



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, 2008

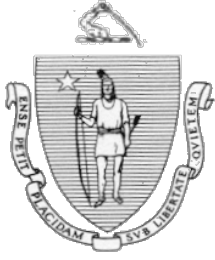
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COMMONWEALTH OF MASSACHUSETTS
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Honorable Commissioners and Director:

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, 2008, 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, 2003 through December 31, 2005. The current National Association of Insurance Commissioners (“NAIC”) association examination covers the intervening period from January 1, 2006 through December 31, 2008, 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”) in accordance with standards established by the NAIC Financial Condition (E) Committee as well as with the requirements of the *NAIC Financial Condition Examiner’s Handbook*, the examination standards of the Division and with Massachusetts General Laws. The principal focus of the examination was 2008 activity however transactions both prior and subsequent thereto were reviewed as deemed appropriate. The examination was conducted following the NAIC Risk Focused Examination Model. The examiners considered reliance on the Company’s external auditors, Ernst & Young LLP’s (“E&Y”) IT General Controls review, internal control evaluations and account balance testing conducted by E&Y as part of our statutory compliance examination.

Representatives from the firms 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 at the direction of and under the overall management of the Division’s examination staff.

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, 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 assessment and examination efforts were directed accordingly.

This examination was performed concurrent with the examination of the Company’s parent, The Paul Revere Life Insurance Company (“PRL”), also a Massachusetts domestic insurance company.

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 a wholly owned subsidiary of Unum Group. 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, 2008 by the Company is \$2,500,000 and has been at this same level since the last examination date of December 31, 2005. 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, 2005, the Company has not received any contributions of surplus from its parent.

Dividends to Stockholder

During the period of this examination, the Company's Board of Directors declared and paid dividends totaling \$33,000,000 to PRL. The \$22,000,000 paid in 2008 includes an extraordinary dividend payment in the amount of \$11,400,000. The following chart reflects the dividends paid by the Company to PRL since the last examination.

<u>Year</u>	<u>Dividend</u>
2008	\$22,000,000
2007	0
2006	11,000,000

Growth of Company

The growth of the Company since the last examination as of December 31, 2005, is illustrated in the following schedule:

Year	Admitted Assets Excluding Separate Accounts	Separate Accounts Assets	Liabilities Excluding Separate Accounts	Separate Account Liabilities	Capital and Surplus
2008	\$ 107,788,789	\$ 2,402,331	\$ 13,063,164	\$ 2,402,331	\$ 94,725,625
2007	128,233,344	4,374,435	14,186,957	4,374,435	114,046,378
2006	134,707,395	11,012,538	25,227,427	11,012,538	109,479,968

MANAGEMENT AND CONTROL**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. The company held the annual meetings within these guidelines.

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 whom are considered inside Directors, were serving as of December 31, 2008:

<u>Name</u>	<u>Business Affiliation</u>
Robert O. Best	Executive Vice President, Chief Operating Officer, Unum US
E. Liston Bishop III	Executive Vice President and General Counsel, Unum Group
Robert C. Greving	Executive Vice President and Chief Financial Officer, Unum Group
Kevin P. McCarthy	President and Chief Executive Officer, Unum US
Thomas R. Watjen	President, Chief Executive Officer and Chairman, Unum Group

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, 2008, the Executive Committee consisted of the following members:

Thomas R. Watjen, Chairman
E. Liston Bishop, III
Robert C. Greving

Finance Committee

Per Article XI of the Company's By-laws, the Board of Directors shall elect a Finance Committee consisting of no fewer than two members, all of whom shall be members of the Board of Directors. The Finance Committee shall have charge of the investment, sale, loan, or deposit of funds of the Company. At December 31, 2008, the Finance Committee consisted only of the following member which is not consistent with the provisions of the By-Laws:

Robert C. Greving

Investment Sub-Committee

At December 31, 2008, the Investment Sub-Committee of the Finance Committee consisted of the following members:

Robert C. Greving
 Christopher J. Jerome
 Martha D. Leiper
 Susan N. Roth
 Michael G. Temple
 B. Frank Williamson
 Thomas A. H. White

Officers

In accordance with Article VII of the Company's By-laws, 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 elected and serving as senior officers as of December 31, 2008:

<u>Name</u>	<u>Title</u>
Thomas R. Watjen	President and Chief Executive Officer
Robert C. Greving	Executive Vice President, Chief Financial Officer and Chief Actuary
Kevin P. McCarthy	Chief Executive Officer
E. Liston Bishop III	Executive Vice President and General Counsel
Robert O. Best	Executive Vice President, Chief Operating Officer
Joseph R. Foley	Senior Vice President and Chief Marketing Officer
Kevin A. McMahon	Vice President and Corporate Treasurer
Albert A. Riggieri	Vice President and Appointed Actuary
Vicki W. Corbett	Vice President and Controller

Conflict of Interest

The Unum Group and its subsidiaries, including the Company adhere to a "Code of Conduct Policy". On an annual basis, Unum Group 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 reviewed and no changes were made to these documents since the prior examination.

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 member of a holding company system and as of the examination date was a wholly owned subsidiary of PRL which in turn is ultimately 100% owned by the Unum Group, a non-insurance holding company incorporated in the State of Delaware and the “ultimate controlling person” in the 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 Unum Group 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.

Unum Group (DE)
 First Unum Life Insurance Company (NY)
 Unum Life Insurance Company of America (ME)
 Duncanson & Holt, Inc., (NY)
 Duncanson & Holt Services Inc. (ME)
 Duncanson & Holt Canada Ltd. (Canada)
 TRI-CAN Reinsurance Inc. (Canada)
 Duncanson & Holt Underwriters Ltd. (UK)
 Duncanson & Holt Europe Ltd. (UK)
 Duncanson & Holt Syndicate Management Ltd., (UK)
 Trafalgar Underwriters Agencies Ltd., (UK)
Unum European Holding Company Limited (UK) (3)
 Unum Limited (UK) (4)
 Claims Service International Limited (UK) (1)
 Group Risk Insurance Services Limited (UK)
UnumProvident Finance Company (UK) (5)
 Unum Ireland Limited (Ireland)
Colonial Life & Accident Insurance Company (SC)
UnumProvident International Ltd. (Bermuda)
Tailwind Holdings LLC (DE)
 Tailwind Reinsurance Company (SC)
Northwind Holdings LLC (DE)
 Northwind Reinsurance Company (VT)
The Paul Revere Corporation (MA)
 The Paul Revere Life Insurance Company (MA)
 The Paul Revere Variable Annuity Insurance Company (MA)
Provident Life and Accident Insurance Company (TN) (2)
Provident Life and Casualty Insurance Company (TN)
Provident Investment Management, LLC (TN)

THE PAUL REVERE VARIABLE ANNUITY INSURANCE COMPANY

Percentages of ownership is 100% unless otherwise indicated.

- (1) 50% owned by Unum European Holding Company Ltd. And 50% owned by Unum Limited
- (2) 85.9% owned by Unum Group; 10.1% owned by The Paul Revere Life Insurance Company; and 4.0% owned by Unum Life Insurance Company of America
- (3) 80% owned by Unum Group and 20% owned by UnumProvident Finance Company
- (4) 72% owned by Unum European Holding Company Ltd. And 28% owned by UnumProvident Finance Company
- (5) 99% owned by Unum Group; 1% owned by Provident Investment Management, LLC.

Transactions and Agreements with Affiliates

Service Agreements

The Unum Group provides the Company with facilities, managerial, administrative, investment and technical services pursuant to a General Services Agreement effective on March 28, 1998 and amended on August 8, 2006. Such shared costs and expenses are allocated based on time and usage studies.

Tax Sharing Agreement

As of December 31, 2008 the Company was a party to a written tax sharing agreement with other members of the Unum consolidated group members; Unum Life Insurance Company of America, First Unum Life Insurance Company, Colonial Life & Accident Insurance Company, Tailwind Reinsurance Company, Northwind Reinsurance Company, Provident Life and Accident Insurance Company, Provident Life and Casualty Insurance Company, The Paul Revere Variable Annuity Insurance Company, Duncanson & Holt, Inc., Duncanson & Holt Services, Inc., Colonial Companies, Inc., Benefit America, Inc., UnumProvident International, Ltd., Unum International Underwriters, Inc. and The Paul Revere Corporation. 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 Unum Group, 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 Unum Group, is also named as an insured on separate property and general liability policies in force as of December 31, 2008.

SPECIAL DEPOSITS

The special deposits of the Company at December 31, 2008 are as follows:

THE PAUL REVERE VARIABLE ANNUITY INSURANCE COMPANY

<u>State</u>	<u>Purpose of Deposit</u>	<u>Book Value</u>	<u>Fair Value</u>
Georgia	Statutory Purpose Deposit	\$ 87,659	\$ 113,912
Kansas	Statutory Purpose Deposit	247,105	334,745
Massachusetts	Benefit of all Policyholders	1,678,447	1,918,911
New Mexico	Statutory Purpose Deposit	123,552	167,373
North Carolina	Statutory Purpose Deposit	494,208	669,490
Virginia	Statutory Purpose Deposit	<u>60,815</u>	<u>72,142</u>
Totals		<u>\$2,691,786</u>	<u>\$3,276,573</u>

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 ceased actively marketing 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.

Treatment of Policyholders– Market Conduct

During the financial examination of the Company, the Division's Market Conduct Section initiated a market conduct examination of Massachusetts business of the Company and its parent, PRL, for the period January 1, 2008 through December 31, 2008. The market conduct examination was called pursuant to authority in Massachusetts General Laws Chapter 175, Section 4. The market conduct examination is being conducted at the direction of, and under the overall management and control of the Market Conduct Examination Staff of the Division. Representatives from the firm of Rudmose & Noller Advisors, LLC were engaged to complete certain agreed upon procedures which were developed using the guidance and standards of the NAIC Market Conduct Examiner's Handbook, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins.

Once this market conduct examination is completed, a Report on the Market Conduct Examination will be issued and become available as a public document.

REINSURANCE

Ceded Agreements

Effective April 30, 1998, the Company entered into a coinsurance agreement with AIG Annuity Insurance Company an affiliate of AIG General Corporation, to reinsure 100% of its in-force block of individual and tax sheltered 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.

AIG 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.

THE PAUL REVERE VARIABLE ANNUITY INSURANCE COMPANY

- Processing and payment of disbursements.

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 all of the individual life insurance written by the Company. Reassure America is also assuming responsibility for the administration of the policies. 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.

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 Company uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to the 2008 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.

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, 2008.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2008

Summary of Operations for the Year Ended December 31, 2008

Statement of Changes in Capital and Surplus for the Year Ended December 31, 2008

Reconciliation of Capital and Surplus for the Three Year Period Ended
December 31, 2008

THE PAUL REVERE VARIABLE ANNUITY INSURANCE COMPANY

Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2008

Assets	As Reported by the Company	Examination Changes	Per Statutory Examination
Bonds	\$ 100,117,587	\$ 0	\$ 100,117,587
Cash, cash equivalents and short-term investments	2,346,338		2,346,338
Other invested assets	1,405,258		1,405,258
Receivable for securities	101		101
Subtotals, cash and invested assets	103,869,284		103,869,284
Investment income due and accrued	1,538,707		1,538,707
Reinsurance:			
Other amounts receivable under reinsurance contract	164,131		164,131
Current federal and foreign income tax recoverable	559,272		559,272
Net deferred tax asset	1,412,825		1,412,825
Guaranty funds receivable or on deposit	199,515		199,515
Receivable from parent, subsidiaries and affiliates	45,056		45,056
Total assets excluding Separate Accounts business	107,788,789		107,788,789
From Separate Accounts statement	2,402,331		2,402,331
Total Assets	\$ 110,191,120	\$ 0	\$ 110,191,120

THE PAUL REVERE VARIABLE ANNUITY INSURANCE COMPANY

Statement of Assets, Liabilities, Surplus and Other Funds (Continued)
As of December 31, 2008

Liabilities	As Reported by the Company	Examination Changes	Per Statutory Examination
Liability for deposit-type contracts	\$ 5,821,137	\$ 0	\$ 5,821,137
Contract liabilities not included elsewhere:			
Other amounts payable on reinsurance	64,305		64,305
Interest Maintenance Reserve	5,897,015		5,897,015
Commissions to agents due or accrued	82,366		82,366
Taxes, licenses and fees due or accrued, excluding federal income taxes	849,725		849,725
Asset valuation reserve	224,841		224,841
Aggregate write-ins for liabilities	123,776		123,776
Total liabilities excluding Separate Accounts	13,063,164		13,063,164
From Separate Accounts statement	2,402,331		2,402,331
Total Liabilities	15,465,495		15,465,495
Common capital stock	2,500,000		2,500,000
Aggregate write-ins for other than special surplus funds	6,574,571		6,574,571
Gross paid-in and contributed surplus	48,800,000		48,800,000
Unassigned funds (surplus)	36,851,054		36,851,054
Total capital and surplus	94,725,625		94,725,625
Total Liabilities, Capital and Surplus	\$ 110,191,120	\$ 0	\$ 110,191,120

THE PAUL REVERE VARIABLE ANNUITY INSURANCE COMPANY

Summary of Operations
For the Year Ended December 31, 2008

	As Reported by the Company	Examination Changes	Per Statutory Examination
Net investment income	\$ 7,215,935	\$ 0	\$ 7,215,935
Amortization of interest maintenance reserve	273,064		273,064
Commissions and expense allowances on reinsurance ceded	1,620,002		1,620,002
Miscellaneous Income:			
Income from fees associated with investment management, administration and contract guarantees from			
Separate Accounts	71,684		71,684
Aggregate write-ins for miscellaneous income	233,436		233,436
Totals	9,414,121		9,414,121
Interest and adjustments on contract or deposit-type contract funds	301,464		301,464
Totals	301,464		301,464
Commissions on premiums, annuity considerations and deposit-type contract funds	555,677		555,677
General insurance expenses	52,409		52,409
Insurance taxes, licenses and fees, excl. federal income taxes	626,438		626,438
Totals	1,535,989		1,535,989
Net gain from operations before dividends to policyholders and federal income taxes	7,878,132		7,878,132
Federal income taxes incurred (excluding tax on capital gains)	2,305,443		2,305,443
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	5,572,689		5,572,689
Net realized capital gains or (losses)	(3,812,945)		(3,812,945)
Net Income	\$ 1,759,744	\$ 0	\$ 1,759,744

THE PAUL REVERE VARIABLE ANNUITY INSURANCE COMPANY

Capital and Surplus
For the Year Ended December 31, 2008

	As Reported by the Company	Examination Changes	Per Statutory Examination
Capital and surplus, December 31, prior year	\$ 114,046,378	\$ 0	\$ 114,046,378
Net income	1,759,744		1,759,744
Change in net unrealized capital gains less capital gains tax	13,957		13,957
Change in net deferred income tax	931,488		931,488
Change in nonadmitted assets	156,621		156,621
Change in asset valuation reserve	862,644		862,644
Surplus Adjustment:			
Change in surplus as a result of reinsurance	(1,045,207)		(1,045,207)
Dividends to stockholders	(22,000,000)		(22,000,000)
Net change in capital and surplus for the year	(19,320,753)		(19,320,753)
Capital and surplus, December 31, 2008	\$ 94,725,625	\$ 0	\$ 94,725,625

THE PAUL REVERE VARIABLE ANNUITY INSURANCE COMPANY

Reconciliation of Capital and Surplus
For the Three Year Period Ended December 31, 2008

	2008	2007	2006
Capital and surplus, December 31, prior year	\$ 114,046,378	\$ 109,479,968	\$ 114,867,731
Net income	1,759,744	5,910,559	8,360,280
Change in net unrealized capital gains or (losses)	13,957		
Change in net deferred income tax	931,488	344,763	102,421
Change in nonadmitted assets	156,621	(281,695)	(70,570)
Change in asset valuation reserve	862,644	(190,597)	(287,945)
Surplus adjustment:			
Change in Surplus as a result of reinsurance	(1,045,207)	(1,216,621)	(2,491,950)
Dividends to stockholders	(22,000,000)		(11,000,000)
Net change in capital and surplus for the year	(19,320,753)	4,566,409	(5,387,764)
Capital and surplus, December 31, current year	\$ 94,725,625	\$ 114,046,378	\$ 109,479,968

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, 2008.

PRVAIC cedes, on a coinsurance basis, virtually all of its individual life insurance business 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, 2008 yielded no material exceptions. The reserves were calculated in an actuarially sound manner and made adequate provision for claims and policy obligations. The 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 Accounts 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 Accounts assets and liabilities represent segregated funds administered and invested through an Administrative Agreement with The Variable Annuity Life Insurance Company for the benefit of variable annuity contract holders. The Separate Accounts invested assets are managed by MFS Institutional Advisors, Inc., through an investment sub-advisory agreement. 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 Accounts are credited to or charged against the accounts of the policyholders without regard to other income, or 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 was an open-end diversified investment company that was registered under the Investment Company Act of 1940. In 2010, the Securities and Exchange Commission granted a request to deregister the Fund, since the number of contract owners had decreased to below 100.

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 Accounts

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

SEPARATE ACCOUNTS FINANCIAL STATEMENTS

The following Separate Accounts 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, 2008.

Separate Accounts Statement of Assets, Liabilities, and Surplus as of December 31, 2008

Separate Accounts Summary of Operations for the Year Ended December 31, 2008

For Information Purposes Only

THE PAUL REVERE VARIABLE ANNUITY INSURANCE COMPANY

Separate Accounts
Statement of Assets, Liabilities, and Surplus
As of December 31, 2008

Assets	As Reported by the Company	Examination Changes	Per Statutory Examination
Common stocks	\$ 2,288,370	\$ 0	\$ 2,288,370
Cash and cash equivalents	23,388		23,388
Investment income due and accrued	2,359		2,359
Receivable for securities	88,214		88,214
Total Assets	<u>\$ 2,402,331</u>	<u>\$ 0</u>	<u>\$ 2,402,331</u>
Liabilities and Surplus			
Aggregate reserve for life, annuity and accident and health policies and contracts	\$ 1,142,885	\$ 0	\$ 1,142,885
Liability for deposit-type contracts	1,177,845		1,177,845
Changes for investment management, administration and contract guarantees due or accrued	1,501		1,501
Other transfers to general account due or accrued	14,747		14,747
Payable for securities	65,353		65,353
Total Liabilities	<u>2,402,331</u>		<u>2,402,331</u>
Unassigned funds	0		0
Surplus	<u>0</u>		<u>0</u>
Total Liabilities and Surplus	<u>\$ 2,402,331</u>	<u>\$ 0</u>	<u>\$ 2,402,331</u>

THE PAUL REVERE VARIABLE ANNUITY INSURANCE COMPANY

**Separate Accounts
Summary of Operations
For the Year Ended December 31, 2008**

	<u>As Reported by the Company</u>	<u>Examination Changes</u>	<u>Per Statutory Examination</u>
Transfers on account of deposit-type contracts:	\$ (309,230)	\$ 0	\$ (309,230)
Net Investment income and capital gains and losses	(1,364,899)		(1,364,899)
Aggregate write-ins for other income	-		-
Totals	<u>(1,674,129)</u>		<u>(1,674,129)</u>
DEDUCT:			
Transfers from the separate accounts on account Annuity benefits	<u>243,910</u>		<u>243,910</u>
Sub-totals	243,910		243,910
Fees associated with changes for investment management administration and contract guarantees	71,684		71,684
Increase in aggregate reserve for life and accident and health policies and contracts	(1,130,054)		(1,130,054)
Increase in liability for deposit-type contracts	(859,669)		(859,669)
Totals	<u>(1,674,129)</u>		<u>(1,674,129)</u>
Net gain from operations	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

ACKNOWLEDGEMENT

Acknowledgment is made of the cooperation and courtesies extended by the officers and employees of the Company to all the examiners during the course of the examination.

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

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