REPORT ON EXAMINATION

of the

AMERICAN GENERAL LIFE AND ACCIDENT INSURANCE COMPANY

458N American General Center

Nashville, Tennessee 37250

as of

December 31, 2006

DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

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STATE OF TENNESSEE
DEPARTMENT OF COMMERCE AND INSURANCE
INSURANCE DIVISION
500 JAMES ROBERTSON PARKWAY - 4TH FLOOR
NASHVILLE, TENNESSEE 37243-1135

Nashville, Tennessee
June 2, 2008

Honorable Alfred W. Gross Chairman, NAIC Financial Condition (E) Committee Virginia Bureau of Insurance P. O. Box 1157 Richmond, Virginia 23218-1157	Honorable Leslie A. Newman Commissioner of Commerce & Insurance State of Tennessee 500 James Robertson Parkway Nashville, Tennessee 37243
Honorable Thomas R. Sullivan Secretary, Northeastern Zone, NAIC Connecticut Department of Insurance 153 Market Street, 7th Floor Hartford, CT 06103	Honorable Scott Richardson Secretary, Southeastern Zone, NAIC South Carolina Department of Insurance Capital Center 1201 Main Street, Suite 1000 Columbia, SC 29201
Honorable Merle D. Scheiber Secretary, Midwestern Zone, NAIC South Dakota Division of Insurance Department of Revenue and Regulation 445 East Capital Avenue Pierre, South Dakota 57501-3185	Honorable Morris Chavez Secretary, Western Zone, NAIC New Mexico Insurance Division PERA Building 1120 Paseo de Peralta Santa Fe, NM 87501

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

AMERICAN GENERAL LIFE AND ACCIDENT INSURANCE COMPANY
NASHVILLE, TENNESSEE

as of December 31, 2006, hereinafter and generally referred to as the "Company" or AGLA.

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 June 4, 2007, 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. However, notice of intent to participate was not received from any other state. This examination was made simultaneously with the Company's affiliate, American General Property Insurance Company (AGPIC).

The previous examination was made as of December 31, 2001, by examiners of the State of Tennessee, and an examiner from the State of Delaware representing the Northeastern NAIC zone. Their report on examination contained a few criticisms requiring corrective action by the TDCI. The Company had failed to correct one (1) of the problems stated in the last report prior to the commencement of the current examination. However, the Company did comply with this particular Department directive prior to the completion of the current examination. See Comments - Previous Examination section included under Scope of Examination on page 3.

SCOPE OF EXAMINATION

This examination covers the period, January 1, 2002, through December 31, 2006, 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, 2006, 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.*

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, 2001 noted several comments and recommendations requiring corrective action of the Company by the TDCI. The Company corrected all of the prior comments and recommendations, except for one (1) prior recommendation, which the Company was directed to comply with in thirty (30) days as stated in the "Order Adopting Examination Report". This issue relates to the Company's mortgage loan portfolio. Here is a description of the prior recommendation that the Company has failed to correct:

- Prior Recommendation and Examination Order Directive:

  Prior Recommendation: Mortgage Loans - At December 31, 2001 the Company included a $7.3M Legg Mason Mortgage Capital Corporation credit tenant loan in Mortgage Loan Schedule B. In accordance with Statutory Accounting Principles, this investment should be reported in Schedule D as a bond. Also, this credit tenant loan had an NAIC designation of (5) and would normally not be allowed as an admitted asset in with Tenn. Code Ann. § 56-3-303(a)(1-2). However, it will be considered an admitted asset for purposes of this examination under the "basket clause" within Tenn. Code Ann. § 56-3-303(a)(15).

  "This security was correctly accounted for by the Company in 1999 and reported in Schedule D. It was requalified as a mortgage loan by the Company after it was downgraded by the SVO to a market designation of (5). According to documentation provided by the Company, this security's RBC factor is 20% if presented as a (5) rated bond. However, this security's RBC factor is only 1.95% if presented as a mortgage loan. It is recommended that the Company properly classify such investments in future statutory filings in accordance with Statutory Accounting Principles per Tenn. Code Ann. § 56-1-501(g)."

  Prior Examination Order Directive: The Company is **DIRECTED** to comply with Tenn. Code Ann. § 56-1-501(g) by preparing its financial statements in accordance with the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual, by properly classifying its investments solely based on statutory accounting principles.

  Failure to comply with Prior Recommendation and Examination Order Directive: The Company continued to show this same credit tenant loan in Schedule B as a mortgage loan as of December 31, 2006. Per NAIC Annual Statement Instructions and SSAP #'s 26, 37 and 43, credit tenant loans such as this one should be reported in Schedule D as a bond.

Therefore, the Company did not comply with the TDCI's Directive as stated in the Order Adopting Examination Report, and continued to be in violation of a previous Examination Recommendation by failing to properly classify its investments solely based on statutory accounting principles as stated in Tenn. Code Ann. § 56-1-501(g) as of December 31, 2006.

Subsequent Event Issue Update: After discussion with the Company during this examination, they notified us that they were going to comply with our Order and move the respective credit tenant loan to Schedule D in their 2007 Annual Statement. Upon receipt of the Company's 2007 Annual Statement, they in fact have moved the respective credit tenant loan in question to Schedule D and are now in compliance with the previous Examination Order and prior Examination Recommendation by properly classifying its investments solely based on statutory accounting principles as stated in Tenn. Code Ann. § 56-1-501(g).

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 2006 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
- Mortality and Loss Experience
- Reinsurance
- Agreements with Parent, Subsidiaries and Affiliates
- Litigation and Contingent Liabilities
- Statutory Deposits
- Accounts and Records
- Subsequent Events
- Financial Statements

These will be discussed as follows:

COMPANY HISTORY

The Company was organized and incorporated under the assessment laws of the State of Tennessee on February 28, 1900, to write industrial life and accident insurance. In 1905, the Company was reorganized on a legal reserve basis, and in 1920, it began to write ordinary life.

The Company became a wholly-owned subsidiary of NLT Corporation (NLT) on December 23, 1968, the effective date of a Plan Exchange and Agreement dated September 30, 1968, whereby shareholders of the Company exchanged their shares on a one-for-one basis for an equal number of shares in NLT.

On November 4, 1982, NLT became a Wholly-owned subsidiary of American General Corporation (AGC) pursuant to an Agreement of Merger dated July 6, 1982. This agreement was supplemented and amended by an Agreement and Plan of Merger dated August 17, 1982; the two are collectively referred to as the Merger Agreement.

Effective January 30, 1984, AGC contributed all of the outstanding capital stock of NLT to AGC Life Insurance Company (AGC Life), which is domiciled in Missouri. Subsequently, on April 30, NLT was dissolved and the Company became a wholly-owned subsidiary of AGC Life.

The Company changed its name to American General Life and Accident Insurance Company (AGLA) via a charter amendment effective January 1, 1985.

On December 23, 1993, 100% of the outstanding common stock of Gulf Life Insurance Company, a wholly-owned subsidiary of AGC Life, was contributed to the Company by AGC in the amount of $304,725,000. The merger was approved by the TDCI on August 31, 1995, and became effective December 31, 1995.

On October 21, 1996 the Company acquired Southern Educators Life Insurance Company, domiciled in the State of Georgia, via a Stock Purchase Agreement.

On December 31, 1997 the Company merged with Home Beneficial Life Insurance (HBL), a Virginia domiciled company. The TDCI approved the merger on September 17, 1997. The merger provided for the cancellation of common stock in HBL with no change in the issued and outstanding common stock of the Company (surviving corporation AGLA).

Also effective December 31, 1997, the Company merged with Independent Life and Accident Insurance Company (ILA), a Florida domiciled insurance holding company. The TDCI approved the merger on September 17, 1997. The merger provided for the cancellation of common stock in ILA with no change in the issued and outstanding common stock of the Company (surviving corporation AGLA).

On March 31, 1998, pursuant to a Stock Purchase Agreement between the Company and Direct General Corporation dated August 25, 1997 and amended January 30, 1998, the Company sold Independent Life Insurance Company (a Georgia domiciled affiliate of ILA) to Direct General Corporation (a Tennessee corporation and unaffiliated third party).

On March 30, 1999, pursuant to a Stock Purchase Agreement between AGC Life, the Company and State National Holdings, Inc., Independent Fire Insurance Company (IFIC) was sold to State National Holdings, and 48% of the issued and outstanding shares of American General Property Insurance Company (AGPIC) which were owned by IFIC were transferred to the Company.

On August 29, 2001, the Company's ultimate parent, AGC, was acquired by American International Group (AIG), a Delaware corporation. In connection with the acquisition, AIG issued approximately 290 million shares of its common stock in an exchange for all of the outstanding common stock of AGC based on an exchange ratio of 0.5790 of a share of AIG common stock for each share of AGC common stock. The capitalization of the Company was unaffected by this transaction. The acquisition was approved by the TDCI on August 10, 2001.

The Company is a wholly owned subsidiary of AGC Life and is domiciled in Tennessee. AGC Life is owned directly by AIG Life Holdings (US) Inc., formerly AGC. AIG Life Holdings (US) Inc. is owned directly by 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 its shareholders. AIG is the leading U.S. based international insurance and financial services organization and the largest underwriter of commercial and industrial insurance in the United States. There are no shareholders that exercise control over AIG. One shareholder, Starr International Company, Inc. ("SICO"), holds approximately 12% of the shares of AIG but disclaims any control over AIG. C.V. Starr & Co., Inc., which was formerly reported as the ultimate controlling person, now disclaims control over AIG. There are no pending court proceedings looking toward a reorganization or liquidation of such holding company. The only class of voting securities of the ultimate controlling person is its common stock.

The Company's capital structure appears in the 2006 Annual Statement as follows:

Common capital stock	$ 75,603,885
Gross paid-in and contributed surplus	324,064,148
Unassigned funds (surplus)	100,816,565
Total capital and surplus	$500,484,598

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:

Year	Admitted Assets	Liabilities	Capital and Surplus	Premiums and Annuity Considerations
2002	$8,439,897,041	$7,996,431,208	$443,465,833	$828,577,500
2003	8,640,890,184	8,140,785,149	500,105,035	947,433,333
2004	8,803,379,296	8,232,703,094	570,676,202	929,106,923
2005	8,929,011,546	8,346,063,490	582,948,056	890,157,339
2006	8,936,854,521	8,436,369,923	500,484,598	885,576,134

CHARTER AND BYLAWS

The original Charter of the Company was filed with the Tennessee Secretary of State on February 28, 1900. The Charter of the Company in effect at December 31, 2006, is the Company's Amended and Restated Charter that was adopted by the Board of Directors, since the last amendment on March 21, 1990. No Amendments or Restatements were made to the Company's Charter during the period of examination.

The Bylaws of the Company in effect at December 31, 2006, are the Company's Amended and Restated Bylaws that were adopted by the Board of Directors on November 8, 2004, filed with the TDCI on January 8, 2005, and went into effect on April 27, 2005. There were only minor changes made to the Company's Bylaws from the one (1) previously in effect since May 14, 1991. 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 pays ordinary and extraordinary dividends, as defined in Tenn. Code Ann. § 56-11-206(b), to its parent on a regular, usually quarterly, basis. The Company appears to have complied with the aforementioned Code section in the payment of dividends, except for the following described instance.

The Company in its 2003 Annual Statement disclosed in the Notes to Financial Statement a net transfer of the Company's net pension assets and other employee benefit liabilities to AIG that was recorded in the fourth quarter of 2003, with an effective date of January 1, 2003. The accounting for this transfer reflects the merger of former American General employee benefit plans into surviving AIG benefit plans. The net transfer was recorded as a dividend in the amount of $681,057,873 to the Company's immediate parent, AGC Life, which was immediately passed through to its intermediate parent, AIG Life Holdings (US) Inc., and ultimately to AIG. Subsequent to these mergers, all employee benefit plans are holding company plans and the liabilities under the plans are direct obligations of the ultimate parent, AIG.

In a letter dated July 1, 2004, the TDCI advised the Company that its position of the net transfer of the employee benefit assets and liabilities in 2003 constituted an extraordinary dividend, as defined by Tenn. Code Ann. § 56-11-206, and, as such, required the prior approval of the TDCI prior to its distribution. The Company did not request or receive the prior approval of the TDCI for this transaction as required by Tenn. Code Ann. § 56-11-206. In its July 1, 2004 letter, the TDCI went on to inform the Company of its need to comply with Tenn. Code Ann. § 56-11-206 in all future transactions.

The following table lists each dividend amount, whether the dividend was determined to be Ordinary (O) or Extraordinary (E), the date the Company notified the TDCI of the dividend, and the date the Company paid the dividend to its shareholders.

Year	Ordinary (O) or Extraordinary (E)	Notify Date	Paid Date	Dividend Amount
2002:	O	02/21/02	03/27/02	$60,000,000
	O	05/22/02	06/26/02	62,000,000
	O	08/22/02	09/26/02	80,000,000
				$202,000,000

Year	Ordinary (O) or Extraordinary (E)	Notify Date	Paid Date	Dividend Amount
2003:	O	05/22/03	06/26/03	$50,000,000
	O	08/22/03	09/29/03	50,000,000
	E	11/20/03	12/30/03	66,852,500
	E	None Given	12/31/03	681,057,873
				$847,910,373
2004:	E	02/23/04	03/29/04	$50,000,000
	E	05/21/04	06/28/04	70,000,000
	E	08/25/04	09/28/04	70,000,000
				$190,000,000
2005:	O	05/24/05	06/29/05	$75,000,000
	O	08/25/05	09/28/05	75,000,000
	O	11/21/05	12/28/05	75,000,000
				$225,000,000
2006:	O	02/22/06	03/29/06	$75,000,000
	O	05/23/06	06/29/06	75,000,000
	O	08/23/06	09/29/06	75,000,000
	E	11/20/06	12/27/06	100,000,000
				$325,000,000
			Total paid during period of Exam	$1,789,910,373

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. Directors need not be stockholders. The Company's Bylaws state that the number of directors shall consist of five (5) or more as set forth from time to time by resolution of the Board of Directors. A majority of directors constitutes a quorum.

On January 3, 2006, the Board of Directors resolved to increase the Board to nine (9) members. 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 May 1, 2006, and were serving as members of the Board of Directors at December 31, 2006:

Name	**Principal Occupation**
Rodney Owen Martin, Jr.	Sr. Chairman of the Board (AGLA, AGPIC)
Matthew Evan Winter	Chairman of the Board (AGLA, AGPIC)
James Arthur Mallon	President and CEO (AGLA, AGPIC)
Mary Jane Bartolotta Fortin	Chief Financial Officer (AGLA, AGPIC)
Gary Dalton Reddick	Chief Administrative Officer (AGLA, AGPIC)
Gregory Alan Hayes	Treasurer (AGLA, AGPIC)
Merton Bernard Aidinoff	External Director for AIG
David Lawrence Herzog	Controller for AIG Corporate
Christopher Jerome Swift	CFO for AIG Worldwide Life Insurance Group

The Company's Bylaws require that the Board hold an annual meeting of the stockholders for the purpose of electing directors and for such other business, shall be held at such place, either within or without Tennessee, and at such time and date before July 1 of each year. The Company's general practice is to hold its annual shareholders meetings in early May.

The Bylaws allow any action required or permitted to be taken at a meeting of the Board, or of any committee thereof, may be taken without a meeting, if prior to such action a written consent thereto is signed by all Board or committee members and such written consent is filed with the minutes of proceedings. Such consent shall have the same force and effect as a vote at a meeting. Any or all of the stockholders, directors, or committee members may participate in meetings by means of conference telephone or similar communication equipment.

The Bylaws provide that the officers of the corporation shall consist of a President, Treasurer, 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. The President shall be a director; however none of the other officers need be directors. One person may simultaneously hold more than two offices except the President may not simultaneously hold the office of Secretary.

The following persons were duly elected by the Board of Directors on May 1, 2006, and were serving as officers of the Company at December 31, 2006:

Name:	**Title:**
Rodney Owen Martin, Jr.	Sr. Chairman of the Board
Matthew Evan Winter	Chairman of the Board
James Arthur Mallon	President and CEO
Mary Jane Bartolotta Fortin	Chief Financial Officer
Gary Dalton Reddick	Chief Administrative Officer
Rick Allen Borchert	Chief Actuary
Gregory Alan Hayes	Senior VP – Finance and Treasurer
Charles Kenneth Gibson	Vice President and Controller
Elizabeth Margaret Tuck	Secretary

Executive Vice Presidents:

Rebecca Gale Campbell	Mary Jane Bartolotta Fortin
David William O'Leary	Gary Dalton Reddick

Senior Vice Presidents:

Verna Celeste Anderson	Susan Elizabeth Austin
Wayne Aflin Barnard	Robert Michael Beuerlein
Rick Allen Borchert	Jeffrey Howard Carlson
Brenda Sue Curtis	Scott Alan German
Gregory Alan Hayes	Robert Frank Herbert, Jr.
Stephen Douglas Israel	Kyle Lynn Jennings
Terry Paul Keiper	Edmund David McClure

Vice Presidents:

Chris Neal Aiken	David Scott Brasington
Charles Kenneth Gibson	Richard Waldo Scott

The Board of Directors may designate, establish and charter such committees as it deems necessary or desirable, each comprised of two (2) or more directors. The executive committee shall have all the powers of the Board in the interim between meetings of the Board. Other committees shall have and exercise only that authority of the Board delegated to it by the resolution creating such committee.

As of the examination date, the Company only had an executive committee. Members of the executive committee at the examination date were as follows:

Executive Committee
Rodney O. Martin, Jr. *
Matthew E. Winter
James A. Mallon
Mary Jane Bartolotta Fortin
Gary Dalton Reddick

* - denotes committee chairman

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 is a wholly-owned subsidiary of AGC Life. AGC Life is directly owned by AIG Life Holdings (US) Inc. AIG Life Holdings (US) Inc. is owned directly by AIG. AIG is the ultimate parent of the Company. The Company operates as a subsidiary of AIG, a non-insurance holding company incorporated in Delaware. AIG files a Holding Company Registration Statement annually as required by Tenn. Code Ann. § 56-11-205.

In addition, the company directly owns 48.15% of AGPIC which in turn owns 100% of American General Property Insurance Company of Florida (AGPIC-FL).

AIG Life Holdings (US) Inc., AGC Life, AGPIC, and AGPIC-FL are also included in the holding company group of AIG. AIG stock is publicly traded on the NYSE, under the ticker symbol AIG. An organizational chart is included at the end of this report.

PECUNIARY INTEREST OF OFFICERS AND DIRECTORS

The Company's ultimate parent, AIG, has established a conflict of interest policy for its officers, directors and employees. The policy in effect as of the examination date was enacted after the Company and its Parent Company merger in 2001. The Company is subject to AIG's Code of Conduct which contains a discussion of Ethical Business Standards. The policy is detailed and describes all aspects of what constitutes a conflict, how they should be avoided and employee procedures related to them. The Company's officers, directors, and employees complete the AIG Code of Conduct Re-Certification and Questionnaire on an annual basis. AIG's Corporate Legal Compliance Group (CLCG) has direct responsibility for the distribution, collection and review of the Code of Conduct questionnaire. The human resource manager at each company helps ensure that officers, directors, and employees complete the questionnaire on a timely basis. Any potential conflict of interests is brought to the immediate attention of an attorney in the CLCG.

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. In 2002, the CLCG implemented a process whereby officers and directors can complete the annual Code of Conduct questionnaire online via AIG's intranet site. 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 a Financial Institution Bond carried by AIG. Other insurance policies were reviewed and the Company is listed as a named insured on the following insurance coverage's maintained by AIG at December 31, 2006:

Professional Liability	Director and Officer Liability
Blanket Property, Boiler, & Machine	Automobile Liability
Commercial General Liability	Commercial Umbrella Liability
Workers' Compensation	Commercial Umbrella Excess 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 AIG in accordance with the Services and Expense Agreement that is described later in the report under the heading Agreements with Parent, Subsidiaries and Affiliates. As of December 31, 2006, the Company had no employees, therefore no employee benefit plans. However, AIG 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, 2006, 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 all states except for Alaska, Massachusetts, New Hampshire, New York, and Wyoming. Certificates of Authority granted by the licensed states were reviewed and found to be in force at year-end 2006.

The Company had applications pending for admission to Alaska, Massachusetts, and New Hampshire as of December 31, 2006. The Company was subsequently granted Certificates of Authority from Alaska, Massachusetts, and New Hampshire in 2007. 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. The Company's key products are individual life, annuity and accident and health insurance products marketed primarily to individuals and groups by the Company's sales force, working in conjunction with independent brokers and consultants.

The Company historically was a home service company focused on marketing its products to modest income households. The Company has expanded its distribution channels to middle-upper income households during the period of examination.

The Company continues to use and expand its primary method of distribution. The Company continues to expand their distribution by using their employed group of sales representatives and independent brokers to market their products through programs like Classic, New Career Partners, Special Representatives, Strategic Alliances, and Sponsorship Partners. The independent producers of the Company 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 new products that benefits individual and small business segments, as the Company, like the industry, has sought to diversify its customer base to include professionals, executives, multicultural, and others in the middle-high income range. The Company discontinued writing Industrial Life in 1989, and it has been phasing out sales of these products. The Company will continue to offer the traditional products and adjust these products to meet the market place needs.

The Company's operations are managed by line of business. The lines are industrial life, ordinary life, ordinary individual annuities, group life, group A&H and other A&H lines.

MORTALITY AND LOSS EXPERIENCE

Life:

The mortality experience on industrial, ordinary and group life, including related benefits, as developed from applicable amounts included in the Company's annual statements filed with the TDCI for the years indicated were as follows:

	2006	2005	2004	2003	2002
Industrial Life					
Net Death Benefits Incurred	22,385,156	24,131,844	26,248,649	28,241,440	30,381,911
Less - Reserves Released by Death	16,996,115	18,275,194	19,858,714	21,790,381	22,345,068
Actual Death Benefits Incurred	5,389,041	5,856,650	6,389,935	6,451,059	8,036,843
Expected Mortality	24,441,945	25,214,617	26,066,862	26,234,946	28,463,534
Mortality Experience Ratio	.2205	.2323	.2451	.2459	.2823
Ordinary Life					
Net Death Benefits Incurred	357,260,334	349,213,655	360,039,986	354,978,198	350,770,285
Less - Reserves Released by Death	124,315,526	121,651,469	124,924,008	120,406,827	113,264,731
Actual Death Benefits Incurred	232,944,808	227,562,186	235,115,978	234,571,371	237,505,554
Expected Mortality	387,925,633	378,403,271	341,039,184	307,850,978	310,948,890
Mortality Experience Ratio	.6005	.6014	.6894	.7620	.7638
Group Life					
Net Death Benefits Incurred	1,505,344	1,680,393	1,598,533	2,094,380	1,873,304
Less - Reserves Released by Death	857,889	632,778	401,907	794,957	1,592,308
Actual Death Benefits Incurred	647,455	1,047,615	1,196,626	1,299,423	280,996
Expected Mortality	329,786	373,488	355,681	283,484	553,739
Mortality Experience Ratio	1.9633	2.8049	3.3643	4.5838	.5074

A&H:

The loss ratios on the Company's group, collectively renewable and individual accident and health business for the years indicated were as follows:

	2006	2005	2004	2003	2002
Group A&H					
Net Incurred Claims	142,033	59,459	1,322,363	18,128,377	19,183,509
Net Premiums Earned	459,702	101,394	33,351,190	30,514,910	29,547,550
Loss Experience Ratio	.3090	.5864	.0396	.5941	.6492
Collectively Renewable A&H					
Net Incurred Claims	34,454	50,713	65,326	22,065	42,571
Net Premiums Earned	(23,192)	93,655	42,785	47,584	53,541
Loss Experience Ratio	(1.4856)	.5415	1.5268	.4637	.7951
Individual A&H					
Net Incurred Claims	56,935,052	48,123,915	47,743,770	44,104,150	41,663,137
Net Premiums Earned	86,924,587	82,812,123	77,125,192	70,961,916	65,919,750
Loss Experience Ratio	.6550	.5811	.6190	.6215	.6320

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 Affiliates

American General Life Insurance Company

Effective Date: January 1, 1982

Description: A 90% coinsurance agreement for all permanent ordinary life insurance policies issued on or after January 1, 1982, other than Lifestyle Life plans and for all individual single premium immediate annuity contracts issued on or after January 1, 1982. Terminated for new business written after December 31, 1982.

Ceded Reinsurance with Affiliates

AGC Life Insurance Company

Effective Date:	January 1, 1993
Description:	A 100% coinsurance agreement for all individual ordinary life insurance and single premium immediate annuities issued by third party reinsurers.
Effective Date:	January 1, 1993
Description:	A 100% coinsurance agreement for certain group annuity contracts originally issued between January 1, 1982 and December 31, 1982, inclusive, by The Variable Annuity Life Insurance Company of Houston, Texas.
Effective Date:	October 1, 2002
Description:	A 100% quota share abnormal experience stop-loss agreement for the Company's assumed liability with respect to those term life and whole life policies and term riders, issued by the Company and ceded by the Company to RGA Reinsurance Company, (previously Sun Life Reinsurance Company Limited).

American General Life Insurance Company

Effective Date:	October 1, 2005
Description:	A 100% Automatic Excess of Retention and Facultative YRT agreement for all fully underwritten individual life insurance policies.
Limit:	$4,000,000 of Net Amount at Risk for all issue ages and underwriting ratings and classes.

Ceded Reinsurance with Unaffiliated Insurers

Hannover Life Reassurance Company of America

Effective Date:	February 1, 2006
Description:	An automatic and facultative 50% quota share YRT agreement for High Premium Universal Life policies with issue ages of 60-85.
Limit:	50% up to $1,000,000 per life.

Merit Life Insurance Company

Effective Date:	December 31, 1985
Description:	A 95% coinsurance agreement for Group Annuity Contract Number GRA-9 written for employees of United Brands.

RGA Reinsurance Company

Effective Date:	December 31, 2005
Description:	A 100% (pre-1996) and 80% (1996 and later) Term quota share and 80% Whole Life quote share agreement for the Company's net liability on certain term life and whole life insurance policies and riders.

Scottish Re Limited

Effective Date:	May 25, 1982
Description:	An automatic and facultative 50% quota share YRT agreement for certain Endowment Assurance and Life Assurance policies in the Company's Non-Profit portfolio.
Limit:	Up to $30,000 based on age.

Other Considerations:

Examination procedures included a review of all of the Company's significant reinsurance agreements , and all 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 six (6) agreements with affiliated companies in effect as of December 31, 2006. The following are summaries of the agreements in effect as of this examination of the Company:

Service and Expense Agreement with AIG:

Effective January 1, 2002, the Company entered into a Service and Expense Agreement with its ultimate parent, AIG. This Agreement replaces the Original Servicing Agreement dated July 31, 1975, with American General Group.

According to the terms and provisions of the Agreement, AIG agrees to provide the Company and it subsidiaries and affiliates with certain administrative services for its internal operations and processing of its insurance business. Such services include managerial and administrative support, equipment, office space, and marketing and product support and such other services as may be required.

The Company has no employees of its own. Services necessary to its business are provided by AIG pursuant to the Agreement. The compensation paid by the Company to AIG shall be paid monthly by an installment advance on the current quarter's billing equal to approximately one-third of the quarter's total billing determined on the basis of previous billings. The amount of the quarterly billing, less installment payments shall be payable upon receipt of the billing by the Companies as per Addendum No. 1, dated May 21, 1975. Transactions under the Agreement for Services were reviewed for compliance with the Agreement and charges appear to be commensurate with services rendered.

The original Service and Expense Agreement was executed on February 1, 1974, and the Company was added by the 28th amendment on January 1, 2002, as were other entities as they were acquired by AIG. The Agreement was determined to satisfy the requirements of Tenn. Code Ann. § 56-11-206(a)(1).

Consolidated Federal Income Tax Allocation Agreement with AIG:

Effective August 30, 2001, the Company entered into a Tax Allocation Agreement with their ultimate parent, AIG, and other affiliated companies (AGC Life Consolidated Group) as per Addendum No. 1, for tax year 2001. The Agreement was executed on September 11, 2002, and approved by the TDCI on April 4, 2002, in accordance with Tenn. Code Ann. § 56-11-206(2)(D).

The Agreement states the Company has elected through the provisions of the Internal Revenue Code to be included in its parent's (AGC Life) 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 as 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 2006 Holding Company Registration Statement.

Short-term Investment Pool Participation Agreement with American International Group Global Investment Corporation (AIGGIC):

Effective January 1, 2002, the Company entered into a Short-Term Investment Pool Participation Agreement with an affiliate, American International Group Global Investment Corporation (AIGGIC), which replaced the prior Investment Manager, American General Investment Management, LLC, (AGIM).

The terms and conditions under the AIGGIC Investment Pool Agreement will remain the same; it just replaced AGIM with AIGGIC. The agreement permits the insurers and other AIG affiliates to invest funds in three short-term pools: a liquidity pool consisting of money market instruments with short maturities; a money market pool consisting of intermediate-term money market instruments; and a securities lending pool consisting of money market instruments with intermediate maturities. The agreement states that AIGGIC will manage the pool and State Street Bank and Trust Company will be the fund custodian. The proposed Investment Pool Agreement dated April 28, 1999 was submitted for prior approval to the TDCI on July 9, 1999 in accordance with Tenn. Code Ann. § 56-11-206 (2) (D) and received approval on August 18, 1999.

The Company is party to the Investment Pool Agreement with all other entities in the American General Group. The companies and State Street have amended this agreement four times: July 11, 2000; September 11, 2000; October 16, 2000, and January 1, 2002. The Fourth Amendment agrees to change the name of the three separate Investment Pools and to replace AGIM with AIGGIC as manager of the Pools. AIGGIC assumes the duties and responsibilities of manager under this Agreement. The First Amendment removed "certain provisions which unnecessarily" restricted the Pools investment opportunities. The Second and Third Amendments added "certain subsidiaries and affiliates of AGC" as a party to this Agreement upon signature.

In consideration of the services provided, the Company compensates the investment pool manager, "AIGGIC will be paid a fee mutually agreed to from time to time by AIGGIC and the companies that is approved by the insurance department of each of the companies' state of domicile, if required". Transactions under the Investment Pool Agreement were reviewed for compliance with the Contract with no exceptions.

Investment Advisory Agreement with American International Group Global Investment Corporation (AIGGIC):

Effective January 1, 2002, the Company entered into an Investment Advisory Agreement with an affiliate, American International Group Global Investment Corporation (AIGGIC), which replaced the prior Investment Advisory Agreement. This was done via written consent dated December 31, 2001.

All the terms and conditions of the original agreement between the Company and American General Investment Management LP (AGIM), dated February 1, 1998 remained the same, except AGIM was replaced by AIGGIC.

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 monthly in the amount of .01% (or less) of the total market value of the Managed Assets as of the last day of the most recent month. Transactions under the Investment Advisory Agreement were reviewed for compliance with the Contract with no exceptions.

The Company filed this Agreement for approval by the Commissioner as required by Tenn. Code Ann. § 56-11-206 (2) (D), and received TDCI approval on February 15, 2002.

Memorandum of Understanding with American General Property Insurance Company (AGPIC) and American General Property Insurance Company of Florida (AGPIC-FL):

The Company is also a party to a Memorandum of Understanding between itself and AGPIC whereby the Company's sales personnel will issue and service insurance policies on behalf of AGPIC. In return, AGPIC agrees to "pay the Company for its services an amount equal to ten percent (10%) of Insurance Revenues [premiums collected less returns]." This Memorandum, which was addressed in the previous examination, is an "informal interpretation of one aspect of the services that are to be provided under the terms and conditions of the Servicing Agreement" (discussed above). The terms and conditions were signed by the companies on March 15, 1995.

An additional Memo of Understanding became in effect on January 1, 1998, executed on August 19, 2003 between the Company and AGPIC-FL, whereby the Company's sales personnel will issue and service insurance policies on behalf of AGPIC-FL. The Servicing Agreement was determined in the previous examination to satisfy the requirements of Tenn. Code Ann. § 56-11-206(a) (1).

Securities Lending Agency Agreement with AIG Global Securities Lending Corporation (AIGGSLC):

Effective July 12, 2002 by and between the Company and AIG Global Securities Lending Corporation (AIGGSLC), the Lender in this agreement will agree to lend the Borrowers Securities. The Lender will retain the services of AIGGSLC as its agent in connection with any loans of the Securities to the Borrowers pursuant to the Securities Lending Agreements and any related transactions and the performance of the obligations of the Lender, and AIGGSLC wishes to provide such services to the Lender.

This Agreement states that each loan shall receive collateral with a market value equal to at least a percentage of the market value of the securities lent, which percentage shall not be less than the then prevailing industry standard for such transactions, but in no case less than 100%. The compensation for the services to be rendered by AIGGSLC shall be paid by the Lender, Borrower or third parties in an amount equal to 50% of all fees or other compensation or income received or earned by or on behalf of the Lender (including but not limited to securities lending fees and net interest income, if applicable) during such calendar month in connection with transactions entered into under the Securities Lending Agreements.

LITIGATION AND CONTINGENT LIABILITIES

During the period of examination and as of December 31, 2006, the Company is a party to various pending legal proceedings arising in the ordinary course of business, including some asserting significant damages arising from claims under insurance policies, disputes with agents and other matters. Based in part upon the opinion of its counsel as to the ultimate disposition of such lawsuits and claims, Company management believes that the liability, if any, resulting from the disposition of such proceedings will not be material to the Company's financial condition or results of operations.

Commitments:

The Company had committed to provide additional capital contributions to the following SCA entities, joint ventures, partnerships, or limited liability companies at December 31, 2006:

Description	**Amount**
China NPL	$39,835,893
AIG Pine Star Capital	32,918,483
LCP Capital Fd LLC	19,622,430
Blackstone Mezzanine	12,412,748
AEA Mezzanine Fund	11,157,555
Ibersuizas Capital Fund II, LP	10,570,738
Crossroads Cornerstone	10,524,263
Blackstone Capital Partners V, LP	6,512,232
Lehman Brothers MBP LP	1,304,603
J.H. Whitney IV, LP	1,041,625
Seaport Capital Partners II, LP	900,000
Invesco Venture Partnership Fund II	393,087

Periodically, in the normal course of business, the Company issues commitments to purchase various investments such as securities, mortgage loans, etc.

This Company and certain of its affiliates have been party to a one-year inter-affiliate credit facility agreement since November 1, 2002. Under this agreement, the Company committed to make loans to AIG in amounts aggregating to not more than $200 million. From 2002 to 2006 the agreement length has been extended each year along with increases or decreases in maximum commitment amounts. As of October 27, 2006, this commitment was extended to October 26, 2007. The new amendment also decreased the facility fees from .04% to .03% on its commitment and included a .05% utilization fee on aggregate outstanding loan balances that equal or exceed 50% of the aggregate commitment.

Based on our review, the Company has provided for its commitments and contingencies.

STATUTORY DEPOSITS

In compliance with statutory and other requirements, the Company maintained deposits with the named jurisdictions or custodians as of December 31, 2006.

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

Jurisdiction	Description of Security	Book/Adjusted Carrying Value	Fair Value	Par Value
Tennessee - Department of Insurance	US Treasury Bonds 10.375%, Due 11-15-2012 CUSIP# 912810DB1	$147,154	$156,668	$150,000
Tennessee - Department of Insurance	US Treasury Bonds 9.000%, Due 11-15-2018 CUSIP# 912810EB0	321,870	412,524	300,000
Tennessee - Department of Insurance	US Treasury Notes 6.625%, Due 05-15-2007 CUSIP# 9128272U5	432,666	432,404	430,000
Tennessee - Department of Insurance	US Treasury Notes 3.875%, Due 02-15-2013 CUSIP# 912828AU4	1,891,365	1,856,716	1,940,000
	Sub-Total	$2,793,055	$2,858,312	$2,820,000

The following are deposits with jurisdictions where special deposits are **not** for the benefit of all policyholders, claimants, and creditors of the Company:

Jurisdiction	Description of Security	Book/Adjusted Carrying Value	Fair Value	Par Value
Florida - Department of Insurance	US Treasury Bonds 10.375%, Due 11-15-2012 CUSIP# 912810DB1	$412,032	$438,669	$420,000
Florida - Department of Insurance	US Treasury Notes 3.875%, Due 02-15-2013 CUSIP# 912828AU4	292,479	287,121	300,000
Georgia - Department of Insurance	US Treasury Bonds 10.375%, Due 11-15-2012 CUSIP# 912810DB1	49,051	52,223	50,000
Massachusetts - Department of Insurance	US Treasury Bonds 4.500%, Due 02-15-2036 CUSIP# 912810FT0	96,436	95,094	100,000
New Mexico - Department of Insurance	US Treasury Notes 3.875%, Due 02-15-2013 CUSIP# 912828AU4	121,866	119,634	125,000
North Carolina - Department of Insurance	US Treasury Bonds 10.375%, Due 11-15-2012 CUSIP# 912810DB1	588,618	626,670	600,000
North Carolina - Department of Insurance	US Treasury Notes 3.625%, Due 05-15-2013 CUSIP# 912828BA7	96,724	94,223	100,000
Ohio - Department of Insurance	US Treasury Bonds 10.375%, Due 11-15-2012 CUSIP# 912810DB1	49,051	52,223	50,000
South Carolina - Department of Insurance	US Treasury Bonds 10.375%, Due 11-15-2012 CUSIP# 912810DB1	147,154	156,668	150,000
Texas - Department of Insurance	US Treasury Notes 3.625%, Due 05-15-2013 CUSIP# 912828BA7	1,063,970	1,036,453	1,100,000
	Sub-Total	$2,917,381	$2,958,978	$2,995,000
	Grand-Total	$5,710,436	$5,817,290	$5,815,000

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

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. In 2002, the Company switched accounting firms to PricewaterhouseCoopers LLP. Therefore, the Company is in compliance with this regulation.

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.

SUBSEQUENT EVENTS

Subsequent Paid-In Capital Contribution to the Company:

On December 31, 2007, the Company reported a $100 million capital contribution receivable from its immediate parent, AGC Life, in accordance with SSAP # 72, Surplus and Quasi reorganizations. This capital contribution receivable was settled in cash in February 2008, prior to the filing of the Company's 2007 Annual Statement and reflects AIG's intent to maintain the capital and surplus of its domestic life insurance companies at or above internally targeted levels, well in excess of regulatory minimums. The Company received approval of the transaction from the TDCI on February 29, 2008.

Temporary Decline in the Value of Securities Lending Collateral:

The Company disclosed in their 2007 Annual Statement in the Notes to Financial Statement, that the aggregate fair value of investments in AIG's domestic securities collateral account of $66.19 billion was below amortized cost by $4.84 billion (the Company's portion = $217 million). AIG and the Company state that they believe this a temporary decline in the value of securities lending collateral and is more reflective of the macroeconomic conditions in the marketplace; is unrelated to their credit quality or expected future cash flow performance; and that if held they can reasonably be expected to recover their value.

The Company stated that its ability to hold certain collateral assets to recovery is based upon the level of liquidity needed to support the ongoing activities of the security lending program. In order to provide for the Company's liquidity and adjust for the temporary decline in value, AIG and the Company executed three significant transactions: (1) an increase in short-term investments from new securities lending cash, invested in short-term assets to increase liquidity; (2) establishment of a $40 million liability for what the Company calls realized losses due to other-than-temporary declines in value; and (3) an additional $11 million added to the Company's surplus by AIG to cover pretax realized losses due to sales of certain long-term investments incurred between August 1 and December 31, 2007.

Based on a request from the TDCI, the Company provided an update on the status of security lending collateral values as of February 29, 2008. The information the Company provided as of the above date showed that the value of AIG security lending collateral continued to decline with the amount of below amortized cost listed at $7.845 billion (Company's portion = $331 million).

Financial Statement

There follows a statement of assets, liabilities and a summary of operations as of December 31, 2006, together with a reconciliation of capital and surplus for the period under review, as established by this examination.

Assets

	Assets	Non-Admitted Assets As a Result of the Exam	Net-Admitted Assets
Bonds	$6,486,345,149		$6,486,345,149
Preferred Stocks	502,644,709		502,644,709
Common Stocks	45,616,470		45,616,470
Mortgage loans on real estate:			
First liens	1,007,260,898		1,007,260,898
Other than first liens	5,989,695		5,989,695
Real Estate:			
Properties occupied by the Company	47,824,072		47,824,072
Properties held for the production of income	6,253,756		6,253,756
Properties held for sale	0		0
Cash and Cash Equivalents	854,711		854,711
Contract loans	428,828,183		428,828,183
Other Invested Assets	151,687,708		151,687,708
Receivables for securities	3,963,178		3,963,178
Investment Income Due and Accrued	129,126,789		129,126,789
Premiums and Considerations:			
Uncollected premiums and agents' balances in course of collection	18,658,284		18,658,284
Reinsurance:			
Amounts recoverable from reinsurers	16,015,183		16,015,183
Other amounts receivable under reinsurance contracts	11,166,330		11,166,330
Current federal and foreign income tax recoverable	5,436,985		5,436,985
Net deferred tax asset	48,310,064		48,310,064
Guaranty funds receivable or on deposit	2,039,092		2,039,092
Electronic data processing equipment and software	13,925,747		13,925,747
Receivables from parent, subsidiaries and affiliates	561,477		561,477
Aggregate write-ins for other than invested assets	4,346,041		4,346,041
Totals	$8,936,854,521	$0	$8,936,854,521

Liabilities, Surplus and Other Funds

Aggregate reserve for life contracts		$7,808,431,101
Aggregate reserve for accident and health contracts		120,132,480
Liability for deposit-type contracts		47,678,981
Contract claims:		
Life		66,402,637
Accident and health		26,631,128
Policyholders' dividends due and unpaid		1,554
Provision for policyholders' dividends payable in following calendar year - estimated amounts:		
Dividends apportioned for payment		1,386,000
Premiums and annuity considerations for life and accident and health contracts received in advance		6,065,906
Contract liabilities not included elsewhere:		
Other amounts payable on reinsurance		15,092,373
Interest Maintenance Reserve (IMR)		67,690,715
Commissions to agents due or accrued		5,468,050
Commissions and expense allowances payable on reinsurance assumed		13,936
General expenses due and accrued		23,040,727
Taxes, licenses and fees due or accrued		15,103,569
Unearned investment income		1,703,713
Amounts withheld or retained by company as agent or trustee		63,437,278
Remittances and items not allocated		6,837,316
Liability for benefits for employees and agents if not included above		4,291,756
Miscellaneous liabilities:		
Asset valuation reserve		62,240,167
Reinsurance in unauthorized companies		44,700
Payable to parent, subsidiaries and affiliates		11,817,905
Aggregate write-ins for liabilities		82,857,931
Total Liabilities		$8,436,369,923
Common capital stock	$75,603,885	
Gross paid in and contributed surplus	324,064,148	
Unassigned funds (surplus)	100,816,565	
Total Capital and Surplus		500,484,598
Totals		$8,936,854,521

Summary of Operations

Premiums and annuity considerations for life and A&H contracts	$885,576,134	
Considerations for supplementary contracts with life contingencies	69,004	
Net investment income	653,844,773	
Amortization of Interest Maintenance Reserve (IMR)	3,971,384	
Commissions and expense allowances on reinsurance ceded	12,391,768	
Reserve adjustments on reinsurance ceded	13,502,889	
Aggregate write-ins for miscellaneous income	331,755	
Total Income		$1,569,687,707
Death benefits	$381,150,834	
Matured endowments	14,152,389	
Annuity benefits	43,128,789	
Disability benefits and benefits under A&H contracts	70,099,520	
Coupons, guaranteed annual pure endowments and similar benefits	1,257	
Surrender benefits and withdrawals for life contracts	220,509,445	
Interest and adjustments on contract or deposit-type contract funds	5,399,256	
Payments on supplementary contracts with life contingencies	652,061	
Increase in aggregate reserves for life and A&H contracts	100,114,038	
Total Benefits	$835,207,589	
Commissions on premiums, annuity considerations and deposit - type contract funds	$179,415,979	
Commissions and expense allowances on reinsurance assumed	95,678	
General insurance expenses	187,470,344	
Insurance taxes, licenses and fees, excluding federal income taxes	35,655,553	
Increase in loading on deferred and uncollected premiums	(1,035,307)	
Aggregate write-ins for deductions	(1,898,108)	
Total Expenses	$399,704,139	
Total Benefits and Expenses		1,234,911,728
Net gain from operations before dividends to policyholders and federal income taxes		334,775,979
Dividends to policyholders		1,351,578
Net gain from operations after dividends to policyholders and before federal income taxes		333,424,401
Federal and foreign income taxes incurred		44,660,686
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)		288,763,715
Net realized capital gains or (losses) less capital gains tax (excluding taxes transferred to the IMR)		(9,493,431)
Net Income		$279,270,284

Capital and Surplus Account

	2002	2003	2004	2005	2006
Total Capital and Surplus December 31, previous year	$349,875,366	$443,465,833	$500,105,035	$570,676,202	$582,948,056
Net income or (loss)	$376,829,745	$289,056,715	$309,250,157	$316,573,987	$279,270,284
Change in net unrealized capital gains or (losses)	(32,722,430)	(43,256,088)	(15,705,222)	(26,663,985)	(19,590,652)
Change in net unrealized foreign exchange capital gain (loss)	-0-	-0-	757,399	(2,613,866)	4,800,853
Change in net deferred income tax	(25,991,034)	(32,801,651)	(39,036,383)	(28,131,569)	(26,862,016)
Change in non-admitted assets and related items	(34,102,954)	700,597,424	21,080,612	5,915,418	14,108,735
Change in liability for reinsurance in unauthorized companies	224,209	1,732,609	(3,451)	(3,745)	(2,782)
Change in reserve on account of change in valuation basis, (increase) or decrease	-0-	-0-	1,148,358	-0-	-0-
Change in asset valuation reserve	15,496,787	(7,378,483)	(14,241,660)	(23,648,146)	(7,805,285)
Cumulative effect of changes in accounting principles	-0-	-0-	-0-	76,042	-0-
Surplus adjustment:					
Paid in	-0-	1,000	-0-	-0-	-0-
Change in surplus as a result of reinsurance	(4,143,856)	(3,401,951)	(2,678,643)	(2,093,040)	(1,382,595)
Dividends to stockholders	(202,000,000)	(847,910,373)	(190,000,000)	(225,000,000)	(325,000,000)
Aggregate write-ins for gains and losses in surplus	-0-	-0-	-0-	(2,139,242)	-0-
Net change in total capital and surplus for the year	$93,590,467	$56,639,202	$70,571,167	$12,271,854	($82,463,458)
Total Capital and Surplus December 31, current year	$443,465,833	$500,105,035	$570,676,202	$582,948,056	$500,484,598

COMMENTS AND RECOMMENDATIONS

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

Comments:

A. Comments – Previous Examination – Page 3

As of December 31, 2006, the Company held a $6.6 million Legg Mason Mortgage Capital Corporation credit tenant loan in Schedule B as a Mortgage Loan. Per NAIC Annual Statement Instructions and SSAP #'s 26, 37 and 43, credit tenant loans such as this one should be reported in Schedule D as a bond.

In the Company's prior 2001 Examination Report, they were recommended and were given an Examination Order Directive to move this same credit tenant loan to Schedule D to be reported as a bond. Therefore, the Company did not comply with the TDCI's Directive as stated in the Order Adopting Examination Report, and continued to be in violation of a previous Examination Recommendation by failing to properly classify its investments solely based on statutory accounting principles as stated in Tenn. Code Ann. § 56-1-501(g) as of December 31, 2006.

After discussion with the Company during this examination, they notified us that they were going to comply with our Order and move the respective credit tenant loan to Schedule D in their 2007 Annual Statement. Upon receipt of the Company's 2007 Annual Statement, they in fact have moved the respective credit tenant loan in question to Schedule D and are now in compliance with the previous Examination Order and prior Examination Recommendation by properly classifying its investments solely based on statutory accounting principles as stated in Tenn. Code Ann. § 56-1-501(g).

B. Subsequent Events – Page 25

The Company disclosed in their 2007 Annual Statement in the Notes to Financial Statement, that the aggregate fair value of investments in AIG's domestic securities collateral account of $66.19 billion was below amortized cost by $4.84 billion (the Company's portion = $217 million). AIG and the Company state that they believe this a temporary decline in the value of securities lending collateral and is more reflective of the macroeconomic conditions in the marketplace; is unrelated to their credit quality or expected future cash flow performance; and that if held they can reasonably be expected to recover their value.

The Company stated that its ability to hold certain collateral assets to recovery is based upon the level of liquidity needed to support the ongoing activities of the security lending program. In order to provide for the Company's liquidity and adjust for the temporary decline in value, AIG and the Company executed three significant transactions: (1) an increase in short-term investments from new securities lending cash, invested in short-term assets to increase liquidity; (2) establishment of a $40 million liability for what the Company calls realized losses due to other-than-temporary declines in value; and (3) an additional $11 million added to the Company's surplus by AIG to cover pretax realized losses due to sales of certain long-term investments incurred between August 1 and December 31, 2007.

Based on a request from the TDCI, the Company provided an update on the status of security lending collateral values as of February 29, 2008. The information the Company provided as of the above date showed that the value of AIG security lending collateral continued to decline with the amount of below amortized cost listed at $7.845 billion (Company's portion = $331 million).

C. Uncollected Premiums and Agents' Balances in Course of Collection

In reviewing the due premium database provided by the Company, it was noted that the Company had policies that remained on the due premium file, yet had due premiums in excess of three months. The Company does non-admit these due premiums in excess of 90 days. However, there are some policies on the system that have due premiums in excess of 100 months.

Some of the policies are waiver of premium policies and others are errors that should be terminated by the Company.

As a result of this analysis, the Company said they intend to initiate a project in early 2008 to scan their master policy files with a number of due premiums greater than some yet undetermined limit and research these policies. The Company should follow up on this in 2008 and make corrections as necessary.

Even though there are a number of policies with a large number of due premium months, the Company does not admit due premiums greater than 90 days.

Overall, it is the opinion of the examiners that the due premiums reported at year-end 2006 are fairly stated, but the Company should review and strengthen their procedures on lapsing policies when premiums remain unpaid.

Recommendations:

There are no recommendations made as a result of this examination.

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 American General Life and Accident Insurance Company located in Nashville, Tennessee.

In such manner, it was found that as of December 31, 2006, the Company had admitted assets of $8,936,854,521 and liabilities, exclusive of surplus, of $8,436,369,923. Thus, there existed for the additional protection of the policyholders, the amount of $500,484,598 in the form of common capital stock, 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, Brian Sewell, CFE, Donnie Nicholson, Mitchell Walker, examiners with the State of Tennessee, Michael A. Mayberry, 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

Kurt Polasko, CFE
Insurance Examiner, AFE
State of Tennessee
Southeastern Zone, NAIC

Gregory Bronson, AIE
Insurance Examiner, III
State of Tennessee
Southeastern Zone, NAIC

Mike Bacon
Mike Bacon
Insurance Examiner, III
State of Tennessee
Southeastern Zone, NAIC

Sandy Banks
Insurance Examiner, II
State of Tennessee
Southeastern Zone, NAIC

EXAMINATION AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of American General Life and Accident Insurance Company located in Nashville, Tennessee dated June 2, 2008, and made as of December 31, 2006, 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 Uselton, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC

County Davidson

State Tennessee

Subscribed and sworn to before me this 2nd day of June, 2008

Helen W. Dorsey
(NOTARY)

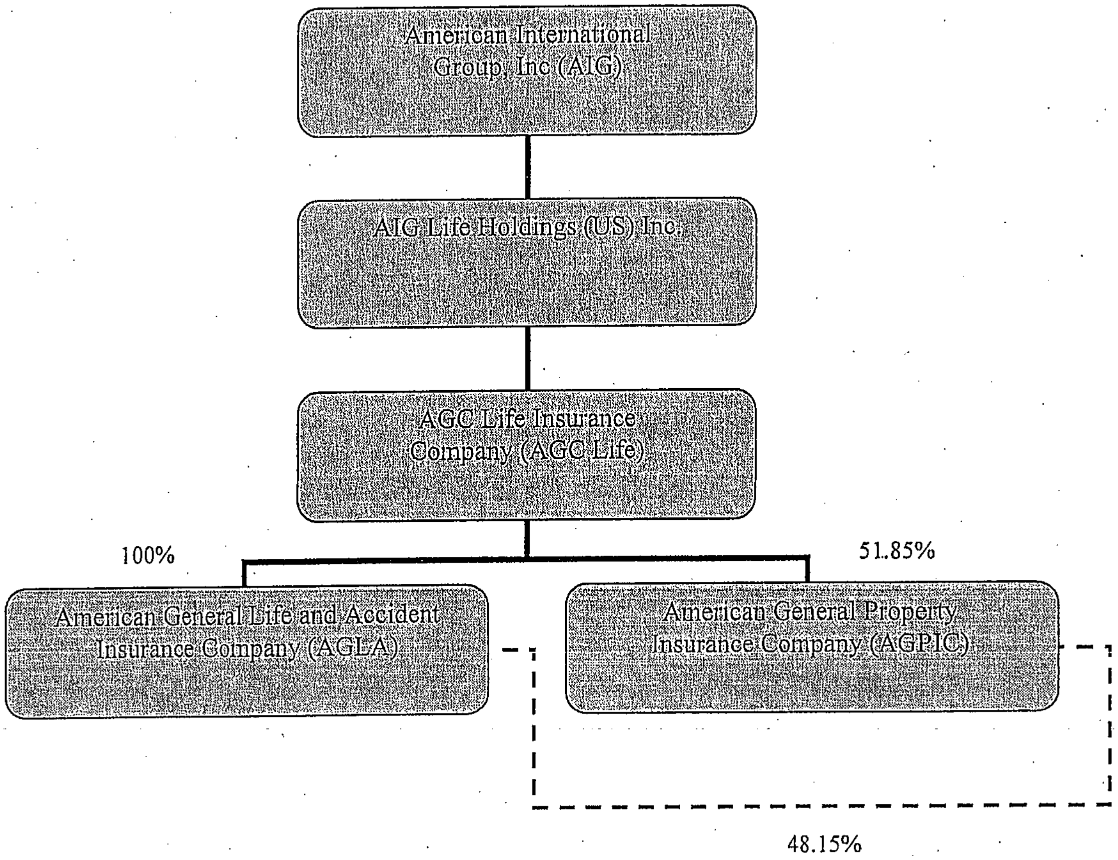
My Commission Expires

05/22/2010

HELEN W. DORSEY
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY, TENN.

My Commission Expires MAY 22, 2010

Organizational Chart

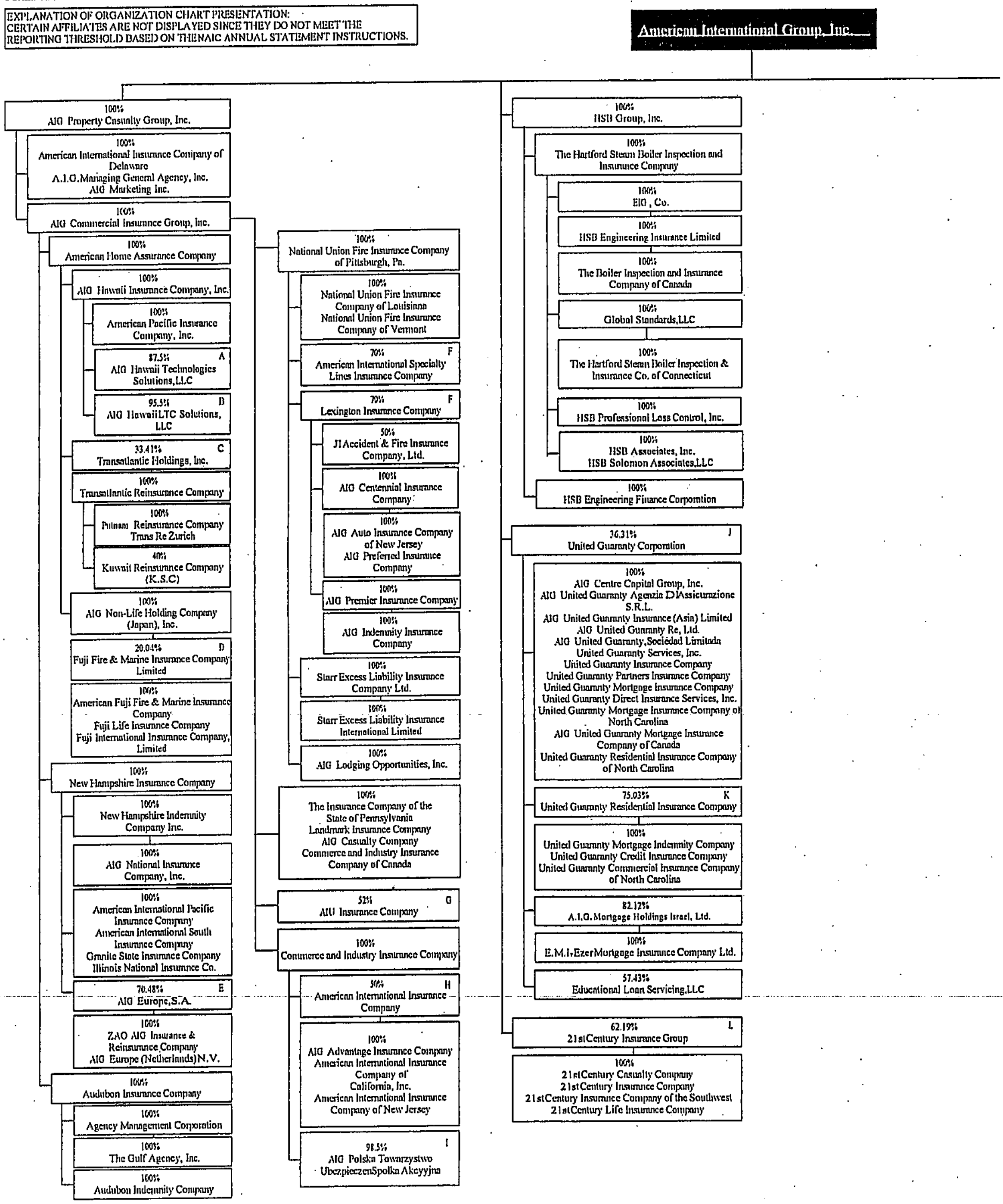


Organizational Chart showing all affiliated companies of AIG Holding Company as filed with Holding Company Registration Statements follows this page.

ATTACHMENT A

SCHEDULE Y

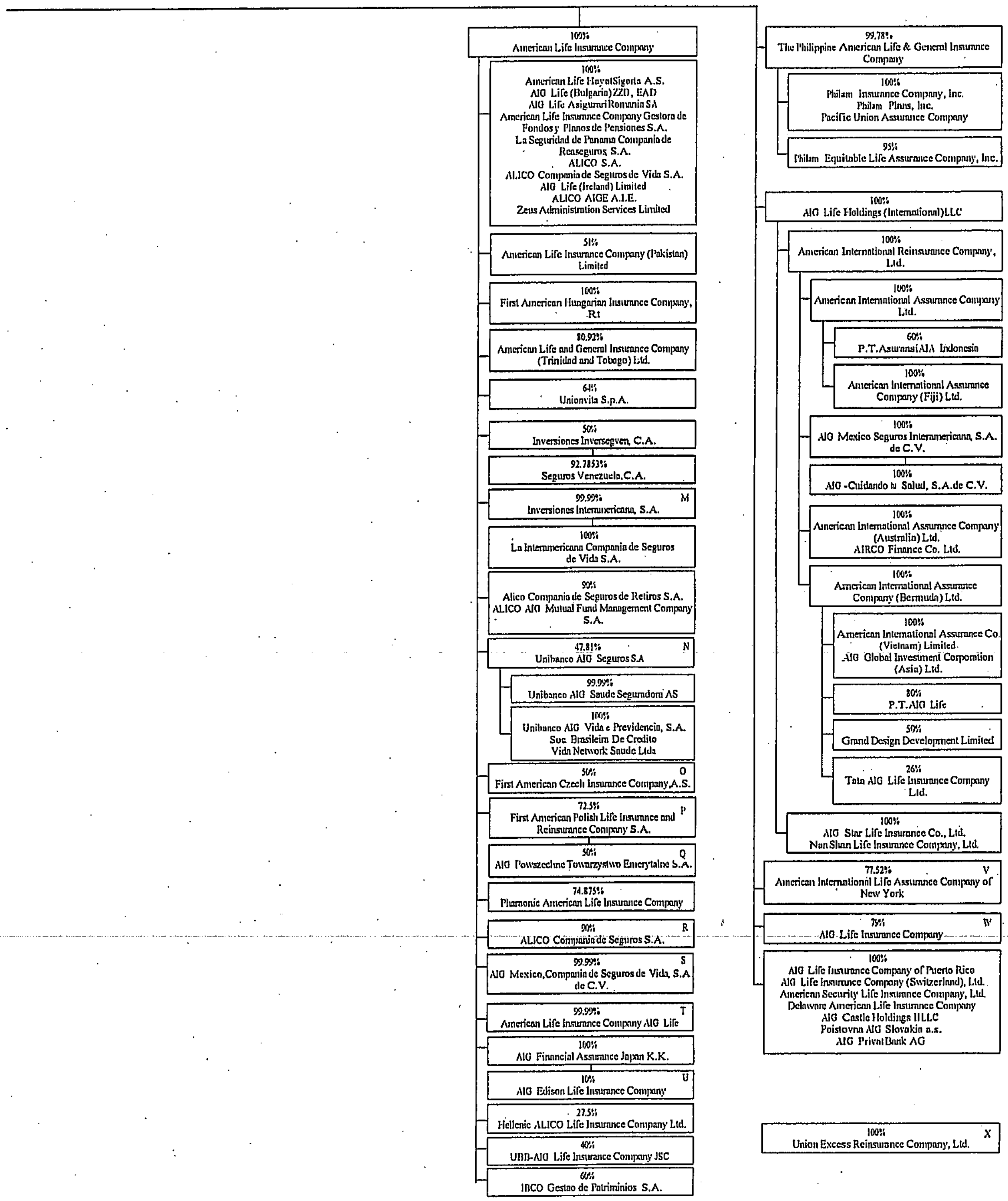
EXPLANATION OF ORGANIZATION CHART PRESENTATION:
CERTAIN AFFILIATES ARE NOT DISPLAYED SINCE THEY DO NOT MEET THE REPORTING THRESHOLD BASED ON THE NAIC ANNUAL STATEMENT INSTRUCTIONS.



A. 12.5% American Pacific Insurance Company, Inc.
B. 0.5% American Pacific Insurance Company
C. 25.9% American International Group, Inc.
D 2.1% AIU Insurance Company
E. 1.17% American International Overseas Association
4.49% American Home Assurance Company
6.98% American International Underwriters Overseas, Ltd
16.88% National Union Fire Insurance Company of Pittsburgh, PA

F. 10% AIG Casualty Company
20% The Insurance Company of the State of Pennsylvania
G. 32% National Union Fire Insurance Company of Pittsburgh, Pa.
8% AIG Casualty Company
8% The Insurance Company of the State of Pennsylvania
H. 25% American Home Assurance Company
25% AIU Insurance Company
I 0.75% American Life Insurance Company
0.75% AIU Insurance Company
J. 45.88% National Union Fire Insurance of Pittsburgh, PA
16.93% New Hampshire Insurance Company
.86% The Insurance Company of the State of Pennsylvania PA

K. 24.97% UnitedGuaranty Residential Insurance Company of North Carolina
L. Held by Various Subsidiaries



M. .01% International Technical Advisory Services Limited
N. 1.714% American International Underwriters Overseas, Ltd.
.48% American Home Assurance Company
These percentages represent both common and preferred stock.
O. 50% Commerce and Industry Insurance Company
P. 27.5% Commerce and Industry Insurance Company
Q. 50% American Life Insurance Company
R. 10% International Technical and Advisory Services Limited
S .0001% International Technical and Advisory Services Limited
T .0005% International Technical Advisory Services, Inc.
U. 90% American International Reinsurance Company, Ltd
V. 22.48% American Home Assurance Company
W. 21% Commerce and Industry Insurance Company
X. Although no AIG company owns an equity interest in Union Excess, control over Union Excess may be implied through the timing and nature of certain reinsurance commutations

December 31, 2006

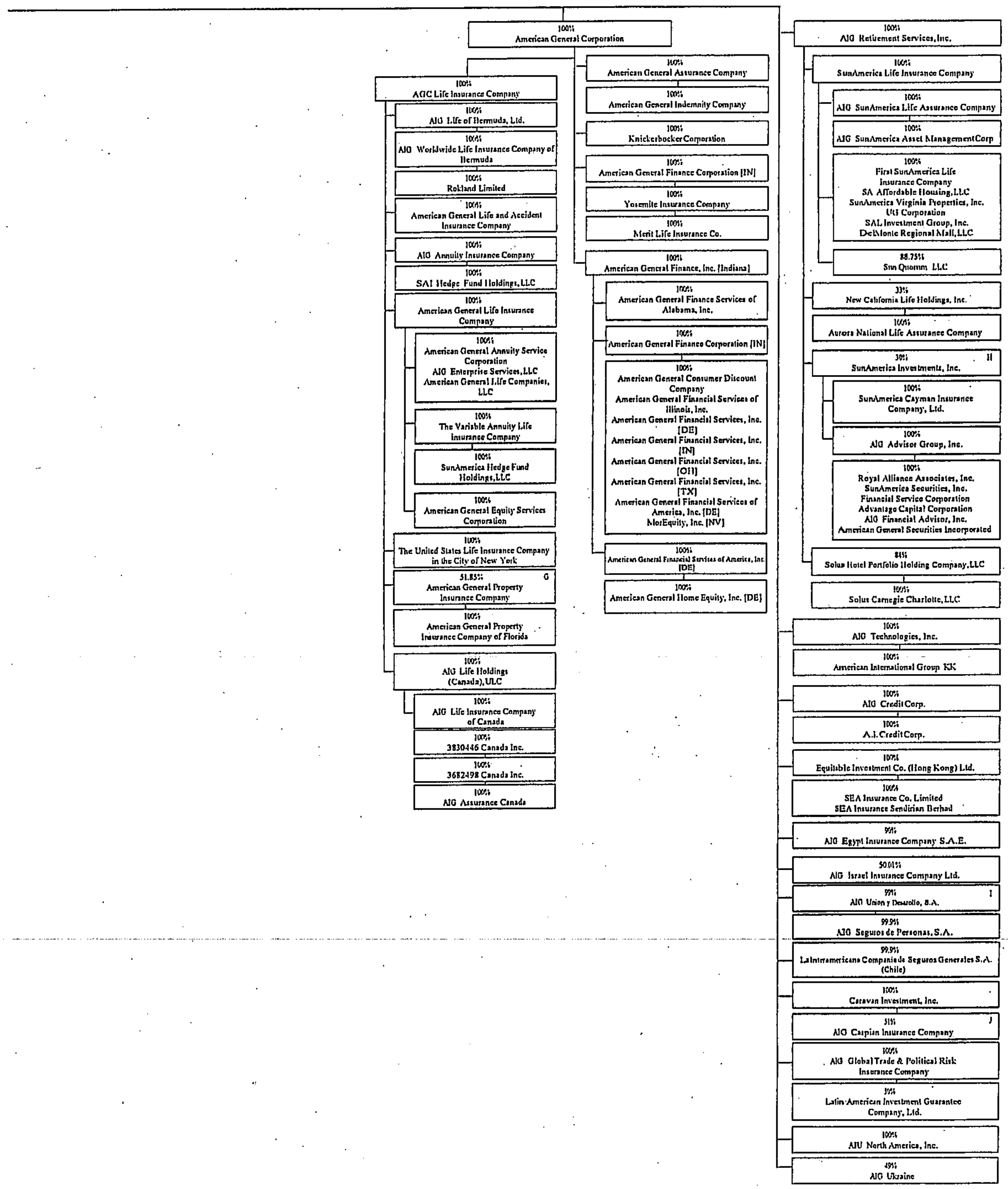
SCHEDULE Y

EXPLANATION OF ORGANIZATION CHART PRESENTATION:
CERTAIN AFFILIATES ARE NOT DISPLAYED SINCE THEY DO NOT MEET THE REPORTING THRESHOLD BASED ON THE NAIC ANNUAL STATEMENT INSTRUCTIONS.

American International Group, Inc.

- 100% AIU Holdings LLC
  - 100% AIG Central Europe & CIS Insurance Holdings Corporation
    - 100% AIG Bulgaria Insurance and Reinsurance Company EAD; AIG Czech Republic pojistovna, a.s.; AIG Romania Insurance Company S.A.
    - 88.87% AIG Kazakhstan Insurance Company, S.A.
    - 100% ZAO "Master D"
      - 51% AIG Life Insurance Company (Russia) A
    - 40% UBB_AIG Insurance and Reinsurance Company EAD
  - 100% AIU Africa Holdings, Inc.
    - 33.3% AIG Kenya Insurance Company, Limited
  - 100% AIG MEMSA Holdings, Inc.
    - 26% TATA AIG General Insurance Company Limited
    - 100% AIG Lebanon S.A.L; AIG Sigorta A.S.
    - 80% AIG Hayleys Investment Holdings (Private) Ltd.
      - 100% Hayleys AIG Insurance Company Ltd.
  - 100% AIG European Insurance Investments Inc.
    - 100% Ascot Corporate Name Limited
- 100% American International Underwriters Overseas, Ltd.
  - 100% AIG Uganda Limited; AIG Europe (Ireland) Limited; AIG General Insurance (Vietnam) Company Limited; AIG Mensa Insurance Company Ltd.; AIG Takaful B.S.C.; AIG Uruguay Compania de Seguros S.A.; AIG General Insurance (Thailand) Ltd.; Landmark Insurance Company Limited; AIG Europe (U.K) Limited; AIG Colombia Seguros Generales S.A.; American International Insurance Company of Puerto Rico; La Seguridad de Centroamerica Compania de Seguros S.A.
  - 99.93% La Meridional Compania Argentina de Seguros S.A.
  - 100% Johannesburg Insurance Holdings (Pty) Limited
    - 100% AIG Life South Africa Limited
  - 60.96% P.T. Asuransi AIU Indonesia
  - 50% Hellas Insurance Co. S.A.
  - 20% Uzbekinvest International Insurance Company Limited
  - 50% Inversiones Segucasai C.A.
    - 93.38% C.A. de Seguros American International
  - 50% AIG Brasil Companhia de Seguros
  - 32.632% AIG Metropolitana Compania de Seguros y Reaseguros S.A. B
  - 75% Arabian American Insurance Company (Bahrain) E.C.
  - 100% AIG Reinsurance Services Office
  - 100% European American Excess Reinsurance S.A.
  - 100% Richmond Insurance Company Limited
  - 100% Richmond Insurance Company (Barbados) Ltd.
  - 100% AIG Direct Marketing Company Ltd.
    - 100% Central Insurance Company
  - 20.1% ElPacifico-Peruano Suiza Compania de Seguros S.A.
    - 62% ElPacifico Vida Compania y Reaseguros C
- 100% AIG Capital Corporation
  - 100% AIG Global Real Estate Investment Corp
    - 100% AIG Realty, Inc.; AIG Global Real Estate Asia Pacific, Inc.
    - 2% AIG Mexico Industrial I, L.L.C. D
  - 100% AIG Global Asset Management Holdings Corp.
    - 100% AIG Global Securities Lending Corp.; AIG Global Investment Corp.
    - 100% AIG Global Investment Corp. (Ireland)
      - 100% AIG Global Securities Lending (Ireland) Ltd.
  - 100% AIG Consumer Finance Group, Inc.
    - 100% AIG Credit Card Company (Taiwan) Ltd.
    - 99.92% AIG Bank Polska S.A.
    - 99.15% AIG Finance (Thailand) Public Company Limited
  - 100% AIG Finance Holdings, Inc.
    - 100% AIG Finance (Hong Kong), Limited
  - 100% AIG Federal Savings Bank
  - 100% AIG Equipment Finance Holdings, Inc.
    - 100% AIG Commercial Equipment Finance, Inc.
  - 67.23% International Lease Finance Corporation E
    - 100% Aircraft SPC-12, Inc.
      - 100% Whitney Leasing Limited
    - 100% Aircraft SPC-9, Inc.
      - 100% Sierra Leasing Ltd.
- 100% AIG Financial Products Corp.
  - 100% NF One Hundred and Twenty-three Corp
    - 79% NF Thirty-Nine Corp.
      - 21% Sorbier Holding Corp.
  - 90% Banque AIG F

A. 49% American Life Insurance Company
B. 19.15% American Home Assurance Company
C. 38% American Life Insurance Company
D. 49% American Home Assurance Company
49% Lexington Insurance Company
E. 35.15% National Union Fire Insurance Company of Pittsburgh, PA
F. 10% AIG Matched Funding Corp
G. 48.15% American General Life And Accident Insurance Company
H. 70% SunAmerica Life Insurance Company
I. 1% AIU Latin American Investments LLC
J. 49% American International Group, Inc.


100% American General Corporation
100% AGC Life Insurance Company
100% AIG Life of Bermuda, Ltd.
100% AIG Worldwide Life Insurance Company of Bermuda
100% Rokland Limited
100% American General Life and Accident Insurance Company
100% AIG Annuity Insurance Company
100% SAI Hedge Fund Holdings, LLC
100% American General Life Insurance Company
100% American General Annuity Service Corporation AIG Enterprise Services, LLC American General Life Companies, LLC
100% The Variable Annuity Life Insurance Company
100% SunAmerica Hedge Fund Holdings, LLC
100% American General Equity Services Corporation
100% The United States Life Insurance Company in the City of New York
51.85% American General Property Insurance Company
G
100% American General Property Insurance Company of Florida
100% AIG Life Holdings (Canada), ULC
100% AIG Life Insurance Company of Canada
100% 3830446 Canada Inc.
100% 3682498 Canada Inc.
100% AIG Assurance Canada
100% American General Assurance Company
100% American General Indemnity Company
100% Knickerbocker Corporation
100% American General Finance Corporation [IN]
100% Yosemite Insurance Company
100% Merit Life Insurance Co.
100% American General Finance, Inc. [Indiana]
100% American General Finance Services of Alabama, Inc.
100% American General Finance Corporation [IN]
100% American General Consumer Discount Company American General Financial Services of Illinois, Inc. American General Financial Services, Inc. [DE] American General Financial Services, Inc. [IN] American General Financial Services, Inc. [OH] American General Financial Services, Inc. [TX] American General Financial Services of America, Inc. [DE] MorEquity, Inc. [NV]
100% American General Financial Services of America, Inc. [DE]
100% American General Home Equity, Inc. [DE]
100% AIG Retirement Services, Inc.
100% SunAmerica Life Insurance Company
100% AIG SunAmerica Life Assurance Company
100% AIG SunAmerica Asset Management Corp
100% First SunAmerica Life Insurance Company SA Affordable Housing, LLC SunAmerica Virginia Properties, Inc. UG Corporation SAL Investment Group, Inc. DelMonte Regional Mall, LLC
88.75% Sun Quorum LLC
33% New California Life Holdings, Inc.
100% Aurora National Life Assurance Company
30% SunAmerica Investments, Inc.
H
100% SunAmerica Cayman Insurance Company, Ltd.
100% AIG Advisor Group, Inc.
100% Royal Alliance Associates, Inc. SunAmerica Securities, Inc. Financial Service Corporation Advantage Capital Corporation AIG Financial Advisor, Inc. American General Securities Incorporated
84% Solus Hotel Portfolio Holding Company, LLC
100% Solus Carnegie Charlotte, LLC
100% AIG Technologies, Inc.
100% American International Group KK
100% AIG Credit Corp.
100% A.I. Credit Corp.
100% Equitable Investment Co. (Hong Kong) Ltd.
100% SEA Insurance Co. Limited SEA Insurance Sendirian Berhad
90% AIG Egypt Insurance Company S.A.E.
50.01% AIG Israel Insurance Company Ltd.
99% AIG Union y Desarollo, S.A.
I
99.9% AIG Seguros de Personas, S.A.
99.9% La Interamericana Compania de Seguros Generales S.A. (Chile)
100% Caravan Investment, Inc.
51% AIG Caspian Insurance Company
J
100% AIG Global Trade & Political Risk Insurance Company
39% Latin American Investment Guarantee Company, Ltd.
100% AIU North America, Inc.
49% AIG Ukraine

AIG AMERICAN GENERAL

Charles K. Gibson, CPA
Vice President and
Controller

June 10, 2008

RECEIVED
JUN 12 2008
Dept. Of Commerce & Insurance
Company Examinations

Mr. Philip Blustein, CFE
Insurance Examinations Director
State of Tennessee
Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243

Re: Financial Condition Examination of
American General Life and Accident Insurance Company
American General Property Insurance Company
Made as of December 31, 2006

Dear Mr. Blustein:

The purpose of this letter is to respond to your letter dated June 2, 2008 regarding the Reports on Examination for American General Life and Accident Insurance Company ("AGLA") and American General Property Insurance Company ("AGPIC") for the period ending December 31, 2006. We have reviewed the Report on Examination for each company and are in agreement with the contents. There are no issues for which we want to submit a rebuttal.

If you require any additional information, please contact me at 615-749-2499.

Sincerely,

Charles K. Gibson

Charles K. Gibson, CPA
Vice President and Controller