THE COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

Division of Insurance

Report on the Statutory Examination of

The Paul Revere Life Insurance Company

Worcester, Massachusetts

As of December 31, 2005

NAIC GROUP CODE: <u>565</u>

NAIC COMPANY CODE: <u>67598</u>

EMPLOYERS ID NUMBER: <u>04-1768571</u>

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COMMONWEALTH OF MASSACHUSETTS
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DIVISION OF INSURANCE

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June 12, 2007

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Honorable Commissioners, Executive Director and Director:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, Section 4, an examination has been made of the financial condition and affairs as of December 31, 2005, of the

THE PAUL REVERE LIFE INSURANCE COMPANY

having its home office at 18 Chestnut Street, Worcester, Massachusetts and its administrative offices located at 1 Fountain Square, Chattanooga, Tennessee, 37402. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Paul Revere Life Insurance Company, hereinafter referred to as ("PRL" or "the Company") was last examined for the period January 1, 2000 through December 31, 2002. The current National Association of Insurance Commissioners ("NAIC") association examination covers the intervening period from January 1, 2003 through December 31, 2005, and any material transactions and/or events occurring subsequent and noted during the examination.

The current examination was conducted at the direction of, and under the overall management and control of the examination staff of the Massachusetts Division of Insurance ("the Division") representing the NAIC Northeastern Zone. The statutory examination was performed at the Company's administrative office in Chattanooga, Tennessee. Representatives from Deloitte & Touche LLP, Deloitte Consulting LLP, and Deloitte Tax (collectively called "Deloitte") were engaged by the Division to assist in the examination by performing certain examination procedures including an information systems review and an actuarial review of the Company's actuarially determined items.

This financial examination was conducted in accordance with Massachusetts General Laws ("MGL") Chapter 175, Section 4 and substantially complied with those standards established by the Financial Condition (E) Committee of the NAIC and the *NAIC Financial Condition Examiners Handbook*, and examination standards of the Division. Deloitte has applied certain procedures to selected records and transactions of the Company. Such procedures were reviewed and approved by the Division.

In addition to a review of the financial condition of the Company, the examination included a review of the Company's business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bonds and other insurance, disaster recovery plan, treatment of policyholders and other pertinent matters to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

In determining the scope of the statutory examination, after review and evaluation, the Division placed reliance on certain work papers provided by the Company's external auditors, Ernst & Young LLP. Wherever possible and wherever deemed appropriate and effective, their independent work product was used to define, support, document and expedite the overall examination process.

This examination was performed in conjunction with and concurrent with the examination of its wholly owned subsidiary, The Paul Revere Variable Annuity Insurance Company ("PRVAIC"), also a Massachusetts domestic insurance company.

Status of Findings from the Prior Examination

This examination included a review to verify the current status of exception conditions commented upon in the Report of Examination as of December 31, 2002. It was determined that the Company has addressed satisfactorily all outstanding items of comment.

HISTORY

General

The Company was incorporated under the laws of the Commonwealth of Massachusetts on June 10, 1930 and commenced business July 10, 1930. The Company was incorporated as a stock company and is authorized to write both life and accident and health insurance.

The Company is a wholly owned subsidiary of the The Paul Revere Corporation ("PRC") which in-turn is a wholly owned subsidiary of UnumProvident Corporation ("UnumProvident"), a non-insurance holding company incorporated in the State of Delaware. PRC was previously owned by Textron, Inc., until March 27, 1997 when it was acquired by the Provident Companies, Inc. UnumProvident was formed on June 30, 1999, when Unum Corporation merged with and into Provident Companies, Inc.

Common Capital Stock

The Company has issued and outstanding 1,960,000 shares of common stock, with a par value per share of $5.00. All outstanding shares are owned by the holding company, PRC. Total value of common stock as reported at December 31, 2005 by the Company is $9,800,000 and has been at this same level over the period covered by this examination.

Gross Paid-in and Contributed Surplus

In 2003, the Company received from its ultimate parent, UnumProvident, gross paid-in and contributed surplus in the amount of $130,000,000. At December 31, 2005 gross paid in and contributed capital totaled $476,415,878.

Surplus Notes

On October 21, 1997, the Company received from Provident Companies, Inc. $100 million resulting from the execution of a Surplus Note. The Surplus Note is to mature on October 1, 2027 and has a fixed interest rate of 8.25% which is paid semi-annually subject to the approval of the Insurance Commissioner of the Commonwealth of Massachusetts. For each year during the period of this examination the Insurance Commissioner of the Commonwealth of Massachusetts approved an interest payment of $8,250,000.

Dividends to Stockholder

During the period of this examination, the Company's Board of Directors declared dividends to the stockholder as follows:

Year	Dividend
2005	$ 80,000,000
2004	65,000,000
2003	0

Growth of Company

The growth of the Company since the last examination as of December 31, 2002 is illustrated in the following schedule:

Year	Premium Income	Admitted Assets	Total Liabilities	Capital and Surplus
2003	$ 718,252,240	$ 5,320,373,144	$ 4,238,958,927	$ 1,081,414,217
2004	576,161,138	5,281,316,160	4,163,545,284	1,117,770,876
2005	642,257,808	5,325,917,339	4,187,778,111	1,138,139,228

MANAGEMENT

Annual Meeting of Stockholder

The annual meeting of the stockholder shall be held within six months of the Company's fiscal year-end or, if not so held, a special meeting shall be called which shall have all of the force and effect of an annual meeting. Special meetings of the stockholder may be called by the Chairman of the Board, the President, any Vice President or the Board of Directors and shall be called by the Secretary upon written notice.

Board of Directors

At the annual meeting of the stockholder, the stockholder shall choose by ballot not fewer than five Directors, who shall hold office for one year or until their successors are elected and qualified. A majority of those Directors in attendance may transact business, and four Directors shall constitute a quorum. Vacancies may be filled by the Board of Directors by election for the unexpired term.

The following five Directors, all of which are considered inside Directors, were serving as of December 31, 2005:

Name	Business Affiliation
Robert O. Best	Executive Vice President, The Client Services Center and Chief Information Officer
Charles L. Glick	Executive Vice President and General Counsel

Robert C. Greving	Executive Vice President and Chief Financial Officer
Thomas R. Watjen	President & Chief Executive Officer
Joseph M. Zubretsky	Senior Executive Vice President Finance, Investments and Corporate Development

<u>Executive Committee</u>

When the Board of Directors is not in session, the Executive Committee shall have all the powers of the Board of Directors, except those which are vested in the Finance Committee. The Executive Committee will keep minutes of all transactions, which shall be reported to the full Board of Directors at the next meeting thereof.

At December 31, 2005, the Executive Committee consisted of the following members:

Thomas R. Watjen, Chairman
Charles L. Glick
Joseph M. Zubretsky

<u>Finance Committee</u>

In accordance with Article XI of the Company's Bylaws, the Board of Directors shall elect a Finance Committee of no fewer than two, all of whom shall be members of the Board of Directors, who shall have charge of the investment, sale, loan, or deposit of funds of the Company. At December 31, 2005, the Finance Committee consisted of the following members:

Joseph M. Zubretsky
Robert C. Greving

<u>Officers</u>

In accordance with Article VII of the Company's Bylaws, the Board of Directors shall elect a President, who shall be a member of the Board of Directors, a Vice President, a Secretary, a Treasurer, a Chief Actuary, and a Medical Director. The Board of Directors may elect a Chairman of the Board, additional vice presidents, assistant secretaries, assistant treasurers, actuaries, and such other officers may be elected as deemed necessary.

The following individuals were serving as senior officers as of December 31, 2005:

<u>Name</u>	**<u>Title</u>**
Thomas R. Watjen	President and Chief Executive Officer
Joseph M. Zubretsky	Senior Executive Vice President, Finance, Investments and Corporate Development

Robert C. Greving	Executive Vice President, Chief Financial Officer and Chief Actuary
Charles L. Glick	Executive Vice President and General Counsel
Robert O. Best	Executive Vice President, The Client Services Center and Chief Information Officer
Kevin P. McCarthy	Executive Vice President, Underwriting
Roger C. Edgren	Executive Vice President, Field Sales
Joseph R. Foley	Senior Vice President and Chief Marketing Officer
Susan N. Roth	Vice President, Corporate Secretary and Assistant General Counsel
John J. Iwanicki	Vice President and Treasurer
Albert A. Riggieri	Vice President and Appointed Actuary
Vicki W. Corbett	Vice President, Controller

<u>Conflict of Interest</u>

UnumProvident and its subsidiaries, including the Company adhere to a "Code of Conduct Policy". On an annual basis, UnumProvident requires that certain categories of employees affirm their compliance with the policy by completing a conflict of interest statement. These statements were reviewed for the period covered by the examination and no exceptions were noted.

<u>Articles of Incorporation and By-Laws</u>

The Articles of Incorporation and by-laws of the Company were read and no changes were made to these documents since the prior examination report. The prior examination report dated June 1, 2004 noted the substantive changes which the Company adopted Amended and Restated By-Laws as of April 16, 2004.

<u>Management Continuity and National Emergency</u>

The Company provides for the continuity of management in the event of a catastrophe or other emergency in accordance with sections 180M through 180Q of Chapter 175 of the Massachusetts General Laws.

<u>AFFILIATED COMPANIES</u>

The Company is a member of a holding company system with it ultimate parent UnumProvident, a non-insurance holding company incorporated in the State of Delaware, and is subject to the registration requirements of Chapter 175, Section 206C, of the Massachusetts General Laws.

The Company owns 100% of the stock of PRVAIC, incorporated under the laws of the Commonwealth of Massachusetts on August 6, 1965. PRVAIC is licensed to transact variable annuity and other insurance including life insurance. Prior to 2001, the Company also owned 100% of the stock of The Paul Revere Protective Life Insurance Company ("PRPL"), a Delaware domestic life insurance company, incorporated on August 9, 1973, licensed to transact life, health, variable annuity and credit life/health. On May 18, 2000 the Board of Directors of PRL adopted a Plan of Liquidation for PRPL and during the first quarter of 2001, PRPL merged with and into PRL. The transaction was accounted for as a statutory merger. No shares of common stock were exchanged and there was no impact on PRL's surplus.

Effective December 31, 2000, the Canadian branch operations of the Company and its affiliate, Unum Life Insurance Company of America, were consolidated into Provident Life and Accident Insurance Company's ("Provident Life") Canadian branch operation. The nature of the transaction was an assumption reinsurance agreement whereby 4,389,187 shares of Provident Life's stock were exchanged for the net value of the branch assets transferred, plus a ceding commission of $4.2 million. The Company's Canadian branch repatriated assets of $79.8 million to the Company in connection with the assumption of the Canadian branch business by Provident Life. Provident Life assumed from the Company reserves and other liabilities of $525.8 million. The gain of $4.2 million on the reinsurance transaction was deferred and will be amortized into income as earnings emerge from the business ceded. As a result of this transaction the Company has a 10.1 percent direct ownership interest in Provident Life.

Organizational Chart

An organization chart of UnumProvident and its subsidiaries and affiliates as of the examination date is as follows. The abbreviations shown in parenthesis after each entity identify its legal jurisdiction of organization/charter.

- UnumProvident Corporation (DE)
  - Unum Holding Company (DE)
    - Unum Life Insurance Company of America (ME)
    - SP Administrator, LLC (CA)
    - First Unum Life Insurance Company (NY)
    - Claims Service International, Inc., (DE)
    - Unum Development Corporation (ME)
    - Unum International Underwriters Inc., (DE)
  - Unum European Holding Company Limited ("UEHCL") (UK)
    - Unum Limited ("UL") (UK)
      - Claims Service International Limited (50% owned by UEHCL and UL) (UK)
  - Duncanson & Holt, Inc., (NY)
    - Duncanson & Holt Underwriters Ltd., (UK)

Duncanson & Holt Syndicate Management Ltd., (UK)
LRG Services Limited (UK)
Trafalgar Underwriters Agencies Ltd., (UK)
Duncanson & Holt Europe Ltd., (UK)
Duncanson & Holt Agencies, Ltd., (UK)
Duncanson & Holt Services Inc., (UK)
Duncanson & Holt Canada Ltd., (Canada)
TRI-CAN Reinsurance, Inc., (Canada)
Duncanson & Holt Asia PTE Ltd., (Singapore)
Colonial Companies, Inc., (DE)
Colonial Life & Accident Insurance Company (SC)
BenefitAmerica Inc., (SC)
Unum Japan Accident Insurance Company Limited (Japan)
Unum International Ltd., (Bermuda)
Boston Compania Argentina de Seguros S.A., (Argentina)
Boston Sequros de Vida S.A., (Argentina)
Fibos S.A., (Argentina)
Options and Choices, Inc., (WY)
Benefit Technologies, Inc., (DE)
The Paul Revere Corporation (MA)
The Paul Revere Life Insurance Company (MA)
The Paul Revere Variable Annuity Insurance Company (MA)
GENEX Services, Inc., (PA)
GENEX Services of Canada, Inc., (Canada)
Primecor, Inc., (PA)
GENEX Services Inc. of Ohio (OH)
GENEX Consultants, Inc., (NY)
Provident Life and Accident Insurance Company (TN)
Provident Life and Casualty Insurance Company (TN)
Provident Investment Management, LLC (TN)
Provident Insurance Agency, LLC (DE)

Transactions and Agreements with Affiliates

Service Agreements

UnumProvident provides the Company with facilities and managerial, administrative, and technical services pursuant to a General Services Agreement effective on March 28, 1998. Such shared costs and expenses are allocated based on time and usage studies. The company paid management fees of $58.3 million, $64.0 million, and $85.9 million for the years ended 2005, 2004 and 2003, respectively.

Provident Investment Management LLC, an affiliate, provides investment management services to the Company. The company paid investment management fees totaling $9.1 million, $9.3 million and $9.4 million for the years 2005, 2004 and 2003, respectively.

Tax Sharing Agreement

As of 12/31/2005, the Company's federal income tax return was consolidated with the following entities:

UnumProvident (ultimate parent company), Unum Life Insurance Company of America, First Unum Life Insurance Company, Colonial Life & Accident Insurance Company, Provident Life, Provident Life and Casualty Insurance Company, PRVAIC, Duncanson & Holt, Inc., Duncanson & Holt Services, Inc., Colonial Companies, Inc., Benefit America, Inc., UnumProvident International, Ltd., Options & Choices, Inc., Unum International Underwriters, Inc., GENEX Services, Inc., GENEX Services, Inc. of Ohio, GENEX Services of Canada, Inc., GENEX Consultants, Inc., PRC, Independent Review Services, Inc. and PrimeCor, Inc.

The Company is a party to a written tax sharing agreement with the consolidated group members listed above. The agreement provides that the portion of the consolidated tax liability allocated to the Company is based on its separate return tax liability. Under the agreement, additional tax benefits are allocated to the Company for its portion of net operating losses and tax credit carry forwards in the year they are used by the consolidated group.

FIDELITY BOND AND OTHER INSURANCE

The Company, along with other insurance company subsidiaries of UnumProvident, is a named insured on an Insurance Company Solutions policy. Coverages included in this policy are Directors, Officers and Entity Securities Liability; Employment Practices Liability; Fiduciary Liability; and a Blanket Bond including coverage of Fidelity, Non-Employee Agents, ERISA Plans, Property, Financial Documents, Computer/Funds Transfer, Cleanup Costs, Claims/Audit Expense, Telephone Toll Fraud and Insurance Company Professional Liability. The Company also maintains an Excess Directors' & Officers' Liability policy. The Company's fidelity coverage exceeds the NAIC suggested minimum coverage.

The Company, along with other subsidiaries within the UnumProvident group, is also named as an insured on separate property and general liability policies in force as of December 31, 2005.

STATUTORY DEPOSITS

The statutory deposits of the Company at December 31, 2005 are as follows:

Location	Type of Security	Statement Value	Market Value
Georgia	US Treasury Bond	$ 75,314	$ 75,452
Kansas	US Treasury Bond	248,013	339,160
Massachusetts	Various Bonds	1,591,249	1,868,640
New Mexico	US Treasury Bond	150,627	150,903
No. Carolina	US Treasury Bond	387,900	510,469
Virginia	US Treasury Bond	119,546	153,486
TOTALS		$ 2,572,649	$ 3,098,110

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed to transact business in all fifty (50) states, the District of Columbia and Canada. Disability insurance had been the Company's primary product line since its founding. The Company's individual disability insurance business and group disability insurance business represents approximately 97% and 2%, respectively, of the Company's total net premium. The Company continues to manage and administer existing business but no longer writes new business.

The principal product of the Company's Individual Disability Income business line is primarily traditional non-cancelable disability income insurance which is also essentially a closed block, with the only increases in coverage amounts being attributable to policy changes, upgrades, exchanges, etc. The product was marketed primarily to professionals and executives, including many physicians, lawyers, and corporate executives. These individual disability policies provide monthly benefits to policyholders for qualifying disabilities after an elimination period. The definition of disability ranges from "loss of earnings" to "inability to perform your own occupation", and benefits are generally provided until age 65 or for the policyholder's lifetime. The contracts often include optional riders such as cost of living adjustments, waiver of premium, and Social Security offsets. The policies were commonly marketed through general agents, brokerage offices, and corporate marketing arrangements.

Treatment of Policyholders - Market Conduct

Beginning in September 2003, a Multi-State Target Market Conduct Examination was initiated by the Lead State Regulators: the Division, the Maine Bureau of Insurance, and the Tennessee Department of Commerce and Insurance, concerning PRL, Unum Life Insurance Company of America, and Provident Life and Accident Insurance Company (collectively, "the companies"). The market conduct examination addressed claims handling practices for both individual and group long-term disability insurance. This review culminated in settlement agreements being reached between the companies as well as First Unum Life Insurance Company (New York) and Provident Life and Casualty Insurance Company (Tennessee) and state insurance regulators in November 2004. Agreements in principal were reached on a Plan of Corrective Action, which included three key components: a Claim Reassessment Process; Changes in Claim Organization; and, Procedures and Changes in Corporate Governance. Consistent with the terms of the settlement agreements, the lead states are initiating a re-examination of claims handling practices. Also, subsequent to the settlement agreements, substantive changes were made to the claim organization and corporate governance policies.

The focus of the current examination was financial and operational in nature. Actuaries from Deloitte Consulting LLP, were retained to assist the Division with its review of actuarially determined reserves, The actuaries considered the effects of the Plan of Corrective Action, particularly the Claim Reassessment Process and Changes in Claim Organization and Corporate Governance, when reviewing the adequacy of claim reserves for the Company's disability income business. Please refer to Notes to the Financial Statements under Policyholders' Reserves and Funds on page 23 of this report.

REINSURANCE

For individual life and group life insurance, the Company seeks to limit its exposure to loss on a single insured and to recover a portion of benefits paid by ceding reinsurance under excess coverage and coinsurance contracts. The Company retains a maximum of $600,000 of coverage per individual and group life, respectively.

The majority of reinsurance activity is centered on its core product line, individual disability insurance ("IDI"). With respect to the IDI line of business, the Company is a party to both ceded and assumed contracts.

Policy administrative and/or claims management agreements often accompanied assumed contracts entered into in past years. The Company is nationally recognized as an industry leader in the field of IDI products and policy administration and claims management, and in the past attempted to leverage these strengths into the IDI business they assume. One of the ways in which the Company achieved this goal was through its "Private Label Portfolios". The Company participates in this business by assuming, usually on a coinsurance basis, a portion of the risk and by policy administration and claims management agreements, or by a combination thereof.

The Company cedes long term disability risk for US policies on a gross claims paid basis exceeding a $7,500 retention limit.

Significant reinsurance arrangements impacting the Company's financial condition that were entered into since the last examination or that materially impacted the Company's operations as of December 31, 2005 are summarized below:

Ceded Agreements

I Individual Disability Insurance

Reinsurer: National Indemnity Company.

Ceded: A portion of the potential future losses that occur above a specified retention limit related to a block of its individual disability income products.

Effective: April 1, 2004

As of December 31, 2005 the reserve credit taken by the Company was $ 214,161,336.

II Group Long-Term Disability

Reinsurer: Affiliate, Unum Life Insurance Company of America. Unum Life is an indirect wholly owned subsidiary of UnumProvident.

Ceded: 100% of Non-New York and 90% of New York group long-term disability business

Effective: October 1, 2002

As of December 31, 2005 the reserve credit taken by the Company was $ 267,339,286.

III Individual Life Coinsurance

Reinsurer: Reassure America Life Insurance Company ("Reassure America"), an affiliate of Swiss Re Life & Health Inc.

Ceded: 100% of the liability of substantially all of the individual life insurance written by the Company.

Effective: July 1, 2000

As of December 31, 2005 the reserve credit taken by the Company was $261,997,819, which includes the reserves for the Company's wholly owned subsidiary, The Paul Revere Protective Life Insurance Company, which merged with and into the Company during 2001.

IV Group Long-Term Disability

Reinsurer: Max Re Ltd.

Ceded: 100% indemnity coinsurance basis of non New York policies and 90% basis for New York policies for the future claim payments on long duration group long-term disability claims which were incurred prior to January 1, 1996.

Effective: January 1, 2000

As of December 31, 2005 the reserve credit taken by the Company was $ 96,307,933.

V Individual Annuity Coinsurance

Reinsurer: The Lincoln National Life Insurance Company

Ceded: 100% of the liability of PRL's individual annuity policies.

Effective: May 16, 1998 to December 31, 1999

As of December 31, 2005, the reserve credit taken by the Company was $8,595,783 .

VI Individual Annuity Coinsurance

Reinsurer: Variable Annuity Life Insurance Company ("VALIC")

Ceded: 100% coinsurance basis PRL's variable annuity policies

Effective: April 30, 1998 and is unlimited in duration

VALIC, an affiliate of AIG Annuity Insurance Company, is entitled to all premiums and other amounts payable after the effective date with respect to the reinsured contracts. Under the terms of the agreement, AIG is responsible for the administration service of the reinsured contracts.

At December 31, 2005, the reserve credit taken by the Company relative to this business was $224,454,327.

VII Individual Disability Insurance

Reinsurer: Lincoln National Reinsurance Company (Barbados) Ltd. ("LNRC")

Ceded: Quota share reinsurance of individual disability claims including commutation or lump sum payments on PRL's direct business. PRL cedes 80% of the risk while retaining 20% of the risk.

Effective: July 1, 1995 and is unlimited in duration

Terms of the contract required PRL to transfer assets of $321 million to LNRC to be held in trust with PRL as the beneficiary. LNRC will provide a letter of credit as needed if the market value of the assets falls below statutory reserves. At December 31, 2005, the reserve credit taken by the Company relative to this reinsurance business was $266,277,565. A review and evaluation of the market value of the trust account and the face amount of the letter of credit indicated that the values of both accounts were at least equal to the statutory reserves.

Also effective July 1, 1995, PRPL assigned all its rights and obligations under its reinsurance agreement with LNRC to PRL and PRL assumed all the same rights and obligations by the way of an Assignment Agreement executed between PRPL and PRL. The purpose of the agreement is for PRL to obtain all of PRPL's retrocession benefits, experience refunds, right to security in the form of assets held in trust, letters of credit, titles, interests, and other privileges as defined in the retrocession agreement between PRPL and LNRC. Essentially, the transaction represents a recapture of policies by PRL.

Assumed Agreements

I Reinsured the Inforce block of New York Life Insurance Company through a 100% indemnity modified coinsurance agreement.

Assumed: Inforce individual disability income block.

Effective: January 1, 2000

At December 31, 2005, the Company was maintaining a modified coinsurance reserve of $924,751,066 in accordance with this agreement.

II Quota Share Disability Income Agreement with Metropolitan Life Insurance Company (MetLife)

Assumed: In force and new issues of IDI policies segregated into two Portfolios. The "Old Portfolio" consists of in force policies as of December 31, 1989. The "New Portfolio" consists of IDI policies issued on forms designed and filed by PRL on behalf of MetLife. PRL will assume, on a quota share basis, 80% of claims incurred after December 31, 1989, and will assume 40% of claims incurred prior to January 1, 1990, excluding resisted claims, which will not be assumed by PRL.

Effective: January 1, 1990. Amendment No. 1, dated November 3, 1994, New Portfolio business will continue under this agreement until December 31, 1999, with an option to extend. In force business may not be canceled unless certain "triggers" are met, at which time MetLife has the right of recapture.

This agreement was the first major "Private Label" deal entered into by the Company. In addition to policy forms, PRL provides marketing, underwriting, and claims management and system support for the new "Private Label Portfolio". PRL also manages claims which exist on polices previously issued by MetLife

At December 31, 2005, contract reserves other than unearned premium maintained by the Company for this agreement amounted to $362,926,695 with reinsurance payable on paid losses amounting to $2,591,857.

III Private Label Portfolio Coinsurance Agreement with the Equitable Life Assurance Company of the United States ("ELAS")

Assumed: IDI policies issued by ELAS on Private Label Portfolio policy forms as well as transition block. Reinsurance is on an indemnity basis at an 80% quota share and applies to new business written as of the July 1, 1993 effective date. The treaty is tied to an Administration and Marketing Agreement.

Effective: July 1, 1993 to December 31, 1998.

The Private Label Portfolio represents policy forms developed and provided by Paul Revere to ELAS, however, they are produced on ELAS paper. ELAS is therefore the direct writer of this business. The policies written under this arrangement are administered by Paul Revere under the same "Administration and Marketing Agreement" as the Co-Marketed Coinsurance Agreement noted earlier. Under the terms of this agreement Paul Revere performs all underwriting, policy, and claims administrative services. In addition to the Private Label Portfolio policies, policies issued after the effective date on ELAS policy forms in jurisdictions in which Private Label Portfolio policy forms have not been approved are also assumed under this treaty.

At December 31, 2005, contract reserves maintained by the Company relative to this agreement amounted to $ 92,312,804.

VI Block Quota Share Coinsurance with General American Life Insurance Company (GALIC)

Assumed: IDI policies issued by GALIC as of December 31, 1992, principally non-cancelable and guaranteed renewable business. Reinsurance is on an indemnity basis at 80% quota share of net losses retained by GALIC. GALIC has in place two other cession agreements with other reinsurers, which will remain in effect. This is a closed block of business.

Effective: January 1, 1993 until all obligations cease.

The treaty requires that PRL manage GALIC's IDI claims operations for policies they are reinsuring and sharing risk, and for claims already in process for which they have no claim liability. PRL generates fee income for these services in accordance with a separate Claims Management Agreement. The Company has implemented a claims management system to handle all claims incurred under this agreement, and to also provide claims management services for all claims incurred prior to the effective date of this agreement for which they are not liable.

At December 31, 2005, the Company maintained contract reserves pursuant to this agreement of $98,144,418.

V Block Coinsurance with Great-West Life Assurance Company of Winnipeg, Canada (“Great-West”)

Assumed: All US individual non-cancelable and guaranteed renewable DI policies insured or reinsured by Great-West as of December 31, 1990 Reinsurance is coinsurance on an indemnity basis at 80% of morbidity risk.

Effective: January 1, 1991 and unlimited in duration. May be recaptured after January 1, 1994 under certain conditions.

The Company is providing claims administration services, and performs all other administrative functions except commission and premium tax payments.

At December 31, 2005, the Company was maintaining contract reserves of $36,140,790 in accordance with this agreement.

ACCOUNTS AND RECORDS

The internal controls structure was discussed with management through questionnaires and through a review of the work performed by the Company’s independent certified public accounting firm, Ernst & Young LLP. A review and evaluation of the control environment of PRL’s information systems were performed. The NAIC’s Information Systems (IS) Questionnaire completed by the Company was reviewed and interviews with Company staff were conducted to gather supplemental information and corroborate the Company’s responses to the questionnaire. A review was also made of the documentation supporting Management and Organization Controls, Application Systems Development and Maintenance Controls, Operating and Processing Controls, Logical and Physical Security Controls, Contingency Planning Controls, Personal Computer, Local Area Network (LAN), Wide Area Network (WAN) and Internet Controls. The control environment of the Company’s information systems was found to have in place sufficient internal controls.

The Company uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to the 2005 Annual Statement. No significant exceptions were noted.

The books and records of the Company are audited annually by Ernst & Young LLP, independent certified public accountants, in accordance with 211 CMR 23.05.

COMMITMENTS AND CONTINGENCIES

The Company, along with its parent UnumProvident and other affiliates are defendants in a number of policyholder class actions, and regulatory examinations and investigations. The Company has disclosed this information and other details of each particular case in its “Notes” to the 2005 NAIC Annual Statement filing, and monitors each case closely and defends itself accordingly. Given the inherent unpredictability of litigation, it is possible that an adverse outcome in certain litigation involving punitive damages could from time to time, have a material adverse effect on the Company's results of operations in a particular reporting period.

FINANCIAL STATEMENTS

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division of Insurance of the Commonwealth of Massachusetts and by the National Association of Insurance Commissioners, as of December 31, 2005.

Statement of Assets, Liabilities, Capital and Surplus as of December 31, 2005

Statement of Operations for the Year Ended December 31, 2005

Statement of Changes in Capital and Surplus for the Year Ended December 31, 2005

Statement of Changes in Capital and Surplus for the Years Ended December 31, 2003, 2004, 2005

STATEMENT OF ASSETS, LIABILITIES, CAPITAL AND SURPLUS AS OF DECEMBER 31, 2005

ASSETS	As Reported by the Company	Examination Changes	Per Statutory Examination
Bonds	$ 4,618,987,793	$ 0	$ 4,618,987,793
Preferred stocks	128,102,825		128,102,825
Common stocks	235,336,131		235,336,131
Real estate	14,491,620		14,491,620
Cash and short-term investments	37,051,767		37,051,767
Other invested assets	29,080,105		29,080,105
Receivable for securities	2,814,743		2,814,743
Investment income due and accrued	73,316,007		73,316,007
Uncollected premiums and agents balances in the course of collection	14,348,055		14,348,055
Deferred premiums and agents balances in the course of collection (earned but unbilled premiums)	112,293		112,293
Amounts recoverable from reinsurers	21,347,757		21,347,757
Other amounts receivable under reinsurance contracts	17,659,789		17,659,789
Federal and foreign income tax recoverable and interest thereon	6,546,003		6,546,003
Net deferred tax asset	37,135,502		37,135,502
Guaranty funds receivable or on deposit	633,393		633,393
Receivable from parent, subsidiaries and affiliates	88,811,731		88,811,731
Aggregate write-ins for other than invested assets	141,825		141,825
Total Assets	$ 5,325,917,339	$ 0	$ 5,325,917,339

STATEMENT OF ASSETS, LIABILITIES, CAPITAL AND SURPLUS
AS OF DECEMBER 31, 2005

LIABILITIES	As Reported by the Company	Examination Changes	Per Statutory Examination
Aggregate reserve for life policies and contracts	$ 181,102,538	$ 0	$ 181,102,538
Aggregate reserve for accident and health contracts	3,828,010,813		3,828,010,813
Liability for deposit-type contracts	2,630,763		2,630,763
Policy and contract claims-life	3,040,022		3,040,022
Policy and contract claims-accident and health	58,842,382		58,842,382
Premiums and annuity considerations for life, accident & health contracts received in advance	8,191,434		8,191,434
Provision for experience rating refunds	256,710		256,710
Other amounts payable on reinsurance assumed and ceded	11,592,248		11,592,248
Interest maintenance reserve	42,981,415		42,981,415
Commissions to agents due or accrued	6,675,961		6,675,961
Commissions and expense allowances payable on reinsurance assumed	340,421		340,421
General expenses due or accrued	4,965,557		4,965,557
Taxes, licenses and fees due or accrued, excluding fed. inc. taxes	481,740		481,740
Amounts withheld or retained by company as agent or trustee	21,541		21,541
Amount held for agents' account	1,961		1,961
Miscellaneous liabilities: (Asset Valuation Reserve, Reinsurance in unauthorized companies and Payable to parent, subsidiaries and affiliates) respectively	33,081,127		33,081,127
Aggregate write-ins for liabilities	5,561,478		5,561,478
Total Liabilities	4,187,778,111		4,187,778,111
CAPITAL and SURPLUS			
Common stock	9,800,000		9,800,000
Aggregate write-ins for other than special surplus funds	34,114,075		34,114,075
Surplus notes	100,000,000		100,000,000
Gross paid in and contributed surplus	476,415,878		476,415,878
Unassigned funds	517,809,275		517,809,275
Total Capital and Surplus	1,138,139,228		1,138,139,228
Total Liabilities and Capital and Surplus	$ 5,325,917,339	$ 0	$ 5,325,917,339

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2005

REVENUES	As Reported by the Company	Examination Changes	Per Statutory Examination
Premiums and annuity considerations	$ 642,257,808	$ 0	$ 642,257,808
Net Investment income	371,355,257		371,355,257
Amortization of interest maintenance reserve	4,753,448		4,753,448
Commissions and expense allow. on reins. ceded	12,879,047		12,879,047
Aggregate write-ins for miscellaneous income	78,567,630		78,567,630
Total Revenues	1,109,813,190		1,109,813,190
BENEFITS			
Death benefits	1,973,356		1,973,356
Annuity benefits	19,151,044		19,151,044
Disability benefits & benefits under A&H policies	706,293,516		706,293,516
Surrender benefits and withdrawals for life contracts	7,610		7,610
Interest and adjustments on contracts or deposit-type contracts funds	112,566		112,566
Payments on supplemental contracts with life contingencies	125,161		125,161
Increase in aggregate reserves for life & A&H policies	39,361,570		39,361,570
Total Benefits	767,024,823		767,024,823
EXPENSES			
Commissions on premiums, annuity considerations, and deposit-type contract	43,560,071		43,560,071
Commissions & expense allowance on reinsurance assumed	8,202,186		8,202,186
General insurance expense	84,485,139		84,485,139
Insurance taxes, licenses and fees, (excl fed.inc.tax)	16,023,743		16,023,743
Increase in loading on deferred and uncollected premiums	2,689		2,689
Aggregate write-ins for deductions	2,786,274		2,786,274
Total Expenses	155,060,102		155,060,102
Net gain from operations before dividends to policyholders and federal income taxes	187,728,266		187,728,266
Federal and foreign income taxes incurred (excluding tax on capital gains)	44,040,284		44,040,284
Net gain (loss) from operations after federal income taxes	143,687,982		143,687,982
Net realized capital gains or (losses)	(13,379,351)		(13,379,351)
Net income	$ 130,308,631	$ 0	$ 130,308,631

STATEMENT OF CHANGES IN CAPITAL AND SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 2005

	As Reported by the Company	Examination Changes	Per Statutory Examination
Capital and Surplus, January 1, 2005	$ 1,117,770,876	$ 0	$ 1,117,770,876
Net income	130,308,631		130,308,631
Change in net unrealized capital gains or (losses)	(14,291,899)		(14,291,899)
Change in net unrealized foreign exchange capital gain or (loss)	755,668		755,668
Change in net deferred income tax	1,374,770		1,374,770
Change in non-admitted assets and related items	(5,067,870)		(5,067,870)
Change in liability for reinsurance in unauthorized companies	176,951		176,951
Change in asset valuation reserve	(4,930,125)		(4,930,125)
Change in surplus as a result of reinsurance	(7,957,775)		(7,957,775)
Dividends to stockholders	(80,000,000)		(80,000,000)
Net change in capital and surplus for the year	20,368,351		20,368,351
CAPITAL AND SURPLUS, DECEMBER 31, 2005	$ 1,138,139,227	$ 0	$ 1,138,139,227

STATEMENT OF CHANGES IN CAPITAL AND SURPLUS
FOR THE YEARS ENDED DECEMBER 31, 2003, 2004, 2005

	2003	2004	2005
Capital and Surplus, December 31, prior year	$ 911,412,583	$ 1,081,414,217	$ 1,117,770,876
Net income	49,889,413	91,141,338	130,308,631
Change in net unrealized capital gains or (losses)	26,135,347	27,112,562	(14,291,899)
Change in net unrealized foreign exchange capital gain or (loss)	35,222	18,271	755,668
Change in net deferred income tax	(1,340,729)	(28,165,163)	1,374,770
Change in non-admitted assets and related items	(14,524,266)	35,314,996	(5,067,870)
Change in liability for reinsurance in unauthorized companies	259,148	(323,782)	176,951
Change in asset valuation reserve	(1,431,500)	(14,260,835)	(4,930,125)
Surplus Adjustment (Paid In)	130,000,000		
Change in surplus as a result of reinsurance	(11,327,439)	(9,480,728)	(7,957,775)
Dividends to stockholders		(65,000,000)	(80,000,000)
Aggregate write-ins for gains and losses in surplus	(7,693,562)		
Net change in capital and surplus for the year	170,001,634	36,356,659	20,368,351
Capital and Surplus, December 31, current year	$ 1,081,414,217	$ 1,117,770,876	$ 1,138,139,227

NOTES TO FINANCIAL STATEMENTS

Policyholders' Reserves and Funds

Independent actuaries from Deloitte Consulting LLP were retained by the Division to perform a review and certain actuarial analyses - principally reserves and asset adequacy analysis testing - as of December 31, 2005. In accordance with applicable Division and NAIC insurance guidance, the Company records as liabilities in its financial statements actuarially determined interest-discounted reserves that are calculated to meet future contractual obligations under outstanding policies and claims. The reserves are based on statutorily recognized methods, generally, using prescribed morbidity and mortality tables and interest rates. These reserves include provisions for unearned premiums; future claims in excess of future premium (i.e. active life reserves); and future payment on claims that have been incurred, whether reported or not reported as of December 31, 2005 (i.e. claim reserves). In addition, there is a reserve for claim settlement expenses on such future claim payments for incurred claims.

Active life reserves on individual disability policies as established as of December 31, 2005 contain margins over statutory minimum standard reserves. Particular sources of margins over minimum standards include the following:

- Active life reserves for lifetime benefit period riders are calculated assuming a seven day elimination period, when the underlying policy may have a longer elimination period.
- Additional reserves are held for policies with an "own occ" definition of disability. Such reserves are not explicitly required by minimum standards.
- Additional reserves are held for policies with a future increase option (i.e. the insured is entitled to increase their level of insurance without being underwritten). Such reserves are not explicitly required by minimum standards.

Claim reserves are established for future payments not yet due on claims already incurred, primarily relating to individual disability insurance and group long-term disability insurance products, which are established based on statutory morbidity tables and interest rates. Past Company experience regarding claim termination rates is also used where credible. Incorporation of past Company experience in individual disability tabular claim reserves is used in claim durations beyond where permitted under the regulations. However, resulting shortfalls of established tabular claim reserves from minimum standard reserves are offset by excesses in other claim reserve items, namely Incurred But Not Reported (IBNR), Reopen, and Closed But Not Reported (CBNR) reserves.

For the IBNR and Reopen claim reserves, it was noted that the Company bases its calculation on assumptions for interest discounting and terminations that are different from prescribed statutory minimums. However, the Company was able to demonstrate that established reserves for these items were in excess of reserves calculated on a minimum standard basis.

The Company has consistently failed the Schedule H – Part 3 runoff test, which demonstrates the one year runoff of claim reserves, during the period of time covered by the examination. The

Company has failed the runoff test in each of the three years leading up to December 31, 2005, even on an interest-adjusted basis. The Company has disputed the methodology for adjusting the Schedule H – Part 3 runoff test, but it is Deloitte Consultant's and the Division's position that if the test is to be used to evaluate minimum standard reserves, then the test should be adjusted with minimum standard discount rates. The Company has indicated that recent Schedule H – Part 3 runoff test failures are attributable to sub-optimal claims department performance resulting from disruptions related to negative media attention, market conduct examinations, and changes in claims department organization and management.

It is expected that the Schedule H – Part 3 tests will show more favorable runoff experience in the future as a result of the Company's implementation of various claims administration procedures that will return the organization to more stable claims management performance.

The Company's asset adequacy analysis test (cash flow testing) was reviewed during the examination to determine that the assets supporting the Company's statutory reserves would be sufficient to meet the Company's obligations to its policyholders.

Cash flow testing for the IDI line showed significant surplus margins across all interest rate scenarios for active life reserves and claim reserves combined. Additionally, two sensitivity tests, whereby the Company considered adverse morbidity scenarios, were performed and both resulted in positive surplus margins. Supporting documentation was reviewed and found the testing to be sound and reasonable.

These results support the examination conclusions regarding reserve adequacy for the disability lines of business. The examination concluded that reserves are adequate and in aggregate meet or exceed minimum statutory standards under Massachusetts law.

Overall, cash flow testing was performed for the three product lines: Individual Disability Income (IDI) – see above paragraph for discussion on IDI (principally all reserves, etc.), Group Life, and Group pension (Group Annuity). Products that do not fall in one of these three product lines were considered immaterial by the Company and were not cash flow tested. The net result of the three product lines reflects overall sufficiency. Overall, the cash flow testing results of the Company is sufficient.

Overall, the review of the Company reserves as of December 31, 2005 yielded no material exceptions. The reserves have been demonstrated to be calculated in an actuarially sound manner and to make adequate provision for claims and policy obligations. The overall methods and bases used comply with the laws and regulations of the Commonwealth of Massachusetts and make adequate provision for The Paul Revere Life Insurance Company's contractual obligations.

COMMENTS AND RECOMMENDATIONS

Single Premium Annuity Block

The Company holds reserves of approximately $153 million attributable to an old block of single premium deferred annuities it reinsured from an affiliate, Provident National Assurance Company. These group annuities were sold numerous years ago primarily to companies that were being sold to or merged with other companies, discontinuing operations, or simply looking to discontinue employer sponsored pension plans.

As part of our examination test work, we noted various instances where several annuitants were not receiving payout benefits under the terms of the deferred annuity certificate, although all indications were that the annuitant was eligible for benefits under the terms of the contract. The Company explained that these cases (approximate dollar amounts not material) involved annuitants who either opted to defer benefits, or could not otherwise be located, and the status of the contract was placed on “deferred status” as a default administrative process. In addition, many annuitants were believed deceased however all necessary paper work including copies of death certificates could not be obtained.

The examination team on a test basis was able to locate certain contract holders via various internet search sites. Based on the results of our limited research, the Company has reviewed its search methodology and administrative policies related to this business and are in the process of making enhancements to its procedures. Additionally, the process of remitting any applicable funds to the Company’s abandoned property (escheat) system has been enhanced to capture any applicable funds associated with this block of policies.

ACKNOWLEDGEMENT

This is to certify that the undersigned are duly qualified Certified Financial Examiners ("CFE"), and that pursuant to a proposal submitted by Deloitte to the Division, certain agreed-upon procedures have been applied to the accounting and corporate records of The Paul Revere Life Insurance Company for the purpose of assisting the Division regarding this statutory examination.

The undersigned's participation in this examination as the Examiner-in-Charge encompassed responsibility for the coordination and direction of the statutory examination performed which was in accordance with, and substantially complied with the standards established by the Financial Condition (E) Committee of the NAIC and the *NAIC Financial Condition Examiners Handbook*. This participation consisted of involvement in the planning and administration of the examination, review of work papers prepared as documentary evidence of examination procedures performed, and of the statutory examination report.

The cooperation and assistance of the officers and employees of the Company extended to all examiners during the course of the examination is hereby acknowledged.

Respectfully submitted,

John M. Curran, CFE
Supervising Examiner and Examiner-in-Charge
Commonwealth of Massachusetts
Division of Insurance
Representing Northeastern Zone, NAIC

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