

REPORT OF LIMITED SCOPE EXAMINATION
OF THE
MUNICIPAL MUTUAL INSURANCE COMPANY
AS OF
JUNE 30, 2006


Insurance Commissioner
FILED 9-7-2006

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San Francisco, California
August 28, 2006

Honorable John Garamendi
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of

MUNICIPAL MUTUAL INSURANCE COMPANY

(also referred to as the Company) at its home office located at 560 First Street, Suite C105, Benicia, California 94510.

SCOPE OF EXAMINATION

This is a limited scope examination as of June 30, 2006. The principal area examined was a review of the June 30, 2006 Statement of Financial Condition as prepared by the Company.

SUMMARY OF SIGNIFICANT FINDINGS

As of June 30, 2006, the Company reported surplus as regards policyholders of \$24,199 and is insolvent pursuant to California Insurance Code Section 985.

Since July 2003, the Company has been running-off its existing business under the supervision of the commissioner pursuant to CIC Section 739.6(b)(2), which states that the commissioner shall take those actions as are necessary to place the insurer under regulatory control, or, in the case of an insurer which is writing no business and is running-off its existing business, may allow the insurer to continue its run-off under the supervision of the commissioner.

Due to losses in its workers' compensation line, the Company ceased writing this line April 1, 2003. On April 3, 2003, the Company gave notice to its sole producer of workers' compensation insurance that it would cease accepting applications for insurance immediately.

At its regularly scheduled board of directors meeting on April 10, 2003, a resolution was passed to cease writing any new or renewal insurance business, except those that are statutorily or contractually mandated. It further resolved that the Company shall not resume its business writings without obtaining prior approval from the California Department of Insurance.

MANAGEMENT AND CONTROL

The Company has been in run-off under the supervision of a Special Deputy Insurance Commissioner ("SDIC"), who was appointed by the Insurance Commissioner. Dennis Gary Evans, the former President and Chief Executive Officer of the Company, has been managing the run-off in conjunction with the SDIC.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write workers' compensation, liability and other insurance in the State of California only. All of the business written was municipal liability coverage on California governmental agencies until January 1, 2000, at which time they entered the workers' compensation market. The Company ceased writing in 2003 and has been in run-off.

REINSURANCE

Assumed

The Company does not assume business.

Ceded

The following is a schedule of the treaties in run-off since June 2003:

Line of Business and Type of Contract	Reinsurer's Name and Percentage of Participation	Company's Retention	Reinsurers' Maximum Limits
Workers' Compensation Per Occurrence Excess of Loss 2002			
1 st Layer Excess of Loss	Workers' Compensation Alternative Facility which is made up of 7 reinsurers lead by Houston Casualty Company	\$500,000	\$500,000 each loss occurrence
2 nd Layer Excess of Loss	Alea North America Insurance Company	\$1 million	\$4 million each loss occurrence
3 rd Layer Excess of Loss	Folksamerica Reinsurance Company and Hartford Fire Insurance Company	\$5 million	\$5 million each loss occurrence
Casualty Excess of Loss	American Safety Casualty Insurance Company	\$250,000 before reinsurance and \$250,000 after reinsurance	\$500,000 each loss occurrence

All the participating reinsurers are admitted and authorized in the State of California.

FINANCIAL STATEMENT

The financial statement prepared for this report is as follows:

Statement of Financial Condition as of June 30, 2006

Statement of Financial Condition
as of June 30, 2006

Assets

		<u>Notes</u>
Cash	\$ 920,171	(1)
Premiums receivable	48,751	
Amounts recoverable from reinsurers	<u>358,077</u>	
 Total admitted assets	 <u>\$1,326,999</u>	

Liabilities, Surplus and Other Funds

Loss and loss adjustment expense reserves	\$1,230,300	(2)
Unearned premiums	0	
Accrued expenses	<u>72,500</u>	
 Total liabilities	 1,302,800	
 Gross paid-in and contributed surplus	 \$10,000,000	
Unassigned surplus	<u>(9,975,801)</u>	
 Surplus as regards policyholders	 <u>24,199</u>	
 Total liabilities, surplus and other funds	 <u>\$1,326,999</u>	

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Cash

Pursuant to the June 30, 2006 bank statements, the Company has balances at Union Bank of California and Bank of the West.

(2) Losses and Loss Adjustment Expense Reserves

The balance reported by the Company as of June 30, 2006 consists of case loss and loss adjustment expense reserves and it did not include any incurred but not reported reserves.

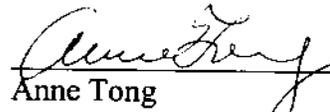
CONCLUSION

As of June 30, 2006, the Company reported surplus as regards policyholders of \$24,199 and is insolvent under the definition of California Insurance Code Section 985.

ACKNOWLEDGEMENT

Acknowledgement is made of the cooperation and assistance extended by Dennis Gary Evans during the course of this examination.

Respectfully submitted,



Anne Tong
Examiner-In-Charge
Senior Insurance Examiner - Supervising
California Department of Insurance