ASSUMED ASBESTOS</u>					
Beginning reserves	\$ 7,725,537	\$ 4,300,273	\$ 4,654,443	\$ 5,097,417	\$ 6,807,514
Incurred losses and loss adjustment expense	3,656,632	3,500,000	371,733	208,374	(1,722,169)
Calendar year payments for losses and loss adjustment expenses	1,513,841	74,736	725,903	651,348	(12,072)
Total ending reserves	<u>\$ 9,868,328</u>	<u>\$ 7,725,537</u>	<u>\$ 4,300,273</u>	<u>\$ 4,654,443</u>	<u>\$ 5,097,417</u>
Ending IBNR (b) & (c)	<u>\$ 4,218,662</u>	<u>\$ 598,364</u>	<u>\$ 848,691</u>	<u>\$ 1,674,544</u>	<u>\$ 1,150,550</u>
(b) IBNR - Losses	3,824,940	538,528	763,822	1,507,090	1,035,495
(c) IBNR - LAE	393,722	59,836	84,869	167,454	115,055
 <u>RLI NET ASBESTOS</u>					
Beginning reserves	\$ 5,257,479	\$ 3,361,299	\$ 3,730,854	\$ 4,133,010	\$ 4,542,785
Incurred losses and loss adjustment expense	6,744,524	2,000,000	-	-	512,907
Calendar year payments for losses and loss adjustment expenses	1,079,203	103,820	369,555	402,156	922,682
Total ending reserves	<u>\$ 10,922,800</u>	<u>\$ 5,257,479</u>	<u>\$ 3,361,299</u>	<u>\$ 3,730,854</u>	<u>\$ 4,133,010</u>
Ending IBNR (b) & (c)	<u>\$ 5,994,448</u>	<u>\$ 524,929</u>	<u>\$ 553,900</u>	<u>\$ 1,278,721</u>	<u>\$ 1,496,323</u>
(b) IBNR - Losses	5,440,804	472,436	498,510	1,150,849	1,346,691
(c) IBNR - LAE	553,644	52,493	55,390	127,872	149,632

NOTES TO FINANCIAL STATEMENTS

The Company's environmental related losses (including the cost of coverage dispute) for each of the five most recent calendar years is as follows:

<u>RLI DIRECT ENVIRONMENTAL</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Beginning reserves	\$ 13,786,812	\$ 14,505,359	\$ 21,101,899	\$ 19,405,139	\$ 23,613,879
Incurring losses and loss adjustment expense	(4,765,638)	-	(2,624,442)	3,328,604	960,878
Calendar year payments for losses and loss adjustment expenses	<u>4,130,006</u>	<u>718,547</u>	<u>3,972,098</u>	<u>1,631,844</u>	<u>5,169,618</u>
Total ending reserves	<u>\$ 4,891,168</u>	<u>\$ 13,786,812</u>	<u>\$ 14,505,359</u>	<u>\$ 21,101,899</u>	<u>\$ 19,405,139</u>
Ending IBNR (e) & (f)	<u>\$ 3,003,657</u>	<u>\$ 7,632,223</u>	<u>\$ 7,044,721</u>	<u>\$ 2,591,461</u>	<u>\$ 2,435,478</u>
(e) IBNR - Losses	2,589,234	6,487,390	5,988,013	2,202,742	2,070,156
(f) IBNR - LAE	414,423	1,144,833	1,056,708	388,719	365,322
 <u>RLI ASSUMED ENVIRONMENTAL</u>					
Beginning reserves	\$ 1,913,950	\$ 1,966,957	\$ 2,749,058	\$ 1,330,838	\$ 1,985,559
Incurring losses and loss adjustment expense	969,574	-	962,723	1,467,163	(643,556)
Calendar year payments for losses and loss adjustment expenses	<u>21,958</u>	<u>53,007</u>	<u>1,744,824</u>	<u>48,943</u>	<u>11,165</u>
Total ending reserves	<u>\$ 2,861,566</u>	<u>\$ 1,913,950</u>	<u>\$ 1,966,957</u>	<u>\$ 2,749,058</u>	<u>\$ 1,330,838</u>
Ending IBNR (e) & (f)	<u>\$ 1,175,755</u>	<u>\$ 1,052,999</u>	<u>\$ 955,279</u>	<u>\$ 337,604</u>	<u>\$ 167,029</u>
(e) IBNR - Losses	1,070,872	895,049	811,987	286,963	141,975
(f) IBNR - LAE	104,883	157,950	143,292	50,641	25,054
 <u>RLI NET ENVIRONMENTAL</u>					
Beginning reserves	\$ 5,759,126	\$ 6,356,975	\$ 3,371,006	\$ 4,158,470	\$ 5,571,535
Incurring losses and loss adjustment expense	1,449,945	-	7,074,634	(584,815)	(793,277)
Calendar year payments for losses and loss adjustment expenses	<u>2,075,859</u>	<u>597,849</u>	<u>4,088,665</u>	<u>202,649</u>	<u>619,788</u>
Total ending reserves	<u>\$ 5,133,212</u>	<u>\$ 5,759,126</u>	<u>\$ 6,356,975</u>	<u>\$ 3,371,006</u>	<u>\$ 4,158,470</u>
Ending IBNR (e) & (f)	<u>\$ 3,135,374</u>	<u>\$ 2,992,719</u>	<u>\$ 3,000,000</u>	<u>\$ 413,983</u>	<u>\$ 2,289,941</u>
(e) IBNR - Losses	2,821,917	2,543,811	2,550,000	351,886	1,946,450
(f) IBNR - LAE	313,457	448,908	450,000	62,097	343,491

34. Subscriber Savings Accounts

The Company has none to report.

35. Multiple Peril Crop Insurance

The Company has none to report.

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities	8,774,376	0.691	8,774,376	0.692
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies	4,697,789	0.370	4,697,789	0.370
1.22 Issued by U.S. government sponsored agencies	96,362,776	7.587	96,362,776	7.596
1.3 Foreign government (including Canada, excluding mortgaged-backed securities)		0.000		0.000
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations	36,715,008	2.891	36,715,008	2.894
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations	60,984,463	4.802	60,984,463	4.807
1.43 Revenue and assessment obligations	124,311,789	9.788	124,311,789	9.799
1.44 Industrial development and similar obligations		0.000		0.000
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA	5,753,630	0.453	5,753,630	0.454
1.512 Issued or guaranteed by FNMA and FHLMC	53,383,401	4.203	53,383,401	4.208
1.513 All other		0.000		0.000
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	15,670,280	1.234	15,670,280	1.235
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521	35,979,960	2.833	35,979,960	2.836
1.523 All other	21,197,722	1.669	21,197,722	1.671
2. Other debt and other fixed income securities (excluding short-term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	96,799,184	7.622	96,799,184	7.631
2.2 Unaffiliated foreign securities	9,764,876	0.769	9,764,876	0.770
2.3 Affiliated securities		0.000		0.000
3. Equity interests:				
3.1 Investments in mutual funds		0.000		0.000
3.2 Preferred stocks:				
3.21 Affiliated		0.000		0.000
3.22 Unaffiliated		0.000		0.000
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated		0.000		0.000
3.32 Unaffiliated	238,129,062	18.749	238,129,062	18.771
3.4 Other equity securities:				
3.41 Affiliated	418,698,093	32.967	417,531,542	32.914
3.42 Unaffiliated		0.000		0.000
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated		0.000		0.000
3.52 Unaffiliated		0.000		0.000
4. Mortgage loans:				
4.1 Construction and land development		0.000		0.000
4.2 Agricultural		0.000		0.000
4.3 Single family residential properties		0.000		0.000
4.4 Multifamily residential properties		0.000		0.000
4.5 Commercial loans		0.000		0.000
4.6 Mezzanine real estate loans		0.000		0.000
5. Real estate investments:				
5.1 Property occupied by the company	6,414,189	0.505	6,083,219	0.480
5.2 Property held for the production of income (including \$ of property acquired in satisfaction of debt)		0.000	0	0.000
5.3 Property held for sale (including \$ property acquired in satisfaction of debt)		0.000	0	0.000
6. Contract loans		0.000	0	0.000
7. Receivables for securities		0.000	0	0.000
8. Cash, cash equivalents and short-term investments	26,933,093	2.121	26,933,093	2.123
9. Other invested assets	9,500,000	0.748	9,500,000	0.749
10. Total invested assets	1,270,069,691	100.000	1,268,572,170	100.000

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

GENERAL

- 1.1 Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer? Yes [] No []
- 1.2 If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent, or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations? Yes [] No [] NA []
- 1.3 State Regulating? Illinois.....
- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes [] No []
- 2.2 If yes, date of change:12/31/2003
- 3.1 State as of what date the latest financial examination of the reporting entity was made or is being made.12/31/2003
- 3.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released.12/31/2003
- 3.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date).06/21/2005
- 3.4 By what department or departments? Illinois Department of Financial and Professional Regulation, Division of Insurance
- 4.1 During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity), receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.11 sales of new business? Yes [] No []
- 4.12 renewals? Yes [] No []
- 4.2 During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.21 sales of new business? Yes [] No []
- 4.22 renewals? Yes [] No []
- 5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes [] No []
- 5.2 If yes, provide the name of the entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1 Name of Entity	2 NAIC Company Code	3 State of Domicile

- 6.1 Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? Yes [] No []
- 6.2 If yes, give full information
- 7.1 Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity? Yes [] No []
- 7.2 If yes,
- 7.21 State the percentage of foreign control;
- 7.22 State the nationality(s) of the foreign person(s) or entity(s) or if the entity is a mutual or reciprocal, the nationality of its manager or attorney in fact; and identify the type of entity(s) (e.g., individual, corporation or government, manager or attorney in fact).

1 Nationality	2 Type of Entity

ANNUAL STATEMENT FOR THE YEAR 2006 OF THE RLI INSURANCE COMPANY

GENERAL INTERROGATORIES

- 8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? Yes [] No [X]
- 8.2 If response to 8.1 is yes, please identify the name of the bank holding company.
- 8.3 Is the company affiliated with one or more banks, thrifts or securities firms? Yes [] No [X]
- 8.4 If response to 8.3 is yes, please provide the names and location (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC) and identify the affiliate's primary federal regulator.]

1 Affiliate Name	2 Location (City, State)	3 FRB	4 OCC	5 OTS	6 FDIC	7 SEC

9. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?
KPMG LLP; 303 East Wacker Drive; Chicago, IL 60601
10. What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with an actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?
Phillip S. Moore, AVP - Actuarial Services; RLI Insurance Company; 9025 N. Lindbergh Drive; Peoria, IL 61615
- 11.1 Does the reporting entity own any securities of a real estate holding company or otherwise hold real estate indirectly? Yes [] No [X]
- 11.11 Name of real estate holding company
- 11.12 Number of parcels involved.....
- 11.13 Total book/adjusted carrying value..... \$.....
- 11.2 If yes, provide explanation
12. FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:
- 12.1 What changes have been made during the year in the United States Manager or the United States Trustees of the reporting entity?
- 12.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located? Yes [] No []
- 12.3 Have there been any changes made to any of the trust indentures during the year? Yes [] No []
- 12.4 If answer to (12.3) is yes, has the domiciliary or entry state approved the changes? Yes [] No [] NA []

BOARD OF DIRECTORS

13. Is the purchase or sale of all investments of the reporting entity passed upon either by the board of directors or a subordinate committee thereof? Yes [X] No []
14. Does the reporting entity keep a complete permanent record of the proceedings of its board of directors and all subordinate committees thereof? Yes [X] No []
15. Has the reporting entity an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees that is in conflict or likely to conflict with the official duties of such person? Yes [X] No []

FINANCIAL

- 16.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):
- 16.11 To directors or other officers .. \$0
- 16.12 To stockholders not officers ... \$0
- 16.13 Trustees, supreme or grand (Fraternal only) \$0
- 16.2 Total amount of loans outstanding at end of year (inclusive of Separate Accounts, exclusive of policy loans):
- 16.21 To directors or other officers ... \$0
- 16.22 To stockholders not officers \$0
- 16.23 Trustees, supreme or grand (Fraternal only) \$0
- 17.1 Were any of the assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in this statement? Yes [] No [X]
- 17.2 If yes, state the amount thereof at December 31 of the current year:
- 17.21 Rented from others \$
- 17.22 Borrowed from others \$
- 17.23 Leased from others \$
- 17.24 Other \$
- 18.1 Does this statement include payments for assessments as described in the *Annual Statement Instructions* other than guaranty fund or guaranty association assessments? Yes [] No [X]
- 18.2 If answer is yes,
- 18.21 Amount paid as losses or risk adjustment \$
- 18.22 Amount paid as expenses \$
- 18.23 Other amounts paid \$
- 19.1 Does the reporting entity report any amounts due from the parent, subsidiaries or affiliates on Page 2 of this statement? Yes [] No [X]
- 19.2 If yes, indicated any amounts receivable from parent included in the Page 2 amount:..... \$

GENERAL INTERROGATORIES

INVESTMENT

20.1 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date, except as shown by Schedule E - Part 3 - Special Deposits? Yes [] No []

20.2 If no, give full and complete information relating thereto:

21.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity, except as shown on the Schedule E - Part 3 - Special Deposits, or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 17.1) Yes [] No []

21.2 If yes, state the amount thereof at December 31 of the current year:

21.21	Loaned to others	\$	25,875,488
21.22	Subject to repurchase agreements	\$	
21.23	Subject to reverse repurchase agreements	\$	
21.24	Subject to dollar repurchase agreements	\$	
21.25	Subject to reverse dollar repurchase agreements	\$	
21.26	Pledged as collateral	\$	
21.27	Placed under option agreements	\$	
21.28	Letter stock or other securities restricted as to sale ...	\$	
21.29	Other	\$	

21.3 For category (21.28) provide the following:

1 Nature of Restriction	2 Description	3 Amount
.....
.....
.....
.....

22.1 Does the reporting entity have any hedging transactions reported on Schedule DB? Yes [] No []

22.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes [] No [] NA []
If no, attach a description with this statement.

23.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity? Yes [] No []

23.2 If yes, state the amount thereof at December 31 of the current year. \$

ANNUAL STATEMENT FOR THE YEAR 2006 OF THE RLI INSURANCE COMPANY

GENERAL INTERROGATORIES

24. Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Part 1 – General, Section IV.H-Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook?

Yes [X] No []

24.01 For agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

1 Name of Custodian(s)	2 Custodian's Address
Mellon Bank, NA.....	One Mellon Bank Center Pittsburgh, PA 15258.....

24.02 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

1 Name(s)	2 Location(s)	2 Complete Explanation(s)
.....
.....

24.03 Have there been any changes, including name changes, in the custodian(s) identified in 24.01 during the current year?

Yes [] No [X]

24.04 If yes, give full and complete information relating thereto:

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason
.....

24.05 Identify all investment advisors, brokers/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository Number(s)	2 Name	2 Address
105990.....	David Vaughan Investments, Inc.....	5223 N. Forest Park Drive, Peoria, IL. 61614.....
107423.....	Conning Asset Management, Co.....	One Financial Plaza, Hartford, CT. 06103.....
106201.....	Security Capital Research and Management, Inc.....	10 S. Dearborn St. Suite 1400, Chicago, IL. 60603.....

25.1 Does the reporting entity have any diversified mutual funds reported in Schedule D, Part 2 (diversified according to the Securities and Exchange Commission (SEC) in the Investment Company Act of 1940 [Section 5 (b) (1)])?.....

Yes [] No [X]

25.2 If yes, complete the following schedule:

1 CUSIP #	2 Name of Mutual Fund	3 Book/Adjusted Carrying Value
.....
.....
25.2999	TOTAL	0

25.3 For each mutual fund listed in the table above, complete the following schedule:

1 Name of Mutual Fund (from above table)	2 Name of Significant Holding Of the Mutual Fund	3 Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to the Holding	4 Date of Valuation
.....
.....

ANNUAL STATEMENT FOR THE YEAR 2006 OF THE RLI INSURANCE COMPANY

GENERAL INTERROGATORIES

26. Provide the following information for all short-term and long-term bonds and all preferred stocks. Do not substitute amortized value or statement value for fair value.

	1 Statement (Admitted) Value	2 Fair Value	3 Excess of Statement over Fair Value (-) or Fair Value over Statement (+)
26.1 Bonds.....	600,697,746	600,529,653	(168,093)
26.2 Preferred stocks.....	0	0	0
26.3 Totals	600,697,746	600,529,653	(168,093)

26.4 Describe the sources or methods utilized in determining fair values:

FT Interactive Data; PO Box 98616; Chicago, IL 60693.....

27.1 Have all the filing requirements of the *Purposes and Procedures Manual* of the NAIC Securities Valuation Office been followed? Yes [X] No []

27.2 If no, list the exceptions:

OTHER

28.1 Amount of payments to trade associations, service organizations and statistical or rating bureaus, if any?.....\$764,257

28.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to trade associations, service organizations and statistical or rating bureaus during the period covered by this statement.

1 Name	2 Amount Paid
Insurance Services Office.....	489,267
NAII.....	207,629

29.1 Amount of payments for legal expenses, if any?.....\$1,100,124

29.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payments for legal expenses during the period covered by this statement.

1 Name	2 Amount Paid
King & Spalding.....	476,789

30.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any?.....\$0

30.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies, officers or departments of government during the period covered by this statement.

1 Name	2 Amount Paid
.....	
.....	

GENERAL INTERROGATORIES

(continued)

PART 2 - PROPERTY & CASUALTY INTERROGATORIES

- 1.1 Does the reporting entity have any direct Medicare Supplement Insurance in force? Yes [] No [X]
- 1.2 If yes, indicate premium earned on U.S. business only. \$
- 1.3 What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit? \$
- 1.31 Reason for excluding

- 1.4 Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above. \$
- 1.5 Indicate total incurred claims on all Medicare Supplement insurance. \$

1.6 Individual policies:

Most current three years:

- 1.61 Total premium earned \$0
- 1.62 Total incurred claims \$0
- 1.63 Number of covered lives 0
- All years prior to most current three years:
- 1.64 Total premium earned \$0
- 1.65 Total incurred claims \$0
- 1.66 Number of covered lives 0

1.7 Group policies:

Most current three years:

- 1.71 Total premium earned \$0
- 1.72 Total incurred claims \$0
- 1.73 Number of covered lives 0
- All years prior to most current three years:
- 1.74 Total premium earned \$0
- 1.75 Total incurred claims \$0
- 1.76 Number of covered lives 0

2. Health Test:

		1		2
		Current Year		Prior Year
2.1	Premium Numerator	\$0		\$0
2.2	Premium Denominator	\$227,970,972		\$223,431,678
2.3	Premium Ratio (2.1/2.2)	.....0.000		.....0.000
2.4	Reserve Numerator	\$75,354		\$85,357
2.5	Reserve Denominator	\$489,486,903		\$480,781,754
2.6	Reserve Ratio (2.4/2.5)	.....0.000		.....0.000

- 3.1 Does the reporting entity issue both participating and non-participating policies? Yes [] No [X]

3.2 If yes, state the amount of calendar year premiums written on:

- 3.21 Participating policies..... \$
- 3.22 Non-participating policies..... \$

4. For Mutual reporting entities and Reciprocal Exchanges only:

- 4.1 Does the reporting entity issue assessable policies?..... Yes [] No []
- 4.2 Does the reporting entity issue non-assessable policies?..... Yes [] No []
- 4.3 If assessable policies are issued, what is the extent of the contingent liability of the policyholders?..... %
- 4.4 Total amount of assessments paid or ordered to be paid during the year on deposit notes or contingent premiums..... \$

5. For Reciprocal Exchanges Only:

- 5.1 Does the exchange appoint local agents?..... Yes [] No []
- 5.2 If yes, is the commission paid:

- 5.21 Out of Attorney's-in-fact compensation..... Yes [] No [] NA []
- 5.22 As a direct expense of the exchange..... Yes [] No [] NA []

5.3 What expenses of the Exchange are not paid out of the compensation of the Attorney-in-fact?

- 5.4 Has any Attorney-in-fact compensation, contingent on fulfillment of certain conditions, been deferred?..... Yes [] No []

5.5 If yes, give full information

GENERAL INTERROGATORIES
PART 2 - PROPERTY & CASUALTY INTERROGATORIES

- 6.1 What provision has this reporting entity made to protect itself from an excessive loss in the event of a catastrophe under a workers' compensation contract issued without limit of loss:.....
 N/A.....
- 6.2 Describe the method used to estimate this reporting entity's probable maximum insurance loss, and identify the type of insured exposures comprising that probable maximum loss, the locations of concentrations of those exposures and the external resources (such as consulting firms or computer software models), if any, used in the estimation process:.....
 The Company utilizes RMS modeling software to manage earthquakes exposures, as well as wind exposures.
- 6.3 What provision has this reporting entity made (such as a catastrophic reinsurance program) to protect itself from an excessive loss arising from the types and concentrations of insured exposures comprising its probable maximum property insurance loss?.....
 The Company purchases catastrophe reinsurance coverage.....
- 6.4 Does the reporting entity carry catastrophe reinsurance protection for at least one reinstatement, in an amount sufficient to cover its estimated probable maximum loss attributable to a single loss event or occurrence?..... Yes No
- 6.5 If no, describe any arrangements or mechanisms employed by the reporting entity to supplement its catastrophe reinsurance program or to hedge its exposure to uninsured catastrophic loss.

- 7.1 Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)?..... Yes No
- 7.2 If yes, indicate the number of reinsurance contracts containing such provisions.....
- 7.3 If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)?..... Yes No
- 8.1 Has this reporting entity reinsured any risk with any other entity and agreed to release such entity from liability, in whole or in part, from any loss that may occur on the risk, or portion thereof, reinsured?..... Yes No
- 8.2 If yes, give full information
 Commutation releasing Continental Casualty Company of certain reinsurance treaty liabilities was completed in 2006.....
- 9.1 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 3% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 3% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:
 (a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;
 (b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
 (c) Aggregate stop loss reinsurance coverage;
 (d) An unconditional or unilateral right by either party to commute the reinsurance contract except for such provisions which are only triggered by a decline in the credit status of the other party;
 (e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or
 (f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity..... Yes No
- 9.2 Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), excluding cessions to approved pooling agreements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member, where:
 (a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or
 (b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates..... Yes No
- 9.3 If yes to 9.1 or 9.2, please provide the following information in the Reinsurance Summary Supplemental Filing for General Interrogatory 9:
 (a) The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income;
 (b) A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting the criteria in 9.1 or 9.2; and
 (c) A brief discussion of management's principle objectives in entering into the reinsurance contract including the economic purpose to be achieved.
- 9.4 Except for transactions meeting the requirements of paragraph 30 of SSAP No. 62, Property and Casualty Reinsurance, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:
 (a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or
 (b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?..... Yes No
- 9.5 If yes to 9.4, explain in the Reinsurance Summary Supplemental Filing for General Interrogatory 9 (Section D) why the contract(s) is treated differently for GAAP and SAP.
10. If the reporting entity has assumed risks from another entity, there should be charged on account of such reinsurances a reserve equal to that which the original entity would have been required to charge had it retained the risks. Has this been done? Yes No N/A
- 11.1 Has this reporting entity guaranteed policies issued by any other entity and now in force?..... Yes No
- 11.2 If yes, give full information
 The Company has an intercompany guarantee with its wholly owned subsidiary, RLI Ltd. The Company has guaranteed the performance of RLI Ltd. in the amount of \$20,000,000 with respect to a punitive damages wrap policy over an excess policy with the Company. The policy effective date is April 1, 2006.....

GENERAL INTERROGATORIES
PART 2 - PROPERTY & CASUALTY INTERROGATORIES

- 12.1 If the reporting entity recorded accrued retrospective premiums on insurance contracts on Line 13.3 of the asset schedule, Page 2, state the amount of corresponding liabilities recorded for:
 12.11 Unpaid losses \$
 12.12 Unpaid underwriting expenses (including loss adjustment expenses) \$
- 12.2 Of the amount on Line 13.3, Page 2, state the amount that is secured by letters of credit, collateral and other funds? \$
- 12.3 If the reporting entity underwrites commercial insurance risks, such as workers' compensation, are premium notes or promissory notes accepted from its insureds covering unpaid premiums and/or unpaid losses? Yes [] No [] NA [X]
- 12.4 If yes, provide the range of interest rates charged under such notes during the period covered by this statement:
 12.41 From %
 12.42 To %
- 12.5 Are letters of credit or collateral and other funds received from insureds being utilized by the reporting entity to secure premium notes or promissory notes taken by the reporting entity, or to secure any of the reporting entity's reported direct unpaid loss reserves, including unpaid losses under loss deductible features of commercial policies? Yes [X] No []
- 12.6 If yes, state the amount thereof at December 31 of the current year:
 12.61 Letters of Credit \$ 252,368,110
 12.62 Collateral and other funds \$ 65,839,305
- 13.1 Largest net aggregate amount insured in any one risk (excluding workers' compensation): \$ 7,000,000
- 13.2 Does any reinsurance contract considered in the calculation of this amount include an aggregate limit of recovery without also including a reinstatement provision? Yes [] No [X]
- 13.3 State the number of reinsurance contracts (excluding individual facultative risk certificates, but including facultative programs, automatic facilities or facultative obligatory contracts) considered in the calculation of the amount. 3
- 14.1 Is the company a cedant in a multiple cedant reinsurance contract? Yes [X] No []
- 14.2 If yes, please describe the method of allocating and recording reinsurance among the cedants:
 Each cedant (statutory company) is charged the reinsurance contract rate and applicable recoveries
- 14.3 If the answer to 14.1 is yes, are the methods described in item 14.2 entirely contained in the respective multiple cedant reinsurance contracts? Yes [X] No []
- 14.4 If the answer to 14.3 is no, are all the methods described in 14.2 entirely contained in written agreements? Yes [] No []
- 14.5 If answer to 14.4 is no, please explain:

- 15.1 Has the reporting entity guaranteed any financed premium accounts? Yes [] No [X]
- 15.2 If yes, give full information

- 16.1 Does the reporting entity write any warranty business? Yes [] No [X]
- If yes, disclose the following information for each of the following types of warranty coverage:

	1 Direct Losses Incurred	2 Direct Losses Unpaid	3 Direct Written Premium	4 Direct Premium Unearned	5 Direct Premium Earned
16.11 Home	\$	\$	\$	\$	\$
16.12 Products	\$	\$	\$	\$	\$
16.13 Automobile	\$	\$	\$	\$	\$
16.14 Other*	\$	\$	\$	\$	\$

* Disclose type of coverage:

GENERAL INTERROGATORIES
PART 2 - PROPERTY & CASUALTY INTERROGATORIES

17.1 Does the reporting entity include amounts recoverable on unauthorized reinsurance in Schedule F – Part 3 that it excludes from Schedule F – Part 5. Yes [X] No []

Incurred but not reported losses on contracts not in force on July 1, 1984 or subsequently renewed are exempt from inclusion in Schedule F – Part 5. Provide the following information for this exemption:

17.11	Gross amount of unauthorized reinsurance in Schedule F – Part 3 excluded from Schedule F – Part 5	\$.....	131,000
17.12	Unfunded portion of Interrogatory 17.11.....	\$.....	131,000
17.13	Paid losses and loss adjustment expenses portion of Interrogatory 17.11	\$.....	
17.14	Case reserves portion of Interrogatory 17.11.....	\$.....	
17.15	Incurred but not reported portion of Interrogatory 17.11.....	\$.....	131,000
17.16	Unearned premium portion of Interrogatory 17.11.....	\$.....	
17.17	Contingent commission portion of Interrogatory 17.11.....	\$.....	

Provide the following information for all other amounts included in Schedule F – Part 3 and excluded from Schedule F – Part 5, not included above.

17.18	Gross amount of unauthorized reinsurance in Schedule F – Part 3 excluded from Schedule F – Part 5	\$.....	
17.19	Unfunded portion of Interrogatory 17.18.....	\$.....	
17.20	Paid losses and loss adjustment expenses portion of Interrogatory 17.18	\$.....	
17.21	Case reserves portion of Interrogatory 17.18.....	\$.....	
17.22	Incurred but not reported portion of Interrogatory 17.18.....	\$.....	
17.23	Unearned premium portion of Interrogatory 17.18.....	\$.....	
17.24	Contingent commission portion of Interrogatory 17.18.....	\$.....	

ANNUAL STATEMENT FOR THE YEAR 2006 OF THE RLI INSURANCE COMPANY

FIVE-YEAR HISTORICAL DATA

Show amounts in whole dollars only, no cents; show percentages to one decimal place, i.e. 17.6.

	1 2006	2 2005	3 2004	4 2003	5 2002
Gross Premiums Written (Page 8, Part 1B, Cols. 1, 2 & 3)					
1. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	205,318,659	209,081,110	204,434,620	227,395,097	222,446,531
2. Property lines (Lines 1, 2, 9, 12, 21 & 26)	30,195,485	54,247,352	91,458,161	95,155,444	116,178,016
3. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	40,448,223	24,843,179	12,223,137	11,248,059	13,717,340
4. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	66,049,173	60,203,610	54,169,242	52,989,032	59,573,594
5. Nonproportional reinsurance lines (Lines 30, 31 & 32)	0	0	0	(1,080,433)	1,081,065
6. Total (Line 34)	342,011,540	348,375,251	362,285,160	385,707,199	412,996,546
Net Premiums Written (Page 8, Part 1B, Col. 6)					
7. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	115,647,502	120,212,677	133,415,139	136,763,243	108,693,056
8. Property lines (Lines 1, 2, 9, 12, 21 & 26)	18,166,375	20,282,072	52,081,531	56,341,484	54,580,917
9. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	33,491,400	20,520,074	10,109,592	9,000,805	10,137,889
10. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	62,119,078	55,530,328	49,286,650	45,203,227	51,957,112
11. Nonproportional reinsurance lines (Lines 30, 31 & 32)	0	0	0	(1,080,433)	1,081,065
12. Total (Line 34)	229,424,355	216,545,151	244,892,912	246,228,326	226,450,039
Statement of Income (Page 4)					
13. Net underwriting gain (loss) (Line 8)	23,094,555	12,605,161	17,622,247	1,421,501	(5,745,020)
14. Net investment gain (loss) (Line 11)	57,548,037	39,083,251	36,138,164	36,281,469	18,981,921
15. Total other income (Line 15)	724,733	897,572	696,723	2,288,200	570,397
16. Dividends to policyholders (Line 17)	0	0	0	0	0
17. Federal and foreign income taxes incurred (Line 19)	5,656,825	14,287,821	18,589,409	5,880,471	7,278,247
18. Net income (Line 20)	75,710,500	38,298,163	35,867,725	34,110,699	6,529,051
Balance Sheet Lines (Pages 2 and 3)					
19. Total admitted assets excluding protected cell business (Page 2, Line 24, Col. 3)	1,366,310,095	1,300,270,576	1,216,033,560	1,127,912,661	895,084,151
20. Premiums and considerations (Page 2, Col. 3)					
20.1 In course of collection (Line 13.1)	50,176,886	54,880,790	60,210,489	56,113,738	50,695,039
20.2 Deferred and not yet due (Line 13.2)	0	0	0	0	0
20.3 Accrued retrospective premiums (Line 13.3)	0	0	0	0	0
21. Total liabilities excluding protected cell business (Page 3, Line 24)	619,404,680	609,723,904	610,066,757	581,326,503	493,815,401
22. Losses (Page 3, Line 1)	303,516,754	300,565,477	295,259,461	297,926,069	230,431,967
23. Loss adjustment expenses (Page 3, Line 3)	55,500,855	51,456,920	50,295,019	29,408,648	29,282,406
24. Unearned premiums (Page 3, Line 9)	130,212,740	128,759,357	135,645,884	139,374,634	143,908,071
25. Capital paid up (Page 3, Lines 28 & 29)	10,000,375	10,000,375	10,000,375	10,000,375	10,000,375
26. Surplus as regards policyholders (Page 3, Line 35)	746,905,415	690,546,672	605,966,803	546,586,158	401,268,750
Risk-Based Capital Analysis					
27. Total adjusted capital	746,905,415	690,546,672	605,966,803	546,586,158	401,268,750
28. Authorized control level risk-based capital	84,652,934	81,317,454	82,471,364	74,688,786	71,596,926
Percentage Distribution of Cash, Cash Equivalents and Invested Assets (Page 2, Col. 3)(Item divided by Page 2, Line 10, Col. 3) x 100.0					
29. Bonds (Line 1)	45.0	47.2	49.5	49.3	45.3
30. Stocks (Lines 2.1 & 2.2)	51.7	50.6	48.9	47.0	49.4
31. Mortgage loans on real estate (Lines 3.1 and 3.2)	0.0	0.0	0.0	0.0	0.0
32. Real estate (Lines 4.1, 4.2 & 4.3)	0.5	0.5	0.5	0.6	0.7
33. Cash, cash equivalents and short-term investments (Line 5)	2.1	1.2	1.0	2.6	3.5
34. Contract loans (Line 6)	0.0	0.0	0.0		XXX
35. Other invested assets (Line 7)	0.7	0.5	0.2	0.5	1.0
36. Receivables for securities (Line 8)	0.0	0.0	0.0	0.0	0.0
37. Aggregate write-ins for invested assets (Line 9)	0.0	0.0	0.0	0.0	0.0
38. Cash, cash equivalents and invested assets (Line 10)	100.0	100.0	100.0	100.0	100.0
Investments in Parent, Subsidiaries and Affiliates					
39. Affiliated bonds, (Sch. D, Summary, Line 25, Col. 1)	0	0	0	0	0
40. Affiliated preferred stocks (Sch. D, Summary, Line 39, Col. 1)	0	0	0	0	0
41. Affiliated common stocks (Sch. D, Summary, Line 53, Col. 2)	418,698,094	404,485,860	344,301,109	289,933,387	233,677,940
42. Affiliated short-term investments (subtotals included in Schedule DA, Part 2, Col. 5, Line 11)	0	0	0	0	0
43. Affiliated mortgage loans on real estate	0	0	0	0	0
44. All other affiliated	0	0	0	0	0
45. Total of above Lines 39 to 44	418,698,094	404,485,860	344,301,109	289,933,387	233,677,940
46. Percentage of investments in parent, subsidiaries and affiliates to surplus as regards policyholders (Line 45 above divided by Page 3, Col. 1, Line 35 x 100.0)	56.1	58.6	56.8	53.0	58.2

ANNUAL STATEMENT FOR THE YEAR 2006 OF THE RLI INSURANCE COMPANY

FIVE-YEAR HISTORICAL DATA

(Continued)

	1 2006	2 2005	3 2004	4 2003	5 2002
Capital and Surplus Accounts (Page 4)					
47. Net unrealized capital gains (losses) (Line 24)	45,421,257	62,831,923	41,839,094	65,767,664	(21,082,416)
48. Dividends to stockholders (Line 35)	(59,495,808)	(13,036,489)	(19,585,772)	(5,528,207)	(5,279,398)
49. Change in surplus as regards policyholders for the year (Line 38)	56,358,743	84,579,869	59,380,645	145,317,408	111,271,305
Gross Losses Paid (Page 9, Part 2, Cols. 1 & 2)					
50. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	114,468,014	109,848,178	96,144,290	99,819,780	124,816,262
51. Property lines (Lines 1, 2, 9, 12, 21 & 26)	66,582,160	34,952,601	32,102,477	42,931,286	45,900,400
52. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	10,441,178	3,439,458	2,652,019	4,719,545	10,220,352
53. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	1,442,888	11,464,110	14,693,572	26,289,902	21,187,963
54. Nonproportional reinsurance lines (Lines 30, 31 & 32)	1,534,054	325,864	2,492,649	934,821	2,592,830
55. Total (Line 34)	194,468,294	160,030,211	148,085,007	174,695,334	204,717,807
Net Losses Paid (Page 9, Part 2, Col. 4)					
56. Liability lines (Lines 11.1, 11.2, 16, 17.1, 17.2, 18.1, 18.2, 19.1, 19.2 & 19.3, 19.4)	42,941,225	49,354,980	51,088,011	31,286,194	32,921,089
57. Property lines (Lines 1, 2, 9, 12, 21 & 26)	19,154,623	23,007,776	25,044,625	17,068,008	22,151,087
58. Property and liability combined lines (Lines 3, 4, 5, 8, 22 & 27)	6,411,489	3,226,241	2,486,236	2,992,323	5,871,516
59. All other lines (Lines 6, 10, 13, 14, 15, 23, 24, 28, 29 & 33)	1,783,753	4,606,528	6,846,936	12,375,073	14,755,586
60. Nonproportional reinsurance lines (Lines 30, 31 & 32)	920,821	202,232	1,324,648	576,381	1,584,483
61. Total (Line 34)	71,211,911	80,397,757	86,790,456	64,297,979	77,283,762
Operating Percentages (Page 4) (Item divided by Page 4, Line 1) x 100.0					
62. Premiums earned (Line 1)	100.0	100.0	100.0	100.0	100.0
63. Losses incurred (Line 2)	32.7	38.4	33.8	52.5	51.2
64. Loss expenses incurred (Line 3)	13.3	14.2	21.0	9.9	9.0
65. Other underwriting expenses incurred (Line 4)	43.9	41.8	38.0	37.0	42.4
66. Net underwriting gain (loss) (Line 8)	10.1	5.6	7.1	0.6	(2.6)
Other Percentages					
67. Other underwriting expenses to net premiums written (Page 4, Lines 4 + 5 - 15 divided by Page 8, Part 1B, Col. 6, Line 34 x 100.0)	43.3	42.7	38.3	36.8	41.6
68. Losses and loss expenses incurred to premiums earned (Page 4, Lines 2 + 3 divided by Page 4, Line 1 x 100.0)	45.9	52.6	54.9	62.4	60.1
69. Net premiums written to policyholders' surplus (Page 8, Part 1B, Col. 6, Line 34 divided by Page 3, Line 35, Col. 1 x 100.0)	30.7	31.4	40.4	45.0	56.4
One Year Loss Development (000 omitted)					
70. Development in estimated losses and loss expenses incurred prior to current year (Schedule P, Part 2 - Summary, Line 12, Col. 11)	(7,823)	(12,861)	(6,862)	(3,635)	4,867
71. Percent of development of losses and loss expenses incurred to policyholders' surplus of prior year end (Line 70 above divided by Page 4, Line 21, Col. 1 x 100.0)	(1.1)	(2.1)	(1.3)	(0.9)	1.7
Two Year Loss Development (000 omitted)					
72. Development in estimated losses and loss expenses incurred 2 years before the current year and prior year (Schedule P, Part 2 - Summary, Line 12, Col. 12)	(25,594)	(14,306)	(1,569)	(5,287)	(6,409)
73. Percent of development of losses and loss expenses incurred to reported policyholders' surplus of second prior year end (Line 72 above divided by Page 4, Line 21, Col. 2 x 100.0)	(4.2)	(2.6)	(0.4)	(1.8)	(2.1)

ANNUAL STATEMENT FOR THE YEAR 2006 OF THE RLI INSURANCE COMPANY

SCHEDULE D - SUMMARY BY COUNTRY

Long-Term Bonds and Stocks OWNED December 31 of Current Year

Description		1 Book/Adjusted Carrying Value	2 Fair Value	3 Actual Cost	4 Par Value of Bonds
BONDS					
Governments (Including all obligations guaranteed by governments)	1. United States	115,588,571	115,369,206	115,667,659	115,506,998
	2. Canada	0	0	0	0
	3. Other Countries	0	0	0	0
	4. Totals	115,588,571	115,369,206	115,667,659	115,506,998
States, Territories and Possessions (Direct and guaranteed)	5. United States	36,715,008	37,489,581	37,347,490	35,575,000
	6. Canada	0	0	0	0
	7. Other Countries	0	0	0	0
	8. Totals	36,715,008	37,489,581	37,347,490	35,575,000
Political Subdivisions of States, Territories and Possessions (Direct and guaranteed)	9. United States	60,984,463	61,153,698	62,645,519	57,310,000
	10. Canada	0	0	0	0
	11. Other Countries	0	0	0	0
	12. Totals	60,984,463	61,153,698	62,645,519	57,310,000
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	13. United States	193,365,469	193,358,133	196,441,740	186,344,765
	14. Canada	0	0	0	0
	15. Other Countries	0	0	0	0
	16. Totals	193,365,469	193,358,133	196,441,740	186,344,765
Public Utilities (unaffiliated)	17. United States	15,523,079	15,473,851	15,781,775	15,240,000
	18. Canada	0	0	0	0
	19. Other Countries	0	0	0	0
	20. Totals	15,523,079	15,473,851	15,781,775	15,240,000
Industrial and Miscellaneous and Credit Tenant Loans (unaffiliated)	21. United States	138,453,788	137,933,376	139,472,185	136,399,611
	22. Canada	3,120,126	3,019,106	3,115,053	3,150,000
	23. Other Countries	6,644,750	6,430,210	6,730,920	6,285,000
	24. Totals	148,218,664	147,382,692	149,318,158	145,834,611
Parent, Subsidiaries and Affiliates	25. Totals	0	0	0	0
	26. Total Bonds	570,395,254	570,227,161	577,202,341	555,811,374
PREFERRED STOCKS					
Public Utilities (unaffiliated)	27. United States	0	0	0	
	28. Canada	0	0	0	
	29. Other Countries	0	0	0	
	30. Totals	0	0	0	
Banks, Trust and Insurance Companies (unaffiliated)	31. United States	0	0	0	
	32. Canada	0	0	0	
	33. Other Countries	0	0	0	
	34. Totals	0	0	0	
Industrial and Miscellaneous (unaffiliated)	35. United States	0	0	0	
	36. Canada	0	0	0	
	37. Other Countries	0	0	0	
	38. Totals	0	0	0	
Parent, Subsidiaries and Affiliates	39. Totals	0	0	0	
	40. Total Preferred Stocks	0	0	0	
COMMON STOCKS					
Public Utilities (unaffiliated)	41. United States	41,532,361	41,532,361	22,016,447	
	42. Canada	0	0	0	
	43. Other Countries	0	0	0	
	44. Totals	41,532,361	41,532,361	22,016,447	
Banks, Trust and Insurance Companies (unaffiliated)	45. United States	34,213,443	34,213,443	9,794,743	
	46. Canada	0	0	0	
	47. Other Countries	0	0	0	
	48. Totals	34,213,443	34,213,443	9,794,743	
Industrial and Miscellaneous (unaffiliated)	49. United States	162,383,257	162,383,257	84,280,448	
	50. Canada	0	0	0	
	51. Other Countries	0	0	0	
	52. Totals	162,383,257	162,383,257	84,280,448	
Parent, Subsidiaries and Affiliates	53. Totals	418,698,094	418,698,094	145,688,624	
	54. Total Common Stocks	656,827,155	656,827,155	261,780,262	
	55. Total Stocks	656,827,155	656,827,155	261,780,262	
	56. Total Bonds and Stocks	1,227,222,409	1,227,054,316	838,982,603	

SCHEDULE D - VERIFICATION BETWEEN YEARS

Bonds and Stocks

1. Book/adjusted carrying value of bonds and stocks, prior year.....	1,183,461,872	7. Amortization of premium.....	2,658,802
2. Cost of bonds and stocks acquired, Column 7, Part 3	180,765,494	8. Foreign Exchange Adjustment:	
3. Accrual of discount.....	262,620	8.1 Column 15, Part 1	0
4. Increase (decrease) by adjustment:.....		8.2 Column 19, Part 2, Sec. 1.....	0
4.1 Columns 12 - 14, Part 1.....	0	8.3 Column 16, Part 2, Sec. 2	0
4.2 Columns 15 - 17, Part 2, Sec. 1.....	0	8.4 Column 15, Part 4	0
4.3 Column 15, Part 2, Sec. 2.....	83,674,603	9. Book/adjusted carrying value at end of current period	1,227,222,409
4.4 Columns 11 - 13, Part 4	(31,213,079)	10. Total valuation allowance	0
5. Total gain (loss), Column 19, Part 4	38,934,479	11. Subtotal (Lines 9 plus 10)	1,227,222,409
6. Deduct consideration for bonds and stocks disposed of Column 7, Part 4	226,004,778	12. Total nonadmitted amounts	1,166,551
		13. Statement value of bonds and stocks, current period	1,226,055,858

ANNUAL STATEMENT FOR THE YEAR 2006 OF THE RLI INSURANCE COMPANY

**SCHEDULE P - ANALYSIS OF LOSSES AND LOSS EXPENSES
SCHEDULE P - PART 1 - SUMMARY**

(\$000 Omitted)

Years in Which Premiums Were Earned and Losses Were Incurred	Premiums Earned			Loss and Loss Expense Payments								12 Number of Claims Reported - Direct and Assumed
	1 Direct and Assumed	2 Ceded	3 Net (Cols. 1 - 2)	Loss Payments		Defense and Cost Containment Payments		Adjusting and Other Payments		10 Salvage and Subrogation Received	11 Total Net Paid (Cols. 4 - 5 + 6 - 7 + 8 - 9)	
				4 Direct and Assumed	5 Ceded	6 Direct and Assumed	7 Ceded	8 Direct and Assumed	9 Ceded			
1. Prior	XXX	XXX	XXX	5,625	2,337	1,384	958	52	2	0	3,764	XXX
2. 1997	195,548	100,704	94,844	70,095	47,394	5,636	2,255	2,590	27	4,125	28,645	XXX
3. 1998	212,001	108,863	103,138	63,251	32,911	5,980	2,385	3,767	220	4,835	37,482	XXX
4. 1999	241,293	101,238	140,055	172,750	116,874	13,197	5,397	7,378	777	9,176	70,277	XXX
5. 2000	307,640	132,968	174,672	219,427	139,334	18,822	8,932	10,379	1,569	9,566	98,793	XXX
6. 2001	366,749	163,454	203,295	155,747	74,833	19,625	6,930	12,356	2,047	18,150	103,918	XXX
7. 2002	405,737	182,110	223,627	195,611	123,432	39,741	16,996	12,160	1,581	16,542	105,503	XXX
8. 2003	392,381	141,618	250,763	139,267	64,139	16,509	4,191	11,560	692	13,144	98,314	XXX
9. 2004	368,887	120,265	248,622	84,107	19,830	10,354	1,315	10,037	139	14,936	83,214	XXX
10. 2005	348,937	125,505	223,432	80,478	43,191	4,898	929	7,037	205	1,333	48,088	XXX
11. 2006	349,351	121,380	227,971	16,029	2,639	858	270	3,687	41	456	17,624	XXX
12. Totals	XXX	XXX	XXX	1,202,387	666,914	137,004	50,558	81,003	7,300	92,263	695,622	XXX

	Losses Unpaid				Defense and Cost Containment Unpaid				Adjusting and Other Unpaid		23 Salvage and Subrogation Anticipated	24 Total Net Losses and Expenses Unpaid	25 Number of Claims Outstanding - Direct and Assumed
	Case Basis		Bulk + IBNR		Case Basis		Bulk + IBNR		21 Direct and Assumed	22 Ceded			
	13 Direct and Assumed	14 Ceded	15 Direct and Assumed	16 Ceded	17 Direct and Assumed	18 Ceded	19 Direct and Assumed	20 Ceded					
1.	24,562	14,946	20,591	5,500	2,639	1,335	2,797	1,217	457	7	0	28,041	XXX
2.	5,912	4,908	4,010	2,037	718	1,149	819	261	106	1	0	3,209	XXX
3.	1,940	1,545	3,798	1,915	398	110	687	265	243	0	11	3,231	XXX
4.	2,480	204	15,643	11,711	1,038	217	1,819	1,536	357	0	95	7,669	XXX
5.	3,665	1,680	15,408	10,892	1,194	470	2,161	1,541	398	0	458	8,243	XXX
6.	10,953	5,925	12,525	7,281	2,521	1,706	2,320	1,057	391	26	209	12,715	XXX
7.	13,311	7,984	30,420	16,797	3,955	2,431	3,996	1,988	478	22	1,066	22,938	XXX
8.	26,441	13,138	24,625	11,945	3,740	1,635	4,611	2,306	950	91	1,732	31,252	XXX
9.	33,424	10,543	49,541	22,618	4,535	1,038	9,612	3,754	1,573	42	4,124	60,690	XXX
10.	53,618	20,339	71,683	30,202	5,057	1,327	7,626	3,385	3,314	283	5,628	85,762	XXX
11.	44,545	11,303	96,389	48,554	2,525	609	10,688	5,333	7,298	379	8,828	95,267	XXX
12. Totals	220,851	92,515	344,633	169,452	28,320	12,027	47,136	22,643	15,565	851	22,151	359,017	XXX

	Total Losses and Loss Expenses Incurred			Loss and Loss Expense Percentage (Incurred/Premiums Earned)			Nontabular Discount		34 Inter-Company Pooling Participation Percentage	Net Balance Sheet Reserves After Discount	
	26 Direct and Assumed	27 Ceded	28 Net	29 Direct and Assumed	30 Ceded	31 Net	32 Loss	33 Loss Expense		35 Losses Unpaid	36 Loss Expenses Unpaid
1.	XXX	XXX	XXX	XXX	XXX	XXX	0	0	XXX	24,707	3,334
2.	89,886	58,032	31,854	46.0	57.6	33.6	0	0		2,977	232
3.	80,064	39,351	40,713	37.8	36.1	39.5	0	0		2,278	953
4.	214,662	136,716	77,946	89.0	135.0	55.7	0	0		6,208	1,461
5.	271,454	164,418	107,036	88.2	123.7	61.3	0	0		6,501	1,742
6.	216,438	99,805	116,633	59.0	61.1	57.4	0	0		10,272	2,443
7.	299,672	171,231	128,441	73.9	94.0	57.4	0	0		18,950	3,988
8.	227,703	98,137	129,566	58.0	69.3	51.7	0	0		25,983	5,269
9.	203,183	59,279	143,904	55.1	49.3	57.9	0	0		49,804	10,886
10.	233,711	99,861	133,850	67.0	79.6	59.9	0	0		74,760	11,002
11.	182,019	69,128	112,891	52.1	57.0	49.5	0	0		81,077	14,190
12. Totals	XXX	XXX	XXX	XXX	XXX	XXX	0	0	XXX	303,517	55,500

Note: Parts 2 and 4 are gross of all discounting, including tabular discounting. Part 1 is gross of only nontabular discounting, which is reported in Columns 32 and 33 of Part 1. The tabular discount, if any, is reported in the Notes to Financial Statements which will reconcile Part 1 with Parts 2 and 4.

ANNUAL STATEMENT FOR THE YEAR 2006 OF THE RLI INSURANCE COMPANY

SCHEDULE P - PART 2 - SUMMARY

Years in Which Losses Were Incurred	INCURRED NET LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES REPORTED AT YEAR END (\$000 OMITTED)										DEVELOPMENT	
	1	2	3	4	5	6	7	8	9	10	11	12
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	One Year	Two Year
1. Prior	123,006	114,529	107,893	94,270	86,100	79,958	72,591	75,852	79,201	81,001	1,800	5,149
2. 1997	30,841	31,113	32,358	30,869	30,496	33,731	29,722	30,019	30,254	29,186	(1,068)	(833)
3. 1998	XXX	41,187	41,004	47,785	48,442	47,141	43,251	41,503	38,420	36,923	(1,497)	(4,580)
4. 1999	XXX	XXX	61,140	64,677	71,859	65,906	73,616	76,537	77,014	70,988	(6,026)	(5,549)
5. 2000	XXX	XXX	XXX	83,721	90,940	88,177	102,010	101,621	99,535	97,828	(1,707)	(3,793)
6. 2001	XXX	XXX	XXX	XXX	101,261	119,052	102,621	105,930	109,054	105,959	(3,095)	29
7. 2002	XXX	XXX	XXX	XXX	XXX	115,766	122,285	116,700	116,390	117,406	1,016	706
8. 2003	XXX	XXX	XXX	XXX	XXX	XXX	144,650	135,722	126,572	117,839	(8,733)	(17,883)
9. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	131,315	125,898	132,475	6,577	1,160
10. 2005	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	119,077	123,987	4,910	XXX
11. 2006	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	102,326	XXX	XXX
12. Totals											(7,823)	(25,594)

SCHEDULE P - PART 3 - SUMMARY

Years in Which Losses Were Incurred	CUMULATIVE PAID NET LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES REPORTED AT YEAR END (\$000 OMITTED)										11	12
	1	2	3	4	5	6	7	8	9	10	Number of Claims Closed With Loss Payment	Number of Claims Closed Without Loss Payment
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006		
1. Prior	000	19,543	28,289	34,716	38,116	42,089	44,213	48,554	49,696	53,410	XXX	XXX
2. 1997	5,303	11,010	17,898	19,514	22,671	24,004	23,616	25,288	25,798	26,082	XXX	XXX
3. 1998	XXX	7,114	15,309	21,102	27,896	30,942	31,734	33,684	33,795	33,935	XXX	XXX
4. 1999	XXX	XXX	13,387	31,561	44,222	53,389	57,096	61,408	63,380	63,676	XXX	XXX
5. 2000	XXX	XXX	XXX	23,917	53,530	73,352	80,238	86,300	89,100	89,983	XXX	XXX
6. 2001	XXX	XXX	XXX	XXX	26,802	51,611	67,943	82,182	90,132	93,609	XXX	XXX
7. 2002	XXX	XXX	XXX	XXX	XXX	25,234	44,116	70,923	86,285	94,924	XXX	XXX
8. 2003	XXX	XXX	XXX	XXX	XXX	XXX	28,125	54,984	76,073	87,446	XXX	XXX
9. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	20,818	51,319	73,316	XXX	XXX
10. 2005	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	18,913	41,256	XXX	XXX
11. 2006	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	13,978	XXX	XXX

SCHEDULE P - PART 4 - SUMMARY

Years in Which Losses Were Incurred	BULK AND IBNR RESERVES ON NET LOSSES AND DEFENSE AND COST CONTAINMENT EXPENSES REPORTED AT YEAR END (\$000 OMITTED)									
	1	2	3	4	5	6	7	8	9	10
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
1. Prior	80,319	70,861	62,432	46,719	33,469	24,302	14,452	14,546	15,837	16,671
2. 1997	21,152	14,021	11,735	8,000	5,382	7,709	3,525	3,634	3,400	2,531
3. 1998	XXX	22,013	12,786	17,186	16,100	14,897	8,825	6,479	3,972	2,305
4. 1999	XXX	XXX	39,240	19,501	18,428	3,372	9,834	9,139	11,315	4,215
5. 2000	XXX	XXX	XXX	42,604	19,141	2,410	10,981	10,332	6,474	5,136
6. 2001	XXX	XXX	XXX	XXX	54,876	48,673	18,548	12,413	11,145	6,507
7. 2002	XXX	XXX	XXX	XXX	XXX	60,502	46,070	25,100	18,425	15,631
8. 2003	XXX	XXX	XXX	XXX	XXX	XXX	77,376	40,869	28,521	14,985
9. 2004	XXX	XXX	XXX	XXX	XXX	XXX	XXX	58,967	38,493	32,781
10. 2005	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	57,285	45,722
11. 2006	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	53,190

ANNUAL STATEMENT FOR THE YEAR 2006 OF THE RLI INSURANCE COMPANY

SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN

Allocated by States and Territories

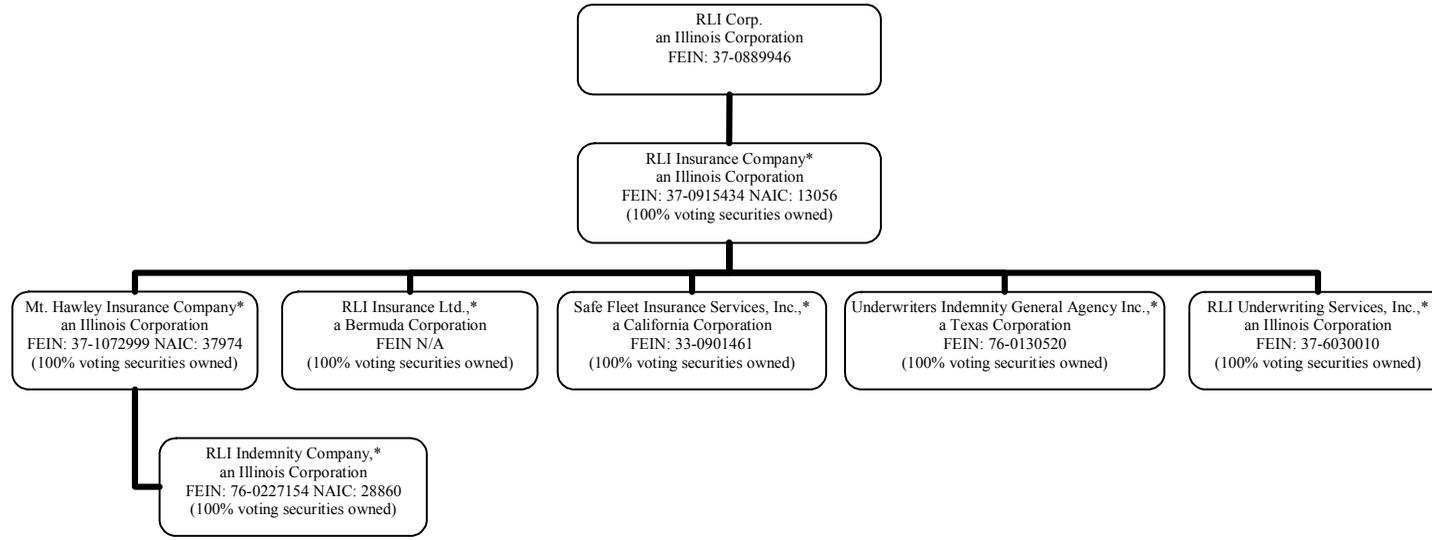
States, etc.	1 Is Insurer Licensed? (Yes or No)	Gross Premiums, Including Policy and Membership Fees Less Return Premiums and Premiums on Policies Not Taken		4 Dividends Paid or Credited to Policyholders on Direct Business	5 Direct Losses Paid (Deducting Salvage)	6 Direct Losses Incurred	7 Direct Losses Unpaid	8 Finance and Service Charges Not Included in Premiums	9 Direct Premium Written for Federal Purchasing Groups (Included in Col. 2)	
		2 Direct Premiums Written	3 Direct Premiums Earned							
1. Alabama	AL	Yes	2,591,440	2,914,303	0	319,963	1,247,608	3,827,002	0	739
2. Alaska	AK	Yes	595,160	664,191	0	(17,500)	223,252	855,226	0	0
3. Arizona	AZ	Yes	7,175,818	6,445,582	0	1,043,225	1,664,242	4,673,136	0	8,647
4. Arkansas	AR	Yes	1,617,614	1,482,718	0	3,062,137	2,520,376	7,019,519	0	5,370
5. California	CA	Yes	31,166,863	35,118,039	0	14,132,648	12,760,322	69,253,656	0	108,597
6. Colorado	CO	Yes	3,550,510	3,312,837	0	380,172	813,715	2,797,913	0	10,709
7. Connecticut	CT	Yes	3,258,978	3,320,941	0	1,186,024	1,403,193	7,771,594	0	22,108
8. Delaware	DE	Yes	848,676	622,778	0	(79,313)	20,433	5,080,503	0	0
9. District of Columbia	DC	Yes	789,091	748,331	0	1,764,120	(17,605)	837,843	0	3,674
10. Florida	FL	Yes	28,765,971	29,106,869	0	6,578,211	9,707,250	36,665,858	0	50,619
11. Georgia	GA	Yes	7,594,881	7,830,474	0	1,958,265	725,194	9,112,673	0	16,479
12. Hawaii	HI	Yes	14,717,479	13,530,887	0	2,156,536	2,292,078	4,249,487	0	0
13. Idaho	ID	Yes	871,597	732,801	0	12,631	255,624	783,940	0	10,655
14. Illinois	IL	Yes	9,311,788	10,829,403	0	2,303,339	3,068,700	41,242,129	0	60,327
15. Indiana	IN	Yes	3,704,848	3,975,279	0	124,438	1,040,376	6,403,749	0	8,805
16. Iowa	IA	Yes	657,586	554,689	0	23,640	348,281	1,979,248	0	253
17. Kansas	KS	Yes	769,823	820,204	0	1,200,878	(242,996)	1,308,678	0	0
18. Kentucky	KY	Yes	3,961,581	5,988,031	0	3,728,465	4,351,301	10,158,010	0	0
19. Louisiana	LA	Yes	6,359,824	6,090,139	0	2,661,269	1,989,468	9,533,886	0	528
20. Maine	ME	Yes	1,044,441	1,042,792	0	41,996	179,741	877,370	0	58
21. Maryland	MD	Yes	4,395,959	4,692,199	0	970,288	1,243,503	3,169,554	0	882
22. Massachusetts	MA	Yes	4,859,044	4,778,331	0	18,080,714	3,368,840	13,921,265	0	57,005
23. Michigan	MI	Yes	6,244,921	6,670,545	0	801,823	1,052,231	8,471,186	0	31,670
24. Minnesota	MN	Yes	3,225,401	3,608,741	0	6,720,517	1,868,245	5,498,226	0	41,926
25. Mississippi	MS	Yes	2,988,730	3,210,041	0	3,539,517	2,605,127	6,874,996	0	293
26. Missouri	MO	Yes	5,422,298	4,932,436	0	5,583,178	2,319,606	9,047,155	0	2,500
27. Montana	MT	Yes	841,641	995,013	0	9,392	221,307	933,060	0	0
28. Nebraska	NE	Yes	1,069,269	1,036,664	0	291,427	310,018	1,182,013	0	2,500
29. Nevada	NV	Yes	3,184,826	2,257,599	0	557,669	1,052,973	8,445,993	0	5,698
30. New Hampshire	NH	Yes	1,285,570	1,519,284	0	4,792	578,763	2,391,950	0	0
31. New Jersey	NJ	Yes	17,996,973	16,821,430	0	7,434,167	9,223,737	25,851,955	0	127,030
32. New Mexico	NM	Yes	1,423,007	1,494,747	0	193,926	387,404	1,577,798	0	0
33. New York	NY	Yes	46,756,092	47,866,014	0	40,796,883	11,193,147	66,768,585	0	526,785
34. North Carolina	NC	Yes	3,696,356	4,448,885	0	9,506,593	(580,124)	4,914,918	0	2,669
35. North Dakota	ND	Yes	235,956	568,913	0	(6,358)	(234,619)	1,048,993	0	0
36. Ohio	OH	Yes	8,136,137	7,928,609	0	3,512,790	1,665,620	9,976,412	0	74,578
37. Oklahoma	OK	Yes	2,552,283	2,215,978	0	834,586	3,010,065	5,526,894	0	0
38. Oregon	OR	Yes	2,124,854	2,144,734	0	21,263	1,212,576	3,841,435	0	535
39. Pennsylvania	PA	Yes	12,420,753	13,021,313	0	2,533,128	6,066,555	21,696,224	0	62,896
40. Rhode Island	RI	Yes	892,184	876,096	0	(15,953)	58,548	1,363,916	0	0
41. South Carolina	SC	Yes	2,499,555	2,163,150	0	1,146,529	656,151	3,407,017	0	556
42. South Dakota	SD	Yes	262,460	326,002	0	202,761	110,990	644,345	0	0
43. Tennessee	TN	Yes	8,515,973	9,091,568	0	2,416,291	3,223,422	16,173,543	0	7,632
44. Texas	TX	Yes	25,929,451	27,572,822	0	30,145,822	21,342,521	55,049,252	0	7,062
45. Utah	UT	Yes	330,087	520,724	0	975,765	(1,055,557)	777,962	0	0
46. Vermont	VT	Yes	517,199	468,820	0	742	71,212	232,625	0	10
47. Virginia	VA	Yes	4,805,367	4,293,732	0	1,662,414	870,003	4,125,097	0	40,011
48. Washington	WA	Yes	6,465,842	6,437,425	0	662,360	1,644,379	8,972,910	0	0
49. West Virginia	WV	Yes	996,810	1,233,507	0	40,375	803,834	1,170,318	0	0
50. Wisconsin	WI	Yes	6,839,987	7,146,649	0	1,770,149	3,685,827	10,295,970	0	148,631
51. Wyoming	WY	Yes	361,049	341,485	0	150,000	(15,217)	286,586	0	2,237
52. American Samoa	AS	No	0	0	0	0	0	0	0	0
53. Guam	GU	No	0	0	0	0	0	0	0	0
54. Puerto Rico	PR	Yes	1,049,088	761,195	0	90,367	472,889	383,358	0	0
55. U.S. Virgin Islands	VI	No	0	0	0	0	0	0	0	0
56. Northern Mariana Islands	MP	No	0	0	0	0	0	0	0	0
57. Canada	CN	No	0	0	0	0	0	0	0	0
58. Aggregate other alien	OT	XXX	14,029,969	12,498,451	0	922,727	5,786,688	8,716,260	0	0
59. Totals	(a) 52		331,709,060	339,074,390	0	184,137,788	128,571,217	537,169,191	0	1,450,674
DETAILS OF WRITE-INS										
5801. Federal Lands & Waters	XXX		14,029,969	12,498,451	0	922,727	5,786,688	8,716,260	0	0
5802.	XXX		0	0	0	0	0	0	0	0
5803.	XXX		0	0	0	0	0	0	0	0
5898. Summary of remaining write-ins for Line 58 from overflow page	XXX		0	0	0	0	0	0	0	0
5899. Totals (Lines 5801 through 5803 + 5898) (Line 58 above)	XXX		14,029,969	12,498,451	0	922,727	5,786,688	8,716,260	0	0

(a) Insert the number of yes responses except for Canada and Other Alien.

Explanation of basis of allocation of premiums by states, etc.

Other Liability and Products Liability - location of the insured; Directors & Officers (included in Other Liability) - location of the insured; Other Commercial Auto Liability - state of domicile; Commercial Auto - states where they are titled & licensed; Fidelity and Surety - state in which obligation exists; Ocean Marine - state where the company is headquartered, unless there is specific fixed property which is allocated to the state where the property is located; Fire, Allied Lines, Homeowners Multi-Peril, Commercial Multi-Peril, Inland Marine, Earthquake, Burglary & Theft, and Boiler & Machinery - state of the property locations; General Program (included in Other Liability and Fire), @Home Business (included in Other Liability), and Personal Umbrella (included in Other Liability) - location where the risk resides.

SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP
PART 1 - ORGANIZATIONAL CHART



*Financial Statements are fully consolidated with RLI Corp.