



STATE OF NEW YORK INSURANCE DEPARTMENT
REPORT ON EXAMINATION
OF THE
POLISH NATIONAL ALLIANCE OF BROOKLYN, USA

CONDITION:

DECEMBER 31, 2005

DATE OF REPORT:

AUGUST 11, 2006

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OF THE
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EXAMINER:

JOSHUA. WEISS

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

George E. Pataki
Governor

Howard Mills
Superintendent

August 11, 2006

Honorable Howard Mills
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 22481, dated March 16, 2006, and annexed hereto, an examination has been made into the condition and affairs of the Polish National Alliance of Brooklyn, USA, hereinafter referred to as "the Society," at its home office located at 155 Noble Street, Brooklyn, New York 11222.

Wherever "Department" appears in this report, it refers to the State of New York Insurance Department.

The report indicating the results of this examination is respectfully submitted.

1. EXECUTIVE SUMMARY

The examiner's review of a sample of transactions did not reveal any differences which materially affected the Society's financial condition as presented in its financial statements contained in the December 31, 2005 filed annual statement. (See item 5 of this report)

The examiner's review of the Society's market conduct activities did not reveal significant instances which deviated from the New York Insurance Law, Department regulations and circular letters and the operating rules of the Society. (See item 6 of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2002. This examination covers the period from January 1, 2003 through December 31, 2005. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2005, but prior to the date of this report (i.e., the completion date of the examination).

The examination comprised a verification of assets and liabilities as of December 31, 2005 to determine whether the Society's 2005 filed annual statement fairly presents its financial condition. The examiner reviewed the Society's income and disbursements necessary to accomplish such verification and utilized the National Association of Insurance Commissioners' Examiners Handbook or such other examination procedures, as deemed appropriate, in such review and in the review or audit of the following matters:

- Society history
- Management and control
- Fidelity bond and other insurance
- Officers' and employees' welfare and pension plans
- Territory and plan of operation
- Market conduct activities
- Growth of the Society
- Business in force by states
- Mortality and loss experience
- Reinsurance
- Accounts and records
- Financial statements

The examiner reviewed the prior report on examination which did not contain any violations, recommendations or comments.

This report on examination is confined to financial statements and comments on those matters which involve departure from laws, regulations or rules, or which require explanation or description.

3. DESCRIPTION OF SOCIETY

A. History

The Society was incorporated in 1905 as the Polish National Alliance of Brooklyn, New York. The Society received its certificate of authority to transact business in the state of New York on April 25, 1905. The name of the organization was changed to the Polish National Alliance of Brooklyn, United States of America on July 3, 1918. On May 23, 1960, the Department approved an agreement of merger and consolidation of the Society with the Polish American Aid Fund, a domestic fraternal benefit society. This merger resulted in an assumption of 5,043 members with \$2,686,187 of life insurance in force being assumed from the Polish American Aid Fund. The merger resulted in the Society attaining its peak membership of 23,792 at the end of 1960. Membership has declined every year since 1960.

The Society's financial position has been declining for many years. Surplus was reported as \$2.22 million in 2001; since then, surplus has declined steadily and was reported as \$1.07 million in 2005. Due to the declining membership and surplus position, the Society is currently in merger talks with a larger foreign Polish fraternal benefit society. The Society expects to complete the merger by the first quarter of 2007.

B. Management

The Society's by-laws provide that the board of directors shall be comprised of 11 members, five of whom shall be officers of the Society. Directors are elected for a period of four years at the quadrennial convention of the Society held in June of the quadrennial year. Meetings of the board are held six times per year.

The 11 board members and their principal business affiliation, as of December 31, 2005, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Grazyna Bober * Budd Lake, NJ	Real Estate Broker	1998
William Dobranski * Brooklyn, NY	New York City Police Officer	2002

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Rita Friend * Bayonne, NJ	Retired	1994
Jolanta Kulpa Gubernat, MD * Brooklyn, NY	Chief Medical Examiner Long Island College Hospital	1994
Halina Kalitka Maspeth, NY	Secretary Polish National Alliance of Brooklyn, USA	1990
Alexander J. Malewski, Jr. Seaford, NY	Vice President Polish National Alliance of Brooklyn, USA	1994
Christine J. McMullan Lake Hopatcong, NJ	President and Chief Executive Officer Polish National Alliance of Brooklyn, USA	1978
Michael Pajak Brooklyn, NY	Treasurer Polish National Alliance of Brooklyn, USA	1990
Wanda Senko * Hempstead, NY	Funeral Director Senko Funeral Home	1986
Rev. Joseph Szpilski Ansonia, CT	Chaplain Polish National Alliance of Brooklyn, USA	1982
Thomas Wojslawowicz * Bayonne, NJ	Teacher/Coach Bayonne High School	1994

* Not affiliated with the Society

The examiner's review of the minutes of the meetings of the board of directors and its committees indicated that meetings were well attended and that each director attended a majority of meetings.

The following is a listing of the principal officers of the Society as of December 31, 2005:

<u>Name</u>	<u>Title</u>
Christine J. McMullan*	President and Chief Executive Officer
Alexander J. Malewski, Jr.	Vice President
Michael Pajak	Treasurer
Halina Kalitka	Secretary
Rev. Joseph Szpilski	Chaplain

*Designated consumer services officer per Section 216.4(c) of Department Regulation No. 64

C. Territory and Plan of Operation

The Society is authorized to write life insurance and accident and health insurance as defined in paragraphs 1 and 3 of Section 1113(a) of the New York Insurance Law.

The Society is licensed to transact business in four states, namely Connecticut, Michigan, New Jersey, and New York. In 2005, 92% of life premiums were received from New York and 8% of life premiums were received from New Jersey. Policies are written on a participating basis.

The Society's agency operations are conducted on a general agency basis.

D. Reinsurance

As of December 31, 2005, the Society had reinsurance treaties in effect with Optimum Reinsurance, an accredited reinsurer. The Society's life insurance is ceded on a yearly renewable term basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for individual life contracts is \$30,000. The total face amount of life insurance ceded as of December 31, 2005, was \$2,304,000, which represents 13.7% of the total face amount of life insurance in force.

4. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Society during the period under examination as extracted from its filed annual statements. Failure of items to add to the totals shown in any table in this report is due to rounding.

The following table indicates the Society's financial decline during the period under review:

	<u>December 31,</u> <u>2002</u>	<u>December 31,</u> <u>2005</u>	<u>(Decrease)</u>
Admitted assets	<u>\$6,446,751</u>	<u>\$5,548,314</u>	<u>\$(898,437)</u>
Liabilities	<u>\$4,533,364</u>	<u>\$4,475,199</u>	<u>\$(58,165)</u>
Unassigned funds (surplus)	<u>1,913,387</u>	<u>1,073,115</u>	<u>(840,272)</u>
Total surplus	<u>\$1,913,387</u>	<u>\$1,073,115</u>	<u>\$(840,272)</u>
Total liabilities and surplus	<u>\$6,446,751</u>	<u>\$5,548,314</u>	<u>\$(898,437)</u>

The Society's invested assets as of December 31, 2005, were mainly comprised of bonds (39.1%), mortgage loans (23.1%), cash and short-term investments (12.7%), stocks (12.3%) and real estate (12.0%).

The majority (87.8%) of the Society's bond portfolio, as of December 31, 2005, was comprised of investment grade obligations. All of the Society's mortgage loans, as of December 31, 2005, were in good standing.

The following is the net gain (loss) from operations for insurance and fraternal operations after federal income taxes but before realized capital gains (losses) reported for each of the years under examination in the Society's filed annual statements:

	<u>2002</u>	<u>2004</u>	<u>2005</u>
Total insurance	\$(<u>261,680</u>)	\$(<u>218,689</u>)	\$(<u>222,480</u>)
Fraternal operations	\$(<u>95,975</u>)	\$(<u>88,295</u>)	\$(<u>82,776</u>)
Total	\$(<u>357,655</u>)	\$(<u>306,984</u>)	\$(<u>305,246</u>)

The continuing losses are due to a declining and aging membership. Thirty-five percent of the membership is age 70 or older. Eighty percent of the policies are paid up.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities and surplus as of December 31, 2005, as contained in the Society's 2005 filed annual statement, a condensed summary of operations and a reconciliation of the surplus account for each of the years under review. The examiner's review of a sample of transactions did not reveal any differences which materially affected the Society's financial condition as presented in its financial statements contained in the December 31, 2005 filed annual statement.

A. ASSETS, LIABILITIES, AND SURPLUS AS OF DECEMBER 31, 2005

Admitted Assets

Bonds	\$2,137,724
Stocks:	
Common stocks	675,046
Mortgage loans on real estate:	
First liens	1,265,730
Real estate:	
Properties occupied by the Society	655,990
Cash, cash equivalents and short term investments	696,833
Contract loans	41,725
Investment income due and accrued	41,244
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	606
Reinsurance:	
Amounts recoverable from reinsurers	30,000
Electronic data processing equipment and software	3,416
 Total admitted assets	 <u>\$5,548,314</u>

Liabilities and Surplus

Aggregate reserve for life policies and contracts	\$3,688,847
Liability for deposit-type contracts	519,550
Contract claims:	
Life	92,309
Contract liabilities not included elsewhere:	
Interest maintenance reserve	30,460
General expenses due or accrued	6,050
Amounts withheld or retained by society as agent or trustee	2,193
Miscellaneous liabilities:	
Asset valuation reserve	126,715
Reserve for group secretaries	<u>9,075</u>
 Total liabilities	 <u>\$4,475,199</u>
 Unassigned funds (surplus)	 <u>1,073,115</u>
Surplus	<u>\$1,073,115</u>
Total surplus	<u>\$1,073,115</u>
 Total liabilities and surplus	 <u>\$5,548,314</u>

B. CONDENSED SUMMARY OF OPERATIONS

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Premiums and considerations	\$ 62,887	\$ 96,129	\$ 70,723
Investment income	153,302	218,047	261,546
Miscellaneous income	<u>21,493</u>	<u>26,798</u>	<u>12,546</u>
Total income	\$ <u>237,682</u>	\$ <u>340,974</u>	\$ <u>344,365</u>
Benefit payments	\$ 247,287	\$ 179,577	\$ 219,062
Increase in reserves	(78,740)	18,577	2,357
Commissions	1,730	4,234	1,418
Taxes, general and fraternal expenses	<u>425,060</u>	<u>445,570</u>	<u>426,774</u>
Total deductions	\$ <u>595,337</u>	\$ <u>647,958</u>	\$ <u>649,661</u>
Net loss from operations			
before net realized capital gains	\$(357,665)	\$(306,984)	\$(305,246)
Net realized capital gains (losses)	<u>102,846</u>	<u>(5,195)</u>	<u>0</u>
Net loss	\$ <u>(254,809)</u>	\$ <u>(312,179)</u>	\$ <u>(305,246)</u>

C. SURPLUS ACCOUNT

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Surplus, December 31, prior year	\$ <u>1,913,387</u>	\$ <u>1,678,678</u>	\$ <u>1,396,814</u>
Net income	\$(254,809)	\$(312,179)	\$(305,246)
Change in net unrealized capital gains (losses)	58,629	36,057	(13,140)
Change in non-admitted assets and related items	0	0	(13,026)
Change in asset valuation reserve	(48,411)	(5,739)	7,712
Prior year adjustment	<u>9,912</u>	<u>(3)</u>	<u>0</u>
Net change in surplus for the year	\$ <u>(234,709)</u>	\$ <u>(281,864)</u>	\$ <u>(323,700)</u>
Surplus, December 31, current year	\$ <u>1,678,678</u>	\$ <u>1,396,814</u>	\$ <u>1,073,114</u>

6. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Society's market conduct activities affecting policyholders, claimants, and beneficiaries to determine compliance with applicable statutes and regulations and the operating rules of the Society.

A. Advertising and Sales Activities

The examiner reviewed the Society's advertising files and the sales activities of the agency force including trade practices, solicitation and the replacement of insurance policies.

Based upon the review, no significant findings were noted.

B. Underwriting and Policy Forms

The examiner reviewed a sample of new underwriting files, both issued and declined, and the applicable policy forms.

Based upon the sample reviewed, no significant findings were noted.

C. Treatment of Policyholders

The examiner reviewed a sample of various types of claims, surrenders, changes and lapses. The examiner also reviewed the various controls involved, checked the accuracy of the computations and traced the accounting data to the books of account.

Based upon the sample reviewed, no significant findings were noted.

Respectfully submitted,

/s/
Joshua Weiss
Associate Insurance Examiner

STATE OF NEW YORK)
)SS:
COUNTY OF NEW YORK)

Joshua Weiss, being duly sworn, deposes and says that the foregoing report, subscribed by him,
is true to the best of his knowledge and belief.

/s/
Joshua Weiss
Associate Insurance Examiner

Subscribed and sworn to before me
this _____ day of _____

APPOINTMENT NO. 22481

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, HOWARD MILLS, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

JOSHUA WEISS

as a proper person to examine into the affairs of the

POLISH NATIONAL ALLIANCE OF BROOKLYN, USA

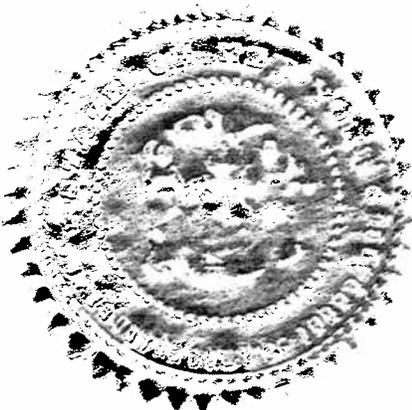
and to make a report to me in writing of the condition of the said

COMPANY

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York

this 16th day of March, 2006



A handwritten signature in black ink, appearing to read "Howard Mills", written over a horizontal line.

HOWARD MILLS

Superintendent of Insurance