REPORT ON EXAMINATION

OF

AIG LIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 2006

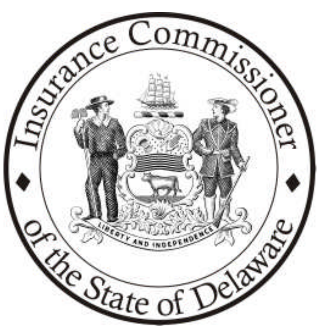
I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2006 of the

AIG LIFE INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

ATTEST BY: Antoinette Handy

DATE: 30 MAY 2008



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 30TH DAY OF MAY, 2008.

Matt Denn

Insurance Commissioner

REPORT ON EXAMINATION

OF THE

AIG LIFE INSURANCE COMPANY

AS OF

December 31, 2006

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 30TH Day of MAY 2008.

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March 6, 2008

Honorable Alfred W. Gross
Chairman Financial Condition (E)
Subcommittee, NAIC
State Corporation Commission
Bureau of Insurance
P.O. Box 1157
Richmond, VA 23218

Honorable Thomas E. Hampton
Secretary, Northeastern Zone (I), NAIC
Department of Insurance, Securities and Banking
Government of the District of Columbia
810 First Street N.E., Suite 701
Washington, DC 20002

Honorable Julie Mix McPeak
Secretary, Southeastern Zone (II), NAIC
Office of Insurance
Commonwealth of Kentucky
P.O. Box 517
Frankfort, KY 40602-0517

Honorable Merle D. Scheiber
Secretary, Midwestern Zone (III), NAIC
South Dakota Division of Insurance
Department of Revenue and Regulation
445 East Capital Avenue
Pierre, SD 57501-3185

Honorable Kent Mitchie
Secretary, Western Zone (IV), NAIC
Utah Department of Insurance
3110 State Office Building
Salt Lake City, Utah 84114-1201

Honorable Matthew Denn, Commissioner
State of Delaware
Department of Insurance
841 Silver Lake Boulevard, Suite 100
Dover, Delaware 19904

Dear Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 07.004, dated April 11, 2007, an examination has been made of the affairs, financial condition and management of

AIG LIFE INSURANCE COMPANY

hereinafter referred to as the “Company” incorporated under the laws of the state of Delaware with its statutory office located at One Alico Plaza, Wilmington, Delaware. The examination was conducted at the main administrative office of the Company located at 2727-A Allen Parkway, Houston, Texas. The report of the examination is respectfully submitted.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 2003. This comprehensive financial examination covered the period January 1, 2004, through December 31, 2006, and consisted of a general survey of the Company's business practices, management, any corporate matters incident thereto, a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

This report is presented on an exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. The text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible Company Officials during the course of examination.

The general procedures of the examination followed the rules established by the National Association of Insurance Commissioners' (NAIC) Committee on Financial Condition Examiners Handbook, and generally accepted statutory insurance examination standards.

In addition to the items hereinafter incorporated as part of the written report, the following were checked and made part of the work papers of this examination:

Corporate Records
Fidelity Bonds and Other Insurance
Officers', Employees', and Agents' Welfare and Pension Plans
Conflict of Interest
Business in force by States
Legal Actions
NAIC Financial Ratios
Subsequent Events
All asset and liability items not mentioned in this report

The 2006 examination was conducted by representatives of the Delaware Department of Insurance representing the Northeastern Zone of the NAIC, and in accordance with the

Association Plan of Examination guidelines established by the NAIC. No other states participated in the examination.

Work papers prepared by the Company's external accounting firm, PricewaterhouseCoopers, (PWC) New York, New York, in connection with the annual audit, were reviewed and relied upon to the extent possible.

INS Services, Inc. was retained by the Delaware Department of Insurance to conduct a review of the Company's overall control risk related to information system controls.

The Company was examined concurrently with an affiliate, Delaware American Life Insurance Company.

HISTORY

The Company was incorporated in the Commonwealth of Pennsylvania on June 18, 1962 and commenced business on September 4, 1962, as the National Union Life Insurance Company. The Company's name was changed on December 15, 1970, to the Life Insurance Company of New Hampshire. The present title was adopted in October 1980.

In 1991, the Company redomesticated from the Commonwealth of Pennsylvania to the State of Delaware.

The Company is a wholly owned subsidiary of American International Group, Inc. (AIG).

Capitalization

Common capital stock totaled $4,883,515 during the period under examination. AIG, an insurance holding company domiciled in the state of Delaware, owns 79 percent of the outstanding common stock of the Company, or 771,575 shares at $5 per share. The remaining

21 percent of the Company's outstanding common stock, or 205,128 shares at $5 per share, is held by Commerce and Industry Insurance Company, which is domiciled in New York.

On December 6, 2001, the Company issued 2,500 shares of preferred stock with a par value of $100,000 per share to National Union Fire Insurance Company of Pittsburgh, PA (NUFIC), totaling $250,000,000. During the period under examination, the Company redeemed all of its preferred capital stock. On December 28, 2005, the Company redeemed 1,500 shares with a par value of $100,000 per share of preferred stock. On September 27, 2006, the Company redeemed the remaining 1,000 shares with a par value of $100,000 per share of preferred stock. Both redemptions were payable to NUFIC, an affiliate.

Dividends to Stockholders

For each of the years under examination, the following cash dividends were paid:

Year	Amount	Paid To
2006	$ 3,713,722	NUFIC
2006	39,500,000	AIG
2006	10,500,000	Commerce & Industry Insurance Company
2005	11,068,750	NUFIC
2005	39,500,000	AIG
2005	10,500,000	Commerce & Industry Insurance Company
2004	11,725,000	NUFIC

Management

The bylaws of the Corporation were restated as of April 27, 2005, and filed with the Delaware Department of Insurance as of June 16, 2005. The bylaws state that the business and affairs of the Company shall be managed by a Board of Directors consisting of five or more Directors. The Directors shall be elected at the annual meeting of the stockholders and shall hold office until a successor is elected and qualified. It is not necessary for the Directors to be stockholders.

The elected directors of the Company at December 31, 2006, were as follows:

Directors	Principal Occupation or Other Business Affiliation
M. Bernard Aidinoff	Retired partner, Sullivan & Cromwell
David J. Dietz	Chairman and Chief Executive Officer of the Company – Global High Net Worth, Corporate Markets & Domestic Institutional Profit Center
Mary Jane Fortin	Executive Vice President and Chief Financial Officer of the Company
David L. Herzog	Senior Vice President and Comptroller, AIG
Richard A. Hollar	President and Chief Executive Officer of the Company – Independent Distribution Profit Center
Royce G. Imhoff, II	President – Independent Distribution Profit Center of the Company
Rodney O. Martin, Jr.	AIG Executive Vice President Life, Chief Operating Officer World Wide Life
Gary D. Reddick	AIG Senior Vice President World Wide Life
Christopher J. Swift	AIG Vice President Life – Vice President and Chief Financial Officer Life
James W. Weakley	President and Chief Executive Officer – AIG Benefit Solutions Profit Center of the Company
Matthew E. Winter	President and Chief Executive Officer of the Company

The principal officers of the Company as of December 31, 2006, were as follows:

Officers	
Rodney O. Martin, Jr.	Chairman of the Board
Matthew E. Winter	President and Chief Executive Officer
David J. Dietz	Chairman and Chief Executive Officer – Global High Net Worth, Corporate Markets and Domestic Institutional Profit Center
Richard A. Hollar	Chairman and Chief Executive Officer – Independent Distribution Profit Center
Rebecca G. Campbell	Executive Vice President, Human Resources
Mary Jane Fortin	Executive Vice President and Chief Financial Officer
Gary D. Reddick	Executive Vice President and Chief Administrative Officer
David W. O'Leary	Executive Vice President – Strategic Marketing and Business Development
Wayne A. Barnard	Senior Vice President and Illustration Actuary
Robert M. Beuerlein	Senior Vice President and Chief and Appointed Actuary
Robert F. Herbert, Jr.	Senior Vice President, Treasurer and Controller
Stephen D. Isreal	Senior Vice President
Kyle L. Jennings	Senior Vice President and General Counsel
Harry R. Miller	Senior Vice President
David S. Jorgensen	Vice President
David S. Brasington	Vice President and Chief Compliance Officer

Richard W. Scott	Vice President and Chief Investment Officer
Elizabeth M. Tuck	Secretary

Committees

The Board of Directors appoints an Executive Committee annually. Members of the Executive Committee in place as of December 31, 2006 were as follows:

Rodney O. Martin, Jr.	Matthew E. Winter
Mary Jane Fortin	Gary D. Reddick

Control

The ultimate controlling person is AIG, a Delaware corporation, with its principal place of business at 70 Pine Street, New York, NY 10270. AIG is a holding company, controlled by its board of directors on behalf of it shareholders.

HOLDING COMPANY SYSTEM

As previously noted, the Company is a member of the AIG holding company system. AIG is a publicly traded U.S. based international insurance holding company, domiciled in Delaware, operating in approximately 130 countries and jurisdictions around the world.

AIG's operating subsidiaries form one of the largest global financial services institutions, providing a broad product and service portfolio consisting of life and property/casualty insurance, retirement services, investment management, and financial products to institutional, corporate and retail customers. AIG's life insurance companies operate in three core business lines: Domestic Life, Domestic Retirement Services and Worldwide Life and Retirement

Services. As a member of AIG's Domestic Life Division, the Company benefits extensively from AIG's production sources, service facilities and underwriting and management experience.

The AIG holding company organizational chart reflected in Schedule Y of the Annual Statement includes over 300 entities. The Company's direct parent is AIG. The company does not hold direct or indirect ownership of any subsidiary companies. The abbreviated organizational chart below reflects affiliated entities with which the Company conducts significant business.

- American International Group, Inc.
    - AIG Property Casualty Group, Inc.
        - AIG Commercial Insurance Group, Inc.
            - National Union Fire Insurance Company of Pittsburgh, PA
                - Lexington Insurance Company
            - Commerce and Industry Insurance Company
    - AIG Life Holdings (International) LLC
        - American International Reinsurance Company, Ltd.
            - American International Assurance Company, Ltd.
    - AIG Life Insurance Company (79%) *
    - AIG Life Insurance Company of Puerto Rico
    - Delaware American Life Insurance Company
    - AIG Capital Corporation
        - AIG Global Asset Management Holdings Corp.
            - AIG Global Investment Corp.
    - American General Corporation
        - AGC Life Insurance Company
            - AIG Life of Bermuda, Ltd.

* 21% Commerce and Industry Insurance Company

MANAGEMENT AND SERVICE AGREEMENTS

The Company was a party to numerous inter-company agreements, which were disclosed by the Company in its Form B Registration Statement filings with the Delaware Department of Insurance. The agreements of significance are summarized as follows.

Service and Expense Agreement

On February 1, 1974, AIG entered into a Service and Expense Agreement among several affiliated companies. Addendum No. 6 added the Company to the agreement as of June 9, 1981. Additional amendments, 35 total, primarily added parties to the agreement. Pursuant to the agreement, the companies are all subsidiaries of AIG and share among themselves and with certain other subsidiaries and affiliates of AIG certain expenses, equipment, office space, services and personnel furnished by AIG. The companies shall reimburse AIG on a quarterly basis at no greater than cost.

The review of related party transactions found that the Company was not settling its inter-company balances in accordance with the quarterly requirement of the Service and Expense Agreement. This was also noted in the prior report on examination.

It is again recommended that the Company settle its inter-company balances in accordance with the Service and Expense Agreement.

Tax Payment Allocation Agreement

The Company participates in the consolidated federal income tax return of AIG and its domestic subsidiaries based upon a Tax Payment Allocation Agreement effective January 1, 1992, as amended on January 1, 1994. The agreement provides for the Company's taxes to be calculated as if it filed a separate tax return. Installment payments shall be made by the Company to AIG on or about April 15, June 15, September 15, and December 15. All inter-company balances shall be settled within 90 days after such payment or refund receipt.

Investment Advisory Agreement

Effective April 1, 1999, the Company entered into an Investment Advisory Agreement with AIG Global Investment Corp. (AIGGIC). AIGGIC has full power to supervise and direct the investment and reinvestment of the cash, securities and other property. Compensation to AIGGIC is a percentage based on the average market value of the Company's account.

Short Term Investment Pool Participation Agreement

Effective October 31, 2002, the Company was added as a party to the Short Term Investment Pool Participation Agreement dated as of April 28, 1999 among, American General Investment Management, L.P., as manager, Delaware American Life Insurance Company, other entities within the American International Group, Inc., and State Street Bank and Trust Company. There are four amendments to the agreement, the fourth replacing the manager as AIGGIC. The Agreement permits the parties to invest funds in three short-term pools, and is intended to improve the rate of return on each party's investment by pooling its assets with other affiliates.

Administration Services Agreement

On December 1, 2002, the Company entered into an Administrative Services Agreement with AIG Business Processing Services, Inc. (BPSI), an affiliate under the common control of AIG. Administrative services provided by BPSI under the agreement include data entry of information from electronically imaged documents, indexing processes, basic policyholder service updates and changes, title changes, requests for policy benefits/disbursements, preparation of simple policyholder correspondence, processing of simple uncontested claims, and call center services. Accounting services provided by BPSI include accounts payable processing, matching of invoices to the requisition documentation and performance of ministerial processing relating to preparation of payment data, bank account reconciliation, and reconciliation of suspense accounts. The term of the agreement is three years from effective date, and renewable annually thereafter.

Investment Management Agreement

On December 19, 2002, the Company entered into an Investment Management Agreement on behalf of the Private Capital Management Subaccount of Separate Account 101 and Private Capital Management. Private Capital Management provides investment management services with respect to assets held in the subaccount. Services include statistical services, research facilities and services, supervision of the composition of the subaccount's investment portfolio and effect transactions as deemed advisable. Compensation is 1 and ½ percent annually, calculated as 0.375 percent charged on a quarterly basis in arrears. For any quarter in which the market value of the portfolio exceeds $2,500,000 for the entire quarter, the advisory fee will be based on 1 percent annually, calculated as 0.25 percent charged on a quarterly basis in arrears. The term of the Agreement is one year and indefinitely thereafter.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to sell life and accident and health insurance in the District of Columbia and all states except New York, and operates in Puerto Rico.

Until January 1, 2002, the Company included the following products in its portfolio:

- Individual life and health, including ordinary life, variable life and products supporting executive benefit programs;
- Individual fixed annuities;
- Variable life and annuities;
- Group life and health;
- Pension and investment products, including variable annuities, structured settlements and terminal funding annuities; and

- Guaranteed Insurance Contracts (GIC's).

Effective January 1, 2002, the Company began the process to discontinue the sale of ordinary, variable life and annuity and accident and health products through traditional channels. This change was made in conjunction with the Domestic Life Division's initiative to focus on "best in class" products to reduce duplicate offerings among affiliated companies. Accident and health business written by the Company has either been rewritten by an affiliate or reinsured with an affiliate. The Company's group life and health, annuity, structured settlement, terminal funding annuity and executive benefit products, including private placement life insurance products, continue to be sold in specialized or niche markets not served by other insurance companies in the Domestic Life Division.

The Company formerly assumed accident and health business, the bulk of which was from American Home Assurance Company, New York, New York. The Company ceased accident and health assumption business in 2002. The Company assumes a small amount of life business from AIG Life Insurance Company of Puerto Rico.

The Company now markets an array of terminal funding annuities, fixed, and variable immediate annuities products, through brokers, employee benefits consultants, financial institutions, professional general agents, and registered representatives.

Private placement insurance products continue to be sold in specialized or niche markets not served by other insurance companies in the AIG Domestic Life Division. The Company also sells fixed and variable annuities through financial institutions, including mutual fund companies, to individuals with retirement income needs.

Beginning in 2005, the Company became the lead entity for AIG Domestic Life Division to sell group life and group health business.

The Company reported it has 1,175 licensed and appointed agents as of December 31, 2006. The review of licensed and appointed agents found the Company had not properly notified the Delaware Department of Insurance of appointment and termination of agents, in violation of 18 Del. C. § 1715 and § 1716. This exception was noted in the prior examination report.

It is again recommended that the Company comply with 18 Del. C. § 1715 and § 1716 and properly notify the Department of appointment and termination of agents.

GROWTH OF THE COMPANY

The following information was obtained from the Company's filed Annual Statements for the period under examination.

	Net Admitted Assets	Capital And Surplus	Gross Written Premium	Net Income
2006	$11,146,805,056	$569,988,246	$678,496,705	$108,706,426
2005	12,582,970,363	635,979,850	614,702,190	151,166,137
2004	13,584,991,500	739,951,211	700,146,462	131,585,076
2003	13,600,674,618	629,520,542	649,611,490	82,084,998

The Company's net admitted assets decreased from 2005 to 2006 by $1.4 billion, which reflects a decrease in invested assets of 15.4 percent over prior year-end, primarily in bonds as a result of GIC maturities, surrender of deferred annuities and redemption of preferred stock. Capital and surplus decreased by $66 million from 2005 to 2006. The significant changes to surplus between years include an increase to surplus of $93.2 million net gain from operations, and decreases to surplus as a result of redemption of preferred stock of $100 million and dividends paid to stockholders of $53.7 million.

The Company's net income decreased by $42 million from 2005 to 2006 as a result of the following factors: 1) Premiums and annuity considerations increased by $65 million to $678 million in 2006 from the prior year due to a $51 million increase in single premium immediate annuity sales and $10 million increase in terminal funding sales. 2) Net investment income (including IMR amortization) decreased $133.7 million, primarily due to decrease of $46 million of joint venture and partnership income coupled with a decrease in bond interest of $94 million due to decreased asset base and less call and tender income. 3) Federal income taxes decreased $18 million due to a decrease in net gain from operations.

The significant fluctuations from 2004 to 2005 included a decrease to net admitted assets of $1 billion, which reflects the decrease of total invested assets by 8.8 percent from prior year, primarily in bonds as a result of GIC maturities and redemption of preferred stock. The decrease in capital and surplus of $104 million from 2004 to 2005 resulted from redemption of preferred stock of $150 million and dividends paid to stockholders of $61.1 million. Increases to surplus in 2005 resulted from a net gain from operations of $170 million. Premiums and annuity considerations decreased in 2005 from the prior year primarily due to a $26 million decrease in terminal funding sales and a $36 million decrease to ordinary life sales.

In 2004, capital and surplus increased 17.5 percent from the prior year. Increases to surplus in 2004 included net gain from operations of $156.1 million, change in net unrealized capital gains of $14.6 million and change in nonadmitted assets and related items of $30.5 million. Decreases to surplus in 2004 included realized capital losses, net of the transfer to IMR, totaling $24.5 million, change in net deferred income tax of $22 million, dividends paid to stockholders of $11.7 million, and change in AVR of $25.1 million. Net income increased in 2004 as a result of a decrease in general expenses and a decrease in commissions, primarily due to reduced ordinary life sales. Premiums and annuity considerations increased in 2004 over the prior period by $50 million, primarily due to a $30 million increase in terminal funding sales and a $40 million increase in single premium immediate annuities, and somewhat offset by a $35 million decrease in ordinary life sales.

REINSURANCE

The following describes the Company's reinsurance program as of December 31, 2006.

Assumed

The Company assumes life insurance from AIG Life Insurance Company of Puerto Rico, an affiliate. The business is assumed under a 75 percent quota share basis contract for losses and allocated loss expenses. The Company has been assuming under the aforementioned treaty since 2000. Total reinsurance premiums assumed for the year 2006 were ($226,966).

The Company does not assume any accident and health business.

Ceded

The Company cedes both group and individual life business to three affiliates and numerous non-affiliates. Total life premiums ceded of $76,712,603 was comprised of life premiums ceded to affiliates and non-affiliates in the amount of $25,953,397 and $50,579,206, respectively. The business was ceded under various yearly renewable term, coinsurance, modified coinsurance and catastrophe reinsurance agreements.

As of December 31, 2006, liabilities for life policy reserves and for life policy contract claims were reduced $163,152,739 and $5,744,078 respectively, to reflect life risks ceded to reinsurers and amounts recoverable from reinsurers.

The only new significant reinsurance, other than catastrophe coverages, entered into during the period under examination was effective January 1, 2006. The contract provided, among other things, that the Company would cede 100 percent quota share interest in the group life policies written on Sun Microsystems employees to Solaris Indemnity Limited, a captive reinsurer of Sun Microsystems, Inc. Pursuant to the agreement, the Company would retain 100 percent of all claims paid that exceed 150 percent of actual direct earned premium in each annual period that the agreement is in effect.

The Company ceded the bulk of its accident and health premiums of $314,531,012 incurred in 2006. The business was ceded to two affiliates and eleven non-affiliates. Total accident and health premiums ceded of $254,774,918 were comprised of accident and health premiums ceded to affiliates and non-affiliates in the amount of $252,408,205 and $2,366,713, respectively. The business was ceded under yearly renewable term/group reinsurance agreements.

As of December 31, 2006, liabilities for accident and health policy reserves and for accident and health policy contract claims were reduced $59,062,988 and $37,479,105 respectively, to reflect accident and health risks ceded to reinsurers and amounts recoverable from reinsurers.

The Company’s maximum retained liability as of December 31, 2006 was $3,500,000 on term policies and $5.000.000 on universal life policies. Additionally, the Board may approve, on a selected case basis and with approval by the Retention Limit Advisory Group, to retain up to $7 million on term policies and up to $10 million on universal life policies.

ACCOUNTS AND RECORDS

The Company's trial balance and adjusting entries were traced to the Annual Statement, and items were linked from schedule to schedule. The verification of posting from books of original entry was performed during the course of examination on the individual account components. The statutory-basis financial statements of the Company are audited annually by PricewaterhouseCoopers, an independent certified public accounting firm. The Company's accounts and records are also subject to review by the internal audit department of AIG. Based on the examination review of Annual Statement classifications and subsequent discussions with management, the accounting system and procedures conformed with insurance accounting practices and requirements.

A comprehensive organizational and process flow mapping was performed by INS Services, Inc., Philadelphia, PA., an internal control system specialist team. The organizational and process flow mapping includes review and understanding of corporate structure, underwriting, distribution, administration, computer application systems, claims, cash - receipts and disbursements, taxes, investments, actuarial, general ledger and annual statement.

In addition, an assessment was performed by INS Services, Inc. of the overall control environment. INS Services, Inc. examined the Company's responses to the Examination Planning Questionnaire Exhibit C, interviewed management, reviewed systems, performed judgmental and statistical samples of Company records evidencing execution of the Company's information systems control procedures, and performed various other tests of controls to assess the pervading control environment. As a result of the examination performed by INS Services, Inc., the assessment of the overall control risk related to information systems controls at the Company is low for those policies and procedures that had been in place as of December 31, 2006. In some areas, a less substantive examination approach was taken in response to the risk rating of low.

The Company has several offices located throughout the country. Houston is the Administrative Office where financial accounting and Company officers are located. The Company has several policy administrative systems, segregated by product line. Systems have changed over time through acquisition and development. Various systems are utilized to process claims, which are determined by the administrative system used when the policy is issued. Administrative functions for cash receipts are located in Springfield, IL, and Neptune, NJ (Group), while treasury functions are maintained in Houston for overall control. The Company utilizes several third party administrators for administration and collection of cash for certain products. The Cash Disbursement Control System is maintained in Livingston, NJ, by AIG Corporate Treasury.

All investment transactions are initiated and monitored by AIG Global Investment Group (AIGGIG). AIGGIG comprises a group of international companies, which provide investment advice and market asset management products and services to clients around the world. Investment management operations and investment accounting is performed in New York, Houston and Los Angeles by AIG Global Investment Corp. (AIGGIC). AIGGIC is an indirect wholly-owned subsidiary of AIG, incorporated in the state of New Jersey. AIGGIC provides investment management services to both AIG companies and non-AIG companies. Investment transactions are reviewed and approved by the Company's board of directors quarterly.

The Company utilizes the ABC (Accounting, Budgeting and Cost) general ledger system, which is a mainframe based system located in Dallas, TX, with IT support in Houston. Manual entries to the ledger can be made in Houston and from various administrative offices. Beginning January 1, 2007, the Company initiated the SAP accounting system for general ledger functions.

The examination utilized ACL analysis for reconciliation and sampling procedures for premiums written, paid claims, policy loans, and reserve transactions. ACL analysis was also utilized for reconciliation of the Company's general ledger and trial balance and transaction roll-up testing.

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2006:

Analysis of Assets
Liabilities, Surplus and Other Funds
Summary of Operations
Capital and Surplus Account
Analysis of Assets - Separate Accounts
Liabilities and Surplus - Separate Accounts
Analysis of Examination Changes

It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding.

Analysis of Assets
As of December 31, 2006

	Assets	Nonadmitted Assets	Net Admitted Assets	Notes
Bonds	$ 6,693,643,183	$ 0	$ 6,693,643,183	
Preferred stocks	236,261,110	0	236,261,110	
Common stocks	18,716,931	0	18,716,931	
Mortgage loans on real estate	521,781,333	0	521,781,333	
Real estate: Properties held for sale	21,067,517	0	21,067,517	
Cash and short-term investments	44,691,142	0	44,691,142	
Contract loans	189,739,518	0	189,739,518	
Other invested assets	57,956,680	0	57,956,680	
Receivable for securities	10,145,207	0	10,145,207	
Aggregate write-ins for invested assets:				
Derivative assets	27,944,616	0	27,944,616	
Rockwood escrow	268,924	0	268,924	
Investment income due and accrued	99,164,564	0	99,164,564	
Uncollected premiums and agents' balances in course of collection	(2,305,999)	0	(2,305,999)	
Amounts recoverable from reinsurers	7,670,142	0	7,670,142	
Other amounts receivable under reinsurance Contracts	4,725,589	0	4,725,589	
Current federal and foreign income tax recoverable and interest thereon	47,569,287	0	47,569,287	
Net deferred tax asset	68,135,087	33,454,087	34,681,000	
Guaranty funds receivable or on deposit	1,648,056	0	1,648,056	
Receivable from parent, subsidiaries, and affiliates	11,551,972	0	11,551,972	
Health care and other amounts receivable	680,443	680,443	0	
Aggregate write-ins for other than invested assets:				
Prepaid expenses	131,580	131,580	0	
Revenue sharing receivable	486,153	0	486,153	
ASO fund receivable	124,574	0	124,574	
Total assets excluding Separate Accounts	$ 8,061,797,609	$34,266,110	$ 8,027,531,499	
Separate Accounts	3,119,273,557	0	3,119,273,557	1
Totals	$11,181,071,166	$34,266,110	$11,146,805,056	

Liabilities, Surplus and Other Funds
As of December 31, 2006

		Notes
Aggregate reserve for life contracts	$ 6,300,832,717	2
Aggregate reserve for accident and health contracts	153,086,294	
Liability for deposit-type contracts	707,850,433	
Contract claims:		
Life	69,152,213	
Accident and health	13,393,740	
Premiums and annuity considerations received in advance	749,653	
Provision for experience rating refunds	2,307,826	
Other amounts payable on reinsurance	6,943	
Interest maintenance reserve	65,109,663	
Commissions to agents due or accrued	6,727,070	
General expenses due or accrued	3,215,971	
Transfers to Separate Accounts due or accrued	(21,063,937)	
Taxes, licenses and fees due or accrued	1,701,398	
Unearned investment income	10,648	
Amounts withheld or retained by company as agent or trustee	60,273	
Remittances and items not allocated	2,387,850	
Asset valuation reserve	97,450,491	
Funds held under reinsurance treaties with unauthorized reinsurers	2,818,438	
Payable to parent, subsidiaries and affiliates	28,086,167	
Drafts outstanding	2,818,821	
Aggregate write-ins for liabilities:		
Derivative liabilities	16,091,333	
Other real estate liabilities	4,069,248	
Allowance for bad debt – agent balance	680,000	
Total liabilities excluding Separate Accounts	$ 7,457,543,253	
From Separate Accounts statement	3,119,273,557	
Total liabilities	$10,576,816,810	
Common capital stock	$ 4,883,515	
Gross paid in and contributed surplus	$ 302,283,126	
Unassigned funds (surplus)	262,821,605	
Surplus	$ 565,104,731	
Total capital and surplus	$ 569,988,246	
Total	$11,146,805,056	

Summary of Operations
For the Year Ended
December 31, 2006

Premiums and annuity considerations for life and accident and health contracts	$ 310,862,419
Considerations for supplementary contracts with life contingencies	1,353,630
Net investment income	582,116,024
Amortization of Interest Maintenance Reserve	14,560,212
Commissions and expense allowances on reinsurance ceded	48,122,212
Reserve adjustments on reinsurance ceded	25,215,490
Miscellaneous Income:	
Income from fees associated with investment management, administration and contract guarantees from Separate Accounts	60,119,751
Total	$1,042,349,738
Death benefits	$ 67,636,982
Annuity benefits	324,516,769
Disability benefits and benefits under accident and health contracts	32,887,874
Surrender benefits and withdrawals for life contracts	1,617,841,473
Interest and adjustments on contract or deposit-type contract funds	108,916,194
Payments on supplementary contracts with life contingencies	2,247,363
Increase in aggregate reserves for life and accident and health contracts	(1,137,984,593)
Total	$1,016,062,062
Commissions on premiums, annuity considerations and deposit-type contract funds	58,106,630
Commissions and expense allowances on reinsurance assumed	(170,225)
General insurance expenses	46,381,000
Insurance taxes, licenses and fees, excluding federal income taxes	5,499,424
Increase in loading on deferred and uncollected premiums	71,424
Net transfers to or (from) Separate Accounts net of reinsurance	(234,723,542)
Aggregate write-ins for deductions:	
State fines and penalties	21,802
Total	$ 891,248,575
Net gain from operations before dividends to policyholders and federal income taxes	$ 151,101,163
Net gain from operations after dividends to policyholders and before federal income taxes	$ 151,101,163
Federal income taxes incurred	57,911,056
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	$ 93,190,107
Net realized capital gains or (losses) less capital gains tax and transferred to the IMR	15,516,319
Net income	$ 108,706,426

Capital and Surplus Account
For the Year Ended
December 31, 2006

Capital and surplus December 31, previous year	$635,979,849
Net income	$108,706,426
Change in net unrealized capital gains or (loses)	(8,987,567)
Change in net unrealized foreign exchange capital gain (loss)	10,011,327
Change in net deferred income tax	1,686,446
Change in nonadmitted assets and related items	8,831,806
Change in asset valuation reserve	(21,499,836)
Capital changes:	
Paid in	(100,000,000)
Surplus adjustment:	
Change in surplus as a result of reinsurance	(407,192)
Dividends to stockholders	(53,713,722)
Aggregate write-ins for gains and losses in surplus:	
Correction to prior period real estate partnerships	1,088,819
Correction to prior period derivatives	(11,708,110)
Net change in capital and surplus for the year	$ (65,991,603)
Capital and surplus December 31, current year	$569,988,246

Analysis of Assets - Separate Accounts
As of December 31, 2006

	General Account Basis	Fair Value Basis	Total
Bonds	$ 0	$ 214,299,238	$ 214,299,238
Preferred stocks	0	139,984	139,984
Common stocks	0	2,621,774,876	2,621,774,876
Cash and cash equivalents	0	90,419	90,419
Short-term investments	0	20,372,022	20,372,022
Other invested assets	0	256,610,316	256,610,316
Investment income due and accrued	0	1,647,089	1,647,089
Aggregate write-ins for other than invested assets:			
Due from General Account	0	4,339,613	4,339,613
Total	$ 0	$3,119,273,557	$3,119,273,557

Liabilities and Surplus - Separate Accounts
As of December 31, 2006

	General Account Basis	Fair Value Basis	Total
Aggregate reserve for life, annuity and accident and health contracts	$ 0	$3,082,168,857	$3,082,168,857
Investment expenses due or accrued	0	195,217	195,217
Other transfers to general account due or accrued	0	21,063,937	21,063,937
Payable for securities	0	15,845,359	15,845,359
Aggregate write-ins for liabilities:			
Due to General Account	0	187	187
Total	$ 0	$3,119,273,557	$3,119,273,557

Analysis of Examination Changes
December 31, 2006

No financial changes were made for examination report purposes.

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Separate Accounts $3,119,273,557

The separate accounts held by the Company consist primarily of flexible premium variable life insurance policies and deferred and immediate variable annuity contracts. These contracts are non-guaranteed in nature such that the benefit is determined by the performance and/or market value of the investments held in the separate account. The net investment experience of the separate account is credited directly to the policy/contract holder and can be positive or negative. The assets and liabilities of these accounts are reported at market value and, at December 31, 2006, amounted to $1,355,995,182 for the variable life and $1,760,509,016 for variable annuities.

The remaining portion of the separate accounts relate to annuities in the payout phase. These assets are reported at market value and, at December 31, 2006, amounted to $2,769,359.

Note 2. Aggregate Reserves for Life Contracts $6,300,832,717

An independent review of aggregate reserves was performed by INS Consultants, Inc. (INS), Philadelphia, PA. The period under examination covered calendar years 2004, 2005, and 2006, with primary emphasis of the examination being balance sheet items as of December 31, 2006, and an in-depth review of the asset adequacy/cash flow testing analysis (performed annually as part of the Actuarial Opinion Memorandum).

The Company holds reserves primarily for corporate and bank owned universal life insurance, supplemental executive retirement plans, traditional ordinary life and universal life, variable universal life, immediate and structured settlements, fixed and variable deferred annuities, terminal funding pensions and guaranteed interest contracts. Smaller reserves are held for supplementary contracts, long-term care and long-term disability accident and health contracts, credit life and life and accident and health claims. Reserves for contracts involving fixed benefits are commonly held in the General Account (GA) Annual Statement, whereas reserves for contracts involving variable benefits are held in the Separate Accounts (SA) Annual Statement.

Cash flow testing was performed by the Company's appointed actuary and included as part of the 2006 Actuarial Opinion Memorandum (AOM). INS reviewed the 2006 AOM for consistency with the prior year AOMs.

The Company's appointed actuary concluded that reserves were adequate and that no additional actuarial reserves were required as of December 31, 2006. Based on INS' review of the asset adequacy/CFT analysis, that conclusion has been accepted for the purpose of this report.

Samples of randomly selected contracts from the Company's business segments were used to test the validity of valuation data. Validity testing indicated that the valuation files appear to be free of error. Inclusion testing was also performed in order to gain confidence that the valuation extract files are essentially complete. Except for the missing terminal funding reserves, noted below, the inclusion testing indicates that the valuation extract files are complete.

Reserves were reviewed for compliance with the standard valuation and non-forfeiture laws, applicable National Association of Insurance Commissioners' Actuarial Guidelines and Model Regulations. Reserves for sampled life insurance and annuity contracts were calculated in accordance with standard actuarial practice. Reserve methodology was reasonable and consistent. The results of reserve computations for the sampled contracts were verified without exception.

During the examination, The Company discovered that reserves of $25.2 million for nine terminal funding contracts were not included in the December 31, 2006 Annual Statement. These contracts were administered manually in the AIG New York office and were not incorporated into the valuation process. To prevent this from happening in the future, new policy level roll forward procedures have been implemented to make sure these amounts are included in the valuation process. Since the reserve amount is less than materiality of $28.6 million established for this examination, and AIG has taken steps to correct the error, no financial adjustment or recommendation is being made at this time.

Reserve analysis for aggregate reserves for life contracts

This liability is reported on Page 3, Line 1 and in Exhibit 5 of AIG's 2006 General Account (GA) Annual Statement. The reserve breakdown in Exhibit 5, by type of benefit, is as follows:

Life Insurance	$ 2,179,434,708
Annuities	4,077,825,637
Supplementary Contracts with Life Contingencies	18,045,982
Accidental Death Benefits	15,754
Disability – Active Lives	365,344
Disability – Disabled Lives	23,273,098
Miscellaneous Reserves	1,872,194
Grand Total (Net)	**$ 6,300,832,717**

General

The Company uses several administrative systems to maintain records for data processing. Corporate owned lines of business are administered by third party vendors. The bank owned life insurance business is administered by Andesa. The supplemental executive retirement plan business is administered by Westport.

LifeComm is used to administer traditional life, universal life and fixed deferred annuities. Payout annuities, structured settlements and terminally funded pensions are administered by NAVISYS and the Repetitive Payout System (RPS). There is a block of terminal funding business and a block of variable payout annuity business administered by the RPS system. Variable universal life is administered by the ALS system. Variable deferred annuities are administered by Delaware Valley Financial Services (DVFS), a third party vendor. The life settlements business is administered manually and the universal life business sold to high income clients (Affluent UL) is administered using the Vantage system. The guaranteed interest and floating rate-funding agreements are administered using manual spreadsheets.

The Company utilizes a third party administrator for long-term care and disability income accident and health business. The disability income segments are part of an arrangement whereby the Company bills premiums and other entities adjudicate claims and calculate reserves.

Substantive samples sizes assuming no reliance on controls were used for traditional (LifeComm), life settlements and terminal funding business. Other systems with large reserves consisted of products where the reserves are predominantly driven by the account value, rather than factors. For these systems, substantive samples assuming no reliance on controls were initially drawn. Judgment was used to reduce the sample sizes for data validity and reserve verification.

Underlying data for contracts in the samples was verified by the examiners. No exceptions were noted. INS verified the reserve methodology and reserve calculations for all contracts without exception.

Inclusion testing for premium paying contracts was performed by tracing premiums paid in December 2006 for a sample of contracts to the year-end valuation file. Samples were drawn from contracts on the Company's 2003 valuation files and not on the 2006 files. The Company verified that each contract sampled terminated either by death or surrender.

Rollforward analyses, which checked all components of the account value calculation for reasonableness, were reviewed for universal life insurance (fixed, variable and corporate segments) and deferred annuity blocks of business (fixed and variable). This rollforward analysis covered the examination period. The results of these tests indicated that the valuation files are complete.

As part of the annual reserve certification process, the Company valuation runs and supporting workpapers for the reserves reported in Exhibits 5 and 7 were reviewed. There were very minor discrepancies between reserves shown in the Company's valuation files and the reserves reported in the Annual Statements. The discrepancies were immaterial and no changes in reported reserves are recommended this examination.

The primary risks associated with Exhibit 5 business are adverse mortality, asset default, interest rate volatility and mismatching of asset and liability cash flows. These risks were further reviewed by evaluating the 2006 AOM. Based on that review, INS accepted the Company's conclusion that additional reserves are not required.

Each of the life contract reserve components greater than $10 million is discussed below in further detail.

Life insurance (Net) $ 2,179,434,708

Exhibit 5, life insurance reserves can further be broken down by product type as follows:

Bank owned life insurance	$ 1,362,421,377
Corporate owned and supplemental executive retirement plan	162,138,581
Universal life	546,506,125
Universal life-Joint	135,327,485
Traditional ordinary life	73,522,738
Variable universal life – fixed accounts	13,056,840
All other life insurance	3,413,749
Total (Gross)	$ 2,296,386,895
Reinsurance ceded	116,952,187
Total (Net)	$ 2,179,434,708

The substantive components of the $2.1 billion in reserves for life insurance are discussed below.

Bank owned life insurance $ 1,362,421,377

A significant component of the Company's life insurance reserve is held for bank owned (BOLI) life insurance policies. The BOLI business is administered and valued using the Andesa system, a third party vended / supported system. The BOLI contracts consist of single premium individual universal life insurance policies. The contracts are owned and paid for by bank employers. In each case, the employer is also the beneficiary.

The Company holds reserves equal to the full account value. Generally, the account value is greater than the Commissioners Reserve Valuation Method (CRVM) reserve for UL products without secondary guarantees. INS tested underlying interest and cost of insurance assumptions for 2006 based on aggregate rollforwards and concluded that they were reasonable. Based on these results, BOLI reserves appear reasonable.

Corporate owned / supplemental executive retirement plan $ 162,138,581

The reserve consists of $92,989,820 for corporate owned (COLI) business, $46,015,954 for supplemental executive retirement plan (SERP) business and $23,132,807 for the preferred executive accumulation program (PEAP). These segments are backed by fixed premium individual universal life insurance policies. The Company holds the account value as the reserve for these segments. In every case, the insured's employer is the contract owner, premium payer and beneficiary. COLI and SERP are highly leveraged (through policy loan borrowing), so only nominal amounts of reserves are backed by assets other than policy loans. COLI and SERP are managed by Westport, a third party administrator. There were four COLI cases and one SERP case inforce as of December 31, 2006.

The COLI business is similar to the BOLI business in that for each case, face amounts and account values vary only by attained age and gender. INS tested underlying interest and cost of insurance charges for years 2004 through 2006 based on rollforward analyses for the COLI, SERP and PEAP segments and concluded that they were reasonable. Based on the conservative reserves (The Company holds the monthly anniversary account value as the reserve for COLI, SERP and PEAP) and the testing/verification performed during the prior examination, the COLI/SERP/PEAP reserves appear reasonable.

Universal life $ 546,506,125

The Company's universal life reserves consist of the following:

LifeComm	$ 294,661,231
Group UL – Manual	101,019,769
Single Premium UL - Manual	51,994,413
Affluent UL - Manual	98,830,712
Total	$ 546,506,125

Reserves for the UL business administered on LifeComm are based on the Commissioners Reserve Valuation Method as required in the Universal Life Insurance Model Regulation (UL CRVM), using semi-continuous functions. INS selected a sample of 19 contracts for data validity and reserve verification. The examiners found no data errors. The

Company provided detail audit reports from the LifeComm system for each sampled contract. For most policies in the sample, the resulting reserve was the cash surrender value; however, INS also verified the underlying UL CRVM reserve for each contract without exception. INS concluded that AIG's UL reserves meet minimum valuation standards.

The Group UL business consists of several cases administered on the Westport system. The reserves held equal the account value. INS tested the underlying interest assumption for each year of the examination period based on rollforward analysis and concluded that it was reasonable. Due to minimal risks and reserves equal to account value, the group UL reserves appear reasonable.

The Single Premium UL – Manual block of business consists contracts which were sold in late 2003. This business is currently administered on a manual basis. The Company held reserves equal to the account value. The account value appears conservative compared to reserves required using UL CRVM. INS selected a judgmental sample of eight contracts for data validity and reserve verification. The examiners found no data errors. INS verified the reserve for each contract without exception. The Single Premium UL reserves appear reasonable.

The Affluent UL segment consists of flexible premium UL contracts sold during the examination period. This block was also being administered on a manual basis. The contracts are typically issued with very high face amounts. The Company held reserves for this segment using the UL CRVM method with semi-continuous functions. INS selected a judgmental sample of four contracts for data validity and reserve verification. The examiners found no data errors. INS verified the reserve for each contract without exception. The Affluent UL product generates deficiency reserves due to secondary guarantees. INS tested the deficiency reserve for one of the sampled contracts and found the reserve to be reasonable.

Universal life-Joint $ 135,327,485

This block of business is administered on the ALS system and consists of last survivor joint universal life contracts. Reserves were held using the UL CRVM method with semi-continuous functions. INS selected a judgmental sample of seven contracts for data validity and reserve testing. The examiners found no data errors. The Company provided detail audit reports from the ALS system. INS verified the UL CRVM reserves for each of the seven contracts without exception. INS concluded that the joint life reserves meet minimum valuation standards.

Traditional ordinary life $ 73,522,738

The Company's traditional ordinary life business is administered on the LifeComm and LifeMaster systems. The products consist mostly of term plans. INS selected a sample of eight term contracts for data validity testing and reserve verification. There were no data errors. The Company holds reserves for term equal to interpolated terminal reserves plus an unearned premium reserve, using semi-continuous functions. AIG provided detail reserve audit reports for each contract. INS verified reserves for each contract without exception. INS concluded that the Company's ordinary life reserves meet minimum valuation standards.

Variable universal life – fixed accounts $ 13,056,840

These reserves are held for the fixed portion of the COLI VUL business administered by Westport and for the fixed account portion of the variable UL business administered on the ALS system. Data validity testing and reserve verification for these blocks is discussed in the Separate Accounts section of the actuarial report. The Company provided aggregate rollforwards covering the applicable portion of the examination period for the COLI VUL account value and fixed allocations. INS reviewed the rollforwards and concluded that they were reasonable. Based on the above review, the VUL fixed account reserves appear reasonable.

Annuities (Net) $ 4,077,825,637

Annuity reserves can further be broken down by product type as follows:

Deferred annuities	$ 1,604,226,801
Terminal funding	1,142,383,566
Immediate annuities	1,136,592,566
Variable deferred annuities – fixed	206,418,677
Total (Gross)	$ 4,089,621,610
Reinsurance ceded	11,795,973
Total (Net)	$ 4,077,825,637

The Company's fixed deferred annuity business consists mostly of single and flexible premium annuities. Fixed deferred annuities are administered on the LifeComm system. INS selected a judgmental sample of 19 contracts for data validity and reserve testing. The sample was selected to cover the major Company plans and to cover various issue years. The data was verified by the examiners with no errors. Reserves for the deferred annuities complied with the CARVM methodology required by Actuarial Guideline 33 (AG 33). The Company provided detail audit reports for each sampled contract. INS verified the reserves for each of the 19 contracts sampled without exception. INS concluded that the reserves held by the Company were in compliance with AG33.

Most terminal funding business and all immediate annuity business is administered by the RPS system. Terminal funding business includes both deferred (i.e. payments begin when participant reaches age 65) and immediate annuity income benefits. INS selected a sample of 56 contracts for data validity and reserve verification. The data was verified with no errors. INS verified reserves for each contract without exception. INS concluded that the Company's terminal funding reserves meet minimum valuation standards.

As previously noted, during the examination, the Company discovered that reserves of $25.2 million for nine terminal funding contracts were not included in the December 31, 2006

Annual Statement. These contracts were administered manually in the AIG New York office and were not incorporated into the valuation process. To prevent this from happening in the future, new policy level roll forward procedures have been implemented to make sure these amounts are included in the valuation process. Since the reserve amount is less than materiality established for this examination of $28.6 million and the Company has taken steps to correct the error, no financial adjustment or recommendation is being made at this time.

The immediate annuity reserves are held for single premium immediate annuities (SPIA) and structured settlements (SSA). INS selected a sample of 76 contracts for data validity and reserve testing. The sample included 37 annuities with life contingencies for this section, 13 supplementary contracts as discussed in the next section and 26 deposit type contracts. INS verified the reserve for each contract without exception. The data was verified by the examiners with no errors.

Based on the above analysis, the Exhibit 5 annuity reserves appear reasonable.

Supplementary Contracts with Life Contingencies (Gross and Net) $18,045,982

This liability represents supplementary contracts, which involve life contingencies (SCI). These contracts are administered on the RPS system. INS' sample from the RPS system included 13 SCI contracts for data validity and reserve verification. The examiners found no data errors. INS verified the reserve for each contract without exception. A trend analysis over the examination period indicated level reserves and appeared reasonable.

Based on this review, the Exhibit 5 supplementary contracts with life contingencies reserve appear reasonable.

Disability - Disabled Lives (Net) $ 23,273,098

These reserves are held for the waiver of premium benefits on disabled lives. The reserves consist of $19,954,112 for group life business, $1,222,758 for incurred but not reported (IBNR) group life claims and $1,910,141 for individual life business. The Company holds reserves equal to 75 percent of the face amount for the group disabled lives. As a reasonableness check, the Company calculates a reserve based on the average age and duration of the block of business. The reserve is calculated using the 1970 Group Life Disability table (also known as the Krieger table). The results of this calculation indicated that the reserve would have been around 41 percent of the face amount. INS reviewed the calculation and concluded that the Company's group life disabled lives reserves appear conservative. The other disabled lives reserves were considered immaterial and not reviewed.

Based on the above analysis and discussion, the Exhibit 5 disability - disabled lives reserves appear reasonable.

Conclusion

Based on previous analysis and discussions, INS concluded that the aggregate reserve for life contracts as reported by the Company on Page 3, Line 1 and in Exhibit 5 of the December 31, 2006 Annual Statement appears fairly stated. It has been accepted for the purpose of this report.

COMPLIANCE WITH PRIOR REPORT

The Company's compliance with prior examination recommendations was reviewed for each account in the current examination for which there was prior examination recommendations. The Company complied with all prior examination recommendations with the exception of the following:

1. As discussed under the Management and Service Agreements section of this report, the review of related party transactions found that the Company was not settling its inter-company balances in accordance with the quarterly requirement of the Service and Expense Agreement.

2. As discussed in the Territory and Plan of Operation section of this report, during the review of agents licensing, it was noted that the listing of licensed and appointed agents provided by the Company did not reconcile with the listing provided by the Delaware Department of Insurance (the Department). In addition, the Company could not provide evidence of proper filings with the Department regarding the appointment and termination of agents, as required by 18 Del. C. § 1715 and § 1716.

RECOMMENDATIONS

1. It is again recommended that the Company settle its inter-company balances in accordance with the Service and Expense Agreement. (pp. 9 and 37)
2. It is again recommended that the Company comply with 18 Del. C. § 1715 and § 1716 and properly notify the Department of appointment and termination of agents. (pp. 13 and 37)

CONCLUSION

As a result of this examination, the financial condition of the Company, as of December 31, 2006, was determined to be as follows:

Admitted Assets	$11,146,805,056
Liabilities	$10,576,816,810
Capital and Surplus	569,988,246
Total	$11,146,805,056

Since the last examination as of December 31, 2003, total assets have decreased $2,453,869,562. Liabilities have decreased $2,394,337,266, and capital and surplus have decreased $59,532,296 in the same period.

ACKNOWLEDGMENT

The cooperation and assistance rendered by the officers and employees of the Company during the course of the examination are hereby acknowledged.

In addition to the undersigned, Giles W. Larkin, CFE, Don Hollier, CFE, Joseph M. Funkhouser, Gwendolyn J. Douglas, CFE, CIE, Joe Torres, CFE, James Boswell, CCP, and Paul Berkebile, CFSA, INS Services, Inc., participated in portions of the examination. Frank G. Edwards, Jr., FSA, MAAA, INS Consultants, Inc., completed the actuarial portion of this examination.

Respectfully submitted,

Jean Alton, CFE
Examiner in Charge
Department of Insurance
State of Delaware
Northeastern Zone, NAIC

SUBSEQUENT EVENTS

The minutes of the meeting of the Board of Directors held March 26, 2007 noted that, effective April 1, 2007 the Maximum Retention Limits were increased as follows:

Issue Age	Maximum Retention Limit
0-70	$3.5 million (term insurance)/$10 million (permanent insurance)
71-80	$2.0 million (term insurance)/$6 million (permanent insurance)
81+	$1.5 million (term insurance)/$4 million (permanent insurance)

In connection with permanent insurance cases, the Risk Retention Advisory Group is authorized, on a case by case basis, to increase the Maximum Retention Limits to an amount not to exceed (a) $15 million for issue ages 0-70, and (b) twice the applicable Maximum Retention Limits for ages 71-80 and 80+, as shown in the table above, respectively.

In connection with term insurance cases, the Risk Retention Advisory Group is authorized, on a case by case basis, to increase the Maximum Retention Limits to an amount not to exceed twice the applicable Maximum Retention Limits for term insurance as shown in the table above.

As of September, 2007, the Company reported approximately $36.3 million in unrealized losses associated with sub-prime investments. The investments were made in conjunction with the Company's securities lending activities.

On December 14, 2007, the Department acknowledged by letter the receipt of notification that Commerce and Industry Insurance Company is selling its 21 percent share of the Company to AIG. It was noted that AIG will contribute those shares to its wholly owned subsidiary, AIG

Life Holdings (US), Inc. and then AIG Holdings will contribute those shares to its wholly owned subsidiary, AGC Life Insurance Company, a Missouri-domiciled insurer. The letter states that with no change of control resulting from the transaction, the Department does not have any concern. Management anticipates that Commerce and Industry will sell its ownership interest in the Company by year end 2007.