STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON FINANCIAL CONDITION EXAMINATION

OF

THE UNITED STATES LIFE INSURANCE COMPANY

IN THE CITY OF NEW YORK

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| CONDITION: | DECEMBER 31, 2007 |
| DATE OF REPORT: | JANUARY 30, 2009 |

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| EXAMINER: | MARC A. TSE |

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

David A. Paterson
Governor

Eric R. Dinallo
Superintendent

June 11, 2009

Honorable Eric R. Dinallo
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 22739, dated January 15th 2008, and annexed hereto, an examination has been made into the financial condition and affairs of The United States Life Insurance Company in the City of New York hereinafter referred to as "the Company," or "US Life" at its office located at 3600 Route 66, Neptune, NJ 07753.

Wherever "Department" appears in this report, it refers to the State of New York Insurance Department.

The report indicating the results of this examination is respectfully submitted.

# 1. EXECUTIVE SUMMARY

Significant events occurred during 2008, after the period covered by this examination, as more fully described in Section 6. As widely reported, in September 2008 the Company's ultimate parent, American International Group, Inc. ("AIG"), experienced a severe strain on its liquidity that resulted in AIG entering into a revolving credit facility with an initial maximum amount of $85 billion and a guarantee and pledge agreement with the Federal Reserve Bank of New York.

The Company reported capital contributions totaling $459 million in 2008 from its parent to alleviate losses from its securities lending program and a cash flow testing reserve adjustment. (See Section 6B of this report).

The Company participated in AIG's U.S. securities lending program. Under the securities lending program, securities were loaned to various financial institutions. The market value of securities purchased with the cash collateral received for the loaned securities declined significantly during 2008 and trading in these securities became extremely limited. The Company's losses related to securities lending for 2008 were $395 million. On December 12, 2008, the securities lending program was terminated. (See Section 6C of this report).

During the review of reserves for December 31, 2007, the Department recommended more conservatism in assumptions and methodology used for asset adequacy analysis pursuant to Department Regulation No. 126. In response, the Company incorporated the various stipulated adjustments in a manner acceptable to the Department. As stated in the Company's December 31, 2008 Actuarial Memorandum, "Primary areas of differences between the Company and the Department include the level of credit risk charges modeled, the applicability of a covariance effect and the probability weighting of interest rate scenarios. Because of these differences, the Company holds $200 million of cash flow testing reserves and looks forward to further discussion of these differences, with the objective of reaching a mutually agreeable framework for future valuations". The adjustments were then implemented for the December 31, 2008 reserves. These adjustments produced additional reserves in the amount of $200 million. Due to the extraordinary circumstances which occurred during the second half of 2008 the Department's certificate of reserve valuation for December 31, 2007 reserves is being held in abeyance until the Department has completed its subsequent review of the December 31, 2008 reserves. The examiner recommends that the Company continue to compute cash flow testing reserves using the assumptions and methodology as agreed upon with the Department. (See Section 5D of this report).

The Company violated Section 1505(d)(3) of the New York Insurance Law by entering into transactions with an affiliate whereby the Company received services on a regular basis without notifying the Department at least thirty days prior to entering into such transactions. (See Section 3B of this report).

## 2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2002. This examination covers the period from January 1, 2003 through December 31, 2007. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2007 but prior to the date of this report (i.e., the completion date of the examination).

The examination comprised a verification of assets and liabilities as of December 31, 2007 to determine whether the Company's 2007 filed annual statement fairly presents its financial condition. The examiner reviewed the Company's income and disbursements necessary to accomplish such verification and utilized the National Association of Insurance Commissioners' Examiners Handbook or such other examination procedures, as deemed appropriate, in such review and in the review or audit of the following matters:

Company history
Management and control
Corporate records
Fidelity bond and other insurance
Territory and plan of operation
Growth of Company
Business in force by states
Mortality and loss experience
Reinsurance
Accounts and records
Financial statements

The examiner reviewed the corrective actions taken by the Company with respect to the financial violations, recommendations and/or comments contained in the prior report on examination. The results of the examiner's review are contained in item 7 of this report.

This report on examination is confined to financial statements and comments on those matters which involve departure from laws, regulations or rules, or which require explanation or description.

## 3. DESCRIPTION OF COMPANY

### A. History

The Company was incorporated as a stock life insurance company under the laws of New York on February 25, 1850, was licensed on May 28, 1935 and commenced business on March 4, 1850. Initial resources of $3,961,316, consisting of 1,980,658 shares of common stock with a par value of $2.00 per share.

Under a special permit issued pursuant to Section 4231 of the New York Insurance Law, the Company writes both participating and non-participating business in all jurisdictions in which it is authorized to do business.

On June 17, 1997, American General Corporation ("AGC") acquired control of the Company and its immediate parent, USLIFE Corporation, through the merger of USLIFE Corporation with the Texas Stars Corporation, a wholly owned subsidiary of AGC.

On August 29, 2001, AGC was acquired by AIG, a Delaware corporation, resulting in AIG becoming the Company's ultimate parent. On October 18, 2007, AGC changed its name to AIG Life Holdings (US) Inc.

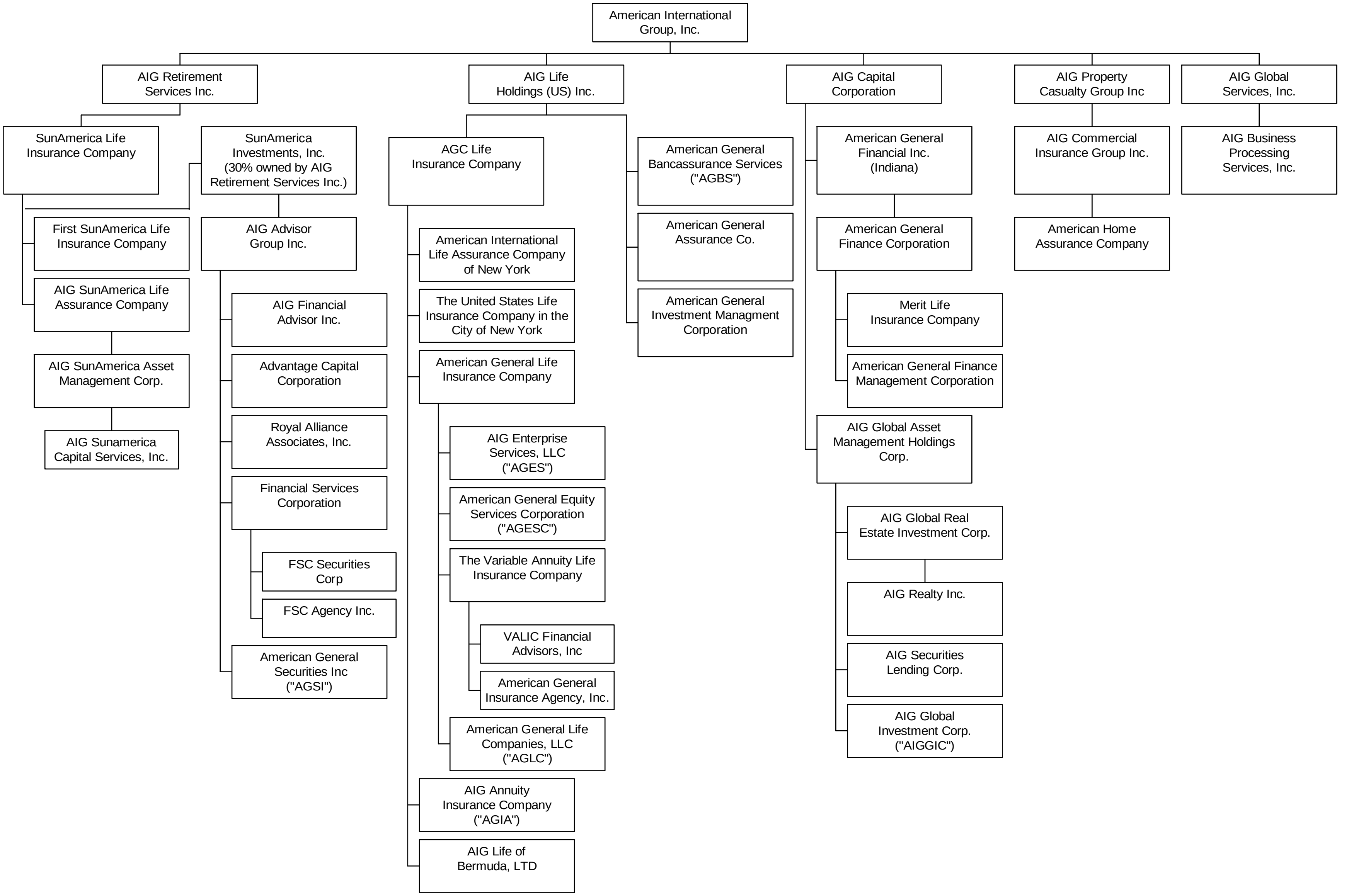
On December 31, 2002, American General Life Insurance Company of New York ("AGNY"), a New York domiciled company, was merged with and into the Company. On December 31, 2003, North Central Life Insurance Company was merged with and into the Company.

The Company recorded capital contributions from its parent of $120 million in 2004, $130 million in 2005, $50.0 million in 2006 and $2.2 million in 2007.

B. Holding Company

The Company is a wholly owned subsidiary of AGC Life Insurance Company ("AGC Life"), domiciled in the State of Missouri. AGC Life is in turn a wholly owned subsidiary of AIG Life Holdings (US) Inc., a Texas holding company**.** The ultimate parent of the Company is AIG, a Delaware holding Company. The Company has two affiliates, American International Life Assurance Company of New York ("AIL") and First SunAmerica Life Insurance Company ("FSA") that are domiciled in New York. The Company has another affiliate, The Variable Annuity Life Insurance Company ("VALIC') which is a life insurer domiciled in Texas and licensed in New York.

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2007 follows:


American International Group, Inc.
AIG Retirement Services Inc.
AIG Life Holdings (US) Inc.
AIG Capital Corporation
AIG Property Casualty Group Inc
AIG Global Services, Inc.
SunAmerica Life Insurance Company
SunAmerica Investments, Inc. (30% owned by AIG Retirement Services Inc.)
AGC Life Insurance Company
American General Bancassurance Services ("AGBS")
American General Financial Inc. (Indiana)
AIG Commercial Insurance Group Inc.
AIG Business Processing Services, Inc.
First SunAmerica Life Insurance Company
AIG Advisor Group Inc.
American International Life Assurance Company of New York
American General Assurance Co.
American General Finance Corporation
American Home Assurance Company
AIG SunAmerica Life Assurance Company
AIG Financial Advisor Inc.
The United States Life Insurance Company in the City of New York
American General Investment Managment Corporation
Merit Life Insurance Company
AIG SunAmerica Asset Management Corp.
Advantage Capital Corporation
American General Life Insurance Company
American General Finance Management Corporation
AIG Sunamerica Capital Services, Inc.
Royal Alliance Associates, Inc.
AIG Enterprise Services, LLC ("AGES")
AIG Global Asset Management Holdings Corp.
Financial Services Corporation
American General Equity Services Corporation ("AGESC")
AIG Global Real Estate Investment Corp.
FSC Securities Corp
The Variable Annuity Life Insurance Company
AIG Realty Inc.
FSC Agency Inc.
VALIC Financial Advisors, Inc
AIG Securities Lending Corp.
American General Securities Inc ("AGSI")
American General Insurance Agency, Inc.
American General Life Companies, LLC ("AGLC")
AIG Global Investment Corp. ("AIGGIC")
AIG Annuity Insurance Company ("AGIA")
AIG Life of Bermuda, LTD

The Company had 18 service agreements in effect with affiliates during the examination period.

| Type of Agreement and Department File Number | Effective Date | Provider(s) of Service(s) | Recipient(s) of Service(s) | Specific Service(s) Covered | Income/(Expense)* For Each Year of the Examination |
|---|---|---|---|---|---|
| 1. US Life/ AGLC Individual Life Business (File # 29147) | 1/1/2001 | AGLC | US Life | AGLC to provide US Life with Administrative services on all lines of US Life, life insurance business | 2003 ($26,705,434)<br>2004 ($29,485,477)<br>2005 ($27,489,586)<br>2006 ($27,467,867)<br>2007 ($32,281,112) |
| 2. US Life/Group Life Business (File # 29778) | 1/1/2002 | AGLC | US LIFE | AGLC provides services to US Life on US Life employer and association group business and NY creditor group business | 2003 ($76,795,942)<br>2004 ($70,825,673)<br>2005 ($72,468,256)<br>2006 ($75,406,796)<br>2007 ($79,684,439) |
| 3.US Life/AIGA Administrative Services Agreement (File # 31805) | 10/01/2003 | AIGA | US Life | AIGA will provide certain administrative services as to all fixed annuity products issued or assumed by US Life | 2003 ($ 671,536)<br>2004 ($ 319,046)<br>2005 ($ 261,417)<br>2006 ($ 125,172)<br>2007 ($ 162,819) |
| 4. US Life/ Fixed Product Agreements Various Affiliates – (File # 29573). AIGFA, Inc. (File # 35580), Advantage Capital Insurance Agency, Inc. (File # 35579), FSC Agency, Inc. (File # 35578), Royal Alliance Associates, Inc.(File # 35581) | 11/7/2001 | Various Affiliates | US Life | Allows affiliates to distribute US Life fixed products | 2003 ($220,496)<br>2004 ($ 47,622)<br>2005 ($ 56,143)<br>2006 ($ 67,738)<br>2007 ($ 34,729) |
| 5. US Life/ Variable Product Agreements US Life, AGESC and Sentra Securities Corporation, Royal Alliance Association Inc., FSC Securities Corporation, FSC Agency Inc., Sun America Securities Inc., Spelman & Company Inc., Advantage Capital Corporation, (File # 31804) | 10/01/2003 | **Various Affiliates | US Life | Allows affiliates to distribute US Life variable products | 2003 ($ 8,526)<br>2004 ($21,841)<br>2005 ($ 2,674)<br>2006 ($ 3,638)<br>2007 ($ 4,228) |
| 6. US Life/AGESC Distribution Agreement (Variable Products) - File # 37317A | 5/1/2007 | AGESC | US Life | AGESC acts as underwriter/ distributor of US Life variable products | 2003 $0<br>2004 $0<br>2005 $0<br>2006 $0<br>2007 $0 |

| | | | | | |
|---|---|---|---|---|---|
| 7. US Life/AGSI/ AGESC/AGIA Selling Group Agreement (File # 30709) | 10/01/2002 | AGESC and AGIA | US Life | Agreements permit AGSI representatives/US Life appointed agents to sell US Life E variable products | 2003 ($ 801)<br>2004 ($ 5,729)<br>2005 ($17,941)<br>2006 ($20,373)<br>2007 ($19,364) |
| 8. US Life/AGES Legal Services Agreement (File # 30019) | 8/14/2002 | AIG Enterprise Services, LLC ("AGES") | US Life | AGES provides US Life with tax services, general services and administrative services | 2003 ($ 922,527)<br>2004 ($ 1,069,299)<br>2005 ($ 682,847)<br>2006 ($ 954,206)<br>2007 ($ 1,017,661) |
| 9. US Life/AIG Global Investment Corporation – Investment Services Agreement (File #'s 29914, 29915) | 1/1/1999, assigned to AIGGIC 1/1/2002 | AIG Global Investment Corp ("AIGGIC") | US Life | AGGIC to provide assistance with the execution and performance with US Life's investment decisions, the collection of matured investments, maintenance of related records and financial reporting of investments | 2003 ($ 1,288,876)<br>2004 ($ 1,425,412)<br>2005 ($ 1,671,715)<br>2006 ($ 1,768,339)<br>2007 ($ 1,694,442) |
| 10. US Life/American General Realty Advisors, Inc. Administrative Services Agreement | 12/29/2000 | ***American General Realty Advisors, Inc ("AGRA") | US Life | AGRA provides various administrative services to US Life with respect to US Life's mortgage loan and real estate investment portfolio | 2003 $0<br>2004 $0<br>2005 $0<br>2006 $0<br>2007 $0 |
| 11. US Life/AGC Non-Exclusive License Agreement (File # 26259) | 6/7/2002 | AGC | US LIFE | AGC as licensor grants license to US LIFE to use "American General" name | 2003 $0<br>2004 $0<br>2005 $0<br>2006 $0<br>2007 $0 |
| 12. Short Term Investment Pool Agreement (File #, 30959) | 10/16/2000 | AIGGIC | US Life | Allows US Life and affiliates to invest funds in 3 short term pools | 2003 ($1,288,876)<br>2004 ($1,425,412)<br>2005 ($1,671,715)<br>2006 ($1,768,339)<br>2007 ($1,694,442) |
| 13. US Life/ AGBS General agent agreement (File # 27756) | 11/22/2000 | AGBS | US Life | General agent agreement; allows US Life to appoint US Life Agency Services, Inc. as "home office" general agency and to receive compensation consistent with agreement | 2003 ($219,202)<br>2004 ($197,167)<br>2005 ($188,435)<br>2006 ($136,787)<br>2007 ($141,574) |
| 14. US Life/AGIA Fixed Product Agency Agreement (File # 29573) | 11/7/2001 | AGIA | US Life | AGIA acts as general agent for US Life. | 2003 ($15,733)<br>2004 ($19,496)<br>2005 ($15,699)<br>2006 ($ 7,199)<br>2007 ($13,087) |
| 15. US Life/ BPS Administrative Services Agreement (File # 30828) | 12/1/2002 | BPS | US Life | BPS provides administrative services related to business processing to US Life | 2003 ($ 6,403,960)<br>2004 ($13,827,878)<br>2005 ($16,364,115)<br>2006 ($13,627,434)<br>2007 ($ 9,462,238) |

| | | | | | |
|---|---|---|---|---|---|
| 16. US Life/Affiliates Service and Expense Agreement (File # 31886) | 9/1/2003 | AIG Affiliates | US Life | Provide services and share expenses | 2003 ($10,572,641)<br>2004 ($15,664,336)<br>2005 ($ 7,854,702)<br>2006 ($ 5,598,459)<br>2007 ($ 5,529,689) |
| 17. US Life/AGC Promissory Note – 5 yr. (File # 36013) | 9/15/2006 | US Life | AGC | Promissory Note | 2003 N/A<br>2004 N/A<br>2005 N/A<br>2006 $ 82,003<br>2007 $ 278,500 |
| | 12/27/2006 | US Life | AGC | Promissory Note | 2003 N/A<br>2004 N/A<br>2005 N/A<br>2006 $ 67,340<br>2007 $ 6,060,600 |
| | 9/25/2001 | US Life | AGC | Promissory Note | 2003 $ 87,403<br>2004 $143,469<br>2005 $146,360<br>2006 $195,411<br>2007 N/A |
| | 12/27/2001 | US Life | AGC | Promissory Note | 2003 $ 2,045,219<br>2004 $ 2,309,518<br>2005 $ 4,503,305<br>2006 $ 6,493,294<br>2007 N/A |
| 18. US Life/AIG Global Securities Lending Corporation-Securities Lending Agency Agreement (File # 30374) | 9/30/2002 | AIG Global Securities Lending Corporation | US Life | AIG Global Securities Lending Corporation acts as agent in connection with loans to third party borrowers | 2003 ($286,342)<br>2004 ($380,854)<br>2005 ($557,708)<br>2006 ($760,951)<br>2007 ($930,088) |

* Amount of Income or (Expense) Incurred by the Company

** Sentra Securities Corporation, Spelman & Company and SunAmerica Securities, Inc were merged into AIGFA in 2005.

*** AGRA merged into American General Investment Management Corporation in 2000

The Company participates in a federal income tax allocation agreement with its parent and affiliates.

Section 1505(d) of the New York Insurance Law states, in part:

> "The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period . . .
> (3) rendering of services on a regular or systematic basis . . . "

On September 25, 2007, the Company filed a proposed administrative service agreement between the Company and American General Finance Management Corporation ("AGFMC"). During the review of the filing, it was noted that AGFMC had been rendering the services proposed under the agreement since 1997. The services provided under the terms of the agreement are accounting, underwriting, claims handling, actuarial and policyholder services.

The Company violated Section 1505(d)(3) of the New York Insurance Law by entering into transactions with an affiliate whereby the Company received services on a regular basis without notifying the Department at least thirty days prior to entering into such transactions.

C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than 13 and not more than 21 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in April of each year. As of December 31, 2007, the board of directors consisted of 14 members. Meetings of the board are held at such time and place as the directors may determine by resolution.

The 14 board members and their principal business affiliation, as of December 31, 2007, were as follows:

| Name and Residence | Principal Business Affiliation | Year First Elected |
|---|---|---|
| Mertin Bernard Aidinoff*<br>New York, NY | Senior Counsel<br>Sullivan & Cromwell | 2002 |
| Patrick J. Foley*<br>Atlantis, FL | Retired | 1996 |

| Name and Residence | Principal Business Affiliation | Year First Elected |
|---|---|---|
| Mary Jane B. Fortin<br>Houston, TX | Executive Vice President and Chief Financial Officer<br>The United States Life Insurance Company in the City of New York | 2006 |
| James A. Galli<br>New York, NY | Senior Vice President<br>The United States Life Insurance Company in the City of New York | 2007 |
| Cecil Gamwell, III*<br>Charlestown, RI | Retired | 1994 |
| Jack R. Harnes*<br>Pawling, NY | Retired | 1971 |
| David L. Herzog<br>St. Albans, MO | Executive Vice President and Chief Financial Officer<br>American International Group, Inc | 2002 |
| Richard A. Hollar<br>Houston, TX | President and Chief Executive Officer of Life Profit Center<br>American General Life Companies, LLC | 2005 |
| John I. Howell*<br>Springfield Center, NY | Retired | 1988 |
| Rodney O. Martin, Jr.<br>Houston, TX | Chairman of the Board<br>The United States Life Insurance Company in the City of New York | 2002 |
| David W. O'Leary<br>Houston, TX | President and Chief Executive Officer of Specialty Markets Group<br>American General Life Companies, LLC | 2007 |
| Gary D. Reddick<br>The Woodlands, TX | Executive Vice President<br>The United States Life Insurance Company in the City of New York | 2002 |
| Christopher J. Swift<br>New Canaan, CT | Vice President<br>American International Group, Inc | 2003 |
| Matthew E. Winter<br>Houston, TX | President and Chief Executive Officer<br>The United States Life Insurance Company in the City of New York | 2006 |

* Not affiliated with the Company or any other company in the holding company system

The examiner's review of the minutes of the meetings of the board of directors and its committees indicated that meetings were well attended and that each director attended a majority of meetings.

The following is a listing of the principal officers of the Company as of December 31, 2007:

| Name | Title |
|---|---|
| Rodney O. Martin, Jr. | Chairman |
| Matthew E. Winter | President and Chief Executive Office |
| Mary Jane B. Fortin | Executive Vice President and Chief Financial Officer |
| Gary W. Parker | Executive Vice President and Chief Product Officer |
| Gary D. Reddick | Executive Vice President and Chief Executive Officer Special Markets group |
| Wayne A. Barnard | Senior Vice President |
| Robert M. Beuerlein | Senior Vice President, Chief and Appointed Actuary |
| Jeffrey H. Carlson | Senior Vice President and Chief Information Officer |
| Robert F. Herbert, Jr. | Senior Vice President |
| Kyle L. Jennings | Senior Vice President and General Counsel |
| Walter E. Bednarski | Vice President, Controller and Treasurer |
| Edward F. Bacon | Vice President |
| Timothy H. Bolden* | Vice President and Chief Compliance Office |
| Richard W. Scott | Vice President and Chief Investment Officer |
| Elizabeth M. Tuck | Secretary |

* Designated consumer services officer per Section 216.4(c) of Department Regulation No. 64

D. Territory and Plan of Operation

The Company is authorized to write life insurance, annuities and accident and health insurance as defined in paragraphs 1, 2 and 3 of Section 1113(a) of the New York Insurance Law.

The Company is licensed to transact business in 50 states, the District of Columbia, Guam and The US Virgin Islands.

In 2007, 59% of life premiums and 92% of annuity considerations were received from New York. Thirty three (33%) percent of accident and health premiums were received from New York and New Jersey combined, 25% and 8%, respectively. Policies may be written on either a participating or non-participating basis.

The Company's major products are individual universal life, individual term life, group life, group excess major medical (stop-loss), group dental, group long term disability and individual fixed immediate and deferred annuities. The Company markets its products using a combination of general agents, direct marketing and brokerage sales.

E. Reinsurance

As of December 31, 2007, the Company had reinsurance treaties in effect with 81 companies, of which 33 were authorized or accredited. The Company's life and accident and health business is reinsured on a coinsurance, a modified-coinsurance, and a yearly renewable term basis. Reinsurance is provided on both an automatic and a facultative basis.

The standard retention limit for individual life contracts is $10,000,000. Additional amounts may be retained on a case by case exception basis, up to a maximum of $15,000,000 on any single insured. The total face amount of life insurance ceded as of December 31, 2007, was $59,903,943,400 which represents 44% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaled $410,274,299, and was supported by letters of credit, trust agreements and funds withheld.

The total face amount of life insurance assumed as of December 31, 2007, was $1,179,450.

Section 1505(d) of the New York Insurance Law states, in part:

> "The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period . . .
> (2) reinsurance treaties or agreements . . . "

On February 11, 2003, the Department approved a proposed treaty between the Company and its affiliate, AIG Life of Bermuda, LTD. As approved, the treaty indicated that the risks to be transferred pertain to policy forms SPT Millennium Term Form # RCTG-P 96E and SPT Millennium Term Form # RTG 200lE. On December 16, 2008, the Company filed proposed amendments to the treaty. During the review of the filing, it was noted that the Company added policy forms 07007N and 08701N to the treaty without giving prior notice to the Department. Policy forms 07007N and 08701N were added to the treaty effective April 1, 2007 and May 16, 2008 respectively.

The Company violated Section 1505(d)(2) of the New York Insurance Law by amending a reinsurance contract with an affiliate to add additional policy forms without providing the Department with at least thirty days notice prior to amending such contract.

## 4. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Company during the period under examination as extracted from its filed annual statements. Failure of items to add to the totals shown in any table in this report is due to rounding.

The following table indicates the Company's financial growth during the period under review:

| | December 31, 2002* | December 31, 2007 | Increase (Decrease) |
|---|---|---|---|
| Admitted assets | $3,380,352,055 | $5,314,658,764 | $1,934,306,709 |
| Liabilities | $3,070,116,156 | $4,842,259,406 | $1,772,143,250 |
| Common capital stock | $ 3,961,316 | $ 3,961,316 | $ 0 |
| Gross paid in and contributed surplus | 62,248,560 | 364,445,400 | 302,196,840 |
| Aggregate write-ins for special surplus funds – Group Contingency reserve | 34,076,671 | 37,687,199 | 3,610,528 |
| Unassigned funds (surplus) | 209,949,352 | 66,305,443 | (143,643,909) |
| Total capital and surplus | $ 310,235,899 | $ 472,399,358 | $ 162,163,459 |
| Total liabilities, capital and surplus | $3,380,352,055 | $5,314,658,764 | $1,934,306,709 |

*The figures noted above are presented as if the merger of North Central Life Insurance Company with and into the Company had occurred as of December 31, 2002.

The Company's invested assets as of December 31, 2007, exclusive of separate accounts, were mainly comprised of bonds (85.1%), mortgage loans (7.6%), policy loans (4.1%), stocks (2.2%), and cash and short-term investment (0.9%). The majority (92.4%) of the Company's $4,261,699,093 bond portfolio, as of December 31, 2007, was comprised of investment grade obligations, with 58.5% and 33.9% in NAIC Class 1 and Class 2, respectively.

The following is the net gain (loss) from operations by line of business after federal income taxes but before realized capital gains (losses) reported for each of the years under examination in the Company's filed annual statements:

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Ordinary: | | | | | |
| Life insurance | $39,519,367 | $ 12,382,112 | $ 21,585,445 | $12,369,638 | $ 43,375,576 |
| Individual annuities | 3,273,502 | 167,994 | 1,986,469 | 1,974,316 | 507,718 |
| Supplementary contracts | 1,468,103 | 2,146,575 | 2,233,514 | 1,230,754 | 3,747,433 |
| Total ordinary | $44,260,972 | $ 14,696,681 | $ 25,805,428 | $15,574,708 | $ 47,630,727 |
| Credit life | $ 7,880,954 | $ 6,914,645 | $ 3,410,850 | $ 139,769 | $ 3,373,718 |
| Group: | | | | | |
| Life | $ (2,199,220) | $ 1,673,528 | $ 14,345 | $ 4,401,651 | $ 7,828,927 |
| Annuities | 5,131,897 | 4,906,938 | 3,185,914 | 4,548,358 | (259,402) |
| Total group | $ 2,932,677 | $ 6,580,466 | $ 3,200,259 | $ 8,950,009 | $ 7,569,525 |
| Accident and health: | | | | | |
| Group | $ 606,025 | $(181,374,104) | $(193,551,596) | $20,223,668 | $ 25,689,200 |
| Credit | 3,012,933 | 4,490,133 | 2,446,337 | (2,776,201) | 2,377,436 |
| Other | (73,635) | (320,036) | 58,599 | (26,602) | (558,673) |
| Total accident and health | $ 3,545,323 | $(177,204,007) | $(191,046,660) | $17,420,865 | $ 27,507,963 |
| All other lines | $13,292,434 | $ 10,178,317 | $ 12,658,564 | $11,661,893 | $ 17,447,904 |
| Total | $71,912,360 | $(138,833,898) | $(145,971,559) | $53,747,244 | $103,529,837 |

The losses reported on the Company's group accident and health line of business in 2004 and 2005 were primarily related to an arbitration award associated with workers compensation reinsurance assumed. The Company reported a net pretax charge of $174 million as of December 31, 2004 related to an estimate of losses associated with arbitration on workers compensation business assumed. The Company revised its estimate of loss from the workers compensation treaty and reported an additional pretax charge of $196 million in 2005.

The Company's total net gains from operations increase from $53,747,244 in to 2006 to $103,529,837 in 2007. This increase was mainly due to an arbitration settlement related to the worker's compensation business assumed, as well as the recapture of group life and group accident and health from American General Assurance Company in 2007.

The following ratios, applicable to the accident and health business of the Company, have been extracted from Schedule H for each of the indicated years:

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Premiums earned | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Incurred losses | 75.2% | 391.8% | 680.5% | 21.2% | 49.4% |
| Commissions | (66.5) | (98.6) | (92.2) | (111.6) | 16.8 |
| Expenses | 103.6 | 100.7 | 127.9 | 177.8 | 30.5 |
| | 112.3% | 393.9% | 716.2% | 87.4% | 96.7% |
| Underwriting results | (12.3)% | (293.9)% | (616.2)% | 12.6% | 3.3% |

The negative underwriting results reported in 2004 and 2005 were related to the losses associated with an arbitration award related to workers' compensation business assumed.

## 5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2007, as contained in the Company's 2007 filed annual statement, a condensed summary of operations and a reconciliation of the capital and surplus account for each of the years under review.

### A. ASSETS, LIABILITIES, CAPITAL AND SURPLUS AS OF DECEMBER 31, 2007

Admitted Assets

| | |
|---|---|
| Bonds | $4,212,038,678 |
| Stocks: | |
| Preferred stocks | 87,175,288 |
| Common stocks | 21,801,035 |
| Mortgage loans on real estate: | |
| First liens | 374,809,391 |
| Cash, cash equivalents and short term investments | 45,322,066 |
| Contract loans | 201,804,230 |
| Other invested assets | 6,947,374 |
| Receivable for securities | 160,660 |
| Investment income due and accrued | 55,116,821 |
| Premiums and considerations: | |
| Uncollected premiums and agents' balances in the course of collection | 65,313,701 |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 103,950,098 |
| Reinsurance: | |
| Amounts recoverable from reinsurers | 26,636,120 |
| Other amounts receivable under reinsurance contracts | 22,154,546 |
| Net deferred tax asset | 78,750,000 |
| Guaranty funds receivable or on deposit | 772,801 |
| Receivables from parent, subsidiaries and affiliates | 1,629,755 |
| Aggregate write-ins for other than invested assets | 6,078,286 |
| From Separate Accounts, Segregated Accounts and Protected Cell Accounts | 4,197,914 |
| Total admitted assets | $5,314,658,764 |

Liabilities, Capital and Surplus

| | |
|---|---|
| Aggregate reserve for life policies and contracts | $2,987,647,713 |
| Aggregate reserve for accident and health contracts | 584,836,224 |
| Liability for deposit-type contracts | 97,991,039 |
| Contract claims: | |
| Life | 102,773,147 |
| Accident and health | 639,380,192 |
| Policyholders’ dividends and coupons due and unpaid | 65,931 |
| Provision for policyholders’ dividends and coupons payable in following calendar year - estimated amounts | |
| Dividends apportioned for payment | 3,378,863 |
| Premiums and annuity considerations for life and accident and health contracts received in advance | 1,611,129 |
| Contract liabilities not included elsewhere: | |
| Provision for experience rating refunds | 227,458,736 |
| Other amounts payable on reinsurance | 8,034,892 |
| Interest maintenance reserve | 12,268,015 |
| Commissions to agents due or accrued | 8,806,176 |
| Commissions and expense allowances payable on reinsurance assumed | 1,345,671 |
| General expenses due or accrued | 12,426,824 |
| Transfers to Separate Accounts due or accrued | (113,495) |
| Taxes, licenses and fees due or accrued, excluding federal income taxes | 2,138,811 |
| Current federal and foreign income taxes | 17,512,879 |
| Unearned investment income | 5,460,233 |
| Amounts withheld or retained by company as agent or trustee | 3,379,879 |
| Amounts held for agents’ account | 2,384,152 |
| Remittances and items not allocated | 48,522,402 |
| Miscellaneous liabilities: | |
| Asset valuation reserve | 36,507,700 |
| Reinsurance in unauthorized companies | 641,632 |
| Funds held under reinsurance treaties with unauthorized reinsurers | 100,000 |
| Payable to parent, subsidiaries and affiliates | 4,914,365 |
| Drafts outstanding | 977,616 |
| Funds held under coinsurance | 1,649,670 |
| Payable for securities | 88,745 |
| Securities lending collateral | 16,683,729 |
| Reserve for unclaimed liabilities | 7,536,146 |
| Derivative liabilities | 1,358,280 |
| Miscellaneous liabilities | 172,584 |
| Market conduct settlement liability | 92,147 |
| Liability for claim checks issued by TPA | 29,465 |
| From Separate Accounts statement | 4,197,914 |
| Total liabilities | $4,842,259,406 |
| Common capital stock | $ 3,961,316 |
| Gross paid in and contributed surplus | 364,445,400 |
| Group Contingency Life Reserve | 37,687,199 |
| Unassigned funds (surplus) | 66,305,443 |
| Total capital and surplus | $ 472,399,358 |
| Total liabilities, capital and surplus | $5,314,658,764 |

## B. CONDENSED SUMMARY OF OPERATIONS

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Premiums and considerations | $351,526,353 | $ 313,340,716 | $ 317,919,645 | $287,652,280 | $ 812,999,241 |
| Investment income | 232,298,056 | 227,846,356 | 254,129,846 | 262,368,132 | 316,292,946 |
| Commissions and reserve adjustments on reinsurance ceded | 187,250,133 | 201,206,751 | 209,615,446 | 224,747,384 | 74,821,109 |
| Miscellaneous income | 5,823,978 | 13,483,154 | 10,706,062 | 1,922,366 | 638,678 |
| Total income | $776,898,520 | $ 755,876,977 | $ 792,370,999 | $776,690,162 | $1,204,751,974 |
| Benefit payments | $310,412,477 | $ 432,045,234 | $ 419,877,064 | $438,238,423 | $166,701,906 |
| Increase in reserves | 61,497,373 | 153,020,481 | 325,780,677 | (96,341,871) | 561,513,721 |
| Commissions | 131,652,643 | 116,183,918 | 139,053,948 | 135,742,132 | 117,706,817 |
| General expenses and taxes | 170,742,965 | 190,149,613 | 167,050,592 | 178,761,011 | 150,834,936 |
| Increase in loading on deferred and uncollected premiums | 2,422,977 | (4,304,959) | (2,333,587) | (4,859,695) | (7,129,063) |
| Net transfers to (from) Separate Accounts | 519,350 | 440,180 | 376,532 | 354,092 | 477,567 |
| Miscellaneous deductions | 1,347,726 | (21,813,238) | 574,881 | 15,188,284 | 32,561,761 |
| Total deductions | $678,595,511 | $ 865,721,229 | $1,050,380,107 | $667,082,376 | $1,022,667,645 |
| Net gain (loss) | $ 98,303,009 | $(109,844,252) | $ (258,009,108) | $109,607,786 | $ 182,084,329 |
| Dividends | 4,073,048 | 3,607,665 | 3,283,398 | 2,662,331 | 3,204,604 |
| Federal and foreign income taxes incurred | 22,317,605 | 25,381,981 | (115,320,947) | 53,198,210 | 75,349,888 |
| Net gain (loss) from operations before net realized capital gains | $ 71,912,356 | $(138,833,898) | $ (145,971,559) | $ 53,747,245 | $ 103,529,837 |
| Net realized capital gains (losses) | (24,308,530) | (8,234,179) | 5,312,642 | (6,520,836) | (31,242,684) |
| Net income | $ 47,603,826 | $(147,068,077) | $ (140,658,917) | $ 47,226,409 | $ 72,287,153 |

The Company reported an increase in premiums from $287,652,280 in 2006 to $812,999,241 in 2007. The increase in premiums was mainly due to the recapture of group life and group accident and health from AGAC in 2007. The Company also reported an increase in reserves of $561,513,721 in 2007 which also related primarily to the recapture.

Losses in 2004 and 2005 were primarily due to net pretax charges associated with arbitration related to workers' compensation business assumed by the Company. (See Section 4 of the report).

## C. CAPITAL AND SURPLUS ACCOUNT

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Capital and surplus, December 31, prior year | $310,235,899 | $ 364,656,606 | $ 401,357,417 | $337,314,456 | $390,062,058 |
| Net income | $ 47,603,826 | $(147,068,077) | $(140,658,917) | $ 47,226,409 | $ 72,287,153 |
| Change in net unrealized capital gains (losses) | 3,209,138 | 3,062,048 | (1,883,251) | 883,585 | (218,044) |
| Change in net unrealized foreign exchange capital gain (loss) | 0 | 162,797 | (615,147) | 284,926 | 1,525,901 |
| Change in net deferred income tax | 1,508,197 | 66,189,260 | (29,208,364) | 15,424,644 | 30,469,176 |
| Change in non-admitted assets and related items | (6,998,268) | (796,439) | (5,712,788) | (22,932,219) | (10,451,445) |
| Change in liability for reinsurance in unauthorized companies | (131,508) | 1,177,004 | (1,035,557) | 2,032,559 | 687,715 |
| Change in asset valuation reserve | 9,229,322 | (6,025,782) | (10,506,899) | (4,499,302) | (2,128,736) |
| Surplus adjustments: | | | | | |
| Paid in | 0 | 120,000,000 | 130,000,000 | 50,000,000 | 2,196,840 |
| Change in surplus as a result of reinsurance | 0 | 0 | 0 | 14,327,000 | (8,367,772) |
| Dividends to stockholders | 0 | 0 | 0 | (50,000,000) | 0 |
| Prior period adjustments | 0 | 0 | (4,422,038) | 0 | (3,663,488) |
| Net change in capital and surplus for the year | $ 54,420,707 | $ 36,700,811 | $ (64,042,961) | $ 52,747,602 | $ 82,337,300 |
| Capital and surplus, December 31, current year | $364,656,606 | $401,357,417 | $337,314,456 | $390,062,058 | $472,399,358 |

## D. RESERVES

The Department conducted a review of reserves as of December 31, 2007. During the review, the Department recommended more conservatism in assumptions and methodology used for asset adequacy analysis pursuant to Department Regulation No. 126. In response, the Company incorporated the various stipulated adjustments in a manner acceptable to the Department. As stated in the Company's December 31, 2008 Actuarial Memorandum, "Primary areas of differences between the Company and the Department include the level of credit risk charges modeled, the applicability of a covariance effect and the probability weighting of interest rate scenarios. Because of these differences, the Company holds $200 million of cash flow testing reserves and looks forward to further discussion of these differences, with objective of reaching a mutually agreeable framework for future valuations". The changes were then implemented for December 31, 2008 reserves. These adjustments produced additional reserves in the amount of $200 million. Due to the extraordinary circumstances which occurred during the second half of 2008 (described in Section 6), a review of the December 31, 2008 reserves is in progress. This may lead to adjustments in the Department Regulation 126 asset adequacy analysis and potential increases or decrease to the additional reserves that have already been established. To the extent an increase or decrease in reserves proves necessary; this is expected to be reflected as of the quarter-end immediately following the conclusion of the Department's review. The certificate of reserve valuation for December 31, 2007 reserves is being held in abeyance until the Department has completed its subsequent review of the December 31, 2008 reserves.

The examiner recommends that the Company continue to compute reserves using the assumptions and methodology as agreed upon with the Department.

## 6. SUBSEQUENT EVENTS

A. Holding Company

In September 2008, the Company's ultimate parent, AIG, experienced a severe strain on its liquidity that resulted in AIG entering into a revolving credit facility with an initial maximum amount of $85 billion (as later amended and supplemented the "Fed Facility") and a guarantee and pledge agreement with the Federal Reserve Bank of New York ("NY Fed") on September 22, 2008. Under the Fed Facility agreement AIG has among other things issued 100,000 shares of Series C Perpetual, Convertible Participating Preferred Stock ("Series C Preferred Stock") to the AIG Credit Facility Trust, a trust established for the sole benefit of the United States Treasury. The Series C Preferred Stock is entitled to vote with AIG's common stock on all matters submitted to AIG shareholders and holds approximately 79.9% of the aggregate voting power of the common stock. The United States Department of the Treasury additionally holds warrants exercisable for 53,801,766 shares of AIG's common stock.

The Fed Facility obligations are guaranteed by certain AIG subsidiaries and the obligations are secured by a pledge of certain assets of AIG and its subsidiaries. The Company is not a guarantor of the credit facility obligation and it has not pledged any assets to secure those obligations.

Additional information concerning AIG and its transactions with the NY Fed and the United States Department of Treasury are provided in the Company's 2008 Annual Statement and its quarterly statutory financial statement for the three months ended March 31, 2009, as filed with the Department.

B. Capital Contributions

The Company reported capital contributions from it parent of $459 million in its 2008 filed annual statements. The capital contributions were made primarily to offset the effect of losses related to securities lending (See item 6C of this report) and cash flow testing reserve adjustments made following discussions with the Department (See Section 5D of this Report). The contributions were approved by the Department and were comprised of a combination of cash and securities.

C. Securities Lending Program

The Company historically participated in AIG's U.S. securities lending program (the "securities lending program") which was managed by an affiliated agent, AIG Securities Lending Corp. (the "Agent") and an affiliated investment advisor for the benefit of AIG's domestic insurance company participants (including the Company). Under the securities lending program, securities were loaned to various financial institutions. A significant portion of the cash collateral received was invested in residential mortgage backed securities with expected maturities longer than the liabilities to the securities lending counterparties. The value of the collateral securities declined significantly during 2008.

During 2008, participants in the securities lending program recorded significant realized capital losses, including other-than-temporary impairment charges and losses on sales, related to declines in the values of investments made with collateral in the securities lending program. The participants received capital contributions from AIG which largely offset the pretax impact of these realized losses. The Company's losses related to securities lending for 2008 were $395 million.

On December 12, 2008, the securities lending program was terminated, following the sale of long-term investments held by the Agent in the securities lending program's collateral account and the settlement of all domestic outstanding securities lending transactions.

## 7. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the financial violations contained in the prior report on examination and the subsequent actions taken by the Company in response to each citation:

| Item | Description |
|---|---|
| A | The Company violated Section 127.3(a) of Department Regulation No. 102 by taking reserve credit in the amount of $462,410 under a reinsurance agreement wherein the agreement or a binding letter of intent had not been duly executed by both parties no later than the "as of" date of the financial statement.<br><br>The examiners review of reserve credit taken and related reinsurance agreements did not reveal violations of Department Regulation No. 102 |
| B | The Company violated Section 1308(a)(2)(A) of the New York Insurance Law by taking credit for unearned premiums in the amount of $3,020,243 under a reinsurance agreement in which a proper insolvency clause was omitted from the agreement.<br><br>The examiner's review of reinsurance agreements did not reveal agreements that did not contain a proper insolvency clause. |

## 8. SUMMARY AND CONCLUSIONS

Following are the violations, recommendation and comments contained in this report:

| Item | Description | Page No(s). |
|---|---|---|
| A | The Company violated Section 1505(d)(3) of the New York Insurance Law by entering into transactions with an affiliate whereby the Company received services on a regular basis without notifying the Department at least thirty days prior to entering into such transactions. | 11 |
| B | The Company violated Section 1505(d)(2) of the New York Insurance Law by amending a reinsurance contract with an affiliate by adding additional policy forms and not providing the Department with at least thirty days notice prior to amending such contract. | 14 |
| C | The certificate of reserve valuation for December 31, 2007 reserves is being held in abeyance until the Department has completed its subsequent review of December 31, 2008 reserves. | 24 |
| D | The examiner recommends that the Company continue to compute reserves using the assumptions and methodology as agreed upon with the Department | 24 |
| E | In September 2008, the Company’s ultimate parent, AIG, experienced a severe strain on its liquidity that resulted in AIG entering into a revolving credit facility with an initial amount of $85 billion and a guarantee and pledge agreement with the Federal Reserve Bank of New York. | 25 |
| F | The Company reported capital contributions of $459 million in its 2008 filed annual statements. | 25 |
| G | The Company’s losses related to securities lending for 2008 were $395 million. The Company terminated its securities lending program on December 12, 2008. | 26 |

Respectfully submitted,

_____________/s/___________
Marc A. Tse
Associate Insurance Examiner

STATE OF NEW YORK )
)SS:
COUNTY OF NEW YORK )

Marc A. Tse, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

_____________/s/___________
Marc A. Tse

Subscribed and sworn to before me

this__________ day of ____________________2009.

*APPOINTMENT NO. 22739*

*STATE OF NEW YORK*

# *INSURANCE DEPARTMENT*

*I, **ERIC R. DINALLO**, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

***MARC TSE***

*as a proper person to examine into the affairs of the*

***UNITED STATES LIFE INSURANCE COMPANY IN THE CITY OF NEW YORK***

*and to make a report to me in writing of the condition of the said*

***COMPANY***

*with such other information as he shall deem requisite.*

*In Witness Whereof, I have hereunto subscribed by name*
*and affixed the official Seal of the Department*
*at the City of New York*

*this 15th day of January, 2008*

*ERIC R. DINALLO*
*Superintendent of Insurance*

*Superintendent*