REPORT ON EXAMINATION

of the

PROVIDENT LIFE AND CASUALTY INSURANCE COMPANY

1 Fountain Square

Chattanooga, Tennessee 37402

as of

December 31, 2005

DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE
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Chattanooga, Tennessee
June 8, 2007

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Salt Lake City, Utah 84114-1201

Commissioners:

Pursuant to your instructions and in accordance with the Tennessee Insurance Laws, regulations, and resolutions adopted by the National Association of Insurance Commissioners (NAIC), a financial examination was made of the conditions and affairs of the

PROVIDENT LIFE AND CASUALTY INSURANCE COMPANY
CHATTANOOGA, TENNESSEE

hereinafter and generally referred to as the “Company.”
INTRODUCTION

This examination was arranged by the Department of Commerce and Insurance of the State of Tennessee (TDCI or Department) under rules promulgated by the NAIC. It was commenced on January 17, 2006, and was conducted by duly authorized representatives of the TDCI. Due to the Company being licensed in many states, this examination is classified as an Association examination and therefore was called through the NAIC's Examination Tracking System. Notice of intent to participate was received from only Delaware, which sent two (2) zone examiners who participated in the completion of this examination. This examination was made simultaneously with the Company's affiliate, Provident Life & Accident Insurance Company (PLA).

The previous examination was made as of December 31, 2000, by examiners of the State of Tennessee. Their report on examination contained one recommendation that required corrective action by the TDCI. The Company responded to the problem mentioned in the last report. See Comments - Previous Examination section included under Scope of Examination on page 3.

SCOPE OF EXAMINATION

This examination covers the period, January 1, 2001, through December 31, 2005, and includes any material transactions and/or events occurring subsequent to the examination date which were noted during the course of examination.

During the course of examination, assets were verified and valued, and liabilities were determined or estimated as of December 31, 2005, in accordance with rules and procedures as prescribed by the statutes of Tennessee, the Company's state of domicile. The examination of the financial condition of the Company was conducted in accordance with guidelines and procedures contained in the NAIC Financial Condition Examiners Handbook.

This examination is purely a financial examination made on the Company and does not include any review or procedures performed concerning market conduct matters. At the time of this examination, the Company was still performing its obligations under settlement agreements with forty-eight (48) states and the District of Columbia concerning a multi-state market conduct examination performed in 2004. The settlement agreements will remain in place until December 31, 2007, and do not allow for market conduct exams to be performed by states that are a party to the agreements.

An examination of all assets and liabilities contained in the financial statement of this report was made and individual items were verified with a degree of emphasis determined by the examiner-in-charge during the planning stage of the examination. Independent actuaries were utilized in the review of the Company's life and accident and health aggregate reserves, and contract claims. In addition, independent reinsurance specialists were utilized in the review of the Company's reinsurance agreements and overall reinsurance program.
A letter of representation, dated as of the date of this report and certifying that management has disclosed all significant matters and records, was obtained from management and has been included in the work papers of this examination.

Comments - Previous Examination

The previous examination report as of December 31, 2000 noted several minor comments that the Company corrected during the exam and made one recommendation, which the Company was directed to comply with in thirty (30) days as stated in the “Order Adopting Examination Report”. The Company disagreed with the Department’s interpretation of the law and stated that they believe they are in compliance with the intent and requirements of the law and requested that the recommendation be removed from the examination report. Here is a description of the recommendation and the Company’s response:

- **Recommendation:** The Company was directed to comply with Tenn. Code Ann. § 56-2-104(a)(5) by locating and maintaining all original books and records of the Company in the State of Tennessee.
- **Company’s Original Response dated June 26, 2003:** The Department has not, to our knowledge, advised the Company as to what comprises or constitutes original books and records. Additionally, to our knowledge, the Department has not published by rule or regulation what comprises or constitutes original books and records. When the statute was drawn, it is our understanding that the minutes of board meetings and the general ledger were typically considered the original books and records. The minutes of our board meetings, the charter and its amendments, and the Company’s general ledger, which are the items that we consider the Company’s original records, are maintained in the Company’s Chattanooga, Tennessee offices. The Company believes that it is in compliance with the intent and requirements of the Tennessee Code Annotated and kindly requests that this comment be removed from the examination report. We believe that it would be in the best interest of all parties if this matter was clarified and published to enable compliance as required by the Department.

Follow up during examination: For the most part, it appears that most of the Company’s original books and records are located at their home office in Chattanooga, Tennessee. However, due to the Company’s merger with Unum Corporation on June 30, 1999, some operations are also performed at Portland Maine, Worcester Massachusetts, and Columbia South Carolina. The examiner noted that access to these records, as well as all requested records, was provided to the examiner on a timely basis during the exam.
The Company is audited annually as part of the audit conducted for the holding company system, of which it is a member, by an independent accounting firm. The auditors' workpapers for the year ended 2005 were made available to the examiners during the planning phase of this examination. Workpapers of the auditors' substantive testing and their documentation of the Company's procedures and verification of internal controls were relied upon where sufficient for the purposes of this examination. Copies of these workpapers are included in the examination files where appropriate.

An examination was also made into the following matters:

- Company History
- Growth of Company
- Charter and Bylaws
- Management and Control
- Holding Company System
- Pecuniary Interest of Officers and Directors
- Corporate Records
- Fidelity Bond and Other Insurance
- Employee Benefits and Pension Plans
- Territory and Plan of Operation
- Schedule T – Premiums and Annuity Considerations
- Mortality and Loss Experience
- Reinsurance
- Unearned Ceding Commission
- Agreements with Parent, Subsidiaries and Affiliates
- Litigation and Contingent Liabilities
- Statutory Deposits
- Accounts and Records
- Financial Statements

These will be discussed as follows:

COMPANY HISTORY

The Company was incorporated on October 17, 1951, under the statutes of the State of Tennessee. Initial capital was $350,000 and consisted of 3,500 shares of common stock with a par value of $100 each share. Subsequently, the charter has been amended at various times to increase the authorized capital and to increase or decrease the par value of individual shares. The Company was organized originally for the purpose of writing business in the State of New York although its operations have since been extended to other jurisdictions. The Company is authorized to write life and disability insurance.
On December 22, 1995, the Company’s parent, PLA, contributed all of the stock of the Company to Provident Life Capital Corporation as an extraordinary dividend. In March 1996, Provident Life Capital Corporation was dissolved and its assets and liabilities were distributed to and assumed by Provident Companies, Inc. On June 30, 1999, Unum Corporation merged with and into the Company’s parent, Provident Companies, Inc., in an exchange of stock. The Company now operates as a subsidiary of UnumProvident Corporation (UnumProvident), a non-insurance holding company incorporated in Delaware.

At December 31, 2005, the Company had authorized capital stock of 12,000 shares of common stock with a par value of $150 per share, of which 12,000 shares were issued and outstanding for a capital paid up of $1,800,000. UnumProvident is the ultimate parent of the Company as it holds all of the outstanding shares. UnumProvident’s stock is publicly traded on the New York Stock Exchange.

The Company’s capital structure appears in the 2005 Annual Statement as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common capital stock</td>
<td>$1,800,000</td>
</tr>
<tr>
<td>Aggregate write-ins for other than special surplus funds</td>
<td>2,294,510</td>
</tr>
<tr>
<td>Gross paid in and contributed surplus</td>
<td>51,600,000</td>
</tr>
<tr>
<td>Unassigned funds (surplus)</td>
<td>35,098,288</td>
</tr>
<tr>
<td>Total capital and surplus</td>
<td>90,792,798</td>
</tr>
</tbody>
</table>

**GROWTH OF COMPANY**

The following exhibit depicts certain aspects of the growth and financial history of the Company for the period subject to this examination according to its annual statements as filed with the TDCI:

<table>
<thead>
<tr>
<th>Year</th>
<th>Admitted Assets</th>
<th>Liabilities</th>
<th>Capital and Surplus</th>
<th>Premiums and Annuity Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>$592,332,529</td>
<td>$519,040,654</td>
<td>$73,291,875</td>
<td>$80,165,827</td>
</tr>
<tr>
<td>2002</td>
<td>597,627,282</td>
<td>532,933,110</td>
<td>64,694,172</td>
<td>77,911,310</td>
</tr>
<tr>
<td>2003</td>
<td>609,986,617</td>
<td>538,566,246</td>
<td>71,420,371</td>
<td>75,730,821</td>
</tr>
<tr>
<td>2004</td>
<td>639,961,469</td>
<td>555,388,517</td>
<td>84,572,953</td>
<td>70,123,525</td>
</tr>
<tr>
<td>2005</td>
<td>649,341,447</td>
<td>558,548,648</td>
<td>90,792,798</td>
<td>76,066,029</td>
</tr>
</tbody>
</table>
CHARTER AND BYLAWS

The original Charter of the Company was filed with the Tennessee Secretary of State on October 16, 1951. The Charter of the Company in effect at December 31, 2005, is the Company’s Amended and Restated Charter that was adopted by the Board of Directors on September 27, 2005, filed with the Tennessee Secretary of State on November 14, 2005, and filed with the TDCI on April 28, 2006. This restatement of the Charter changed the address of the principal office of the Company, added a registered agent, stated the Company is for profit, and stated its purpose. This was the only amendment to the Company’s Charter during the period of this examination.

The restated Charter stated the Company’s name, address, registered agent, purpose, shares of stock and that the corporation is for profit among other general details. They are usual in nature and consistent with statute.

The Bylaws of the Company in effect at December 31, 2005, are the Company’s Amended and Restated Bylaws that were adopted by the Board of Directors on September 27, 2005 and filed with the TDCI on April 28, 2006. There were only minor changes made to the Company’s Bylaws from the one (1) previously in effect since February 1, 1990. This was the only change to the Company’s Bylaws during the period of this examination.

The Bylaws provide for an annual shareholders’ meeting at which a Board of Directors is elected. Officers are elected by the Board of Directors. The Bylaws are such as generally found in corporations of this type and contain no unusual provisions. They provide for the regulation of the business and for the conduct of the affairs of the Company, the Board of Directors and its shareholders.

Dividends to Stockholders

The Company paid two (2) ordinary cash dividends to its sole shareholder (UnumProvident) during the period of examination. The first dividend during the exam period was paid on December 30, 2002 for $5,000,000 and the second was paid on August 31, 2005 for $5,000,000. The Company notified the TDCI of the two (2) ordinary cash dividends in accordance with Tenn. Code Ann. § 56-11-205(e) on December 11, 2002 and August 5, 2005, respectively.
MANAGEMENT AND CONTROL

The Company’s Bylaws state that the business and affairs of the corporation shall be managed by a Board of Directors who shall be elected at the annual meeting of the shareholders. The Company’s Bylaws state that the number of directors shall consist of not less than one (1) nor more than eighteen (18) members as set forth from time to time by resolution of the Board of Directors. Directors serve until the next annual meeting of the shareholders and thereafter, until a successor has been elected.

The following persons were duly elected by the shareholders on September 27, 2005, and were serving as members of the Board of Directors at December 31, 2005:

Name
Robert O’Hara Best
Charles Louis Glick
Robert Carl Greving
Thomas Ros Watjen
Joseph Michael Zubretsky

The Bylaws provide that the officers of the corporation shall consist of a President and a Secretary and such other officers or assistant officers, including Chairman of the Board, Vice Presidents and Treasurer, as may be designated and elected by the Board of Directors. One person may simultaneously hold more than one office except the President may not simultaneously hold the office of Secretary.

The following persons were duly elected by the Board of Directors on September 27, 2005, and were serving as officers of the Company at December 31, 2005:

Name
Thomas Ros Watjen
Susan Nance Roth
Robert O’Hara Best
Charles Louis Glick
Kevin Paul McCarthy
Vicki Wright Corbett
John Joseph Iwanicki
Robert Carl Greving
Joseph Michael Zubretsky
Roger Carl Edgren
Joseph Richard Foley
Albert Angelo Riggieri

Title
President and Chief Executive Officer
VP, Corporate Secretary and Asst. General Counsel
Executive VP, The Client Services Center and Chief Information Officer
Executive VP and General Counsel
Executive VP, Underwriting
Vice President, Controller
Vice President, Treasurer
Executive VP, Chief Financial Officer and Chief Actuary
Senior Executive VP, Finance, Investments and Corporate Development
Executive VP, Field Sales
Senior Vice President and Chief Marketing Officer
Vice President and Appointed Actuary
The Board of Directors may designate, establish and charter such committees as it deems necessary or desirable, each comprised of one (1) or more directors. Committees which exercise powers of the Board of Directors are the executive and finance committees. Members of these committees at the examination date were as follows:

**Executive Committee**
Thomas Ros Watjen *
Charles Louis Glick
Joseph Michael Zubretsky

* - denotes committee chairman

**Finance Committee**
Joseph Michael Zubretsky *
Robert Carl Greving

* - denotes committee chairman

The following persons were appointed as members of the investment sub-committee of the finance committee of the Board of Directors of the Company and were serving as such at the examination date:

**Investment Sub-Committee**
Robert A. Brant
David G. Fussell
Sue W. Munson
Robert C. Greving
John J. Iwanicki
Martha D. Leiper
Ben S. Miller
Susan N. Roth
W. Benson Vance
Thomas A. H. White

**HOLDING COMPANY SYSTEM**

The Company is a member of an insurance holding company system as defined by Tenn. Code Ann. § 56-11-201. The Company operates as a subsidiary of UnumProvident, a non-insurance holding company incorporated in Delaware. UnumProvident is the ultimate parent of the Company as it holds all of the outstanding shares. UnumProvident's stock is publicly traded on the New York Stock Exchange. An organizational chart is included at the end of this report.
PECUNIARY INTEREST OF OFFICERS AND DIRECTORS

The Company’s parent, UnumProvident, has established a conflict of interest policy for its officers, directors and employees. The policy in effect as of the examination date was enacted in May of 2003. The policy is detailed and describes all aspects of what constitutes a conflict, how they should be avoided and employee procedures related to them.

Directors, officers and certain employees are required to complete a Code of Business Practices and Ethics Annual Affirmation. This questionnaire is used for all entities within the holding company system and persons required to complete the certificate sign only one form regardless of the number of positions they hold with different companies throughout the system. The examiner reviewed the questionnaires completed by the Company’s directors and major officers for the period under review with no exceptions.

CORPORATE RECORDS

The minutes of meetings of the Company’s Shareholders, Board of Directors, and committees were reviewed for the period under examination. They appear to properly reflect the acts of these respective bodies.

FIDELITY BOND AND OTHER INSURANCE

The Company is listed as a named insured on the following insurance coverages maintained by UnumProvident Corporation at December 31, 2005:

- Professional Liability
- Property
- Commercial General Liability
- Workers’ Compensation
- Aviation Liability
- Professional Liability Excess
- Business Auto
- Commercial Umbrella
- Commercial Excess Liability
- Foreign Liability

The Company’s fidelity coverage is in excess of the suggested minimum amount per the NAIC Financial Condition Examiners Handbook. The bonds and policies affording the aforementioned coverages were inspected and appear to be in-force as of the date of this examination. All of the above policies were issued by companies licensed to transact business in the State of Tennessee or by authorized surplus lines insurers. Similar coverages were in effect as of the date of this examination report.
EMPLOYEE BENEFITS AND PENSION PLANS

The Company receives all management, administrative and general services from UnumProvident in accordance with the General Services Agreement that is described later in the report under the heading Agreements with Parent, Subsidiaries and Affiliates. As of December 31, 2005, the Company had no employees, therefore no employee benefit plans. However, UnumProvident provides its employees with term life insurance, medical insurance, disability insurance and a 401(k) retirement plan.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2005, and as of the date of this examination report, the Company is a stock for profit life insurance company licensed to transact business in the District of Columbia and thirty-one (31) states, including the State of New York. Certificates of Authority granted by the licensed states were reviewed and found to be in force at year-end 2005. The Company currently has no applications pending for admission to any other states or territories.

In addition to its authorized writings, the Company also collects premiums in almost every state due to geographical moves by policyholders. Premium tax records were reviewed for all states in which the Company writes business and no exceptions were noted.

Plan of Operation

The Company is a stock for profit life insurance company licensed to transact business in the District of Columbia and thirty-one (31) states, including the State of New York. The Company is a New York marketing arm of its parent, UnumProvident, which traditionally has focused its activities in the individual disability income market and offered the same products as an affiliate, Provident Life and Accident Insurance Company. The Company’s key product is individual disability income insurance marketed primarily to employers and multi-life employee groups by the Company’s sales force, working in conjunction with independent brokers and consultants.

The Company has used and continues to use as its primary method of distribution an employed group of sales representatives marketing products to independent brokers. The independent producers are independent of the Company and are free to market and sell products from other insurance providers. Products sold through the independent producer channel include group based products (paid for by the employer), individual based products (paid for by the individual or by the employer as an executive benefit) and employee paid voluntary benefit products.
In recent years, new business growth has been coming increasingly from the employee benefits segment, as the Company, like the industry, has sought to diversify its customer base to include professionals, executives and others in the middle income range. Prior to 1995, almost all of the Company’s individual disability income insurance was sold to high-income individuals, such as doctors and lawyers, on a non-cancelable basis with an “own-occupation” provision. While historically this line of business had been a significant contributor to the Company’s earnings, that trend was reversed in the early 1990s as claims from doctors and lawyers accelerated and extended. The Company discontinued sales of the traditional non-cancelable, “own-occ” policies in 1995, and it has been phasing out sales of these products. The Company is now focusing on “loss of earnings” contracts, which insure income rather than occupation. While the Company continues to offer the traditional contracts on a limited basis, they have been repriced and modified.

The Company’s operations are managed by line of business. The Company writes a variety of insurance coverages including Individual Disability Income, Group Disability, Individual Life and Group Life.

SCHEDULE T – PREMIUMS AND ANNUITY CONSIDERATIONS

<table>
<thead>
<tr>
<th>State</th>
<th>Licensed? (Yes or No)</th>
<th>Life Insurance Premiums</th>
<th>Annuity Considerations</th>
<th>A&amp;H Insurance Premiums</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama</td>
<td>NO</td>
<td>$23,842</td>
<td>$0</td>
<td>$22,688</td>
</tr>
<tr>
<td>Alaska</td>
<td>YES</td>
<td>3,063</td>
<td>0</td>
<td>23,431</td>
</tr>
<tr>
<td>Arizona</td>
<td>NO</td>
<td>849</td>
<td>0</td>
<td>77,860</td>
</tr>
<tr>
<td>Arkansas</td>
<td>YES</td>
<td>320</td>
<td>0</td>
<td>9,089</td>
</tr>
<tr>
<td>California</td>
<td>NO</td>
<td>93,600</td>
<td>0</td>
<td>1,289,493</td>
</tr>
<tr>
<td>Colorado</td>
<td>YES</td>
<td>298</td>
<td>0</td>
<td>77,182</td>
</tr>
<tr>
<td>Connecticut</td>
<td>YES</td>
<td>22,760</td>
<td>0</td>
<td>2,225,240</td>
</tr>
<tr>
<td>Delaware</td>
<td>YES</td>
<td>240</td>
<td>0</td>
<td>33,078</td>
</tr>
<tr>
<td>District of Columbia</td>
<td>YES</td>
<td>225</td>
<td>0</td>
<td>86,119</td>
</tr>
<tr>
<td>Florida</td>
<td>NO</td>
<td>22,097</td>
<td>0</td>
<td>633,912</td>
</tr>
<tr>
<td>Georgia</td>
<td>YES</td>
<td>8,581</td>
<td>0</td>
<td>292,953</td>
</tr>
<tr>
<td>Hawaii</td>
<td>YES</td>
<td>943</td>
<td>0</td>
<td>39,410</td>
</tr>
<tr>
<td>Idaho</td>
<td>YES</td>
<td>858</td>
<td>0</td>
<td>2,420</td>
</tr>
<tr>
<td>Illinois</td>
<td>YES</td>
<td>14,194</td>
<td>0</td>
<td>627,771</td>
</tr>
<tr>
<td>Indiana</td>
<td>NO</td>
<td>1,184</td>
<td>0</td>
<td>61,651</td>
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<tr>
<td>Iowa</td>
<td>YES</td>
<td>289</td>
<td>0</td>
<td>19,196</td>
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<tr>
<td>Kansas</td>
<td>NO</td>
<td>7,402</td>
<td>0</td>
<td>47,101</td>
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<tr>
<td>Kentucky</td>
<td>YES</td>
<td>2,930</td>
<td>0</td>
<td>50,432</td>
</tr>
<tr>
<td>Louisiana</td>
<td>YES</td>
<td>4,538</td>
<td>0</td>
<td>41,314</td>
</tr>
<tr>
<td>Maine</td>
<td>NO</td>
<td>83,514</td>
<td>0</td>
<td>10,159</td>
</tr>
<tr>
<td>Maryland</td>
<td>NO</td>
<td>1,962</td>
<td>0</td>
<td>343,751</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>YES</td>
<td>3,782</td>
<td>0</td>
<td>585,346</td>
</tr>
<tr>
<td>Michigan</td>
<td>NO</td>
<td>2,543</td>
<td>0</td>
<td>87,183</td>
</tr>
<tr>
<td>Minnesota</td>
<td>NO</td>
<td>251</td>
<td>0</td>
<td>79,547</td>
</tr>
<tr>
<td>Mississippi</td>
<td>YES</td>
<td>260</td>
<td>0</td>
<td>18,017</td>
</tr>
<tr>
<td>Missouri</td>
<td>YES</td>
<td>2,795</td>
<td>0</td>
<td>102,976</td>
</tr>
</tbody>
</table>
MORTALITY AND LOSS EXPERIENCE

Life:

The actual to expected mortality on life business as developed from applicable amounts included in the Company’s annual statements filed with the TDCI for the years indicated were as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Death Benefits Incurred</th>
<th>Reserves Released by Death</th>
<th>Actual Death Benefits Incurred</th>
<th>Expected Mortality</th>
<th>Mortality Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>$5,426,375</td>
<td>$6,604</td>
<td>$5,419,771</td>
<td>$330,098</td>
<td>1,641.87%</td>
</tr>
<tr>
<td>2002</td>
<td>5,829,026</td>
<td>16,880</td>
<td>5,812,146</td>
<td>355,185</td>
<td>1,636.37%</td>
</tr>
<tr>
<td>2003</td>
<td>2,423,900</td>
<td>51,531</td>
<td>2,372,369</td>
<td>366,467</td>
<td>647.36%</td>
</tr>
<tr>
<td>2004</td>
<td>1,071,372</td>
<td>16,488</td>
<td>1,054,884</td>
<td>468,964</td>
<td>224.94%</td>
</tr>
<tr>
<td>2005</td>
<td>992,984</td>
<td>15,904</td>
<td>977,080</td>
<td>591,157</td>
<td>165.28%</td>
</tr>
</tbody>
</table>
A&H:

The ratios of losses incurred to premiums earned on A&H business for the years indicated were as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Incurred Claims</th>
<th>Net Premiums Earned</th>
<th>Loss Experience Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>$88,382,700</td>
<td>$71,731,534</td>
<td>123.21%</td>
</tr>
<tr>
<td>2002</td>
<td>79,947,184</td>
<td>70,893,968</td>
<td>112.77%</td>
</tr>
<tr>
<td>2003</td>
<td>72,716,167</td>
<td>70,832,620</td>
<td>102.66%</td>
</tr>
<tr>
<td>2004</td>
<td>88,851,906</td>
<td>66,292,563</td>
<td>134.03%</td>
</tr>
<tr>
<td>2005</td>
<td>76,262,084</td>
<td>73,481,658</td>
<td>103.78%</td>
</tr>
<tr>
<td>Total All Years</td>
<td>$406,160,041</td>
<td>$353,232,198</td>
<td>114.98%</td>
</tr>
</tbody>
</table>

REINSURANCE AGREEMENTS

The Company routinely assumes and cedes reinsurance with other insurance companies. The Company’s significant reinsurance agreements are summarized below.

Assumed Reinsurance with Non-Affiliates

**John Hancock Mutual Life Insurance Company**

Effective Date: August 1, 1992
Description: An automatic coinsurance agreement whereby the company assumes individual disability risks.
Maximum Ceded Amounts: 100% of policy liabilities.

**Nationwide Life Insurance Company of America**

Effective Date: July 1, 1991
Description: A coinsurance agreement whereby the company assumes certain individual disability risks.
Maximum Ceded Amounts: 95% of policy liabilities.
Ceded Reinsurance with Non-Affiliates

Employers Reinsurance Corporation

Effective Date: January 1, 1992
Description: An automatic coinsurance agreement for individual disability income risks whereby the company cedes risks to reinsurer.
Maximum Ceded Amounts: The reinsurer shall retain as its own net retention hereunder the proportion thereof that $1,000,000 bears to the total amount of individual disability income insurance in force, provided that, in no event shall the reinsurer’s indemnity exceed 50% part of the loss retained by the company.

The Lincoln National Life Insurance Company

Effective Date: January 1, 1987
Description: An automatic yearly renewable term agreement for individual health risks whereby the company cedes risks to the reinsurer.
Maximum Ceded Amounts: The company cedes 50% of the excess of (a) the total liability under policies and certificates covered under this agreement on any life over (b) reinsurance of such benefits on the life under reinsurance agreements other than this agreement.

M Life Insurance Company

Effective Date: January 1, 2002
Description: A modified coinsurance agreement for individual disability risks whereby the company cedes risks to reinsurer.
Maximum Ceded Amounts: 10% quota share.

National Indemnity Company

Effective Date: April 1, 2004
Description: An automatic coinsurance agreement for individual disability risks whereby the company cedes risks to reinsurer.
Maximum Ceded Amounts: Reinsurer’s maximum limit of liability under this agreement is $113,339,000.
Reassure America Life Insurance Company

Effective Date: July 1, 2000
Description: An automatic coinsurance agreement for individual and corporate life risks whereby the company cedes risks to reinsurer.
Maximum Ceded Amounts: 100%.

Swiss Re Life & Health America Inc.

Effective Date: January 1, 1994
Description: An automatic and facultative coinsurance agreement for individual disability risks wherein the company cedes risks to reinsurer.
Maximum Ceded Amounts: Initially, 30% quota share ceded and then amended effective January 1, 1995 to 10% ceded.

Effective Date: August 1, 1992
Description: A facultative coinsurance agreement for individual disability risks wherein the company cedes risks to reinsurer.
Maximum Ceded Amounts: Closed Claim Block.

Catastrophic Reinsurance

Effective Dates: January 1, 2005 – December 31, 2005
Description: A catastrophe excess of loss agreement whereby the following risks of the company and its affiliates are ceded:
- Group Life
- Group Accidental Death and Dismemberment
- Personal Accident
- Individual Life
- Individual Accidental Death and Dismemberment
- Individual and Group Disability
- Individual and Group Long Term Care

Limit and Retention: Up to $30M Ultimate Net Loss per accident or series of accidents arising out of one event in excess of $20M.
Reinsurer: MEGA Life & Health Insurance Company (33.33334%)
Effective Dates: January 1, 2005 – December 31, 2005
Description: A catastrophe excess of loss agreement whereby the following risks of the company and its affiliates are ceded:
- Group Life
- Group Accidental Death and Dismemberment
- Personal Accident
- Individual Life
- Individual Accidental Death and Dismemberment
- Individual and Group Disability
- Individual and Group Long Term Care
Limit and Retention: Up to $50M Ultimate Net Loss per accident or series of accidents arising out of one event in excess of $50M.
Reinsurers:
- Arch Reinsurance Company Ltd. (10%)
- AXIS Specialty Limited (12%)
- Endurance Reins. Corp of America (11%)
- Hannover Re (Bermuda) Limited (10%)
- The TOA Reinsurance Company Ltd. (5%)
- Platinum Underwriters Bermuda (4%)
- Montpelier Reinsurance Ltd. (10%)
- Lloyd’s Syndicate 2020 WEL (10%)
- BRIT Insurance Limited (12%)
- New Hampshire Insurance Company (11%)
- Odyssey America Reinsurance Corp (5%)

Effective Dates: January 1, 2005 – December 31, 2005
Description: A catastrophe excess of loss agreement whereby the following risks of the company and its affiliates are ceded:
- Group Life
- Group Accidental Death and Dismemberment
- Personal Accident
- Individual Life
- Individual Accidental Death and Dismemberment
- Individual and Group Disability
- Individual and Group Long Term Care
Limit and Retention: Up to $50M Ultimate Net Loss per accident or series of accidents arising out of one event in excess of $100M.
Reinsurers:
- Arch Reinsurance Company Ltd. (7%)
- AXIS Specialty Limited (11.5%)
Unearned Ceding Commission:

Primarily all of the Company’s reinsurance agreements cede premiums on a written basis, and therefore, in the event of termination, the Company would be obligated to return any unearned ceding commissions to the reinsurers. However, all of the agreements provide that in the event of termination, the reinsurance continues to apply to all policies in force until their expiry or cancellation in the normal course of business. No return of premium or ceding commission would be required at the termination of an agreement because the policies continue in full force. The majority of the Company’s reinsurance agreements provide that ceding commissions be paid based on net premiums; that is, on written premiums less the return premiums on policies that are cancelled by policyholders prior to the end of the policy period. The agreements provide for monthly settlements, including any return premiums and any associated ceding commissions, by offset. Therefore, the Company is deemed to have no ultimate liability for unearned ceding commissions.

SSAP No. 61 states if the reinsurance agreements contain “a persistency guarantee which provides for return of the excess commission, the ceding entity must record the excess commission as a liability.” The Company’s reinsurance agreements contain no such persistency guarantees.

Other Considerations:

All of the Company’s significant reinsurance agreements were found to contain such language as recommended by the NAIC and as required for reinsurance credit pursuant to Tenn. Code Ann. § 56-2-207(a)(2). All agreements also appear to effectuate proper transfer of risk in accordance with SSAP No. 61 and NAIC guidelines.
AGREEMENTS WITH PARENT, SUBSIDIARIES AND AFFILIATES

The Company had three (3) agreements with affiliated companies in effect as of December 31, 2005. The following are summaries of the agreements in effect as of this examination of the Company:

General Services Agreement with UnumProvident:

Effective April 11, 1998, the Company entered into a General Services Agreement with its parent, Provident Companies, Inc., now known as UnumProvident. According to the terms and provisions of the Agreement, UnumProvident agrees to provide the Company with certain administrative services for its internal operations and processing its insurance business. Such services include managerial and administrative support, marketing and product support and such other services as may be required.

The Company has no employees of its own. All services necessary to its business are provided by UnumProvident pursuant to the Agreement. The compensation paid by the Company to UnumProvident is subject to a quarterly service fee and the actual costs of services provided based on various allocation factors as specified in the agreement. Transactions under the Agreement for Services were reviewed for compliance with the Agreement and charges appear to be commensurate with services rendered.

The Company filed this Agreement for approval by the Commissioner as required by Tenn. Code Ann. § 56-11-206 on December 22, 1997. TDCI approved this Agreement on January 5, 1998.

Tax Allocation Agreement with UnumProvident:

Effective January 1, 2005, the Company entered into a Tax Allocation Agreement with their parent, UnumProvident, and other affiliated companies (UnumProvident Consolidated Group). The Agreement states the Company has elected through the provisions of the Internal Revenue Code to be included in its parent’s (UnumProvident) consolidated tax return.

The Agreement states the Consolidated Group elects to file their federal income tax return pursuant to elections under Sections 1502 and 1504(c)(2) of the Internal Revenue Code of 1986. The consolidated tax liability is allocated to each member of the consolidated group based upon the percentage of each member’s tax computed on a separate return basis to the total tax so computed for all members. In lieu of actual payments, adjustments to intercompany payables and receivables will be made if such exist on the Company’s books. Transactions under the Tax Allocation Agreement were reviewed for compliance with the Contract with no exceptions.

This agreement was disclosed by the Company in its 2005 Holding Company Registration Statement.
Investment Management Agreement with Provident Investment Management, LLC:

Effective April 15, 2004, the Company entered into an Investment Management Agreement with an affiliate, Provident Investment Management, LLC. Under the terms of the agreement, the Company is provided investment advisory and management services subject to the guidelines as specified in the agreement. In consideration of the services provided, the Company compensates the investment manager quarterly in the amount of fifteen (15) basis points per annum, based on the average market value of the portfolio as of the last business day of the calendar month in the quarter. Transactions under the Investment Management Agreement were reviewed for compliance with the Contract with no exceptions.


LITIGATION AND CONTINGENT LIABILITIES

During the period of examination and as of December 31, 2005, the Company is a defendant in a number of litigation matters. In some of these matters, no specified amount is sought. In others, very large or indeterminate amounts, including punitive and treble damages, are asserted. Most of the lawsuits can be categorized into those involving actions related to claims handling matters, other claim litigation, broker compensation, quoting processes, broker related litigation, and miscellaneous matters.

These lawsuits are for the most part in very preliminary stages. The outcome of the matters is uncertain, and the Company is unable to estimate a range of reasonably possible losses. An adverse outcome in one or more of these actions could, depending on the nature, scope, and amount of the ruling, materially adversely affect the Company’s results of operations in a period, encourage other litigation, harm the Company’s reputation and good will, and limit the Company’s ability to write new business, particularly if the adverse outcomes negatively impact certain of the Company’s financial strength ratings.

Multi-State Market Conduct Examination

In addition, in the fourth quarter of 2004, certain of UnumProvident’s insurance subsidiaries, including the Company, entered into settlement agreements with state insurance regulators upon conclusion of a multi-state market conduct examination led by Maine, Massachusetts, and Tennessee relating to disability claims handling practices. A total of forty-eight (48) states and the District of Columbia were parties to the settlement agreements, which provide for changes in certain claims handling procedures, a claim reassessment process available to certain claimants whose claims were denied or closed during certain periods and who choose to participate, changes in governance to increase oversight of the claims handling and reassessment process, and contingent fines for non-compliance. In addition, the U.S. Department of Labor (DOL),
which had been conducting an inquiry relating to certain ERISA plans, joined the settlement agreements. The Office of the New York Attorney General (NYAG), which had engaged in its own investigation of the UnumProvident's claim handling practices, notified UnumProvident that it supported the settlement and closed its investigation on this issue. The Company's results of operations were not materially impacted by this settlement in 2004.

The agreements will remain in place until the later of January 1, 2007, or the completion of an examination of claims handling practices and an examination of the reassessment process, both of which will be conducted by the lead state regulators. The settlement agreements also provide for a contingent fine of up to $145,000,000 to the U.S. insurance subsidiaries in the event that UnumProvident fails to satisfactorily meet the performance standards in the settlement agreements relating to the examinations referred to above. The parties to the agreements have subsequently agreed to extend the reassessment process until December 31, 2007, and UnumProvident expects to conclude the claim reassessment process by that time. The examinations will commence before or after that date. UnumProvident believes that due to the changes it has made to its claims operations to enhance the oversight functions, it is not probable that it will fail to meet the performance standards in the agreements when these examinations are concluded.

STATUTORY DEPOSITS

In compliance with statutory and other requirements, the Company maintained deposits with the named jurisdictions or custodians as of December 31, 2005.

The following are deposits with states where special deposits are for the benefit of all policyholders, claimants, and creditors of the Company:

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Description of Security</th>
<th>Book/Adjusted Carrying Value</th>
<th>Fair Value</th>
<th>Par Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tennessee - Department of Insurance</td>
<td>US Treasury Bond 8.750%, Due 08-15-20</td>
<td>$884,718</td>
<td>$1,222,802</td>
<td>$850,000</td>
</tr>
<tr>
<td></td>
<td>Cusip # 912810-EG-9</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>US Treasury Bond 7.625%, Due 11-15-22</td>
<td>254,802</td>
<td>337,295</td>
<td>250,000</td>
</tr>
<tr>
<td></td>
<td>Cusip # 912810-EN-4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>US Treasury Bond 6.25%, Due 02-15-07</td>
<td>449,950</td>
<td>458,649</td>
<td>450,000</td>
</tr>
<tr>
<td></td>
<td>Cusip # 912827-2J-0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sub-Total</td>
<td></td>
<td>$1,589,470</td>
<td>$2,018,746</td>
<td>$1,550,000</td>
</tr>
</tbody>
</table>
The following are deposits with states where special deposits are not for the benefit of all policyholders, claimants, and creditors of the Company:

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Description of Security</th>
<th>Book/Adjusted Carrying Value</th>
<th>Fair Value</th>
<th>Par Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Georgia - Department. of Insurance</td>
<td>US Treasury Bond 7.125%, Due 02-15-23</td>
<td>$160,263</td>
<td>$194,039</td>
<td>$150,000</td>
</tr>
<tr>
<td>New Mexico - Department. of Insurance</td>
<td>US Treasury Bond 7.50%, Due 11-15-16</td>
<td>125,992</td>
<td>161,699</td>
<td>125,000</td>
</tr>
<tr>
<td>North Carolina - Department. of Insurance</td>
<td>US Treasury Bond 8.75%, Due 08-15-20</td>
<td>29,115</td>
<td>35,965</td>
<td>25,000</td>
</tr>
<tr>
<td></td>
<td>US Treasury Bond 8.750%, Due 08-15-07</td>
<td>234,190</td>
<td>323,683</td>
<td>225,000</td>
</tr>
<tr>
<td></td>
<td>US Treasury Bond 6.250%, Due 02-15-07</td>
<td>149,983</td>
<td>152,883</td>
<td>150,000</td>
</tr>
<tr>
<td>-sub-total</td>
<td></td>
<td>699,543</td>
<td>868,269</td>
<td>675,000</td>
</tr>
<tr>
<td>grand-total</td>
<td></td>
<td>$2,289,013</td>
<td>$2,887,015</td>
<td>$2,225,000</td>
</tr>
</tbody>
</table>

Deposits with said jurisdictions or custodians were verified by direct correspondence with the custodian of such deposit.

**ACCOUNTS AND RECORDS**

Tenn. Comp R. & Regs., ch. 0780-1-65.07 (3) states that no partner or other person responsible for rendering a report by a certified public accounting firm may act in that capacity for more than seven (7) consecutive years. The Company has used Ernst & Young, LLP as their public accountants for many years, however, they are in compliance with this regulation as they last switched partners in 2004 and have never used the same partner for more than seven (7) consecutive years.
During the course of the examination, accounts were verified by various tests and procedures deemed necessary to establish values for assets and liabilities appearing in the Company's financial statements. Test checks, for selected periods, were made of premium receipts, investment income, interest due and accrued, claim payments, and other disbursements. All annual statements for the period under examination were reviewed for completeness and adequacy of disclosure. The Company's risk-based capital filings were reviewed and a sample was tested for correctness. These test checks and reviews revealed no material discrepancies.
Financial Statement

There follows a statement of assets, liabilities and a summary of operations as of December 31, 2005, together with a reconciliation of capital and surplus for the period under review, as established by this examination.

<table>
<thead>
<tr>
<th>Assets</th>
<th>Non-Admitted Assets As a Result of the Exam</th>
<th>Net-Admitted Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>$627,712,170</td>
<td>$627,712,170</td>
</tr>
<tr>
<td>Cash and Cash Equivalents</td>
<td>2,512,058</td>
<td>2,512,058</td>
</tr>
<tr>
<td>Contract loans</td>
<td>169,097</td>
<td>169,097</td>
</tr>
<tr>
<td>Receivables for securities</td>
<td>186,303</td>
<td>186,303</td>
</tr>
<tr>
<td>Investment Income Due and Accrued</td>
<td>9,493,735</td>
<td>9,493,735</td>
</tr>
<tr>
<td>Premiums and Considerations:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uncollected premiums and agents' balances in course of collection</td>
<td>1,868,894</td>
<td>1,868,894</td>
</tr>
<tr>
<td>Deferred premiums, agents' balances and installments booked but deferred and not yet due</td>
<td>1,593</td>
<td>1,593</td>
</tr>
<tr>
<td>Reinsurance:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts recoverable from reinsurers</td>
<td>543,447</td>
<td>543,447</td>
</tr>
<tr>
<td>Other amounts receivable under reinsurance contracts</td>
<td>313,195</td>
<td>313,195</td>
</tr>
<tr>
<td>Amounts receivable relating to uninsured plans</td>
<td>21,434</td>
<td>21,434</td>
</tr>
<tr>
<td>Current federal and foreign income tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td>recoverable</td>
<td>3,816,566</td>
<td>3,816,566</td>
</tr>
<tr>
<td>Net deferred tax asset</td>
<td>2,309,684</td>
<td>2,309,684</td>
</tr>
<tr>
<td>Guaranty funds receivable or on deposit</td>
<td>25,490</td>
<td>25,490</td>
</tr>
<tr>
<td>Aggregate write-ins for other than invested assets</td>
<td>367,780</td>
<td>367,780</td>
</tr>
<tr>
<td>Totals</td>
<td>$649,341,446</td>
<td>$0</td>
</tr>
</tbody>
</table>
### Liabilities, Surplus and Other Funds

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate reserve for life contracts</td>
<td>$11,241,212</td>
</tr>
<tr>
<td>Aggregate reserve for accident and health contracts</td>
<td>506,092,845</td>
</tr>
<tr>
<td>Liability for deposit-type contracts</td>
<td>1,850,083</td>
</tr>
<tr>
<td>Contract claims:</td>
<td></td>
</tr>
<tr>
<td>Life</td>
<td>662,212</td>
</tr>
<tr>
<td>Accident and health</td>
<td>9,938,502</td>
</tr>
<tr>
<td>Premiums and annuity considerations for life and accident and health contracts received in advance</td>
<td>1,664,884</td>
</tr>
<tr>
<td>Contract liabilities not included elsewhere:</td>
<td></td>
</tr>
<tr>
<td>Provision for experience rating refunds</td>
<td>4,376,560</td>
</tr>
<tr>
<td>Other amounts payable on reinsurance</td>
<td>268,039</td>
</tr>
<tr>
<td>Interest Maintenance Reserve (IMR)</td>
<td>18,079,364</td>
</tr>
<tr>
<td>Commissions to agents due or accrued</td>
<td>459,811</td>
</tr>
<tr>
<td>Commissions and expense allowances payable on reinsurance assumed</td>
<td>739</td>
</tr>
<tr>
<td>General expenses due and accrued</td>
<td>144,189</td>
</tr>
<tr>
<td>Taxes, licenses and fees due or accrued</td>
<td>75,741</td>
</tr>
<tr>
<td>Remittances and items not allocated</td>
<td>571,492</td>
</tr>
<tr>
<td>Miscellaneous liabilities:</td>
<td></td>
</tr>
<tr>
<td>Asset valuation reserve</td>
<td>1,697,417</td>
</tr>
<tr>
<td>Reinsurance in unauthorized companies</td>
<td>121,316</td>
</tr>
<tr>
<td>Payable to parent, subsidiaries and affiliates</td>
<td>1,157,970</td>
</tr>
<tr>
<td>Aggregate write-ins for liabilities</td>
<td>146,272</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$558,548,648</td>
</tr>
<tr>
<td>Common capital stock</td>
<td>$1,800,000</td>
</tr>
<tr>
<td>Deferred gains on reinsurance of inforce blocks of business</td>
<td>2,294,510</td>
</tr>
<tr>
<td>Gross paid in and contributed surplus</td>
<td>51,600,000</td>
</tr>
<tr>
<td>Unassigned funds (surplus)</td>
<td>35,098,288</td>
</tr>
<tr>
<td>Total Capital and Surplus</td>
<td>90,792,798</td>
</tr>
<tr>
<td>Totals</td>
<td>$649,341,446</td>
</tr>
</tbody>
</table>
### Summary of Operations

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premiums and annuity considerations for life and A&amp;H contracts</td>
<td>$76,066,029</td>
</tr>
<tr>
<td>Net investment income</td>
<td>42,169,135</td>
</tr>
<tr>
<td>Amortization of Interest Maintenance Reserve (IMR)</td>
<td>786,151</td>
</tr>
<tr>
<td>Commissions and expense allowances on reinsurance ceded</td>
<td>1,251,225</td>
</tr>
<tr>
<td>Reserve adjustments on reinsurance ceded</td>
<td>402,064</td>
</tr>
<tr>
<td>Aggregate write-ins for miscellaneous income</td>
<td>193,706</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td>$120,868,310</td>
</tr>
<tr>
<td>Death benefits</td>
<td>$982,984</td>
</tr>
<tr>
<td>Disability benefits and benefits under A&amp;H contracts</td>
<td>65,133,130</td>
</tr>
<tr>
<td>Surrender benefits and withdrawals for life contracts</td>
<td>177,968</td>
</tr>
<tr>
<td>Interest and adjustments on contract or deposit-type contract funds</td>
<td>29,238</td>
</tr>
<tr>
<td>Increase in aggregate reserves for life and A&amp;H contracts</td>
<td>10,667,409</td>
</tr>
<tr>
<td><strong>Total Benefits</strong></td>
<td>77,000,729</td>
</tr>
<tr>
<td>Commissions on premiums, annuity considerations and deposit-type contract funds</td>
<td>$10,506,014</td>
</tr>
<tr>
<td>Commissions and expense allowances on reinsurance assumed</td>
<td>276,128</td>
</tr>
<tr>
<td>General insurance expenses</td>
<td>16,893,275</td>
</tr>
<tr>
<td>Insurance taxes, licenses and fees, excluding federal income taxes</td>
<td>1,029,580</td>
</tr>
<tr>
<td>Increase in loading on deferred and uncollected premiums</td>
<td>67</td>
</tr>
<tr>
<td>Aggregate write-ins for deductions</td>
<td>32,886</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>28,737,950</td>
</tr>
<tr>
<td><strong>Total Benefits and Expenses</strong></td>
<td>$105,738,679</td>
</tr>
<tr>
<td>Net gain from operations before dividends to policyholders and federal income taxes</td>
<td>15,129,631</td>
</tr>
<tr>
<td>Dividends to policyholders</td>
<td>0</td>
</tr>
<tr>
<td>Net gain from operations after dividends to policyholders and before federal income taxes</td>
<td>15,129,631</td>
</tr>
<tr>
<td>Federal and foreign income taxes incurred</td>
<td>4,246,182</td>
</tr>
<tr>
<td>Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)</td>
<td>10,883,449</td>
</tr>
<tr>
<td>Net realized capital gains or (losses) less capital gains tax (excluding taxes transferred to the IMR)</td>
<td>1,807,630</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>$12,691,079</td>
</tr>
</tbody>
</table>
## Capital and Surplus Account

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Capital and Surplus</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>December 31, previous year</td>
<td>$67,058,521</td>
<td>$73,291,875</td>
<td>$64,694,172</td>
<td>$71,420,371</td>
<td>$84,572,952</td>
</tr>
<tr>
<td><strong>Net income or (loss)</strong></td>
<td>$423,359</td>
<td>($2,750,177)</td>
<td>($3,989,609)</td>
<td>($3,222,295)</td>
<td>$12,691,079</td>
</tr>
<tr>
<td><strong>Change in net unrealized capital gains or (losses)</strong></td>
<td>(2,299,000)</td>
<td>(430,999)</td>
<td>729,999</td>
<td>1,999,511</td>
<td>489</td>
</tr>
<tr>
<td><strong>Change in net deferred income tax</strong></td>
<td>3,257,400</td>
<td>(427,471)</td>
<td>2,793,721</td>
<td>(5,810,467)</td>
<td>(2,580,773)</td>
</tr>
<tr>
<td><strong>Change in non-admitted assets and related items</strong></td>
<td>(1,582,569)</td>
<td>(1,289,249)</td>
<td>(2,509,279)</td>
<td>5,659,670</td>
<td>2,989,048</td>
</tr>
<tr>
<td><strong>Change in liability for reinsurance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>in unauthorized companies</td>
<td>-0-</td>
<td>-0-</td>
<td>-0-</td>
<td>(169,773)</td>
<td>48,457</td>
</tr>
<tr>
<td><strong>Cumulative effect of changes in accounting principles</strong></td>
<td>(935,430)</td>
<td>-0-</td>
<td>-0-</td>
<td>-0-</td>
<td>-0-</td>
</tr>
<tr>
<td><strong>Surplus adjustment:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paid in</td>
<td>-0-</td>
<td>-0-</td>
<td>10,000,000</td>
<td>15,000,000</td>
<td>-0-</td>
</tr>
<tr>
<td>Change in surplus as a result of reinsurance</td>
<td>(289,958)</td>
<td>(285,567)</td>
<td>(298,633)</td>
<td>(304,065)</td>
<td>(231,037)</td>
</tr>
<tr>
<td><strong>Dividends to stockholders</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-0-</td>
<td>(5,000,000)</td>
<td>-0-</td>
<td>-0-</td>
<td>(5,000,000)</td>
</tr>
<tr>
<td><strong>Net change in total capital and surplus for the year</strong></td>
<td>$6,233,354</td>
<td>($8,597,703)</td>
<td>$6,726,199</td>
<td>$13,152,581</td>
<td>$6,219,846</td>
</tr>
<tr>
<td><strong>Total Capital and Surplus</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>December 31, current year</td>
<td>$73,291,875</td>
<td>$64,694,172</td>
<td>$71,420,371</td>
<td>$84,572,952</td>
<td>$90,792,798</td>
</tr>
</tbody>
</table>
ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION

ASSETS

Contract Loans: $169,097

The amount shown above is the same as reported by the Company in its 2005 Annual Statement.

Justification for Comment: During the review of the policy loan cash values on the Company’s Contact Information Access (CIA) system, it was determined that the Company should have non-admitted $56,401 in over loaned policy loans at December 31, 2005. The $56,401 difference was deemed immaterial for the purpose of this examination.

During the course of this examination, the Company improved process guidelines and controls on its CIA system to resolve this issue during the course of this examination.
LIABILITIES, SURPLUS AND OTHER FUNDS

Aggregate Reserve for Accident and Health Contracts: $506,092,845

The amount shown above is the same as reported by the Company in its 2005 Annual Statement. **Justification for Comment and Recommendation:** During the review of the Company's aggregate reserve for accident and health contracts by the TDCI's contracted actuarial specialists, Lewis & Ellis, Inc., one issue was noted. Lewis & Ellis, Inc. agreed with the Company's reporting of its amount for aggregate reserve for accident and health contracts as shown by the Company in its 2005 Annual Statement with some limitations. Even though the reserves held appear appropriately calculated based on minimum standards and the assumptions used, the reserves must be tested for reserve adequacy.

Tenn. Comp. R. & Regs., ch. 0780-1-69 Section 2 (c) states that all claim reserves for prior valuation years are to be tested for adequacy and reasonableness along the lines of claim runoff schedules in accordance with the statutory financial statement. **Statement of Statutory Accounting Principles (SSAP) # 54 – Individual and Group Accident and Health Contracts** Section # 11 states, “The Health Reserves Guidance Manual (HRGM) provides further guidance related to reserving methodologies and assumptions used in determining individual and group accident and health reserves.” The HRGM states in Section II.D, “If follow-up studies indicate that historical reserve methods have produced inadequate reserves in an excessive proportion of the instances studied, then the reserving methodologies should be revised appropriately.” Based on the review of the Company’s Schedule H, it is apparent that the reserves and liabilities established have been inadequate. This implies that the assumptions and methodologies utilized in establishing claim reserves and liabilities have failed to adequately provide for future benefits.

The Company is currently implementing a new company-wide valuation system. In a letter sent to the TDCI dated March 26, 2007, the Company detailed the impact of this implementation. As part of this implementation claim reserves and liabilities for the individual disability business will be increased by approximately five percent (5%). These additional reserves would assist the Company in achieving reserve adequacy if the recent historical results are indicative of future experience.

Based on the adjusted historical reserve adequacy analysis, Lewis & Ellis, Inc. believe the claim reserve reported as of year-end 2005 is inadequate by approximately 2.25% or $8,960,671. As mentioned previously, the Company is strengthening its claim reserves by approximately five percent (5%) in 2007. This reserve strengthening in 2007 would cover the inadequate amount as of year-end 2005. It is recommended that the Company follow through with their plan and strengthen their claim reserves in 2007 by at least $8,960,671.
Total Capital and Surplus: $90,792,798

Total capital and surplus as established by this examination is the same as what was reported by the Company in its December 31, 2005, Annual Statement. There were no financial changes made during this examination to any asset, liability or surplus items due to our findings. However, there were a few comments and one (1) recommendation made that is contained in the pages that follow.

Tenn. Code Ann. §§ 56-2-114 and 115 require an insurer of this Company's type to maintain a minimum capital and surplus of two million dollars ($2,000,000). Therefore, the Company as of December 31, 2005, for this examination does maintain the required minimum capital and surplus as stated in the Tenn. Code Ann.
### Analysis of Changes in Financial Statement as They Affect Surplus

<table>
<thead>
<tr>
<th>Item</th>
<th>Reclassification</th>
<th>Increase</th>
<th>Decrease</th>
<th>Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Capital and Surplus per Company</td>
<td>$90,792,798</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No changes made during exam</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Totals</td>
<td></td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Total Change per Examination</td>
<td></td>
<td></td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Total Capital and Surplus per Examination</td>
<td>$90,792,798</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
COMMENTS AND RECOMMENDATIONS

The following list presents a summary of comments and recommendations noted in this report:

Comments:

A. Contract Loans – Page 27

During the review of the policy loan cash values on the Company’s Contact Information Access (CIA) system, it was determined that the Company should have non-admitted $56,401 in over loaned policy loans at December 31, 2005. The $56,401 difference was deemed immaterial for the purpose of this examination.

During the course of this examination, the Company improved process guidelines and controls on its CIA system to resolve this issue during the course of this examination.
Recommendations:

A. Aggregate Reserve for Accident and Health Contracts – Page 28

During the review of the Company’s aggregate reserve for accident and health contracts by the TDCI’s contracted actuarial specialists, Lewis & Ellis, Inc., one issue was noted. Lewis & Ellis, Inc. agreed with the Company’s reporting of its amount for aggregate reserve for accident and health contracts as shown by the Company in its 2005 Annual Statement with some limitations.

Even though the reserves held appear appropriately calculated based on minimum standards and the assumptions used, the reserves must be tested for reserve adequacy. Based on the review of the Company’s Schedule H, it is apparent that the reserves and liabilities established have been inadequate. This implies that the assumptions and methodologies utilized in establishing claim reserves and liabilities have failed to adequately provide for future benefits.

The Company is currently implementing a new company-wide valuation system. In a letter sent to the TDCI dated March 26, 2007, the Company detailed the impact of this implementation. As part of this implementation claim reserves and liabilities for the individual disability business will be increased by approximately five percent (5%). These additional reserves would assist the Company in achieving reserve adequacy if the recent historical results are indicative of future experience.

Based on the adjusted historical reserve adequacy analysis, Lewis & Ellis, Inc. believe the claim reserve reported as of year-end 2005 is inadequate by approximately 2.25% or $8,960,671. As mentioned previously, the Company is strengthening its claim reserves by approximately five percent (5%) in 2007. This reserve strengthening in 2007 would cover the inadequate amount as of year-end 2005. It is recommended that the Company follow through with their plan and strengthen their claim reserves in 2007 by at least $8,960,671.
CONCLUSION

The customary insurance examination practices and procedures, as promulgated by the NAIC have been followed in connection with the verification and valuation of assets and the determination of liabilities of Provident Life & Casualty Insurance Company located in Chattanooga, Tennessee.

In such manner, it was found that as of December 31, 2005, the Company had admitted assets of $649,341,446 and liabilities, exclusive of surplus, of $558,548,648. Thus, there existed for the additional protection of the policyholders, the amount of $90,792,798 in the form of common capital stock, aggregate write-ins for other than special surplus funds, gross paid in and contributed surplus and unassigned funds.

The courteous cooperation of the officers and employees of the Company, extended during the course of the examination, is hereby acknowledged.

In addition to the undersigned, Michael A. Mayberry, FSA, MAAA, and David M. Dillon, FSA, MAAA, of the contracting actuarial firm, Lewis & Ellis, Inc., Richardson, Texas, and Norman Chandler, CPA, CPCU, ARe, AIAF, ARC, ACP, of the contracting reinsurance specialist firm, TaylorChandler, LLC, Montgomery, Alabama, participated in the work of this examination.

Respectfully submitted,

A. Jay Uselton, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC

Greg Taylor
Insurance Examiner, CFE
State of Delaware
Northeastern Zone, NAIC

Rebecca E. Walker
Rebecca E. Walker
Insurance Examiner, III
State of Tennessee
Southeastern Zone, NAIC

Vince Dyal
Vince Dyal
Insurance Examiner, CFE
State of Delaware
Northeastern Zone, NAIC
EXAMINATION AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Provident Life & Casualty Insurance Company located in Chattanooga, Tennessee dated June 8, 2007, and made as of December 31, 2005, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of his knowledge, information and belief.

A. Jay Uzelton, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC

County Davidson
State Tennessee

Subscribed and sworn to before me this 8th day of June, 2007

Helen W. Dorsey
(NOTARY)

My Commission Expires 05/22/2010
June 20, 2007

Larry C. Knight, Jr., Assistant Commissioner
State of Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243-0565

Re: Financial Condition Examination of Provident Life and Casualty Insurance Company

Dear Mr. Knight:

We respectfully submit this written rebuttal to the Report on Examination of Provident Life and Casualty Insurance Company (the Company) as of December 31, 2005. In particular, we wish to offer a formal response and further clarification to the comments noted on pages 28 and 32 pertaining to the Company’s aggregate reserve for accident and health contracts.

The Company tests for reserve adequacy at the level of aggregate reserves, including both active life and claim reserves. We rely upon this test for overall reserve adequacy in compliance with Tenn. Comp. R. & Regs. 0780-1-69-.01(1)(c) which states, "With respect to any block of contracts, or with respect to an insurer’s health business as a whole, a prospective gross premium valuation is the ultimate test of reserve adequacy as of a given valuation date. Such a gross premium valuation will take into account, for contracts in force, in a claims status, or in a continuation of benefits status on the valuation date, the present value as of the valuation date of: all expected benefits unpaid, all expected expenses unpaid, and all unearned or expected premiums, adjusted for future premium increases reasonably expected to be put into effect." Since reserves, in the aggregate, exceed minimums and are adequate, it is appropriate for the Company to conclude that reserves are appropriate and adequate. Further analysis below the level of aggregate testing is only indicative of margin positions within components of the reserves and does not result in conclusions of reserve adequacy or inadequacy.

The Company has demonstrated reserve adequacy as of December 31, 2005 through cash flow testing which indicated a margin of $95.3 million in the reserves. Given that reserves are adequate and meet minimum reserve requirements, in the aggregate, we believe the Company has appropriately concluded that its reserves meet Tennessee reserve requirements.

A Schedule H runoff test may indicate that there is a short-term runoff loss in the claim reserves, but this does not indicate a reserve deficiency. Applying the guidance from the Health Reserve Guidance Manual does not result in a conclusion that reserves are inadequate. The guidance states that if Schedule H runoff tests produce Inadequacies, then reserve methodologies should be revised appropriately. As long as reserves exceed minimum levels and are adequate in the aggregate, then this guidance does not preclude reassignment of active life and claim reserves as an appropriate adjustment to methodologies. Using this logic, we conclude that a Schedule H runoff loss is indicative only of an imbalance of margin positions between active lives and claims and not conclusive as to reserve adequacy.

Unum is a registered trademark and marketing brand of Unum Group and its insuring subsidiaries.
We are taking actions related to restructuring the reserves in 2007 which will increase claim reserves, with a partial offset to this increase with reductions to active life reserves. The overall margin position in the reserves will be enhanced, and the additional claim reserves will assist the Company in eliminating Schedule H runoff losses.

Sincerely,

Robert C. Gревинг
Executive Vice President, Chief Financial Officer and Chief Actuary
Unum Group

cc: Louise Booth, Financial Affairs Director
Philip Blustein, Insurance Examinations Director
A. Jay Uselton, Examiner-in-Charge