REPORT OF A LIMITED-SCOPE EXAMINATION

of the

AMERICAN GENERAL LIFE AND ACCIDENT INSURANCE COMPANY

458N American General Center

Nashville, Tennessee 37250

as of

December 31, 2008

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
November 12, 2009

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 Joel Ario Secretary, Northeastern Zone, NAIC Pennsylvania Insurance Department 1326 Strawberry Square Harrisburg, Pennsylvania 17120	Honorable James J. Donelon Secretary, Southeastern Zone, NAIC Department of Insurance State of Louisana P.O. Box 94214 Baton Rouge, Louisiana 70804-9214
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 limited-scope examination was made of the conditions and affairs of the

AMERICAN GENERAL LIFE AND ACCIDENT INSURANCE COMPANY
NASHVILLE, TENNESSEE

as of December 31, 2008, 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 September 22, 2008, 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, 2006, by examiners of the State of Tennessee. Their report on examination contained a few criticisms requiring corrective action by the TDCI. The Company has corrected all of the problems stated in the last report. See Comments - Previous Examination section included under Scope of Examination on page 3.

SCOPE OF EXAMINATION

This examination covers the period, January 1, 2007, through December 31, 2008, and includes any material transactions and/or events occurring subsequent to the examination date which were noted during the course of examination.

This limited-scope examination was called in September 2008 due to the Company's continued problems with its participation in its ultimate parent's, American International Group, Inc. (AIG), Securities Lending Program and its resulting affect on the Company's financial position. The TDCI had continuing discussions with the Company throughout 2008 concerning the Securities Lending Program and its resulting losses, but by September 2008 the whole situation became more critical when the federal government intervened and provided liquidity to AIG.

AIG had more problems than just the Securities Lending Program, most notably their Credit Default Swap business. However, the Securities Lending Program was the one factor that was affecting AGLA. The major losses that the Company was sustaining from its participation in the Securities Lending Program were having a significant effect on its solvency and its ability to survive as a going concern. Thus, there were two concerns that gave rise to the need for this limited-scope examination; (1) the losses resulting from the Company's participation in the Securities Lending Program, and (2) the solvency of the Company and its ability to survive as a going concern.

This examination was a limited-scope examination and only focused on the two concerns that gave rise for the need for such exam as was mentioned in the prior paragraph. This limited-scope examination is not intended to communicate all matters of importance for an understanding of the Company's financial condition.

This limited-scope examination was conducted in accordance with rules and procedures as prescribed by the statutes of Tennessee, the Company's state of domicile, and in accordance with guidelines and procedures contained in the *NAIC Financial Condition Examiners Handbook.*

Comments - Previous Examination

The previous examination report as of December 31, 2006 listed three comments. Here is a description of the comments with the Company's response:

The first comment addressed the Company's reporting of a credit tenant loan (Legg Mason Mortgage Capital Corporation) on Schedule B as a Mortgage Loan instead of Schedule D as a bond as required by NAIC Annual Statement Instructions. The Company complied with this comment by correctly listing this asset on Schedule D of their 2007 Annual Statement.

The second comment addressed the Company's participation in securities lending and the decrease in value of collateral held against lent securities. This comment is the subject of this limited-scope examination and is addressed within this report.

The third comment addressed the Company's maintaining in its database uncollected premiums that have, in some cases, premiums past-due in excess of 100 months. Although the Company non-admitted amounts 90 days and greater past due in accordance with statutory requirements, they continued to maintain excessively past due premiums on the Company books. To resolve this issue, the Company reported that the following actions were taken:

The Company conducted a full review of all premiums 90 days and greater past due, identifying and resolving a number of issues as to why premiums were listed as past due (i.e. pending claims, waivers, keying errors, or frozen by Law Dept).

The Company created two new management reports designed to flag in-force policies with paid-to dates past 90 days, and to flag policies that have been frozen over 2 weeks. To insure uncollected premiums are resolved in a timely manner, the Company publishes and reviews these reports on a weekly basis, preventing lengthy backlog of uncollected premiums.

An examination was made into the following matters:

- Securities Lending Program
- Solvency of Company

Each is discussed as follows:

SECURITIES LENDING PROGRAM

Background:

Tenn. Code Ann. § 56-3-303 (Authorized Investments) paragraph (a) (18) allows for domestic insurance companies to participate in securities lending as an investment practice. The NAIC Accounting Practices and Procedures Manuel addresses accounting and collateral requirements for securities lending transactions in SSAP No. 91 paragraph 56. On November 2, 2001, the Company's Board of Directors approved an Investment Plan that included securities lending as an authorized investment practice and the Company began its participation in the program in the same year. On May 24, 2002 AIG and the Company gave notice (Form D) to the TDCI of the proposed Securities Lending Agency Agreement where it would participate in a securities lending program with AIG Global Securities acting as agent for each lender.

On July 9, 2002 the Company's Securities Lending Agency Agreement was approved by the TDCI with the following stipulation:

"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 be not less then the prevailing industry standard for such transaction but shall never be less than 100 percent."

The Company in its 2007 Annual Statement reported that the fair value of the securities in the collateral account was below the amortized cost of subject securities and that this decline in value is considered by the Company to be temporary. The Company recorded pretax net realized capital losses related to securities lending collateral investment in the amount of $51.1 million. To offset this loss, its parent, AIG, deposited funds in the collateral custodial account equal to the pretax realized losses due to sales incurred between August 1 and December 31, 2007 in the amount of $11.1 million. The Company recorded the $11.1 million as a capital contribution. The Company stated that AIG also agreed to make additional contributions up to an aggregate limit of $500 million to offset losses incurred.

In a letter dated March 27, 2008, the Company was given notice of the Department's position that the Company is not in compliance with NAIC Statement of Statutory Accounting Practices (SSAP) Number 91, Paragraph 56a. which states:

"The reporting entity shall receive collateral having a fair value as of the transaction date at least equal to 102 percent of the fair value of the loaned securities at that date. If at anytime the fair value collateral is less than 100 percent of the fair value of the loaned securities, the counterparty shall be obligated to deliver additional collateral, the fair value of which together with the fair value of all collateral then held in connection with the transaction at least equals 102 percent of the fair value of the loaned securities."

And also SSAP Number 91, Paragraph 56 which states:

"The failure by the transferor to maintain sufficient collateral for the loaned securities would result in non-admission of the under-collateralized portion."

Based on the Department's assertion of non-compliance with the above statutory requirements, the Department requested the Company deliver additional collateral to the collateral account to ensure that the fair value of the total collateral held in the account equals or exceeds 100 percent of the loaned securities or, beginning with the March 31, 2008 Quarterly Statement, the Company record the dollar amount over which the value of loaned securities exceeds the value of the collateral as a non-admitted asset.

During the period from April 2008 thru September 2008, a series of letters were exchanged between the Company and the Department concerning the difference of opinion regarding the proper interpretation of SSAP No. 91. Specifically the parties disagreed as to the collateral valuations under SSAP 91. The Department's position was if there is a difference between the fair value of the collateral account and the fair value of loaned securities; and that if additional collateral is not delivered to the collateral account to make up this difference then the Company would be required to non-admit the difference on their Quarterly Statement. The Department's final decision was delivered in a letter dated September 15, 2008, where the Company was told that it had until September 30, 2008 to comply with collateral requirements; and that if it did not comply, it must record the under-secured amount as a non-admitted asset beginning with the September 30, 2008 Quarterly Statement.

In the June 30, 2008 Quarterly Statement, the Company reported that collateral pledged for certain loaned securities did not meet the Tennessee Statute requirement of 102% of acceptable collateral and the Company therefore non-admitted the difference in the amount of $9.2 million. When the Company published its 3rd Quarter Statement as of September 30, 2008 there was also insufficient collateral pledged; however, to make up this difference, the Company was provided security interest in collateral pledged by AIG (primarily high grade bonds) which together with the fair value of all collateral obtained by the Company's affiliated lending agent and from counterparties equaled at least 102% of the fair value of loaned securities. Therefore, the Company did not report any non-admitted amount for insufficient collateral in their 3rd Quarter Statement of 2008.

On June 17, 2008 the Company was a party to an agreement ("*the Make-whole Agreement*") with AIG and AIG Global Asset Management Holding Corp. where AIG agreed to make additional contributions to the Securities Lending Program's collateral account, up to an aggregate limit of $5 billion, to offset the obligations of the program's participants to contribute to the collateral account their pro rata share of any investment losses incurred as a result of the sale of investments that were purchased using securities lending program collateral. This agreement was critical to covering losses incurred by the Company as a result of its participation in the Securities Lending Program. Pursuant to this agreement the Company received $227.1 million to offset its obligation to contribute to the collateral account its share of losses incurred as of December 31, 2008.

On September 22, 2008, AIG entered into an $85 billion revolving credit facility (credit agreement) and a guarantee and pledge agreement with the Federal Reserve Bank of New York. During September 2008, AIG's borrowing under the agreement included $11.35 billion that was advanced to the Securities Lending Program to provide liquidity for the return of collateral to counterparties. On September 30, 2008, AIG deemed the $11.35 billion it borrowed, under the credit agreement to provide liquidity to the collateral account, to be capital contributions to the Participants, largely to offset $10.71 billion of third quarter 2008 other-than-temporary impairment charges recorded by the Participants. As of December 31, 2008 the Company received a capital contribution of $500.5 million to offset other-than-temporary impairment charges and net realized losses due to sales of securities in the securities lending collateral account.

An additional side issue was the situation concerning insolvent and bankrupt Lehman Brothers Inc. Securities owned by the Company and other participants were loaned to Lehman under a master securities lending agreement (MSLA). However, Lehman did not return the loaned securities because proceedings commenced against Lehman pursuant to the Securities Investor Protection Act of 1970 (SIPA) and their insolvency constituted an event of default under the MSLA. The Company reported those unreturned loaned securities as sales on the 2008 Annual Statement, Schedule D, parts 4 and 5; and exercised remedies under the MSLA to apply collateral which was held against the amounts owed by Lehman. On November 17, 2008 the Securities Lending Account distributed to the Company assets having an aggregate fair value equal to the aggregate fair value of the Company's unreturned loaned securities on that date. The assets distributed in settlement included corporate credit and other asset-backed securities which the Company reported in the 2008 Annual Statement in Schedule D, Part 3. The remaining collateral held by the Securities Lending Account was distributed to the Company in cash on December 30, 2008 and is reflected on the Company's Annual Statement as of December 31, 2008 as a $6.3 million liability for securities lending collateral withheld.

Examination Procedures:

1. The examination included the 2007 and 2008 Annual Statements; and 2008 and 2009 Quarterly Statements. The examination procedures were limited to inquiry of company officials, and the review of all agreements, management reports and data concerning the Security Lending Program.

2. Quarterly and Annual Statements were reviewed with particular attention given to transactions related to the Security Lending Program. Security lending information provided by the Company in the Notes to the Financial Section were reviewed in detail with all reported amounts traced to the Company's Annual Statement, trial balance and general ledger.

3. During the period of examination all agreements entered into between AIG, the Company and in some cases the Federal Reserve Bank of New York (FED) were reviewed to obtain an understanding of planned and executed actions concerning the Securities Lending Program.

4. Through AIG press releases, news commentary and documents available from the U.S. Securities

and Exchange Commission (SEC) the examiner monitored actions taken by AIG to resolve solvency issues related to its current financial crisis. Documents related to AIG's borrowing of funds from the FED to include a credit line of $85 billion and other FED support totaling $180 billion were reviewed. Actions taken by AIG (as they related to the Company) to generate cash to repay borrowed monies were monitored.

Examination Findings:

In its 2008 Annual Statement, the Company reported that with the sale of long-term investments held by the Agent in the collateral account and the settlement of all outstanding securities lending transactions the program was terminated on December 12, 2008. The examiner reviewed all AIG status reports leading up to termination of the program and traced all Company transactions conducted in the closure of the Securities Lending Program to the Company's 2008 trial balance, general ledger, and Annual Statement with no exceptions noted. Listed below is a summary of the major transactions conducted leading up to the termination of the Company's Securities Lending Program.

1. On October 8, 2008 certain of the Participants (including the Company) entered into a securities lending agreement with the FED where the FED would borrow, on an overnight basis on commercial terms and conditions, investment grade fixed income securities from these participants in return for cash collateral. This was done to allow AIG to replenish liquidity to the Securities Lending Program on an as-needed basis while providing the FED with a perfected security interest in loaned securities. Liquidity generated under this agreement was used to repay $2.99 billion previously borrowed from the FED. As a result of this agreement the Company recorded interest expenses in their 2008 Annual Statement totaling $582,414. This interest expense was traced to the Company's records without error.

2. On December 8, 2008 in conjunction with termination of the Securities Lending Program the Company purchased corporate credit and other asset-backed securities (*i.e. non – residential mortgage backed securities*) at fair values totaling $102 million from the Securities Lending Program collateral account. The securities and their sale price were traced to the Company's records without error.

3. On December 12, 2008 AIG, the participants (including the Company), and AIG Securities Lending Corps entered into an Asset Purchase Agreement with Maiden Lane II LLC ("ML II"), a Delaware limited liability company whose sole member is the FED. In the agreement the Securities Lending Program participants sold to ML II all of their undivided interests in a pool of $39.3 billion par amount of residential mortgage-backed securities (RMBS) held in the Securities Lending Program's collateral account. In exchange for the RMBS, the participants received an initial purchase price of $19.8 billion plus the right to receive a portion of the contingent deferred purchase price up to $1 billion. The amount of the initial payment and the deferred contingent portions of the total purchase price were allocated among participants based on their respective ownership interest in the pool of RMBS. In addition, pursuant to the credit agreement, the FED made a loan to ML II in

the aggregate amount of $19.5 billion (*i.e. $19.8 + 19.5 = $39.3 billion*). After the loan has been repaid in full, to the extent there are sufficient net cash proceeds from the RMBS, participants will be entitled to receive from ML II a portion of the deferred contingent purchase price. The Company accounted for its portion of the deferred contingent purchase price components (*i.e. $44.1 million*) as a retained interest under SSAP 91 paragraph 7.c.i., and reported the components on the 2008 Annual Statement as admitted assets and on Schedule D at fair value of $34.6 million and an unrealized loss of $9.5 million (*i.e. $34.6 + 9.5 = $44.1 million*). Upon examination, all amounts appear to be reported in accordance with SSAP 91 and were traced to the Company's records without error.

In addition, in connection with the closing of the RMBS asset purchase transaction, AIG made a cash contribution in an aggregate amount of $1 billion to the participants other than AIG. The Company's portion of this contribution, $44.1 million, was deposited for the Company's benefit in the Securities Lending Collateral Account to be used in returning Borrowers' Collateral, with the remaining assets if any to be held in the Collateral Account and distributed after termination of all outstanding loans. The $44.1 million additional contribution by AIG was successfully traced to the Company's records.

4. The Company applied the initial consideration from the sales of RMBS and other collateral assets, along with available cash and contributions provided by AIG, to settle its portion of outstanding securities lending transactions (including those under the Fed Securities Lending Agreement). As a result of events and transactions related to termination of the Securities Lending Program the Company recorded the following amounts in 2008:

($ in millions)	Amount Reported by Company	Amount Per Examination
For the year ended December 31, 2008		
Realized gains (losses):		
Net realized gains (losses) due to sales	$(191.7)	$(191.7)
Realized losses due to other-than-temporary declines in value	(785.5)	(785.5)
Total net realized gains (losses)	**$(977.1)**	**$(977.1)**
Capital contributions funded to the collateral acct		
Pursuant to the AIG Make-whole Agreement	$227.1	$227.1
AIG advances from the Fed Facility	500.5	500.5
Additional contributions	44.1	44.1
Total capital contributions funded collateral acct	**$771.7**	**$771.7**
Cash call funded to the collateral acct by Company	**$300.1**	**$300.1**
At December 31, 2008 (Receivable)		
Undistributed Securities Lending Program assets	**$9.0**	**$9.0**
Receivable from affiliated agent	**$8.4**	**$8.4**

All transactions were traced to the Company's 2008 Annual Statement, trial balance, and general ledger without error.

5. In the Company's 1st Quarterly Statement for 2009, the Company reported that the statutory statement of admitted assets again included a receivable due from affiliated agent in the amount of $8.4 million, and a write-in invested asset in the amount of $9 million representing undistributed funds held in the Securities Lending Program collateral account. The Company further stated that it received on April 17, 2009 cash settlement of the receivable from affiliated agent and expects to receive settlement of the undistributed funds held in the Securities Lending Program during the second quarter of 2009. The examination successfully confirmed that $8.4 million was received by the Company from affiliated agent on April 17, 2009.

Conclusion of Securities Lending Program Concern:

This limited-scope examination was called in September 2008 due to the Company's continued problems with its participation in its ultimate parent's, AIG, Securities Lending Program and its resulting effect on the Company's financial position. The major losses that the Company was sustaining from its participation in the Securities Lending Program were having a large effect on its solvency and its ability to survive as a going concern.

Ultimately the Company was directed by the TDCI to deliver additional collateral to the collateral account to ensure that the fair value of the total collateral held in the account equals or exceeds 100 percent of the loaned securities or, beginning with the September 31, 2008 Quarterly Statement, the Company record the dollar amount over which the value of loaned securities exceeds the value of the collateral as a non-admitted asset. The Company complied with this requirement in the posting of additional collateral in the third quarter that was provided as a result of a Make-Whole Agreement between AIG and AIG Global Asset Management Holding Corp. Collateral was posted up to 102 percent of the fair value of the loaned securities putting the Company in compliance with the TDCI's requirement.

Examination review of Company financial records and reports indicate that the Securities Lending Program was terminated on December 12, 2008 and the Company no longer participates in securities lending. The Company recorded on its 2008 Annual Statement losses associated with termination of the Securities Lending Program and additional surplus paid-in by AIG to make the Company whole. Therefore, as a result of this limit-scope examination, it was determined that the Company no longer has any exposure to AIG's Securities Lending Program.

SOLVENCY OF COMPANY

Background:

The Company's solvency during the period of this limited-scope statutory examination was reviewed for compliance with Tenn. Code Ann. §§ 56-2-114 and 115 which requires an insurer of this Company's type to maintain a minimum capital and surplus of two million dollars ($2,000,000), and to meet solvency requirements established by the NAIC in accordance with the Risk Based Capital (RBC) program. In order to avoid any regulatory action under the RBC program the Company must have a RBC above the 200 percent level.

Examination Procedures:

1. The Company's total capital and surplus and the components in its make-up were reviewed over a five year period with additional attention given to the amounts as reported on the 2007 and 2008 Annual Statements to determine if the Company is in compliance with statutory requirements as stated in the background paragraph above.

2. All capital paid in and contributed surplus provided by AIG under the Make-Whole and other agreements were traced to the Company books in conjunction with examination of the Company's termination of the Securities Lending Program.

3. The Company's RBC level was reviewed to determine if AIG's infusion of cash into the Company, and termination of the Securities Lending Program had an effect on Company capitalization requirements as expressed by the RBC model. The goal in reviewing the Company's RBC is to determine if the Company's risk profile changed as a result of the termination of the Securities Lending Program, and if so, was it enough to result in a significant change in the Company's RBC level.

Examination Findings:

The examination traced all AIG capital contributions to the Company's general ledger and 2008 Annual Statement. All losses the Company experienced as a result of its participation and termination of securities lending were traced through the Company's capital and surplus account to the total surplus as reported by the Company in the 2008 Annual Statement. All amounts were traced to the Company's accounts and records without error.

The Company reported on its 2008 Annual Statement, capital and surplus of $563.5 million with a RBC of 666.9 percent (See table next page). With a balance achieved between total losses as a result of the Securities Lending Program and an infusion of cash by AIG to make the Company whole, the Company's overall total capital and surplus and RBC remained constant with very little change.

(In Thousands)

Capital and Surplus	2004	2005	2006	2007	2008
Capital Stock	75,604	75,604	75,604	75,604	75,604
Gross Paid-In Surplus	324,064	324,064	324,064	435,200	1,228,474
Unassigned Funds	171,008	183,280	100,817	36,083	-740,576
Total Capital and Surplus	570,676	582,948	500,485	546,887	563,502
RBC	645.7%	742.6%	628.2%	640.8%	666.9%
Fast Score	75	110	180	225	370

Conclusion of Solvency of Company Concern:

With the Company's closure of the Security Lending Program, and Company capital, surplus, and RBC amounts well above required capitalization levels, there appears to be no threat of the Company becoming insolvent in the near future.

Financial Statement

There follows a statement of assets, liabilities and a summary of operations as of December 31, 2008, together with a reconciliation of capital and surplus for the period under review, as reported by the Company in its financial statemer

Assets

	Assets	Non-Admitted Assets As a Result of the Exam	Net-Admitted Assets
Bonds	$6,521,117,805		$6,521,117,805
Preferred Stocks	225,433,574		225,433,574
Common Stocks	53,931,511		53,931,511
Mortgage loans on real estate:			
First liens	1,122,226,761		1,122,226,761
Other than first liens	11,149,240		11,149,240
Real Estate:			
Properties occupied by the Company	39,838,063		39,838,063
Properties held for the production of income	2,808,061		2,808,061
Properties held for sale	0		0
Cash and Cash Equivalents	214,721,710		214,721,710
Contract loans	430,016,358		430,016,358
Other Invested Assets	95,754,874		95,754,874
Receivables for securities	3,789,699		3,789,699
Aggregate Write-ins for Invested Assets:			
Derivative Instruments	16,519,368		16,519,368
Undistributed Securities Lending Program Assets	9,014,844		9,014,844
Investment Income Due and Accrued	121,791,202		121,791,202
Premiums and Considerations:			
Uncollected premiums and agents' balances in course of collection	13,292,390		13,292,390
Reinsurance:			
Amounts recoverable from reinsurers	14,550,343		14,550,343
Other amounts receivable under reinsurance contracts	36,704,406		36,704,406
Current federal and foreign income tax recoverable	32,028,620		32,028,620
Net deferred tax asset	153,175,198		153,175,198
Guaranty funds receivable or on deposit	1,724,427		1,724,427
Electronic data processing equipment and software	2,656,393		2,656,393
Receivables from parent, subsidiaries and affiliates	8,663,783		8,663,783
Aggregate write-ins for other than invested assets	3,622,112		3,622,112
Totals	$9,134,530,742	$0	$9,134,530,742

Liabilities, Surplus and Other Funds

Aggregate reserve for life contracts		$8,036,658,124
Aggregate reserve for accident and health contracts		120,035,880
Liability for deposit-type contracts		44,085,378
Contract claims:		
Life		57,555,887
Accident and health		29,579,119
Policyholders' dividends due and unpaid		1,197
Provision for policyholders' dividends payable in following calendar year - estimated amounts:		
Dividends apportioned for payment		1,346,000
Premiums and annuity considerations for life and accident and health contracts received in advance		6,278,250
Contract liabilities not included elsewhere:		
Other amounts payable on reinsurance		40,436,025
Commissions to agents due or accrued		6,478,398
Commissions and expense allowances payable on reinsurance assumed		3,136
General expenses due and accrued		22,223,883
Taxes, licenses and fees due or accrued		14,236,288
Unearned investment income		1,559,401
Amounts withheld or retained by company as agent or trustee		53,114,616
Remittances and items not allocated		9,072,540
Liability for benefits for employees and agents if not included above		4,622,112
Miscellaneous liabilities:		
Asset valuation reserve		29,801,555
Reinsurance in unauthorized companies		52,349
Payable to parent, subsidiaries and affiliates		11,259,063
Payable for Securities		1,747,683
Aggregate write-ins for liabilities		80,881,387
Total Liabilities		$8,571,028,271
Common capital stock	$75,603,885	
Gross paid in and contributed surplus	1,228,474,365	
Unassigned funds (surplus)	(740,575,779)	
Total Capital and Surplus		563,502,471
Totals		$9,134,530,742

Summary of Operations

Premiums and annuity considerations for life and A&H contracts	$954,967,497	
Considerations for supplementary contracts with life contingencies	37,199	
Net investment income	637,839,389	
Amortization of Interest Maintenance Reserve (IMR)	145,037	
Commissions and expense allowances on reinsurance ceded	12,110,358	
Reserve adjustments on reinsurance ceded	2,284,056	
Aggregate write-ins for miscellaneous income	3,067,857	
Total Income		$1,610,451,393
Death benefits	$382,032,911	
Matured endowments	15,128,357	
Annuity benefits	40,328,119	
Disability benefits and benefits under A&H contracts	69,475,852	
Coupons, guaranteed annual pure endowments and similar benefits	435	
Surrender benefits and withdrawals for life contracts	310,024,571	
Interest and adjustments on contract or deposit-type contract funds	5,412,113	
Payments on supplementary contracts with life contingencies	608,509	
Increase in aggregate reserves for life and A&H contracts	124,007,413	
Total Benefits	$947,018,280	
Commissions on premiums, annuity considerations and deposit - type contract funds	$151,205,555	
Commissions and expense allowances on reinsurance assumed	75,557	
General insurance expenses	182,648,430	
Insurance taxes, licenses and fees, excluding federal income taxes	32,144,643	
Increase in loading on deferred and uncollected premiums	(1,772,767)	
Aggregate write-ins for deductions	18,799	
Total Expenses	$364,320,217	
Total Benefits and Expenses		1,311,338,497
Net gain from operations before dividends to policyholders and federal income taxes		299,112,896
Dividends to policyholders		1,342,595
Net gain from operations after dividends to policyholders and before federal income taxes		297,770,301
Federal and foreign income taxes incurred		90,926,931
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)		206,843,370
Net realized capital gains or (losses) less capital gains tax (excluding taxes transferred to the IMR)		(1,023,790,749)
Net Income		($816,947,379)

Capital and Surplus Account

	2004	2005	2006	2007	2008
Total Capital and Surplus December 31, previous year	$500,105,035	$570,676,202	$582,948,056	$500,484,598	$546,887,008
Net income or (loss)	$309,250,157	$316,573,987	$279,270,284	$203,817,144	($816,947,379)
Change in net unrealized capital gains or (losses)	(15,705,222)	(26,663,985)	(19,590,652)	(12,884,114)	(8,410,124)
Change in net unrealized foreign exchange capital gain (loss)	757,399	(2,613,866)	4,800,853	13,448,360	(23,029,200)
Change in net deferred income tax	(39,036,383)	(28,131,569)	(26,862,016)	6,367,046	385,242,616
Change in non-admitted assets and related items	21,080,612	5,915,418	14,108,735	(23,285,037)	(349,851,002)
Change in liability for reinsurance in unauthorized companies	(3,451)	(3,745)	(2,782)	(3,203)	(4,446)
Change in reserve on account of change in valuation basis, (increase) or decrease	1,148,358	-0-	-0-	-0-	-0-
Change in asset valuation reserve	(14,241,660)	(23,648,146)	(7,805,285)	(9,767,885)	42,206,497
Cumulative effect of changes in accounting principles	-0-	76,042	-0-	-0-	-0-
Surplus adjustment:					
Paid in	-0-	-0-	-0-	111,135,848	793,274,369
Change in surplus as a result of reinsurance	(2,678,643)	(2,093,040)	(1,382,595)	(1,368,653)	(1,765,868)
Dividends to stockholders	(190,000,000)	(225,000,000)	(325,000,000)	(240,000,000)	-0-
Aggregate write-ins for gains and losses in surplus	-0-	(2,139,242)	-0-	(1,057,096)	(4,100,000)
Net change in total capital and surplus for the year	$70,571,167	$12,271,854	($82,463,458)	$46,402,410	$16,615,463
Total Capital and Surplus December 31, current year	$570,676,202	$582,948,056	$500,484,598	$546,887,008	$563,502,471

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION

Total Capital and Surplus: $563,502,471

Total capital and surplus as established by this examination is the same as what was reported by the Company in its December 31, 2008, Annual Statement. There were no changes made to any asset or liability items as a result of our examination as performed as of December 31, 2008.

Tenn. Code Ann. §§ 56-2-114 and 115 require an insurer of this Company's type to maintain a minimum capital and surplus of two million dollars ($2,000,000). Therefore, the Company as of December 31, 2008, for this examination does maintain capital and surplus in excess of the amounts required per Tennessee Statutes.

COMMENTS AND RECOMMENDATIONS

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

Comments:

A. Conclusion to Securities Lending Program concern – Page 9

This limited-scope examination was called in September 2008 due to the Company's continued problems with its participation in its ultimate parent's, AIG, Securities Lending Program and its resulting effect on the Company's financial position. The major losses that the Company was sustaining from its participation in the Securities Lending Program were having a significant effect on its solvency and its ability to survive as a going concern.

Ultimately the Company was directed by the TDCI to deliver additional collateral to the collateral account to ensure that the fair value of the total collateral held in the account equals or exceeds 100 percent of the loaned securities or, beginning with the September 31, 2008 Quarterly Statement, the Company record the dollar amount over which the value of loaned securities exceeds the value of the collateral as a non-admitted asset. The Company complied with this requirement in the posting of additional collateral in the third quarter that was provided as a result of a Make-Whole Agreement between AIG and AIG Global Asset Management Holding Corp. Collateral was posted up to 102 percent of the fair value of the loaned securities putting the Company in compliance with the TDCI's requirement.

Examination review of Company financial records and reports indicate that the Securities Lending Program was terminated on December 12, 2008 and the Company no longer participates in securities lending. The Company recorded on its 2008 Annual Statement losses associated with termination of the Securities Lending Program and additional surplus paid-in by AIG to make the Company whole. Therefore, as a result of this limited-scope examination, it was determined that the Company no longer has any exposure to AIG's Securities Lending Program.

B. Conclusion to Solvency of Company concern – Page 11

The Company's solvency during the period of this limited-scope statutory examination was reviewed for compliance with Tenn. Code Ann. §§ 56-2-114 and 115 which requires an insurer of this Company's type to maintain a minimum capital and surplus of two million dollars ($2,000,000), and to meet solvency requirements established by the NAIC in accordance with the Risk Based Capital (RBC) program. In order to avoid any regulatory action under the RBC program the Company must have a RBC above the 200 percent level. The Company reported on its 2008 Annual Statement, Capital and Surplus of $563.5 million with a RBC of 666.9 percent. Now that the Company has closed its Security Lending Program, and its capital, surplus, and RBC amounts are well above required capitalization levels, there appears to be no threat of the Company becoming insolvent in the near future.

Recommendations:

There were no recommendations noted in this limited-scope examination report.

CONCLUSION

The customary insurance examination practices and procedures, as promulgated by the NAIC have been followed in connection with this limited-scope examination of American General Life and Accident Insurance Company located in Nashville, Tennessee.

In such manner, it was noted that as of December 31, 2008, the Company had admitted assets of $9,134,530,742 and liabilities, exclusive of surplus, of $8,571,028,271. Thus, there existed for the additional protection of the policyholders, the amount of $563,502,471 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.

Respectfully submitted,

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

Gregory Bronson, CIE
Insurance Examiner, III
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 November 12, 2009, and made as of December 31, 2008, 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.

Jay Uselton

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

County Davidson

State Tennessee

Subscribed and sworn to before me this 12th day of November, 2009

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

AGLA

American General Life and Accident Insurance Company
American General Center
Nashville, TN 37250-0001
615-749-2499 Telephone
615-749-1251 Fax
Charles.Gibson@aglife.com

Charles K. Gibson, CPA
Vice President and Controller

November 30, 2009

RECEIVED
DEC 01 2009
Dept. of Commerce & Insurance
Company Examinations

Mr. Horace E. Gaddis, Jr., CFE
Insurance Examinations Director
TN Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243

Re: Report of Limited-Scope Examination of
American General Life and Accident Insurance Company
American General Property Insurance Company
Made as of December 31, 2008

Dear Mr. Gaddis:

In reply to your November 16, 2009 letter to Mr. James A. Mallon, President, we are in agreement with the limited-scope examinations reports of American General Life and Accident Insurance Company and American General Property Insurance Company and wish to waive our right to a rebuttal.

Sincerely,

Charles K. Gibson, CPA
Vice President and Controller

XC: Gregory Hayes
Charlie Beam
Connie Ansley