

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

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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

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

(also referred to as the Society), at its home office located at 1120 East 14th Street, San Leandro, California 94577.

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, an examination of 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; officers', employees and agents' welfare and pension plans; growth of Society; business in force by states; mortality and loss experience; and accounts and records.

SUBSEQUENT EVENTS

The Society submitted an individual deferred annuity form filing with the California Department of Insurance (CDI) on May 18, 2006 to amend the Society's Plan 95 annuity to delete the provisions concerning Premium Expense Charges. This filing is currently being reviewed by the CDI's legal division.

MANAGEMENT AND CONTROL

The legislative and governing body of the Society is the Supreme Council. The Supreme Council is composed of delegates chosen as follows: those elected by the subordinate councils of U.P.E.C., the Supreme Officers and Directors, Ex-Supreme Presidents and spouses, if they are in good standing at the time of the Supreme Council session, all Supreme or Ex-Supreme Officers who held office for at least ten consecutive or cumulative years, and all of whom must have attended the majority of regular meetings held by their respective councils within the year.

All officers and directors are elected during the annual convention except the secretary-treasurer and assistant secretary-treasurer, who are elected by the board of directors.

The Society's constitution states that two-thirds of the members are a quorum at regular sessions and a majority is a quorum at special sessions. A two-thirds vote is needed to amend the constitution and a majority vote is needed to decide all other issues.

Between sessions of the Supreme Council, management is vested in a nine-member board of directors. Regular meetings are held monthly. Special meetings are held when deemed necessary by the chairman or when requested in writing by five or more directors. Directors and officers elected during 2005 and serving as of December 31, 2005 were as follows:

Board of Directors

Name and Residence

Principal Business Affiliations

Jonine C. Barreiro
Turlock, California

Retired

Dario A. Costa
Los Banos, California

Foreman

Joe F. Dias
Fresno, California

Self-Employed

Elvira M. Jones
Hanford, California

Personnel Specialist

Gilbert M. Lima
Fremont, California

Mechanical Engineer

Dr. Luiz J. Madeira
Tracy, California

Retired

Gary C. Meyer
Tracy, California

Senior Technician

Joe A. Pimentel
Sunnyvale, California

Insurance Producer

Lydia L. Wentz
Minden, Nevada

Retired

Supreme Officers

Name

Title

Egidio M. Almeida
Moses D. Lourenco
Timothy L. Borges

President
Vice President
Secretary-Treasurer

TERRITORY AND PLAN OF OPERATION

The Society operates under the lodge system as described under Division 2, Part 2, Chapter 10, of the California Insurance Code. The Society is licensed to transact life, annuity and disability business in the states of California and Nevada. It has forty subordinate councils in California and two subordinate councils in Nevada.

In 2005, 90% of premiums and annuity considerations totaling \$1,878,956 were written in California. This total includes \$376,020 (20%) of life premiums, \$1,502,478 (80%) of annuity premiums and a small amount of accident and health premiums.

There are three classes of members: active, social and honorary. Any person in good health between birth and 75 years of age is eligible to be an insured member. Juveniles at any age through the age of 15 may join, but do not have voting rights in the Society's management until they reach age 16. Social members are those who apply for social membership through the subordinate council. These members are only entitled to participate in the social activities of the local subordinate council. Honorary members are persons considered of great distinction to the Society.

As of December 31, 2005, the Society has one full-time agent and six part-time agents. Commissions range from 2% to 70% of the first year premium, depending on the type of policy sold. Renewal commissions range from 1% to 5% for 10 years. In addition to commissions, full time agents receive a base salary of \$2,000 monthly, provided they produce first year life premium income of \$625 on a monthly basis. A production incentive bonus is also paid to full time agents who meet certain requirements.

All operating functions are performed at the Society's home office. The Supreme Secretary is the chief executive officer.

REINSURANCE

Assumed

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

Ceded

Effective January 1, 2002, the Society reinsures its business (whole life) with Optimum Re Insurance Company (Optimum Re) of Dallas, Texas (an admitted insurer in California), on an automatic yearly renewable term basis. Automatic reinsurance applies to the Society's products subject to certain conditions. The Society's maximum retention on individual life is \$50,000. The Society may submit all cases not eligible for automatic coverage to Optimum Re on a facultative basis. Waiver of premiums and accidental death benefit are not reinsured under this agreement.

Also on January 1, 2002, the Society entered into a coinsurance agreement with Optimum Re covering its 10 and 20-year non-renewable level-term plans. The Society's maximum retention limit is \$50,000. The Society may submit all cases not eligible for automatic coverage to Optimum Re on a facultative basis. Waiver of premiums and accidental death benefit are not reinsured under this agreement.

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>Notes</u>
Bonds	\$25,161,518	\$	\$25,161,518	
Mortgage loans on real estate:				
First liens	5,154,845		5,154,845	
Real estate:				
Properties occupied by the Society	303,693		303,693	
Certificate loans and liens	88,127		88,127	
Cash and short-term investments	2,626,341		2,626,341	(1)
Life insurance premiums and annuity considerations deferred and uncollected	3,889		3,889	
Investment income due and accrued	425,996		425,996	
Electronic data processing equipment and software	411,944	411,944		
Other assets nonadmitted	11,246	11,246		
Aggregate write-ins for other than invested assets	<u>24,689</u>	<u>24,689</u>		
 Total assets	 <u>\$34,212,288</u>	 <u>\$ 447,879</u>	 <u>\$33,764,409</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Aggregate reserve for life certificates and contracts			\$28,138,067	(2)
Aggregate reserve for accident and health certificates			749,222	
Liability for deposit-type contracts			89,888	
Certificates and contract claims: Life			122,622	
Premiums and annuity considerations received in advance			120,034	
Interest maintenance reserve			305,362	
General expenses due and accrued			99,497	
Unearned investment income			6,868	
Amounts withheld or retained by Society as agent or trustee			7,317	
Asset valuation reserve			308,292	
Drafts outstanding			(328)	
Aggregate write-ins for liabilities			<u>26,787</u>	
 Total liabilities			 30,024,770	
 Aggregate write-ins for other than liabilities and surplus funds		 \$2,760,361		
Aggregate write-ins for surplus funds		151,813		
Unassigned funds		<u>827,465</u>		
 Total surplus and other funds			 <u>3,739,639</u>	
 Total liabilities, surplus and other funds			 <u>\$33,764,409</u>	

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

Summary of Operations

Premiums and annuity considerations	\$2,006,389
Net investment income	1,757,467
Amortization of interest maintenance reserve	10,963
Aggregate write-ins for miscellaneous income	<u>45,846</u>
Total	<u>3,820,665</u>
Deduct:	
Death benefits	189,778
Matured endowments	21,702
Annuity and old age benefits	1,615,928
Surrender benefits	158,235
Interest on deposit-type contract funds	889,707
Increase in aggregate reserve for life and accident and health certificates and contracts	218,402
Commissions on premiums and annuity considerations	29,438
General insurance expenses and fraternal expenses	1,037,697
Insurance taxes, licenses and fees	<u>40,657</u>
Total	<u>4,201,544</u>
Net loss	<u>\$ (380,879)</u>

Surplus Account

Surplus, December 31, 2004	<u>\$4,073,049</u>
Net loss	(380,879)
Change in nonadmitted assets and related items	39,281
Change in asset valuation reserve	<u>8,188</u>
Net change in surplus for the year	<u>(333,410)</u>
Surplus, December 31, 2005	<u>\$3,739,639</u>

Reconciliation of Surplus and Other Funds
from December 31, 2002 through December 31, 2005

Surplus, December 31, 2002, per Examination		\$4,399,430
	<u>Loss in Surplus</u>	
Net loss	\$383,658	
Change in nonadmitted assets	168,013	
Change in asset valuation reserve	12,520	
Change in reserve on account of change in valuation basis	<u>95,600</u>	
Total losses in surplus	<u>\$659,791</u>	
Net decrease in surplus for the examination period		<u>659,791</u>
Surplus, December 31, 2005, per Examination		<u>\$3,739,639</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Short-Term Investments

The Society held short-term investments at Wells Fargo Brokerage, which is not a qualified custodian under California Insurance Code Section 1104.9. The investments matured on March 17, 2007, and the Society has closed the account and 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 – Certificates and Contract Claims-Life – (Page 9): It was recommended that the Society comply with California Insurance Code Section 10172.5. The Society is now in compliance.

ACKNOWLEDGMENT

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

Respectfully submitted,

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