STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

FIRST SUNAMERICA LIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 2002

DATE OF REPORT:	JANUARY 15, 2004
EXAMINER:	JOSHUA WEISS

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

George E. Pataki
Governor

Gregory V. Serio
Superintendent

January 15, 2004

Honorable Gregory V. Serio
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 22066, dated June 19, 2003 and annexed hereto, an examination has been made into the condition and affairs of First SunAmerica Life Insurance Company, hereinafter referred to as “the Company,” or “FSLIC”, at its home office located at 733 3rd Avenue, New York, New York 10017.

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

The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2002 filed annual statement. (See item 5 of this report)

The Company violated Sections 2112(a) and 2114(a)(1) of the New York Insurance Law when it allowed unappointed agents to solicit business for the Company and for paying compensation to agents who were not appointed by the Company. (See item 6A of this report)

The Company violated Section 3227(b) of the New York Insurance Law when it did not pay interest on surrenders. The Company agreed to review all surrenders made during the past five years and pay interest, where appropriate. (See item 6C of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1999. This examination covers the period from January 1, 2000 through December 31, 2002. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2002 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, 2002 to determine whether the Company's 2002 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
Officers' and employees' welfare and pension plans
Territory and plan of operation
Market conduct activities
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 violations and recommendations contained in the prior report on examination. The results of the examiner's review are contained in item 8 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 December 5, 1978 under the name Capitol Life Insurance Company of New York. The Company was licensed and commenced business on September 30, 1980. The Company's present name was adopted on March 20, 1989. Initial resources of $9,000,000, consisting of capital paid up of $3,000,000 and contributed surplus of $6,000,000, were provided through the sale of 300 shares of common stock (with a par value of $10,000 each) for $30,000 per share.

The Company received a capital contribution of $5,000,000 from its parent, SunAmerica Life Insurance Company ("SALIC"), in 1997.

Pursuant to an agreement dated November 29, 1996, SALIC entered into an agreement to purchase John Alden Life Insurance Company ("Alden"), a New Jersey domiciled company. As part of the purchase of Alden, on March 31, 1997, SALIC purchased all of the outstanding stock of John Alden Life Insurance Company of New York ("JANY"). Effective October 31, 1997, JANY merged with and into the Company. An increase in surplus of $29,863,578 resulted from the merger with JANY. Capital and paid in and contributed surplus were $3,000,000 and $40,863,578, respectively, as of December 31, 2002.

On November 30, 1997, the Company entered into an asset purchase and sale agreement, an indemnity reinsurance agreement, an assumption reinsurance agreement, a trust agreement, and an administration agreement with Bankers Life Insurance Company of New York ("Bankers") to sell the non-annuity business acquired through the acquisition of JANY. The indemnity reinsurance agreement provides for Bankers to assume 100% of the contractual liabilities of JANY's life, long-term care, health and disability insurance policies until the direct assumption of all liabilities under the policies on a novation basis is completed. Bankers administers all policies covered under the indemnity reinsurance agreement in the name of, and on behalf of, the Company.

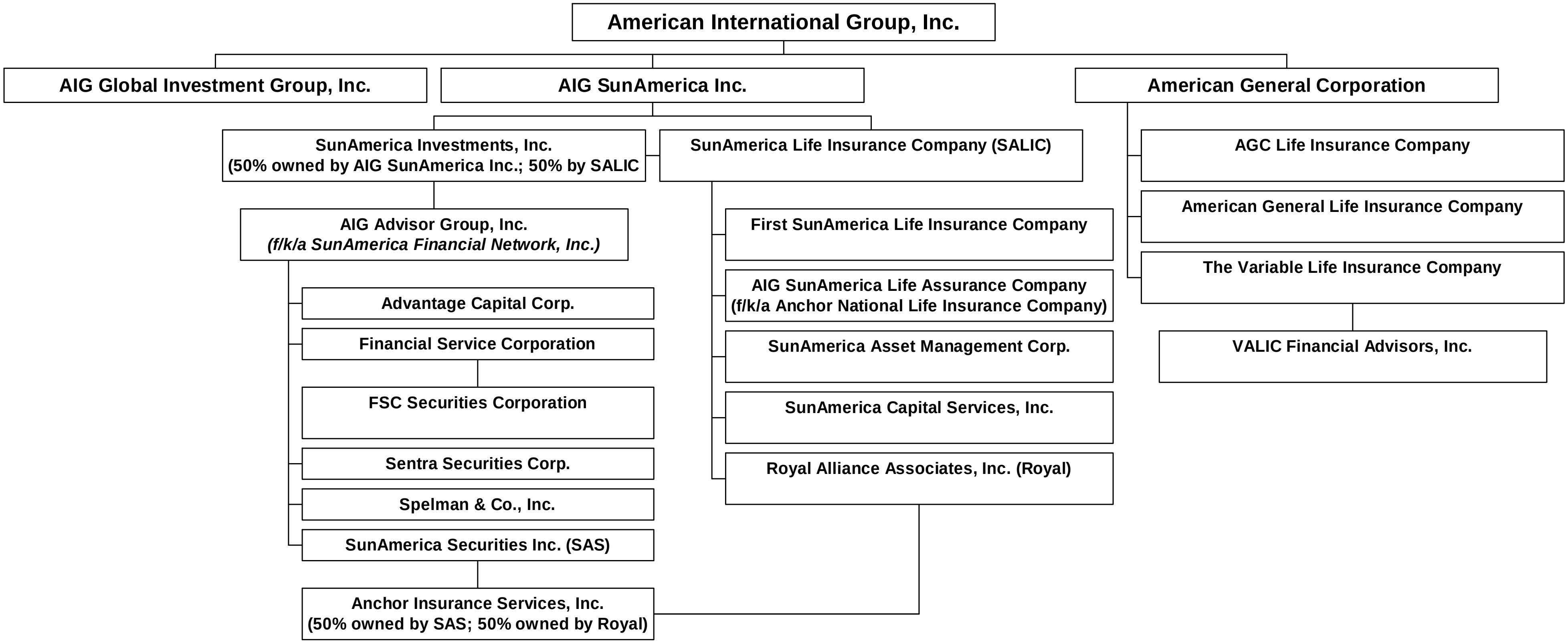
Effective January 1, 1999, SunAmerica was acquired by American International Group, Inc. ("AIG") in a stock for stock transaction.

Effective July 1, 1999, the Company acquired, through an assumption reinsurance agreement, the New York business of Mutual Benefit Life Assurance Corporation ("MBL"). As part of the rehabilitation of MBL, the New Jersey Superior Court mandated the sale of all individual life and annuity and group annuity business. Included in the block of business was approximately $250,000,000 of individual life business and $590,000,000 of group annuity business whose contract owners were residents of New York State. The remainder of the business (non-New York business) was acquired by Anchor National Life Insurance Company (“ANLIC”) through an assumption reinsurance agreement with MBL.

B. Holding Company

The Company is a wholly owned subsidiary of SALIC, an Arizona domiciled life insurer. SALIC is in turn a wholly owned subsidiary of AIG SunAmerica Inc. (“SAI”), a Delaware financial services company. The ultimate parent of the Company is AIG**,** a Delaware holding company.

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2002 follows:


American International Group, Inc.
AIG Global Investment Group, Inc.
AIG SunAmerica Inc.
American General Corporation
SunAmerica Investments, Inc.
(50% owned by AIG SunAmerica Inc.; 50% by SALIC
SunAmerica Life Insurance Company (SALIC)
AGC Life Insurance Company
AIG Advisor Group, Inc.
(f/k/a SunAmerica Financial Network, Inc.)
First SunAmerica Life Insurance Company
American General Life Insurance Company
The Variable Life Insurance Company
Advantage Capital Corp.
AIG SunAmerica Life Assurance Company
(f/k/a Anchor National Life Insurance Company)
Financial Service Corporation
SunAmerica Asset Management Corp.
VALIC Financial Advisors, Inc.
FSC Securities Corporation
SunAmerica Capital Services, Inc.
Sentra Securities Corp.
Royal Alliance Associates, Inc. (Royal)
Spelman & Co., Inc.
SunAmerica Securities Inc. (SAS)
Anchor Insurance Services, Inc.
(50% owned by SAS; 50% owned by Royal)

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

Type of Agreement	Effective Date	Providers of Service(s)	Recipients of Service(s)	Specific Service(s) Covered	Income/(Expense)* for Each Year of the Examination
Selling Agreements/ General Agent's Agreements	03/24/1999	Sentra	FSLIC and SACS/ FSLIC	Distribution of certain variable and fixed annuity contracts.	2002 = $(134,927) 2001 = $(122,389) 2000 = $(140,824)
Selling Agreements	02/02/1996	Advantage Capital	FSLIC and SACS	Distribution of certain variable and fixed annuity contracts.	2002 = $(55,052) 2001 = $(81,649) 2000 = $(75,375)
Selling Agreements/ General Agent's Agreements	07/12/1996	SunAmerica Securities	FSLIC and SACS/ FSCLI	Distribution of certain variable and fixed annuity contracts.	2002 = $(248,036) 2001 = $(402,473) 2000 = $(527,764)
Selling Agreements/ General Agent's Agreements	11/29/1995	Royal Alliance	FSLIC and SACS/ FSLIC	Distribution of certain variable and fixed annuity contracts.	2002 = $(451,125) 2001 = $(469,050) 2000 = $(1,006,734)
Selling Agreements/ General Agent's Agreements	07/17/1996	FSC Securities	FSLIC and SACS/ FSLIC	Distribution of certain variable and fixed annuity contracts.	2002 = $(236,345) 2001 = $(242,878) 2000 = $(307,712)
Selling Agreement	12/15/2001	VALIC Financial Advisors	FSLIC and SACS	Distribution of certain variable and fixed annuity contracts.	2002 = $(17,285) 2001 = $0 2000 = $0
General Agent's Agreement	12/15/2001	AGIA	FSLIC	Distribution of certain variable and fixed annuity contracts.	2002 = $(236,345) 2001 = $0 2000 = $0

Type of Agreement	Effective Date	Providers of Service(s)	Recipients of Service(s)	Specific Service(s) Covered	Income/(Expense)* for Each Year of the Examination
Service and Expense Agreement – Addendum No. 26	01/01/2002	AIG	FSLIC	Provides, at cost, equipment, office space, services and personnel to FSLIC.	2002 = $0 2001 = $0 2000 = $0
Investment Advisory Agreement	01/01/2002	AIGGIC	FSLIC	Investment management services.	2002 = $0 2001 = $0 2000 = $0
Selling Agreement/ General Agent's Agreement	4/28/2002	AGSI	FSLIC and SACS/ FSLIC	Distribution of certain variable and fixed annuity contracts.	2002 = $(68) 2001 = $0 2000 = $0
Securities Lending Agency Agreement	9/01/2002	AIG Global	FSLIC	Exclusive agent and attorney-in-fact in securities lending agreements entered into by FSLIC's with third parties.	2002 = $(7,052) 2001 = $0 2000 = $0
Fund Participation Agreement	09/03/1991 03/03/1995 03/03/1995	AST for Variable Annuity Account One, AST for FS Variable Separate Account SST for FS Variable Separate Account	FSLIC	Funding of variable annuity contracts issued by FSLIC through separate accounts.	2002 = $0 2001 = $0 2000 = $0
Distribution Agreement	07/10/1998	SACS for FS Variable Separate Account; SACS for Variable Account One	FSLIC	Marketing and distribution of variable annuity contracts issued by FSLIC through separate accounts.	2002 = $0 2001 = $0 2000 = $0
Service Cost Allocation and Reimbursement Agreement	01/01/1993	Royal	FSLIC	Royal provides, at cost, facilities, space, equipment and services with respect to the occupation and operation of FSLIC's physical plant.	2002 = $0 2001 = $0 2000 = $0

Type of Agreement	Effective Date	Providers of Service(s)	Recipient of Service(s)	Specific Service(s) Covered	Income/(Expense)* for Each Year of the Examination
Assignment and Modification Agreement for the Service, Cost Allocation and Reimbursement Agreement	12/31/1997	SALIC	FSLIC	Personnel and benefit administration, legal counsel and internal audit services, in addition to other services specified in the Cost Allocation and Reimbursement Agreement (assignment of SAF's right, title and interest in the Agreement to SUF).	2002 = $(7,176,322) 2001 = $(6,469,300) 2000 = $(8,229,167)
Automatic Reinsurance Agreement Coinsurance Basis	12/01/1999	AILAC	FSLIC	Issuance of whole life insurance to certain term life insurance policies acquired by FSLIC from MBL Life Assurance Company.	2002 = $0 2001 = $0 2000 = $0
Investment Management Agreement	01/01/1993	SAF	FSLIC	Management of FSLIC's investment portfolios.	2002 = $0 2001 = $0 2000 = $0
Profit Sharing Agreement	01/01/2002	SAAMCo	FSLIC	Contributes certain portion of its profit derived from its management of funds underlying FSLIC's variable annuity products.	2002 = $1,777,000 2001 = $0 2000 = $0

Legend for service agreement chart:

AIGGIC	AIG Global Investment Corp.	AST	Anchor Series Trust
AGIA	American General Insurance Agency	Royal	Royal Alliance Associates, Inc.
AGSI	American General Securities Corp.	SAAMCo	SunAmerica Asset Management Corp.
AIG Global	AIG Global Securities Lending Corp.	SACS	SunAmerica Capital Services, Inc.
Sentra	Sentra Securities Corp.	SST	SunAmerica Series Trust
AILAC	American International Life Assurance Co. of New York	SAF	SunAmerica Financial, Inc. (n/k/a SunAmerica Investments, Inc.

The Company participates in a tax sharing agreement with SALIC.

During the examination period, the Company maintained nine service agreements where there were no services provided or payments transacted. These nine agreements were dormant for more than three years.

The examiner recommends that the Company review all dormant service agreements and withdraw those agreements for which services are no longer provided or received.

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 19 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in June of each year. As of December 31, 2002, the board of directors consisted of 15 members. Meetings of the board are held annually.

The 15 board members and their principal business affiliation, as of December 31, 2002, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
M. Bernard Aidinoff* New York, NY	Retired partner Sullivan & Cromwell	2002
James R. Belardi Manhattan Beach, CA	Senior Vice President First SunAmerica Life Insurance Company	1993
Marion E. Fajen* Des Moines, IA	Retired Vice President and Secretary American International Group, Inc.	2002
Patrick J. Foley* Atlantis, FL	Lawyer Donovan, Perry, Carbon, McDermott & Radzik	2002
Marc H. Gamsin Pacific Palisades, CA	Executive Vice President AIG SunAmerica Inc.	1999
Cecil M. Gamwell III* Charlestown, RI	Retired Vice President American International Life Insurance Company of New York	2002
N. Scott Gillis Santa Clarita, CA	Senior Vice President and Controller AIG SunAmerica Inc.	2000

Year First

Name and Residence	Principal Business Affiliation	Elected
Lawrence M. Goldman Los Angeles, CA	Vice President and Assistant Secretary AIG SunAmerica Inc.	2000
Jana W. Greer Encino, CA	Senior Vice President First SunAmerica Life Insurance Company	1987
Jack R. Harnes* Pawling, NY	Retired physician	2002
John I. Howell* Greenwich, CT	Chairman Indian Rock Corporation	2002
Christine A. Nixon Los Angeles, CA	Vice President and Secretary First SunAmerica Life Insurance Company	2000
Ernest T. Patrikis New York, NY	Senior Vice President and General Counsel American International Group, Inc.	2002
Howard I. Smith Woodbury, NY	Vice Chairman, Chief Financial Officer and General Counsel American International Group, Inc.	2002
Jay S. Wintrob Santa Monica, CA	President and CEO First SunAmerica Life Insurance Company	1989

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

In March 2003, Lawrence M. Goldman resigned from the board and was replaced by Bruce R. Abrams.

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, 2002:

Name	Title
Jay S. Wintrob	President and CEO
James R. Belardi	Senior Vice President
Jana W. Greer	Senior Vice President
Christine A. Nixon	Vice President and Secretary
Edwin R. Raquel	Vice President and Actuary
Mark A. Zaeske	Treasurer

Joseph Ayala is the 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 three states, namely Nebraska, New Mexico, and New York. In 2002, 96.26% of all premiums (life, accident and health, and annuity considerations) were received from New York. The majority of these premiums, 97.41%, were annuity considerations.

The Company currently writes only fixed-rate annuities and flexible premium variable annuities. The Company's existing life insurance business was acquired from JANY in 1997 as a result of the merger, and from MBL in 1999 as a result of assumption reinsurance. A third party administrator, Liberty Services, Inc., services the life insurance business that was acquired from MBL. The life and accident and health business acquired from JANY is coinsured with, and administered by, Bankers.

The Company's agency operations are conducted through broker/dealers and general agents. In July 2002, the Company began distributing its fixed annuity product through banks and financial institutions. This new distribution channel accounted for $277 million in new fixed annuity deposits in 2002.

Policies are written on a non-participating basis.

E. Reinsurance

As of December 31, 2002, the Company had reinsurance treaties in effect with 14 companies, of which 12 were authorized or accredited. The Company's life business is reinsured on a coinsurance and yearly renewable term basis. Reinsurance is provided on an automatic and facultative basis.

The total face amount of life insurance ceded, as of December 31, 2002, was $764,026,612, which represents 60% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies and recoverables from unauthorized companies, totaling $279,820, was shown as a liability for reinsurance in unauthorized companies on page 3 of the 2002 annual statement.

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 (decline) during the period under review:

	December 31, 1999	December 31, 2002	Increase (Decrease)
Admitted assets	$2,457,160,972	$2,062,360,114	$(394,800,858)
Liabilities	$2,345,822,844	$1,939,219,387	$(406,603,457)
Common capital stock	$ 3,000,000	$ 3,000,000	$ 0
Gross paid in and contributed surplus	40,863,578	40,863,578	0
Separate account mortality fluctuation funds (surplus)	5,280	5,280	0
Unassigned funds (surplus)	$ 67,469,270	79,271,869	$ 11,802,599
Total capital and surplus	$ 111,338,128	$ 123,140,727	$ 11,802,599
Total liabilities, capital and surplus	$2,457,160,972	$2,062,360,114	$(394,800,858)

The Company experienced decreases in both the general and separate account assets and liabilities during the period under examination. The decrease in the general account assets and liabilities is mainly attributed to the increase in surrenders on acquired and closed blocks of fixed annuity business. The decrease in separate account assets and liabilities reflects the performance of the equity markets over this period.

The Company's invested assets as of December 31, 2002, exclusive of separate accounts, were mainly comprised of bonds (84%) and mortgage loans (12%).

The majority (94%) of the Company's bond portfolio, as of December 31, 2002, was comprised of investment grade obligations.

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:

	2000	2001	2002
Ordinary:			
Life insurance	$ 1,985,027	$ 7,206,811	$ 3,875,224
Individual annuities	19,270,715	15,342,028	(1,159,657)
Supplementary contracts	(555,466)	438,239	(377,091)
Total ordinary	$20,700,276	$22,987,078	$ 2,338,476
Group:			
Annuities	5,026,906	50,419	737,542
Total group	$ 5,026,906	$ 50,419	$ 737,542
Accident and health:			
Other	35,580	33,435	0
Total accident and health	$ 35,580	$ 33,435	$ 0
Total	$25,762,762	$23,070,932	$ 3,076,018

The decrease in the net gain from operations in 2002 is mainly due to the significant increase in fixed annuity sales and the resulting surplus strain. The ordinary life line of business showed an increase in 2001 due to a significant decrease in surrender benefits and death claims. The group annuity line of business showed a significant reduction in 2001 due to a decrease in annuity considerations and net investment income.

Section 91.4(f)(5) of Department Regulation No. 33 states:

> "General indexes such as premium volume, number of policies, and insurance in force shall not be used as a basis distributing costs among major annual statement lines of business, except where the incidence of cost is closely related to such general indexes, or except where there is no more appropriate basis for measurement. Such general indexes may not be used in distributing claim costs to secondary annual statement lines of business."

In 2002, the Company's method for allocating general insurance expenses to the annual statement lines of business was to use a ratio of reserves to total general insurance expenses. For taxes, licenses and fees the Company allocated the expenses based on the ratio of reserves to total taxes, licenses and fees.

The Company violated Section 91.4(f)(5) of Department Regulation No. 33 when it used unacceptable methods based on general indices to allocate its general insurance expenses and taxes, licenses and fees to the 2002 annual statement lines of business.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital, surplus and other funds as of December 31, 2002, as contained in the Company's 2002 filed annual statement, a condensed summary of operations and a reconciliation of the capital and surplus account for each of the years under review. The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2002 filed annual statement.

A. ASSETS, LIABILITIES, CAPITAL, SURPLUS AND OTHER FUNDS AS OF DECEMBER 31, 2002

Admitted Assets

Bonds	$1,377,291,379
Common stocks	1,031,422
Mortgage loans:	
First liens	193,254,257
Policy loans	36,052,205
Cash and short term investments	29,996,567
Receivable for securities	1,025,257
Reinsurance ceded:	
Amounts recoverable from reinsurers	767,733
Other amounts receivable under reinsurance contracts	139,155
Federal and foreign income tax recoverable and interest thereon	4,895,392
Life insurance premiums and annuity considerations deferred and uncollected on in force business	88,069
Investment income due and accrued	18,801,025
From Separate Accounts statement	399,017,653
Total admitted assets	$2,062,360,114

Liabilities, Capital, Surplus Other and Funds

Aggregate reserve for life policies and contracts	$1,490,805,683
Liability for deposit-type contracts	25,264,511
Contract claims:	
Life	1,423,138
Contract liabilities not included elsewhere:	
Other amounts payable on reinsurance	535,639
Interest maintenance reserve	2,806,992
Commissions to agents due or accrued	325,500
General expenses due or accrued	8,000
Transfers to Separate Accounts due or accrued	(10,544,010)
Taxes, licenses and fees due or accrued	2,156,264
Federal and foreign income taxes	97,000
Unearned investment income	164,482
Amounts withheld or retained by company as agent or trustee	1,748,104
Remittances and items not allocated	20,232,388
Asset valuation reserve	2,728,753
Reinsurance in unauthorized companies	279,820
Payable to parent, subsidiaries and affiliates	2,169,470
From Separate Accounts statement	399,017,653
Total liabilities	$1,939,219,387
Common capital stock	$3,000,000
Gross paid in and contributed surplus	40,863,578
Separate account mortality fluctuation fund	5,280
Unassigned funds (surplus)	79,271,869
Total capital, surplus and other funds	$ 123,140,727
Total liabilities, capital, surplus and other funds	$2,062,360,114

B. CONDENSED SUMMARY OF OPERATIONS

	2000	2001	2002
Premiums and considerations	$ 103,014,804	$ 110,994,275	$430,646,617
Investment income	128,838,863	104,341,063	94,002,072
Commissions and reserve adjustments on reinsurance ceded	165,523	38,476	129,133
Miscellaneous income	9,836,181	8,522,879	9,004,290
Total income	$ 241,855,371	$ 223,896,693	$533,782,112
Benefit payments	$ 466,908,030	$ 297,747,854	$254,040,653
Increase in reserves	(330,860,400)	(147,308,442)	266,255,588
Commissions	6,268,415	6,142,646	23,732,437
General expenses and taxes	11,026,007	7,668,941	10,046,076
Increase in loading on deferred and uncollected premiums	0	0	12,189
Net transfers to (from) Separate Accounts	57,901,918	32,709,762	(20,129,058)
Miscellaneous deductions	85,639	0	75,208
Total deductions	$ 211,329,609	$ 196,960,761	$534,033,093
Net gain (loss)	$ 30,525,762	$ 26,935,932	$ (250,981)
Dividends	0	0	0
Federal and foreign income taxes incurred	4,763,000	3,865,000	(3,327,000)
Net gain (loss) from operations before net realized capital gains	$ 25,762,762	$ 23,070,932	$ 3,076,019
Net realized capital gains (losses)	(4,166,049)	(18,546,028)	(4,491,906)
Net income	$ 21,596,713	$ 4,524,904	$ (1,415,887)

C. CAPITAL AND SURPLUS ACCOUNT

	2000	2001	2002
Capital and surplus, December 31, prior year	$111,338,128	$132,289,444	$122,209,494
Net income	$ 21,596,713	$ 4,524,904	$ (1,415,887)
Change in net unrealized capital gains (losses)	(14,039,150)	11,644,441	(147,708)
Change in non-admitted assets and related items	58,931	96,747	(256,290)
Change in liability for reinsurance in unauthorized companies	0	0	(279,820)
Change in asset valuation reserve	13,334,822	801,386	(1,864,062)
Cumulative effect of changes in accounting principles	0	(14,247,428)	4,895,000
Surplus adjustments:			
Transferred from capital (Stock Dividend)	0	(12,900,000)	0
Net change in capital and surplus	$ 20,951,316	$ (10,079,950)	$ 931,233
Capital and surplus, December 31, current year	$132,289,444	$122,209,494	$123,140,727

6. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Company's market conduct activities affecting policyholders, claimants, and beneficiaries to determine compliance with applicable statutes and regulations and the operating rules of the Company.

A. Advertising and Sales Activities

The examiner reviewed a sample of the Company's advertising files and the sales activities of the agency force including trade practices, solicitation and the replacement of insurance policies.

i. Department Regulation No. 60

It was noted that in a number of replacement cases sampled, the Company failed to have the applicant check the appropriate box on the application form that would indicate if the new policy or contract is replacing an existing policy or contract.

The examiner recommends that the Company exercise greater care to ensure that applications are filled out properly to indicate whether the applicant is replacing an existing policy or contract. Based upon the reviewed sample, there were no other findings noted.

ii. Agency

Section 2112(a) of the New York Insurance Law states, in part:

> "Every insurer . . . doing business in this state shall file a certificate of appointment in such form as the superintendent may prescribe in order to appoint insurance agents to represent such insurer . . . "

Section 2114(a)(1) of the New York Insurance Law states, in part:

> "No insurer . . . doing business in this state shall pay any commission or other compensation to any person, firm or corporation, for any services in obtaining in this state any new contract of life insurance or any new annuity contract, except to a licensed life insurance agent of such insurer . . . "

The Company permitted some agents, who were unappointed, to solicit business for the Company. The agents in question received compensation for policies they produced during the examination period.

The Company violated Sections 2112(a) and 2114(a)(1) of the New York Insurance Law when it allowed unappointed agents to solicit business for the Company and for paying compensation to agents who were not appointed by the Company.

A similar violation appeared in the prior report on examination. However, the Company migrated to an electronic appointment system during the earlier part of this examination period. Most of the exceptions noted during this examination involved instances that occurred prior to the migration to the electronic appointment system.

B. Underwriting and Policy Forms

The examiner reviewed a sample of new underwriting files, both issued and declined, and the applicable policy forms.

Based upon the sample reviewed, no significant findings were noted.

C. Treatment of Policyholders

The examiner reviewed a sample of various types of claims, surrenders, changes and lapses. The examiner also reviewed the various controls involved, checked the accuracy of the computations and traced the accounting data to the books of account.

Section 3227 of the New York State Insurance Law states, in part:

> “ . . . (b) The interest calculated on amounts . . . shall be calculated from the date the documentation necessary to complete the transaction is received by the insurer and shall be payable if the funds are not mailed or delivered by the insurer within ten working days of said receipt.
>
> (c) No interest need be payable pursuant to this section unless the amount of such interest is at least twenty-five dollars . . . ”.

During the examination period, the examiner found that the Company did not pay interest on surrenders where required. The Company violated Section 3227(b) of the New York Insurance Law when it did not pay interest on surrenders.

The Company agreed to review all surrenders made during the past five years and pay interest, where appropriate.

D. Response to Supplement No. 1 to Department Circular Letter No. 19 (2000)

Supplement No. 1 to Circular Letter No. 19 (2000) (the "Supplement"), issued by the Department on June 22, 2000, notified all licensed life insurers that the Department was investigating allegations of race-based underwriting of life insurance by its licensees. The Supplement directed, pursuant to Section 308 of the New York Insurance Law, each domestic and foreign life insurer to review its past and present underwriting practices regarding race-based underwriting and to report its findings to the Department, no later than August 15, 2000.

Pursuant to Section 308 of the New York Insurance Law, the Company submitted, in a timely manner, a report of the findings of its review of past and present underwriting practices regarding race-based underwriting made in accordance with the requirements of the Supplement.

The Company reported that it has been in business since 1980. Since that time, it has engaged solely in the issuance of annuity contracts. It has issued no life insurance products and therefore has not been involved in any underwriting of life products. For the blocks of business it took over, the Company stated that there was no evidence of race-based underwriting.

An analysis of the Company's response to the Supplement and other factors indicated that the Company's review of its past and present underwriting practices complied with the requirements of the Supplement.

7. PRIOR REPORT SUMMARY AND CONCLUSIONS

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

Item	Description
A	The examiner recommended that the Company amend the investment advisory agreement to provide for participation in investments with its affiliates. The Company amended its investment advisory agreement to provide for participation in investments with its affiliates.
B	The Company violated Section 1505(d)(3) of the New York Insurance Law for receiving services under selling agreements without notifying the Superintendent. The Company received approval for all services rendered under selling agreements.
C	The Company violated Section 1202(b)(2) of the New York Insurance Law for failing to have the committee comprised of outside directors fulfill its responsibilities. The Company’s audit committee fulfilled its responsibilities under Section 1202(b)(2) of the New York Insurance Law.
D	The Company violated Section 219.5(a) of Department Regulation No. 34-A for not maintaining the advertising file at the Company’s home office and for not indicating the manner and extent of distribution in the advertising file. The Company now maintains the advertising file at its home office and indicates the manner and extent of distribution in the file.
E	The Company violated Section 219.4(p) of Department Regulation No. 34-A for not indicating the name of the city, town or village in which the Company has its home office in the United States. The Company enhanced its controls to monitor the inclusion of the home office city in its advertisements.
F	The Company violated Section 2122(a)(2) of the New York Insurance Law for calling attention to an unauthorized insurer in its advertisements and correspondence.

Item	Description
	The Company did not call attention to unauthorized insurers in any advertisements or correspondence reviewed during the current exam period.
G	The Company violated Section 44.8(c) Department Regulation No. 127 for not clearly disclosing the market value feature in some of its advertisements for products that have this feature. The Company disclosed the market value feature for those advertisements that had that feature.
H	The Company violated Sections 2112(a) and 2114(a)(1) of the New York Insurance Law for not appointing agents to represent the Company and for paying commissions to agents who were not appointed with the Company. The Company migrated to an electronic appointment system during the earlier part of this examination period. Most of the instances where the examiner cited the Company for violating Sections 2112(a) and 2114(a)(1) during this examination period occurred prior to the migration. (See item 6A of this report)
I	The Company violated Section 51.6(b)(2) of Department Regulation No. 60 for failing to require a completed Disclosure Statement for applications involving replacements. The Company required a completed disclosure statement for applications involving replacements made during the current period.
J	The Company violated Section 3201(b)(1) of the New York Insurance Law for using unapproved policy forms. The Company did not use unapproved policy forms during the current period.
K	The Company violated Section 3214(c) of the New York Insurance Law for not paying interest on three annuity death claims and not paying interest until the date of payment on life claims. The Company paid the proper interest on annuity and ordinary life insurance death claims.
L	The Company violated Section 216.11 of Department Regulation No. 64 by not maintaining certain death claim files so that the examiner could reconstruct all events relating to the claims. The Company maintained its claim files so that the examiner could reconstruct events relating to the claim.

Item	Description
M	The examiner recommended that the Company maintain records with sufficient detail to show the system actually used for the allocation of expenses and the basis of allocation. The Company maintained records with sufficient detail to show the system used for the allocation of expenses and the basis of allocation.
N	The examiner recommended that the Company acquire and maintain legal evidence of ownership for all its assets in order to maintain the Company's separate, legal and operating identity. The Company maintained legal evidence of ownership for all of its assets during the examination period.

8. SUMMARY AND CONCLUSIONS

Following are the violations, recommendations and comment contained in this report:

Item	Description	Page No(s).
A	The examiner recommends that the Company review all dormant service agreements and withdraw those agreements for which services are no longer provided or received.	7 – 10
B	The Company violated Section 91.4(f)(5) of Department Regulation No. 33 when it used unacceptable methods based on general indices to allocate its general insurance expenses and taxes, licenses and fees to the 2002 annual statement lines of business.	15 – 16
C	The examiner recommends that the Company exercise greater care to ensure that all applications are filled out properly to indicate whether the applicant is replacing an existing policy or contract.	21
D	The Company violated Sections 2112(a) and 2114(a)(1) of the New York Insurance Law for not appointing agents to represent the Company and for paying commissions to agents who were not appointed with the Company.	21 - 22
E	The Company violated Section 3227(b) of the New York Insurance Law when it did not pay interest on surrenders.	22
F	The Company agreed to review all surrenders made during the past five years and pay interest, where appropriate.	22

Respectfully submitted,

_______/s/___________
Joshua Weiss
Associate Insurance Examiner

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

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

_______/s/___________
Joshua Weiss

Subscribed and sworn to before me

this__________ day of ____________________

APPOINTMENT NO. *22066*

STATE OF NEW YORK

INSURANCE DEPARTMENT

I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint

JOSHUA WEISS

as a proper person to examine into the affairs of the

FIRST SUNAMERICA LIFE INSURANCE COMPANY

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 19th day of June, 2003

GREGORY V. SERIO
Superintendent of Insurance

Superintendent