

REPORT OF EXAMINATION  
OF THE  
UNIAO PORTUGUESA PROTECTORA  
DO ESTADO DA CALIFORNIA  
(U.P.P.E.C.)  
AS OF  
DECEMBER 31, 2005

Filed June 27, 2007

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San Francisco, California  
May 4, 2007

Honorable Steve Poizner  
Insurance Commissioner  
California Department of Insurance  
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

UNIAO PORTUGUESA PROTECTORA DO ESTADO DA CALIFORNIA  
(U.P.P.E.C.)

(also referred to as the Society) at its home office located at 1229 B Street, Hayward, California 94541.

SCOPE OF EXAMINATION

The previous examination of the Society was made as of December 31, 2002. This examination covers the period from January 1, 2003 through December 31, 2005. The present examination included a review of the Society's practices and procedures, examination of the management records, tests and analyses of detailed transactions, an evaluation of assets, and a determination of liabilities as of December 31, 2005, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Society's operations were reviewed including the following areas that require no further comment: Society history; corporate records; fidelity bonds and other insurance; growth of Society; business in force by states; mortality and loss experience; accounts and records; and sales and advertising.

## MANAGEMENT AND CONTROL

The legislative and governing body of the Society is the Supreme Council. The Supreme Council consists of supreme officers, ex-supreme presidents and delegates elected by their respective subordinate councils. Annual conventions are held in the month of September. During the annual convention, the supreme directors, officers and finance committee members are elected to serve a one-year term. A majority of delegates constitutes a quorum; two-thirds of the delegates present are needed to amend the Society's constitution, and a majority is sufficient for the passing of all other acts.

Each subordinate council in good standing is entitled to representation at the annual convention on the basis of one delegate for every forty-five members or fraction of ten. Each council is entitled to one junior delegate. A member who holds the elected office of council secretary and meets the eligibility requirements to be a delegate to the Supreme Council shall be elected as a delegate in addition to the total number of entitled delegates.

Between sessions of the Supreme Council, management is vested in a seven-member supreme board of directors and the supreme officers. Six supreme directors and other supreme officers are elected at the annual convention. The retiring supreme president automatically becomes the seventh member of the supreme board of directors. Five directors meeting in session constitutes a quorum for conducting business. The supreme officers also attend such meeting as nonvoting members. The finance committee meets and audits the books of the Society on the day of the monthly meeting.

Directors and officers elected at the 2005 annual convention and serving at December 31, 2005 were as follows:

Board of Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Geraldine E. Alves Los Banos, California	Clerk City of Los Banos
Rose S. Anderson Hayward, California	Retired
Nancy A. Cunha Visalia, California	Retired
Virginia B. Espinola Chowchilla, California	Retired
Felicie M. Marshall Oakland, California	Program Technician State of California
Adeline F. Silva Sunnyvale, California	Childcare Provider
Linda L. Whaley Manteca, California	Retired

Principal Officers

<u>Name</u>	<u>Title</u>
Deolinda L. Pedreiro	Supreme President
Ailene T. Cardoza	Supreme Vice President
Lidia M. Mata	Supreme Secretary
Carol A. Bates	Supreme Treasurer
John R. Miller	Actuary

TERRITORY AND PLAN OF OPERATION

The Society operates under a lodge system as described under Division 2, Part 2, Chapter 10, of the California Insurance Code. It is licensed to transact life and annuity business in the State of California. It has 69 subordinate councils. During 2005, premiums and annuity considerations

totaled \$533,812, of which, 32% was life premiums and the remaining 68% was annuity premiums.

Business is produced through the Society's office staff (including one licensed agent) and subordinate council members. For every life insurance policy approved, the Society pays the recommending council member a one-time cash award gift, which is 50% of the first year premium payment, less per capita and council dues. For annual premium and single premium annuities, the cash award is 2% and 1.5%, respectively, of the first year premium. The maximum cash award gift per policy is \$250.

All operating functions are performed at the Society's home office located in Hayward, California.

All premiums, dues and assessments are collected at the Society's home office on a quarterly, semi-annual, or annual basis. Subordinate council dues are returned to the subordinate council quarterly.

## REINSURANCE

### Assumed

The Society did not assume any reinsurance during the examination period.

### Ceded

The Society has reinsurance agreements with Optimum Re Insurance Company (Optimum) of Dallas, Texas, an admitted insurer in California. The agreements were: (1) bulk reinsurance, which covers accidental death policies and riders and (2) automatic yearly renewable term (YRT), which automatically cedes to Optimum all excess coverages on life and waiver of premium benefits.

Under the bulk reinsurance agreement, the Society's retention was zero. The reinsurance limit was \$300,000 per life. The agreement covers policies issued January 1, 1993 and after.

Under the YRT agreement, the retention and reinsurance limits were as follows:

	<u>Life</u>	<u>Waiver of Premium</u>
The Society's Retention	\$10,000	Amount associated with life risk retained to a maximum life risk of \$10,000
Automatic Reinsurance Limit per life	4x's the Society's retention to a maximum of \$40,000	Amount associated with life risk ceded to the maximum life risk of \$40,000
Facultative Reinsurance Limit per life	\$1 million	\$1 million
Jumbo Limit	\$1 million	\$1 million
Minimum Cession	\$1,000	\$1,000

### FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2005

Summary of Operations and Surplus Account for the Year Ended December 31, 2005

Reconciliation of Surplus from December 31, 2002 through December 31, 2005

Statement of Financial Condition  
as of December 31, 2005

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Note</u>
Bonds	\$ 9,105,313	\$	\$ 9,105,313	(1)
Preferred stocks	1,158		1,158	
Common stocks	1,889,231		1,889,231	
Real estate	74,297		74,297	
Certificate loans and liens	8,309		8,309	
Cash and short-term investments	1,120,406		1,120,406	
Electronic data processing equipment	27,841	27,841		
Life insurance premiums and annuity considerations deferred and uncollected on in force business	5,582		5,582	
Investment income due and accrued	143,415		143,415	
Other assets nonadmitted	16,630	16,630		
Aggregate write-ins for other than invested assets	<u>7,229</u>	<u>7,229</u>		
Total assets	<u>\$12,399,411</u>	<u>\$ 51,700</u>	<u>\$12,347,711</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Aggregate reserve for life certificates and contracts			\$ 9,252,565	(2)
Contract claims: Life			58,211	
Premiums and annuity considerations received in advance			38,179	
Interest maintenance reserve			488,294	
General expenses due and accrued			35,478	
Taxes, licenses and fees due and accrued			24	
Amounts withheld or retained by Society as agent or trustee			73	
Asset valuation reserve			<u>202,532</u>	
Total liabilities			10,075,356	
Aggregate write-ins for surplus funds:				
Unassigned funds		<u>\$2,272,355</u>		
Total surplus and other funds			<u>2,272,355</u>	
Total liabilities, surplus and other funds			<u>\$12,347,711</u>	

Summary of Operations and Surplus Account  
for the Year Ended December 31, 2005

Summary of Operations

Premiums and annuity considerations	\$ 533,327
Net investment income	570,492
Amortization of interest maintenance reserve	66,823
Aggregate write-ins for miscellaneous income	<u>21,844</u>
Total	<u>1,192,486</u>
Deduct:	
Death benefits	100,008
Matured endowments	3,469
Annuity and old age benefits	507,965
Surrender benefits	21,037
Interest on certificate or contract funds	57,697
Increase in aggregate reserve for life and accident and health certificates and contracts	(42,331)
Commissions on premiums, annuity considerations and deposit-type contract funds	5,016
General insurance expenses and fraternal expenses	616,802
Insurance taxes, licenses and fees	<u>23,341</u>
Total	<u>1,293,004</u>
Net loss	<u>\$ (100,518)</u>

Surplus Account

Surplus, December 31, 2004	<u>\$2,271,530</u>
Net loss	(100,518)
Change in unrealized capital gains	110,024
Change in nonadmitted assets	12,293
Change in asset valuation reserve	<u>(20,974)</u>
Net change in surplus for the year	<u>825</u>
Surplus, December 31, 2005	<u><u>\$2,272,355</u></u>

Reconciliation of Surplus  
from December 31, 2002 through December 31, 2005

Surplus, December 31, 2002, per Examination			\$4,706,260
	<u>Gain in</u>	<u>Loss in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net loss	\$	\$ 648,802	
Change in unrealized capital gains	110,024		
Change in nonadmitted assets	2,944		
Change in asset valuation reserve		42,398	
Change in reserve on account of change in valuation basis	<u>                    </u>	<u>1,855,673</u>	
Total gains and losses in surplus	<u>\$112,968</u>	<u>\$2,546,873</u>	
Decrease in surplus for the period under examination			<u>(2,433,905)</u>
Surplus, December 31, 2005, per Examination			<u><u>\$2,272,355</u></u>

## COMMENTS ON FINANCIAL STATEMENT ITEM

### (1) Bonds

The Society's securities were not held at a qualified custodian as required under California Insurance Code Section 1104.9. During the examination, the Society entered into a custodial agreement and transferred all of its securities to Union Bank of California. The Society is now in compliance.

### (2) Aggregate Reserve for Life Certificates and Contracts

The Society's reserve trends were reviewed by a California Department of Insurance life actuary and found to be consistent and reasonable.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

None.

### Previous Report of Examination

Comments on Financial Statement Items – Contract Claims: Life (Page 10): It was recommended that the Society comply with CIC section 10172.5 by paying interest on death claims that are settled more than 30 days after the date of death. The Society is now in compliance.

ACKNOWLEDGMENT

The cooperation and assistance extended by the Society's officers and employees are acknowledged.

Respectfully submitted,

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Jennifer Edie, AFE  
Examiner-In-Charge  
Associate Insurance Examiner  
Department of Insurance  
State of California