



**THE COMMONWEALTH OF MASSACHUSETTS**

**OFFICE OF CONSUMER AFFAIRS AND BUSINESS  
REGULATION**

**Division of Insurance**

*Report on the Statutory Examination of*

*The Paul Revere Variable Annuity Insurance Company*

*Worcester, Massachusetts*

*As of December 31, 2005*

**NAIC GROUP CODE: 565**

**NAIC COMPANY CODE: 67601**

**EMPLOYERS ID NUMBER: 04-2381280**

The Paul Revere Variable Annuity Insurance Company

**TABLE OF CONTENTS**

SALUTATION	1
SCOPE OF EXAMINATION	2
Status of Findings from the Prior Examination	2
HISTORY	3
General	3
Common Capital Stock	3
Gross Paid-in and Contributed Surplus	3
Dividends to Stockholders	3
Change in size of Company	4
MANAGEMENT	4
Annual Meeting of Stockholders	4
Board of Directors	4
Executive Committee	5
Finance Committee	5
Officers	5
Conflict of Interest	6
Articles of Incorporation and By-Laws	6
Management Continuity and National Emergency	6
AFFILIATED COMPANIES	7
Organizational Chart	7
Transactions and Agreements with Affiliates	8
FIDELITY BOND AND OTHER INSURANCE	9
STATUTORY DEPOSITS	9
INSURANCE PRODUCTS AND RELATED PRACTICES	9
Territory and Plan of Operation	9
REINSURANCE	9
Ceded Agreements	9
ACCOUNTS AND RECORDS	10
COMMITMENTS AND CONTINGENCIES	11
FINANCIAL STATEMENTS	11
Statement of Assets, Liabilities, Capital and Surplus as of December 31, 2005	12
Statement of Operations for the Year Ended December 31, 2005	14
Statement of Changes in Capital and Surplus for the Year Ended December 31, 2005	15
Statement of Changes in Capital and Surplus for the Years Ended December 31, 2003, 2004, 2005	16
NOTES TO FINANCIAL STATEMENTS	17
Policyholders' Reserves and Funds	17
SEPARATE ACCOUNTS	18
SEPARATE ACCOUNTS FINANCIAL STATEMENTS	19
Statement of Assets, Liabilities, and Surplus as of December 31, 2005	20
Summary of Operations for the Year Ended December 31, 2005	21
ACKNOWLEDGEMENT	22



**COMMONWEALTH OF MASSACHUSETTS**  
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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 PAUL REVERE VARIABLE ANNUITY 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 is respectfully submitted.

## **SCOPE OF EXAMINATION**

The Paul Revere Variable Annuity Insurance Company, hereinafter referred to as ("PRVAIC" or "the Company") was last examined for the period January 1, 2000 through December 31, 2002. The current 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 National Association of Insurance Commissioners ("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, 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 parent, The Paul Revere Life Insurance Company ("PRL"), 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 August 6, 1965, and commenced business on February 18, 1966. The Company was incorporated as a stock company and was organized as a wholly owned subsidiary of the Massachusetts Protective Society, which became known as the Paul Revere Corporation ("PRC") effective January 1, 1967. In September 1968, one hundred percent (100%) ownership of the Company was sold to its current parent, PRL. PRL is owned by PRC which in-turn is a wholly owned subsidiary of UnumProvident Corporation ("UnumProvident"). The Company is authorized to write both life and annuity products, and also maintains a Separate Accounts Business.

Effective in 1998, the Company no longer actively markets new business, but continues to service all existing life and annuity policies.

### **Common Capital Stock**

The Company has issued and outstanding 500,000 shares of common stock, with a par value per share of \$5.00. Total value of common stock as reported at December 31, 2005 by the Company is \$2,500,000 and has been at this same level since the last examination date of December 31, 2002. All outstanding shares are owned by the parent company, PRL.

### **Gross Paid-in and Contributed Surplus**

Since the last examination date as of December 31, 2002, the Company has not received any contributions of surplus from its parent.

### **Dividends to Stockholder**

The following chart reflects the dividends paid by the Company to PRL since the last examination.

<u>Year</u>	<u>Dividend</u>
2003	\$13,000,000
2004	12,000,000
2005	12,000,000

## The Paul Revere Variable Annuity Insurance Company

### Change in Size of Company

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

<b>Year</b>	<b>Assets Excluding Separate Accounts</b>	<b>Separate Accounts Assets</b>	<b>Liabilities Excluding Separate Accounts</b>	<b>Separate Account Liabilities</b>	<b>Capital and Surplus</b>
2003	\$ 145,400,694	\$ 11,437,098	\$ 18,698,331	\$ 11,437,098	\$ 126,702,363
2004	136,243,473	11,396,083	15,068,667	11,396,083	121,174,807
2005	129,447,115	11,110,568	14,579,384	11,110,568	114,867,731

### 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 stockholders, the stockholders shall choose by ballot, by a majority of the stockholders voting, 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

Robert O. Best

Charles L. Glick

#### Business Affiliation

Executive Vice President, The Client Services  
Center and Chief Information Officer

Executive Vice President and General  
Counsel

## The Paul Revere Variable Annuity Insurance Company

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

### **Executive Committee**

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

### **Finance Committee**

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

### **Officers**

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 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:

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

## The Paul Revere Variable Annuity Insurance Company

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

### **Conflict of Interest**

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.

### **Articles of Incorporation and By-Laws**

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.

### **Management Continuity and National Emergency**

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.

## **AFFILIATED COMPANIES**

The Company is a wholly owned direct subsidiary of PRL, which in turn is a wholly owned subsidiary of PRC. PRC is the original holding company of the Paul Revere group of companies and was acquired by the Provident Companies Inc., in 1997. In 1999 Unum Corporation merged with and into Provident Companies, Inc., and became UnumProvident Corporation (“UnumProvident”). UnumProvident is a non-insurance holding company incorporated in the State of Delaware and is the “ultimate controlling person” in the holding company system. As a member of this holding company system, the Company is subject to the registration requirements of Chapter 175, Section 206C, of the Massachusetts General Laws.

### **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/chapter.

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 Sequeros de Vida S.A., (Argentina)

## The Paul Revere Variable Annuity Insurance Company

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 reimbursed PRL and/or UnumProvident for expenses of \$0, \$(3,529) and \$0 for 2005, 2004 and 2003, respectively.

Provident Investment Management LLC, an affiliate, provides investment management services to the Company. The Company paid investment management fees \$195,266, \$233,696 and \$256,498 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 and Accident Insurance Company, Provident Life and Casualty Insurance Company, PRL, 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

## The Paul Revere Variable Annuity Insurance Company

benefits are allocated to the Company for its portion of net operating losses and tax credit carryforwards 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. Coverage's 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:

<b>Location</b>	<b>Type of Security</b>	<b>Statement Value</b>	<b>Market Value</b>
Georgia	US Treasury Bond	\$ 92,019	\$ 112,922
Kansas	US Treasury Bond	246,306	306,973
Massachusetts	US Treasury Bond	1,663,650	1,663,723
New Mexico	US Treasury Notes	123,153	153,486
No. Carolina	US Treasury Bond	492,611	613,945
Virginia	US Treasury Bond	60,879	61,744
<b>TOTALS</b>		<b><u>\$ 2,678,618</u></b>	<b><u>\$ 2,912,793</u></b>

### **INSURANCE PRODUCTS AND RELATED PRACTICES**

#### **Territory and Plan of Operation**

The Company's primary business was the sale of life insurance, annuity and variable annuity products. Effective in 1998, the Company no longer actively markets new business, and through a series of reinsurance agreements outlined later in this report, has essentially reinsured not only the risk associated with its inforce business, but also the administration of this business.

### **REINSURANCE**

#### **Ceded Agreements**

Effective April 30, 1998, the Company entered into coinsurance agreements with AIG General Annuity Insurance Company and The Variable Life Insurance Company, both affiliates of AIG General Corporation, to reinsure 100% of its in-force block of individual and tax sheltered

## The Paul Revere Variable Annuity Insurance Company

annuity business. The market value of assets transferred in connection with the transaction totaled \$1.4 billion. PRVAIC received a ceding commission of \$26.8 million, which is being amortized into income, net of tax, as earnings emerge from the business reinsured. During 2003 The Variable Annuity Life Insurance risk was novated to AIG General Annuity Insurance Company.

AIG General Annuity Insurance Company is to provide all administrative services with respect to the reinsured contracts. Those services defined in the Administrative Services Agreement include:

- Collection of premiums, deposits and other remittances from contract holders as well as from any collection facility.
- Maintenance of records pertaining to the collection and processing of premiums.
- Processing and payment of disbursements.

The reserve credit taken on these contracts as of December 31, 2005 amounted to \$830.8 million.

Effective July 1, 2000, the Company entered into a reinsurance agreement under which Reassure America Life Insurance Company ("Reassure America"), an affiliate of Swiss Re Life & Health America Inc., reinsured on a 100 percent indemnity coinsurance basis substantially all of the individual life insurance written by the Company. Reassure America is also assuming responsibility for the administration of the policies. The reinsurance agreement was effective as of July 1, 2000. The Company transferred bonds and policy loans of \$37.7 million and \$6.5 million, respectively, to the Reassure America. The Company received a ceding commission of \$19.6 million and ceded reserves of \$70.5 million to Reassure America. The deferred after-tax gain from the reinsurance transaction was \$16.2 million and will be amortized into income on a net of tax basis as earnings emerge from the business reinsured.

The reserve credit taken on this contract as of December 31, 2005 amounted to \$76.0 million.

### **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 accountants, Ernst & Young LLP. A review and evaluation of the control environment of PRVAIC's information systems was performed. The NAIC's Information Systems 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 reviewed and found to have in place sufficient internal controls.

## The Paul Revere Variable Annuity Insurance Company

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 material 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 involved in litigation arising in and out of the normal course of business including class action and purported class action suits which seek both compensatory and punitive damages. While the company is not aware of any actions or allegations which should reasonably give rise to any material adverse effect, the outcome of litigation cannot be foreseen with certainty. It is the opinion of management, after consultation with legal counsel, that the ultimate resolution of these matters will not materially affect its financial position, results of operations or liquidity.

### **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

The Paul Revere Variable Annuity Insurance Company

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

<b>ASSETS</b>	<b>As Reported by the Company</b>	<b>Examination Changes</b>	<b>Per Statutory Examination</b>
Bonds	\$ 123,847,436	\$ 0	\$ 123,847,436
Cash and short-term investments	1,319,399		1,319,399
Other invested assets	1,383,785		1,383,785
Receivable for securities	3,054		3,054
Investment income due and accrued	1,828,899		1,828,899
Other amounts receivable under reinsurance contracts	223,498		223,498
Federal and foreign income tax recoverable and interest thereon	382,294		382,294
Net deferred tax asset	237,313		237,313
Guaranty funds receivable or on deposit	221,306		221,306
Aggregate write-ins for other than invested assets	131		131
<b>Total assets excluding Separate Accounts business</b>	129,447,115		129,447,115
From Separate Accounts Statement	11,110,568		11,110,568
<b>Total Assets</b>	<b>\$ 140,557,683</b>	<b>\$ 0</b>	<b>\$ 140,557,683</b>

The Paul Revere Variable Annuity Insurance Company

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

<b>LIABILITIES</b>	<b>As Reported by the Company</b>	<b>Examination Changes</b>	<b>Per Statutory Examination</b>
Liability for deposit-type contracts	\$ 6,234,312	\$ 0	\$ 6,234,312
Interest maintenance reserve	6,680,105		6,680,105
Commissions to agents due or accrued	64,623		64,623
Taxes, licenses and fees due or accrued, excluding federal income taxes	927,261		927,261
Asset valuation reserve	608,943		608,943
Payable to parent, subsidiaries and affiliates	17,866		17,866
Aggregate write-ins for liabilities	46,274		46,274
<b>Total Liabilities excluding Separate Account business</b>	14,579,384		14,579,384
From Separate Account Statement	11,110,568		11,110,568
<b>Total Liabilities</b>	25,689,952		25,689,952
<b>CAPITAL and SURPLUS</b>			
Common stock	2,500,000		2,500,000
Aggregate write-ins for other than special surplus funds	11,328,350		11,328,350
Gross paid in and contributed surplus	48,800,000		48,800,000
Unassigned funds	52,239,381		52,239,381
<b>Total Capital and Surplus</b>	114,867,731		114,867,731
<b>Total Liabilities and Capital and Surplus</b>	<u>\$ 140,557,683</u>	<u>\$ 0</u>	<u>\$ 140,557,683</u>

The Paul Revere Variable Annuity Insurance Company

**STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

<b>REVENUES</b>	<b>As Reported by the Company</b>	<b>Examination Changes</b>	<b>Per Statutory Examination</b>
Net investment income	\$ 9,497,743	\$ 0	\$9,497,743
Amortization of interest maintenance reserve	256,064		256,064
Commissions and expense allowance on reins. ceded	3,343,381		3,343,381
Income from fees associated w/investment management, admin, and contract guarantees	185,968		185,968
Aggregate write-ins for miscellaneous income	174,365		174,365
<b>Total Revenues</b>	<b>13,457,521</b>		<b>13,457,521</b>
<b>BENEFITS</b>			
Interest and adjustments on contracts or deposit-type contract funds	322,630		322,630
<b>Total Benefits</b>	<b>322,630</b>		<b>322,630</b>
<b>EXPENSES</b>			
Commissions on premiums, annuity considerations, and deposit- type contract funds	785,550		785,550
General insurance expenses	6,300		6,300
Insurance taxes, licenses and fees, excluding federal income taxes	413,284		413,284
Aggregate write-ins for deductions	41,356		41,356
<b>Total Expenses</b>	<b>1,246,490</b>		<b>1,246,490</b>
Net gains or (losses) from operations before dividends to policyholders	11,888,401		11,888,401
Federal and foreign income taxes incurred (excluding tax on capital gains)	3,271,296		3,271,296
Net realized capital gains or (losses) less capital gains tax	(57,176)		(57,176)
<b>Net income</b>	<b>\$ 8,559,929</b>	<b>\$ 0</b>	<b>\$ 8,559,929</b>

The Paul Revere Variable Annuity Insurance Company

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

	<b>As Reported by the Company</b>	<b>Examination Changes</b>	<b>Per Statutory Examination</b>
Capital and Surplus, January 1, 2005	\$ 121,174,807	\$ 0	\$ 121,174,807
Net income	8,559,929		8,559,929
Change in net unrealized capital gains or (losses)	(25,833)		(25,833)
Change in net deferred income tax	238,032		238,032
Change in nonadmitted assets and related items	(245,170)		(245,170)
Change in asset valuation reserve	(153,832)		(153,832)
Change in surplus as a result of reinsurance	(2,680,202)		(2,680,202)
Dividends to stockholders	(12,000,000)		(12,000,000)
<b>Net change in capital and surplus for the year</b>	<b>(6,307,076)</b>		<b>(6,307,076)</b>
<b>CAPITAL AND SURPLUS, DECEMBER 31, 2005</b>	<b>\$ 114,867,731</b>	<b>\$ 0</b>	<b>\$ 114,867,731</b>

For Information Purposes Only

The Paul Revere Variable Annuity Insurance Company

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>Capital and Surplus, December 31, prior year</b>	<u>\$ 134,708,355</u>	<u>\$ 126,702,363</u>	<u>\$ 121,174,807</u>
Net income	8,169,625	8,711,448	8,559,929
Change in net unrealized capital gains or (losses)	24,982	13,189	(25,833)
Change in net deferred income tax	(48,625)	(546,896)	238,032
Change in nonadmitted assets and related items	191,733	514,298	(245,170)
Change in asset valuation reserve	(549,864)	526,210	(153,832)
Change in surplus as a result of reinsurance	(2,793,843)	(2,745,805)	(2,680,202)
Dividends to stockholders	<u>(13,000,000)</u>	<u>(12,000,000)</u>	<u>(12,000,000)</u>
<b>Net change in capital and surplus for the year</b>	<u>(8,005,992)</u>	<u>(5,527,556)</u>	<u>(6,307,076)</u>
<b>Capital and Surplus, December 31, current year</b>	<u><u>\$ 126,702,363</u></u>	<u><u>\$ 121,174,807</u></u>	<u><u>\$ 114,867,731</u></u>

For Information Purposes Only

**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 pertaining to the Division's examination of the Company as of December 31, 2005.

PRVAIC cedes, on a coinsurance basis, virtually all of its individual life insurance to Reassure America Life Insurance Company. The Company does not maintain any aggregate reserves for life contracts based on its reinsurance arrangements.

PRVAIC cedes, on a coinsurance basis, all of its aggregate reserves for annuity contracts to AIG Annuity Insurance Company and to Lincoln National Life Insurance Company. The Company does not maintain a reserve for annuity contracts based on its reinsurance arrangements.

PRVAIC cedes, on a coinsurance basis, virtually all of its liability for deposit-type contracts to AIG Annuity Insurance Company. The Company does maintain a small liability for deposit-type contracts based on its reinsurance arrangements.

Cash flow testing is not performed for The Paul Revere Variable Annuity Insurance Company, as it is exempt from cash flow testing pursuant to Regulation 211 CMR 132.00 of the Massachusetts Division of Insurance.

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 Variable Annuity Insurance Company's contractual obligations.

## **SEPARATE ACCOUNTS**

### **History**

The Company established its Separate Account business in 1965, when it began issuing contracts in conjunction with its variable annuity business.

### **Statutes**

Sections 132F and 132G of Chapter 175 of the Massachusetts General Laws were enacted in 1960 and 1968, respectively, and amended several times thereafter. These laws provide for the establishment by life insurance companies of one or more Separate Investment Accounts, independent of the insurer's General Investment Account.

### **Business**

The Company's Separate Account assets and liabilities represent segregated funds administered and invested through an Administrative Agreement with American General Annuity Insurance Company for the benefit of variable annuity contract holders. Assets consist principally of marketable securities reported at fair value. Premiums, benefits and expenses of the Separate Accounts are reported in the Summary of Operations.

Contributions are assigned to the various Separate Accounts in accordance with plan provisions or the terms of the variable annuity contract. Each contract holder receives a statement on the status of the individual account on a quarterly basis.

Net income, realized and unrealized capital gains and/or losses from assets held in each Separate Account are credited to or charged against the accounts of the policyholders without regard to other income, gains or losses of the Company. The Company receives administrative and policy fees from these accounts.

All guaranteed benefits under Separate Accounts are funded in the General Investment Account of the Company.

The Paul Revere Variable Annuity Contract Accumulation Fund, (the Fund), a Massachusetts business fund, is the separate account attributable to the Company's variable annuity contracts. The Fund is an open-end diversified investment company registered under the Investment Company Act of 1940.

The Company serves as investment advisor and also acts as principal underwriter of its variable annuity contracts, pursuant to an agreement with the Fund.

### **Separate Account Business**

The Company included in its financial statements its Separate Account business, in summary form, which pertains to the variable benefits associated with its Separate Account operations. The Separate account business was subjected to the same examination procedures as applied in the statutory financial statements of PRVAIC.

**SEPARATE ACCOUNT FINANCIAL STATEMENTS**

The following Separate Account 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.

Separate Account Statement of Assets, Liabilities, and Surplus as of December 31, 2005

Separate Account Statement of Operations for the Year Ended December 31, 2005

For Information Purposes Only

The Paul Revere Variable Annuity Insurance Company

**Separate Account Business**  
**Statement of Assets, Liabilities, and Surplus**  
**As of December 31, 2005**

<b>ASSETS</b>	<b>As Reported by the Company</b>	<b>Examination Changes</b>	<b>Per Statutory Examination</b>
Common stocks	\$ 11,044,952	\$ 0	\$ 11,044,952
Cash	57,809		57,809
Investment income due and accrued	<u>7,807</u>		<u>7,807</u>
<b>Total Assets</b>	<b><u>\$ 11,110,568</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 11,110,568</u></b>
<b>LIABILITIES AND SURPLUS</b>			
Aggregate reserve for annuity policies and contracts	\$ 2,655,539	\$ 0	\$ 2,655,539
Liability for deposit-type contracts	8,377,976		8,377,976
Charges for investment management, administration and contract guarantees due or accrued	14,105		14,105
Other transfers to general account due or accrued	40,093		40,093
Payable for securities	<u>22,855</u>		<u>22,855</u>
<b>Total Liabilities</b>	<b><u>11,110,568</u></b>		<b><u>11,110,568</u></b>
<b>Total Liabilities and Surplus</b>	<b><u>\$ 11,110,568</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 11,110,568</u></b>

The Paul Revere Variable Annuity Insurance Company

**Separate Account Business  
Summary of Operations  
For the Year Ended December 31, 2005**

	<b>As Reported by the Company</b>	<b>Examination Changes</b>	<b>Per Statutory Examination</b>
<b>TRANSFERS IN:</b>			
Transfers on account fo deposit-typ contracts	\$ (147,554)	\$ 0	\$ (147,554)
Net investment income and capital gains and losses	338,788		338,788
Total transfers in	191,234		191,234
<b>DEDUCTIONS:</b>			
Annuity benefits	298,608		298,608
Fees associated with charges for investment management, administration and contract guarantees	185,968		185,968
Increase in aggregate reserves for life and accident and health policies and contracts	(262,876)		(262,876)
Increase in liability for premium and other deposit funds	(30,466)		(30,466)
Total deductions	191,234		191,234
Net gain from operations	\$ 0	\$ 0	\$ 0

**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,

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

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John A. Turchi, CPCU, CFE  
Supervising Examiner  
Commonwealth of Massachusetts  
Division of Insurance  
Representing Northeastern Zone, NAIC