REPORT ON EXAMINATION

OF THE

AMERICAN LIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 2007

Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2007 of the

AMERICAN LIFE INSURANCE COMPANY

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

Attest By: Sonia C. Harris

Date: 30 June 2009

Insurance Commissioner of the State of Delaware

In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 30th day of June 2009.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

841 Silver Lake Blvd., Dover, DE 19904-2465 ◆ www.delawareinsurance.gov
(302) 674-7300 Dover ◆ (302) 739-5280 fax ◆ (302) 577-5280 Wilmington

Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

REPORT ON EXAMINATION

OF THE

AMERICAN LIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 2007

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

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

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

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 30th day of June, 2009

841 Silver Lake Blvd., Dover, DE 19904-2465 • www.delawareinsurance.gov
(302) 674-7300 Dover • (302) 739-5280 fax • (302) 577-5280 Wilmington

TABLE OF CONTENTS

May 14, 2009

Honorable Karen Weldin Stewart, CIR-ML
Insurance Commissioner
State of Delaware
Rodney Building
841 Silver Lake Building
Dover, Delaware, 19901

Dear Commissioner Stewart:

In compliance with instructions contained in Certificate of Authority No.08-018 an examination has been made of the affairs, financial condition and management of the

AMERICAN LIFE INSURANCE COMPANY

hereinafter referred to as "ALICO" or "Company", incorporated under the laws of the State of Delaware. The examination was conducted at the home office of the Company, located at One ALICO Plaza, 600 King Street, Wilmington, Delaware, 19801.

The report of such examination is respectfully submitted herewith.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 2004. This examination covered the three year period of January 1, 2005 to December 31, 2007, and consisted of a general survey of the Company's business policies and practices; management, any corporate matters incident thereto; a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

The format of this report is designed to explain the procedures employed on examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible officials during the course of the examination.

The general procedures of the examination followed the rules established by the National Association of Insurance Commissioners' (NAIC) Committee on Financial Condition Examiners Handbook, and generally accepted statutory insurance examination standards. The State of Delaware Insurance Code has provisions that specifically affect insurance companies conducting business solely outside of the United States, and these provisions impacted the examination.

Due to ALICO's international operations, the examination performed procedures on-site at the Company's largest Branch (as per total assets) in Japan. For ALICO's United Kingdom (U.K.) Branch, the examination staff was granted access to the workpapers of PricewaterhouseCoopers, ALICO's auditing firm. The examination reviewed the assets, liabilities and operations administered from the Wilmington Home Office. For the following branches, the examination reviewed and reconciled local audited financial statements to the amounts reported for those branches on the 2007 Annual Statement:

Greece	Spain
Portugal	Cyprus
Lebanon	Bangladesh
United Arab Emirates (UAE)	

For these branches, as well as Japan, the U.K. and the Home Office operations, the examination reviewed reports issued by the American International Group's Internal Audit Department.

It should be noted that ALICO has adopted a November 30th year-end for all of its operations. In this report, all references to "Year-End 2007" are to amounts or conditions applicable as of November 30, 2007.

The following chart provides a breakdown of the assets reported at year-end 2007 and the net premiums reported for 2007 for the above branches and the Home Office:

Branch	Assets	Premiums and Annuity Considerations
Japan	$ 60,838,819,293	$ 10,506,358,320
United Kingdom (*)	28,506,167,071	21,516,505,706
Home Office (**)	7,098,784,349	176,884,733
Greece	1,877,887,575	324,566,850
Portugal	582,560,480	55,055,783
Spain	570,412,938	125,014,111
Lebanon	444,019,862	82,552,811
Cyprus	404,256,630	44,788,987
Bangladesh	373,741,400	102,781,975
UAE	205,304,649	141,964,876
Other	730,352,740	413,893,507
Total	$ 101,632,306,987	$ 33,490,367,659

(*) The United Kingdom branch amounts are reported in a Separate Accounts Annual Statement blank. The Company began this reporting in 1992 in accordance with Section 1321 of the Delaware Insurance Code, which allows an insurer to segregate the assets of a jurisdiction for the protection of the policyholders of that jurisdiction. See the paragraph below for an explanation of the annual statement blanks filed by ALICO.

(**) ALICO writes no business in the United States. The premiums reported by the Company's Home Office primarily represent reinsurance from ALICO's subsidiaries and affiliates, or international group insurance that cannot be allocated to a single branch.

During the period under examination, the Company's operations were audited by the firm of PricewaterhouseCoopers (PwC), Certified Public Accountants. As part of the audit procedures supporting the statutory audit opinion, PwC relied on work performed by several of its affiliated foreign entities.

For ALICO's Japan branch, the examination retained the firm of Robert Half International to perform procedures on-site to validate the branches' reported balances.

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

Corporate Records
Corporate Insurance
Conflict of Interest
All asset and liability items not mentioned

ALICO filed five (5) annual statement blanks for 2007: a "Blue Book" statement reflecting the operations of its general account for all the branches except the United Kingdom (UK) Branch. The Company also filed three Separate Account annual statements: one for variable life insurance and annuity business written in Japan; a second statement for all other variable business written worldwide; and a third statement for all the operations, both general account and variable, written by the UK Branch. The Separate Account annual statement filed for the UK Branch is referred to in this report as the "Green Book." Finally, ALICO is unique in that it is permitted to write property and casualty insurance through the Certificate of Authority issued by the Delaware Insurance Department. To report the property and casualty business written in several Mid-Eastern branches, ALICO filed the standard property/casualty annual statement blank that is referred to in this report as the "Yellow Book."

HISTORY

The Company was incorporated under the laws of the State of Delaware on August 18, 1921 as the Asia Life insurance Company, with the principal office located in Shanghai, China. In 1951, the Company amended its Certificate of Incorporation, changing the corporate title to American Life Insurance Company and changing the principal office to Bermuda. In 1969, the Company relocated its principal office to Wilmington, Delaware. The Company is a wholly-owned subsidiary of American International Group, Inc. (AIG).

The Company's Certificate of Authority from the Delaware Insurance Department authorizes the Company to transact the following types of insurance business: Life, including Annuities, Variable Annuities, Variable Life, Credit Life, Health, Credit Health, Property, Surety, Marine and Transportation, Casualty, including: Vehicle, Liability, Burglary & Theft, Personal Property Floater, Glass, Boiler & Machinery, Credit, Leakage & Fire Extinguisher Equipment, Malpractice, Elevator, Congenital Defects, Livestock, Entertainments and Miscellaneous. In May of 2002, the Company's Certificate of Authority was amended to permit ALICO to write workers' compensation and employers' liability insurance.

The Company reports all of its business as being written outside the United States.

CAPITALIZATION

The following changes occurred in the capital accounts since the previous examination as reported in the Company's Annual Statements:

	Common Capital Stock (1)	Gross paid in and Contributed Surplus		Unassigned Surplus	Totals
December 31, 2004	$ 3,000,000	$702,994,313		$ 3,526,641,303	$ 4,232,635,616
Net income				1,865,861,283	
Net unrealized capital-Gains/(Losses)				373,464,707	
Change in Asset Valuation Reserve				(212,386,109)	
Change in nonadmitted Assets				(274,013,345)	
Change in net deferred Income taxes				254,262,125	
Surplus Contributions		408,250,345	(2)		
Dividends to Stockholders				(350,000,000)	
Foreign Exchange				507,791,908	
Separate Accounts-Contributions/Results				1,854,661	
Other Changes				(86,760,276)	
December 31, 2007	$3,000,000	$1,111,244,658		$5,606,716,257	$6,720,960,915

(1) Common stock, $10 par value, 500,000 shares authorized; 300,000 shares issued and outstanding.

(2) In 2005, ALICO received a surplus contribution from AIG of $13,400,000 in the form of shares in an insurance subsidiary in Russia. In 2007, in similar fashion, ALICO received a contribution of $387,500,000 from AIG to fund the Company's purchase of the remaining equity of its life insurance subsidiary in Poland. Also in 2007, the Company received surplus contributions of $7,350,345 from AIG to offset losses in the AIG-wide Securities Lending Program. The Company's losses in this program are discussed in the Notes to the Financial Statements Section of this report.

In 2008, ALICO received $982,308,731 in surplus contributions from AIG. See the Subsequent Events section of this report for additional details.

DIVIDENDS TO STOCKHOLDERS

For the period under examination, the Company paid the following ordinary dividends:

2005	$ 50,000,000
2006	200,000,000
2007	100,000,000

All dividends were paid to ALICO's sole shareholder, American International Group Inc. and were approved by the Delaware Insurance Department.

HOLDING COMPANY SYSTEM

ALICO is a member of an insurance Holding Company system as defined in Section 5001 of the Delaware Insurance Code. Registration statements have been filed with the State of Delaware as required. American International Group Inc. (AIG) is named as the ultimate controlling person of the Holding Company System.

AIG reported the following as of December 31, 2007:

Total Assets	$1,060,505,000,000
Stockholders' Equity	95,801,000,000
Total Revenue (for 2007)	110,064,000,000
Net Income (for 2007)	6,200,000,000

In 2008, AIG encountered a severe liquidity crisis and required a bailout from the United States Government to continue operations. As an end product of the Federal bailout, AIG decided to sell several of its subsidiaries, including ALICO. These events are discussed in the Subsequent Events Section of this report. The effects of the AIG financial events in 2008 are also discussed throughout the report where appropriate.

In one regard, the financial events of AIG had a particularly onerous effect on ALICO. Since 1969, the Company has held a portfolio of AIG stock that had appreciated significantly. At year-end 2007, ALICO reported a value of $54.53 per share for 63,391,777 shares of the parent common stock. At year end 2008, the Company reported a value of $1.89 per share for the same portfolio. ALICO's holding of the AIG shares is more fully discussed in the Notes to the Financial Statements section of this report.

As of year-end 2007, AIG, a Delaware corporation, was the leading international insurance organization, with operations in more than 130 countries and jurisdictions. AIG companies serve commercial, institutional and individual customers through the most extensive worldwide property-casualty and life insurance networks of any insurer. In addition, AIG companies are providers of retirement services, financial services and asset management around the world.

Organizationally, AIG operates through four major business segments:

<u>General Insurance-</u> AIG's General Insurance operations include the largest U.S. underwriters of commercial and industrial insurance; the most extensive international property-casualty network of any insurer; a personal lines business with an emphasis on auto insurance and high-net-worth clients; a mortgage guaranty insurance operation, and a leading international reinsurer.

<u>Life Insurance & Retirement Services-</u> AIG's global life insurance businesses make up the most extensive network of any life insurer. AIG has one of the premier Retirement Services businesses in the United States. AIG also has an extensive international retirement services network.

<u>Financial Services -</u> AIG's Financial Services businesses specialize in aircraft leasing, capital markets, consumer finance and insurance premium finance.

<u>Asset Management</u> - AIG's Asset Management Group manages institutional, retail and private fund assets, in addition to AIG insurance invested assets.

Total operating income (loss) by the major operating segments for 2007 is as follows:

General Insurance	$10,526,000,000
Life Insurance & Retirement Services	8,186,000,000
Financial Services	(9,515,000,000)
Asset Management and Other	1,164, 000,000

After realized capital gains, AIG reported consolidated Operating Income of $8,943,000,000 for 2007.

Losses in the Financial Services segment primarily generated the liquidity crisis that prompted the financial events of AIG in 2008. Internationally, AIG's principal life operations are:

- American International Assurance Company Ltd. (AIA) is Southeast Asia's premier life insurance company. AIA is the largest life insurer in Hong Kong and Singapore and its subsidiaries operate in Malaysia, Thailand and Vietnam.

- Nan Shan Life Insurance Company, which is the second largest life insurer in Taiwan.

- American Life Insurance Company (ALICO), AIG's largest international life insurer, operating in fifty-six (56) countries either through branches or subsidiaries.

In twenty-five (25) countries, ALICO operates through subsidiaries, and in several countries, owns more than one subsidiary. At December 31, 2007, the Company also maintained investments in several related companies including a substantial investment in the stock of the parent, AIG. In total, ALICO reported investments in forty-six (46) companies within the AIG group at year-end 2007, 39 of which are ALICO controlled subsidiaries and 3 of which are ALICO Insurance Joint Ventures with third parties, but less than 50% owned.

An organizational chart, showing the major companies in the AIG Holding Company System, is attached as an addendum to this Report.

MANAGEMENT AND CONTROL

The management of the Company is vested in a Board of Directors which shall consist of not less than four (4) or more than 22 directors with the Directors elected annually by the stockholder. The Company's Board of Directors consisted of the following 18 members as of December 31, 2007:

Board of Directors	Principal Occupation
Merton B. Aidinoff	Senior Counsel- Sullivan & Cromwell
Steven J. Bensinger	Executive Vice President, CFO-AIG
Michael H. Buthe	Vice President, Chief Investment Officer-ALICO
Sarah A. Celso	Vice President, Chief Actuary-ALICO
David L. Herzog	Senior Vice President, Comptroller-AIG
Rodney O. Martin	Executive Vice President, Life Insurance-AIG CEO, Chairman of the Board-ALICO
George B. McClennen	Senior Vice President, CFO-ALICO
Joyce A. Phillips *	President, COO-ALICO
Paul R. Rix	Senior Vice President-AIG

Richard W. Scott	Senior Vice President-AIG
Edward E. Stempel	Director, Senior Advisor-AIG
Christopher J. Swift	Vice President-AIG
Kevin P. Taylor	Senior Vice President, ERM-ALICO
Seiki Tokuni	Vice President-AIG
Edmund Sze-Wing Tse	Director, Senior Vice Chairman, Life-AIG
Andreas Vassiliou	Executive Vice President-ALICO
Joanne M. Warren	Senior Vice President, CAO-ALICO
Frank G. Wisner	Vice Chairman, External Affairs-AIG

* Joyce Phillips resigned in October, 2008.

In January, 2009, nine of the above directors resigned and four new directors were elected. See the Subsequent Events section of this report for additional details.

The Board of Directors had the following standing committees at December 31, 2007:

Executive	Investment
Rodney O. Martin	Rodney O. Martin
Edmund Tse-Wing Tse	Michael H. Buthe
Joyce A. Phillips *	Joyce A. Phillips *
	Sarah A. Celso
	George B. McClennen
	Christopher J. Swift

Corporate Governance and Compliance

Rodney Martin
George McClennen
Joyce Phillips *

* Joyce Phillips resigned in October, 2008.

During the period under examination, ALICO appointed an Executive Committee for the Japan Branch, and a Supervisory Committee for the United Kingdom (UK) Branch. The formation of both committees resulted from the requirements in both countries that local decision-making bodies be appointed. The Japan Branch Executive Committee was comprised entirely of local ALICO management while the U. K. Supervisory Committee consisted of local Branch management and ALICO Home Office senior management. The actions of both committees were reviewed and approved by the ALICO Board of Directors.

Officers

The following officers were elected and serving at December 31, 2007:

Rodney O. Martin	Chairman & CEO
Edmund Sze-Wing Tse	Vice Chairman
Joyce A. Phillips*	President & COO
Andreas Vassiliou	Executive Vice President
George Burrell McClennen	Senior Vice President & CFO
Sarah A. Celso	Vice President & Chief Actuary
Joanne Marie Warren	Senior Vice President & CAO
Leslie Earl Burlew	Vice President & Controller
Elizabeth Margaret Tuck	Secretary
Kevin P. Taylor	Senior Vice President & Enterprise Risk Manager
David J. Dietz	Senior Vice President
Michael H. Buthe	Vice President
Diane H. Chun	Vice President
Hector M. Figueroa	Vice President
Michael Hatzidimitrious	Vice President
Paul J. Kehoe	Vice President
Anastasio G. Omiridis	Vice President
Dhanasar Ramjit	Vice President
Eric A. Rohtla	Vice President
Kenneth L. Slaton	Vice President
Alma C. Tanjuakio	Vice President
Joseph William Thurstlic	Vice President

Note: As stated in the Territory and Plan of Operation section of this Report, ALICO conducts business in fifty-six (56) countries. In addition to the individuals listed above, ALICO appoints additional officers on a country specific or regional basis.

* Joyce Phillips resigned in October, 2008.

GROWTH OF COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the five preceding years. The amounts below are prior to any examination adjustments:

Year	Admitted Assets Excluding Separate Accounts Business	Separate Account Assets	Capital and Surplus
2003	$27,067,202,917	$12,560,364,257	$4,127,015,461
2004	39,790,722,108	16,602,161,781	4,232,635,616
2005	47,897,999,004	18,280,870,869	5,334,300,697
2006	57,314,959,179	27,662,098,410	5,733,979,581
2007	64,111,891,169	37,520,415,818	6,720,960,915

Year	Premiums and Annuity Considerations	Net Income
2003	$10,624,314,139	$ 254,345,430
2004	14,139,746,759	268,563,816
2005	20,081,392,608	549,870,697
2006	25,179,125,353	579,072,359
2007	33,490,367,659	736,918,227

See the Capitalization section of this Report for detailed information on change in Capital and Surplus during the examination period.

All amounts are in U.S. dollars.

Historically, ALICO’s financial results have been dominated by activities of the Japan Branch, which traditionally is the largest Company branch in terms of both assets and premiums. In 2004 and 2005, the Japan Branch wrote a significant amount of single premium annuity business, which fueled the Company increases in assets and premiums in those years. In 2006 and 2007, however, ALICO’s United Kingdome (U.K.) Branch reported massive increases in assets and premiums, primarily through the sale of investment-type products, as opposed to traditional insurance. In 2007, the U.K. Branch was the Company’s largest branch in terms of premiums, as the volume of its premiums increased from $12 billion for 2006 to $21.5 billion in 2007. The operations of both the Japan and U.K. Branches are discussed in separate subsections of the Territory and Plan of Operation section of this report.

As indicated by the reported Net Income amounts, ALICO is consistently profitable. A telling barometer of a company's performance is the "Net gain from operations after dividends to policyholders and before federal income taxes" line in the Summary of Operations of the Annual Statement blank. ALICO reported the following total "Net Gain" for each of the years under examination:

2005	$ 674,467,810
2006	1,016,958,463
2007	1,603,846,976

Despite the turmoil surrounding AIG in 2008, ALICO continued to report positive Net Gains in 2008. See the Subsequent Events section of this report for an analysis of the Company's 2008 results.

TERRITORY AND PLAN OF OPERATION

ALICO transacts the business of insurance worldwide having representatives, branch offices or subsidiaries in fifty-six (56) jurisdictions. The following is a schedule of countries in which the Company was licensed to write business as of year-end 2007:

Antigua	Argentina*	Aruba
Bahrain	Bangladesh	Barbados
Bermuda	Brazil*	Bulgaria*
Cayman Islands	Chile*	Colombia*
Cyprus**	Czech Republic*	Dominica
Egypt*	France*	Greece**
Grenada	Hungary*	Ireland*
Italy*	Japan	Jordan
Kuwait	Lebanon	Mexico*
Nepal	Netherlands Antilles	Pakistan* [note change here]
Palestinian National Authority	Oman	Peru*
Poland*	Panama	Qatar
Romania*	Portugal**	Saudi Arabia

Serbia*	Russia*	Spain***
	Slovak Republic*	St. Vincent
St. Kitts	St. Lucia	Turkey*
Taiwan	Trinidad & Tobago*	United Kingdom
Ukraine*	United Arab Emirates	
Uruguay*	Venezuela*	
United States of America (Delaware)***		

(*) Insurance business conducted through an ALICO subsidiary
(**) Insurance business conducted though a branch and subsidiary.
(***) no business is written in the United States

Since the December 31, 2004 examination date the Company no longer operates in Germany and Kenya. Conversely, since December 31, 2004, the Company began writing business through subsidiaries in Serbia and Russia. In early, 2008, ALICO's Board of Directors approved the sale of the Company's branch in Taiwan to AIA-Bermuda, a subsidiary of the AIG insurer domiciled in Hong Kong. However, the local regulator in Taiwan had not approved the sale and the branch as of the end of the examination period; approval was received effective June 1, 2009.

ALICO operates exclusively outside the United States. ALICO branches and subsidiaries market an extensive range of life and health products, including traditional life, variable life, annuities, pensions, personal accident insurance and group insurance for large and small organizations. On the 2007 Blue Book, the Company reported the following breakdown of premiums:

Direct	$34,013,486,022
Assumed	217,929,351
Ceded	741,047,714
Net	$33,490,367,659

For 2007, ALICO reported the following geographical distribution of its direct premiums and annuity considerations (as reported on Schedule T of the 2007 Blue Book):

	2007 Premiums	% of Total	2004 Premiums	% Change During Exam Period
Japan	$ 10,972,670,153	32.3%	$14,965,030,492	(26.7%)
United Kingdom	21,509,596,708	63.24	5,584,228,181	285.2
Greece	341,224,843	1.00	263,036,130	29.7
Spain	200,286,091	0.59	94,312,169	112.4
UAE	191,217,183	0.56	98,621,800	93.9
Portugal	79,480,821	0.23	92,576,831	(14.1)
Lebanon	91,202,216	0.27	83,275,067	09.5
Taiwan	148,519,428	0.44	77,279,298	92.2
Bangladesh	101,715,381	0.30	68,787,052	47.9
Saudi Arabia	56,979,504	0.17	50,341,020	13.2
Cyprus	49,198,837	0.14	37,802,678	30.1
Jordan	28,161,404	0.08	24,846,394	13.3
Panama	29,194,529	0.09	23,644,740	23.5
Subtotal	$33,799,447,098	99.37%	$21,463,781,852	
Other Branches	214,038,924	0.63%	107,239,006	99.6%
Total Direct Premiums And Annuity Considerations	$34,013,486,022	100%	$21,571,020,858	

The Company’s direct 2007 premiums were written in the following lines of business:

Lines of Business	2007 Premiums	% of Total
Ordinary Life	$25,877,415,327	76.1%
Individual Annuities	4,423,395,856	13.0
Credit	172,582,255	.5
Group Life	254,796,377	.8
Group Annuities	241,141,135	.7
Group Accident and Health	184,707,209	.5
Other Accident and Health	2,859,447,863	8.4
Total	$34,013,486,022	100.0%

ALICO reported Gains from Operations in each of the years under examination. The following chart provides premium income and Net Gain from Operations for the three year period under examination:

	Premium Income	Net Gain (Loss) From Operations
Ordinary Life	$54,302,350,598	$1,666,171,095
Individual Annuities	14,975,107,166	541,252,493
Credit	223,219,435	4,079,729
Group Life	621,931,506	107,528,783
Group Annuities	610,618,479	(15,112,484)
Group Accident and Health	529,425,167	43,075,132
Other Accident and Health	7,488,233,270	949,892,575
Supplementary Contracts		(1,613,480)
Total	$78,750,885,621	$3,295,273,843

The Other Accident and Health line of business has traditionally produced substantial net gains for the Company. Approximately 90% of ALICO's Other Accident and Health business is written by the Company's Japan Branch.

Operations in Japan

At year-end 2007, the Company's Japan Branch reported total assets of $60,838,819,293, an amount that represented 60.2% of ALICO's total assets at that date. The ALICO Japan Branch is the fifth largest life and health insurer in Japan in total premium, and is the sixth largest life and health insurer as measured by total assets.

For 2007, the business produced by ALICO's Japan branch accounted for 32.3% of the Company's total direct premiums and annuity considerations, The following chart provides a more specific breakdown along with a comparison to amounts reported for 2004 (in U.S. dollars):

Line of Business	2007 Premiums	2004 Premiums
Ordinary Life	$4,208,067,000	$ 2,785,179,000
Individual Annuities	4,076,745,000	10,034,048,000
Credit Life	19,085,000	9,118,000
Group Life	62,750,000	61,516,000
Group Accident & Health	9,292,000	5,391,000
Other Accident & Health	2,596,731,000	2,069,778,000
Totals	$ 10,972,670,000	$14,965,030,000

At year end (November 30th) 2007, the Japanese Yen translated at .009018 of the U.S. dollar or approximately 110.889 Yen equaling one U.S. dollar.

Near the end of the previous examination period, the regulatory body in Japan, the FSA, allowed banks to begin selling insurance. The FSA also allowed insurers to offer products denominated in currencies other than yen. ALICO developed a single premium, multi-currency annuity product that was sold through banks and was extremely successful. (Note the sales of annuities in 2004). Though sales of annuities leveled off during the current examination period, it is noteworthy that the four largest banks in Japan all continue to offer ALICO products to their customers.

ALICO in Japan has four (4) major sales channels: Captive Agents, Independent Agents, Direct Marketing, and Bancassurance (banks). In the last quarter of 2007, ALICO Japan had 3,530 employees, 201 branches, 4,322 captive agents, and 10,487 independent agents producing business for the Company.

The following is a brief description of the major products offered by ALICO Japan:

<u>Ordinary</u>

ALICO Japan sells the basic products of traditional whole life, endowment, term life and interest sensitive whole life and endowment.

Guaranteed Issue Whole Life (GIWL) is a direct sale whole life plan with premiums payable for life. Death benefits for the first two years are limited to return of premium.

Simplified Issue Whole Life (SIWL) requires the applicant to make a simple declaration of health and the death benefits are reduced during the first year for deaths from most causes.

Interest Sensitive Whole Life (ISWL) and Interest Sensitive Endowment (ISE) are fixed premium universal life/endowment products with various payment periods, available from single premium to life. The ISWL and ISE products are available in two currencies, Yen and U.S. dollar. A flexible premium universal life (UL) is also available.

ESDN (En Soto Dollar Naka, or Yen outside and Dollar inside) interest sensitive whole life is a combination of US$ ISWL and Yen benefit Guarantee Rider. With ESDN, a policyholder pays premiums and receives benefits in Yen, however, the account value is invested in US dollars.

Accident & Health

The Full-in Hospital (FIH) plans provide benefits upon death, total disability, and hospitalization. Different levels of hospitalization coverage are provided depending on whether the covered event resulted from sickness or accident. The Japan Branch has introduced several variations of this popular product. The Branch offers a FIH product that includes a death benefit, while another plan pays an endowment at the end of the term, depending on claim experience. A guaranteed issue FIH product is also available.

The Cancer plans provide indemnity benefits (either lump sum or daily) upon diagnosis, hospitalization, outpatient treatment, or surgery for cancer. Death benefits are also provided, with a much higher amount if the cause of death is cancer. Cancer plans are offered that pay an endowment.

Long-Term Personal Accident (LTPA) covers accidental death and physical impediments arising from accidents. The LTPA product is primarily sold to the corporate market. The lapse rates have been very high since mid 2006 due to a tax law change to limit the tax deductibility of premiums for this product.

Life Disease Insurance (LDI) provides FIH-type coverage for specified life style related diseases. Both term and whole life versions are offered.

Retirement Assurance

Retirement Assurance (RA) is an endowment product with death and surrender benefits which can be purchased with maturity dates at age 65, 70, 75 and 80. These products can be funded with a single premium payment or with level premiums over a variety of durations. There is a tontine-type feature to the RA product which distributes to persisting policies, the portion of the account values that is forfeited by terminations due to death or surrender.

Fixed Annuity

ALICO Japan sells single-premium Fixed Annuities (FA), denominated in U.S. dollars and Euros. The most popular term to maturity is seven years. There are several generations of the FA product, most of them have market value adjustment and surrender changes upon surrender, with the latest version of front-end load multi-currency FA, available also in Australian dollars and Yen.

Variable Annuity

The Japan Branch offers a single-premium deferred Variable Annuity which allows policyholders to invest additional amounts on an unscheduled basis. The guaranteed minimum death benefit (GMDB) is return of premium. Bank variable annuity contracts offer higher optional rachet GMDB for an additional charge. A guaranteed minimum income benefit (GMIB) option and a guaranteed minimum withdrawal benefit (GMWB) option are also available for a charge. The GMDB is mostly reinsured with TOA Reinsurance although the treaty with TOA was terminated for new business on April 1, 2007. Both the GMIB and GMWB are 100% reinsured with Variable Annuity & Life Insurance Company (VALIC).

Variable Life

ALICO Japan's variable Life (VL) insurance contracts consist of a death or endowment benefit supported by individual customer accounts held in a variable fund (Separate Account). It has both single premium and level premium versions. Since 2000, ALICO Japan has minimal new sales in VL.

Regulatory Matters

The FSA in Japan requires the calculation and maintenance of a Solvency Margin Total and Ratio that is similar to the Risk Based Capital process in the United States. The minimum Solvency Margin Ratio is 200% in Japan, though the accepted barometer is that a 1,000% ratio denotes an insurer in a strong financial position; ranges of 600-800 are viewed as safe and acceptable. In 2006 and 2007, ALICO maintained a 1,000% plus Solvency Margin Ratio. However, in 2008, due to the diminution of the value of the Company's AIG stock (part of the AIG portfolio was held at the Japan Branch), and the bankruptcies of several U.S. financial institutions in which the Japan Branch had large holdings, ALICO received a $600 million surplus contribution from AIG specifically to bolster the Solvency Margin Ratio of the Japan Branch.

- In October, 2007, the Japan Fair Trade Commission (FTC) issued a Cease and Desist Order to the Company regarding advertising for a cancer product offered by the Company. After the FTC order, the FSA conducted an extensive investigation of the Japan Branch's direct response advertising and marketing, and a number of misstatement situations were identified.

- In November, 2007, the FSA issued ALICO a Business Improvement Order that required that a detailed remediation plan be implemented. The Company submitted reports to the FSA on the implementation for a one year period; according to Company management, the FSA is satisfied with the Company's progress and efforts.

Operations in the United Kingdom (U.K.)

For 2007, ALICO's U.K. Branch was the Company's largest operation in terms of premium and annuity considerations and second largest in terms of assets.

Under the Delaware Insurance Code, insurance companies operating exclusively overseas, may segregate or “ringfence” the business and assets of a particular branch by reporting the assets, liabilities, surplus and operations of that branch utilizing the NAIC Separate Accounts Annual Statement blank.

In 2006, the segregation of the U.K. Branches’ assets was further clarified. The Company set up a “Floating Charge” to preference U.K. Branch assets. In the case of the Company’s insolvency, an unaffiliated entity acts as a trustee for the Branch’s assets and distributes the assets and proceeds from operations in accordance with British Law.

The ALICO U.K. Branch reported the following during the years under examination:

Year	Branch Assets	Premiums Annuity Considerations
2004	$11,997,819,581	$5,672,364,995
2005	12,576,661,041	8,863,779,599
2006	20,285,728,904	12,016,879,828
2007	29,023,339,642	21,516,505,706

One of the limitations of the Separate Account annual statement blank used to report the U.K. Branch’s operation is the lack of premium information by source.

In 2007, the U.K. Branch reported the following distribution of premiums:

Direct	$21,509,740,451
Assumed	7,542,347
Ceded	777,092
Net premiums	$21,516,505,706

Of the U.K. Branch’s premiums for 2007, $9,862,547,000 represented general account business where ALICO assumes the risk while the remaining $11,653,958,000 premiums were written through products wherein the policyholder assumes a significant amount of the risk. This distinction is important in calculating the Branch’s statutory Solvency Margin, which is discussed below.

Of all the Company's operations, the U.K. Branch is unique as per the products offered. This is reflected in the chart below providing direct premiums for 2007 by product:

Investment Products	$20,923,380,000
Individual Annuities	266,781,000
Single Premium Pension	85,915,000
Ordinary Life	24,068,000
Personal Accident	84,571,000
Variable Life	22,553,000
Credit Life	(10,000)
Employee Benefits	102,482,000
Total Direct Premiums	$21,509,740,000

As indicated by the breakdown of premiums by product, the U.K. Branch's operations are primarily dedicated to selling Investment Products, which are offered to customers through stockbrokers and banks. Two products accounted for 95% of the Branch's writings in 2007:

1) Guaranteed Investment Bonds or "GIBs". Writings of GIBS amounted to $9,293,488,000 in 2007.

   GIBs are comparable to Guaranteed Investment Contracts in the United States. The policyholder pays a single premium at the outset and receives a bond with a guaranteed rate of return and a guaranteed repayment of capital invested, payable at the maturity of the bond, or at death. The death benefit is set at 101% of the original investment. The term of the bond can vary from a maximum of five (5) years to one (1) month. There are large surrender penalties on these bonds.

   While the ALICO U.K. Branch guarantees the investment return on the GIB, the exposure is mitigated by the Branch offering returns that can be justified by the immediate purchasing of fixed interest securities that match the interest rate and maturity of the GIB. Traditionally, the Branch has been able to offer returns that exceed market conditions in the U.K. because of the AIG corporate tax agreement, which is discussed below.

2) Premier Access Bonds or "PABs". For 2007, writings of $11,198,149,000 for the Premier Access Bonds were reported.

   PABs are unique products. The policyholder deposits a single premium with the Company. There is no fixed period for the bond. The U.K. Branch offers a fixed rate of return but can vary the interest rate on the bond at any time without prior notice to the policyholder. Concurrently, the policyholder can surrender all or part of the bond at any time without incurring surrender penalties. (This is one reason why the Surrender

Benefits and Withdrawals for the U.K. Branch appear unusually large). And, the bond is linked to a separate account with the risk of the underlying investment being borne by the policyholder.

For both the PAB and other Investment Products, ALICO-U.K. utilizes derivatives to lock in investment returns. The U.K. Branch has also offered Investment Products that employ derivatives to generate additional income. For these type of products, the investment risk is borne by the policyholder.

The examination noted that for most of the three-year examination period, sales of the PAB product fueled the U.K. Branch's growth. However, late in 2007, as financial markets began to roil, the U.K. Branch saw a transfer of funds into the GIB product.

The examination noted that U.K. taxes paid by ALICO to Inland Revenue (the U.K. equivalent of the IRS in the U.S.) are utilized as foreign tax credits by ALICO's parent, American International Group Inc., (AIG) in preparing AIG's U.S. federal income tax return. Under an agreement between ALICO and AIG (which is discussed in the Inter-Company Agreement Section of this Report), all foreign tax credits resulting from the payments ALICO makes to foreign governments that are utilized by AIG on its U.S. tax return will be paid in cash to ALICO. In the U.K., this provides an advantage over competing companies who must take corporate taxes into consideration when determining if a product is profitable.

The examination reviewed the U.K. Branch's compliance with the regulatory surplus requirement, which in the U.K. is known as the "Solvency Margin." The U.K. Regulators classify business as two types: general or short-term insurance (where A&H insurance is reported), and long-term insurance, which covers life insurance.

The Solvency Margin calculation contains provisions for mortality, expense and investment risk. Products such as PAB, where the contract holder bears the investment risk, are exempted from most of the Solvency Margin calculations. For products where the Company carries the investment risk, (such as GIBs), the investment risk calculation factor is 3%.

At year-end 2007, the ALICO U.K. Branch reported the following solvency margin for its long-term business:

Required Solvency Margin (RSM)	$498,384,110 (USD)
Assets available to meet RSM	685,367,653
Excess resources to cover long term insurance	186,983,543

For the Company's general business:

Required RSM	$3,102,710
Assets available to meet RSM	56,093,623
Excess resources to cover general business	52,990,913

No exceptions were noted in the review of the Solvency Margin.

Subsequent Event: The turmoil in the financial markets in 2008 affected the U.K. Branch specifically in two ways: first, the UK Branch could no longer quickly invest and re-invest the large quantities of funds needed to execute the PAB product. As noted above, contract holders of PABs could withdraw funds at any time, and the same contract holders frequently re-invested in the Company's PABs, depending on the market conditions. The Branch also encountered difficulties in obtaining accurate market values for many of its investments, effectively rendering the "mark to market" process unreliable. Second, the financial events of AIG cast uncertainty as to whether AIG could utilize foreign tax credits on the U.S. consolidated tax return. Because of these events, the U.K. Branch ceased the selling of the PAB Enhanced Fund product in Q4 2008. The Enhanced Fund was a short to medium term fixed income fund with maturities generally shorter than 5 years, average maturity of 1-2 years with short duration due to market adjustable rates set quarterly for most instruments held. The Company continued with its Standard Fund choice (Money Market choice with no maturity >90 days).

Property-Casualty Business

As noted in the History section of this Report, ALICO has the authority from the Delaware Insurance Department to write both Life-Health and Property-Casualty insurance. In 2000, the Company began writing personal auto insurance in the United Arab Emirates (UAE). Subsequently the Company began writing other property-casualty business in the UAE, Oman and Kuwait.

ALICO began filing a Yellow Book Property-Casualty Annual Statement in 2002 and reported the following financial results for the period under examination:

	2007	2006	2005
Assets	$64,495,256	$45,386,062	$34,331,189
Policyholder Surplus	750,331	775,985	818,561
Net Income	(3,156,429)	(2,188,382)	(143,335)
		Premiums	
Direct:	$41,128,415	$37,515,690	$27,059,888
Assumed:			
From Affiliates	366,189		3,112,484
From Non-Affiliates	9,078,861	13,512,633	10,888,860
Ceded:			
To Affiliates	$49,752,107	$50,349,019	$39,958,657
To Non-Affiliates	957,298	549,137	1,083,134
Net Premiums	$ (135,940)	$ 130,166	$ 19,441

As indicated by the above premium amounts, the Company cedes almost all of its net property-casualty business to affiliates. During the examination period, ALICO suffered continual net underwriting losses as the commissions received on premium ceded did not offset the Company's expenses. As a result, the Property-Casualty operation had to continually receive surplus infusions from the Life-Health operation, to maintain the minimum $750,000 capital and surplus required by the Delaware Insurance Code. In total, the Property-Casualty operation of the Company received $8,750,000 during the period under examination from ALICO Life-

Health to remain solvent. In 2008 ALICO received surplus contributions of $11,400,000 from AIG to offset the operating losses of the property-casualty operation.

REINSURANCE

On the 2007 Blue Book, the Company reported the following breakdown of premiums:

Direct	$34,013,486,022
Assumed	217,929,351
Ceded	741,047,714
Net	$33,490,367,659

The examination noted two important points in evaluating ALICO’s reinsurance program. First, the Company operates as an integral part of the American International Group (AIG). It has been the traditional philosophy of AIG to spread risks among affiliated parties before ceding business outside the group. As will be detailed in the summaries below of the assumed and ceded reinsurance programs, the majority of the Company’s assumed and ceded contracts are with subsidiaries and affiliates. An exception to this practice occurred in 2004-2005 when the unprecedented premium growth of ALICO’s Japan Branch triggered the need for several large reinsurance contracts. Because of capacity issues, one of these contracts was with an outside reinsurer. Second, the Company and its subsidiaries operate in fifty-six (56) countries around the world. In evaluating this worldwide business, ALICO encounters wide ranges in both standards of living and mortality-morbidity experience. It would be unrealistic for the Company to have a uniform exposure (net retention after reinsurance ceded) throughout the world. And, if local branches or subsidiaries were permitted to retain high exposures, ALICO could constantly need to inject surplus funds into these countries to support the retained business in the event of a large loss. ALICO addresses this situation by evaluating each country's retention. For subsidiaries, the Company acts as the primary reinsurer. For branch operations, premiums are ceded to affiliates, which in turn may retrocede the business to ALICO headquarters. In this way, premiums are retained "in-house" and branches and subsidiaries have the capacity to write larger amounts of premium. Thereafter, premiums are ceded to affiliates and non-related insurers for excess coverages on a YRT basis, for catastrophe coverages, and for smaller, specialty lines of business that the Company does not wish to retain. An example of the latter would be credit life insurance, where in several countries, ALICO writes business through banks, and subsequently cedes most or all of the business to subsidiaries of the same banks.

The examination did note that beginning in 2007, the Company's branches and subsidiaries were encouraged to increase retentions and decrease the reliance on inter-company and inter-branch reinsurance. Concurrently, the Company's reinsurance management secured quotes and or evaluated third party pricing to ensure that cessions to affiliates were at market price. In 2007 the Company began to cede more reinsurance outside of AIG.

Assumed

The Company's reinsurance assumed premiums for 2007 were distributed as follows:

	Life & Annuities	Accident & Health	Total
Affiliates	$121,596,940	$95,571,624	$217,168,564
Non-affiliates	453,686	307,101	760,787
Total	$122,050,626	$95,878,725	$217,929,351

The Company's assumed premiums for 2007 had two major components:

- As noted above, ALICO's branches routinely cede business to affiliated insurers for the purpose of retroceding the same premiums to ALICO's Home Office, thereby keeping the business within the Company while protecting local solvency. In 2007, the Company's branches ceded $80,393,924 in premiums to American International Reinsurance Company (AIRCO). Of that amount, $80,169,834 was subsequently retroceded to ALICO's Home Office.

- Of the remaining $136,998,730 assumed from affiliates in 2007, the vast majority relates to ALICO providing primary coverage to its subsidiaries. In 2007, ALICO assumed premiums from twenty-two (22) subsidiary insurers. It should be noted and recognized that in providing reinsurance for its subsidiaries, ALICO is effectively operating its branches and subsidiaries under almost identical standards.

Ceded

As was noted earlier in this section, in 2004 and 2005, ALICO-Japan wrote a massive amount of new annuity business as banks were permitted to sell annuities for the first time in Japan. Due to the surplus strain generated by the new business, the Company purchased an unprecedented volume of ceded reinsurance for the Japan branch, on all lines of business, utilizing both affiliates and outside reinsurers. All of the new reinsurance purchased involved ALICO withholding funds to secure the ceded reserve balances. As the volume of annuity business leveled off in Japan, the Company's level of ceded reinsurance is reflected in the following chart:

	2007	2006	2005	2004
Premiums:				
Life	$454,426,600	$237,099,932	$3,882,881,736	$7,474,583,896
Accident & Health	286,621,114	372,498,144	446,799,596	320,571,480
Reserve Credits:				
Life	$4,512,796,865	$4714,488,951	$4,799,708,685	$4,452,550,587
Accident & Health	297,626,447	314,277,653	317,914,750	232,048,563
Surplus Relief:				
Life	$211,532,038	$356,070,563	$549,615,719	$487,869,518
Accident & Health	138,285,632	183,988,903	224,087,846	166,868,392
Funds Held:				
Life	$4,291,159,680	$4,336,703,628	$4,235,294,972	$3,951,846,078
Accident & Health	159,020,163	106,947,053	66,741,579	33,778,065

The four (4) ceded treaties below, all covering business written by ALICO's Japan Branch, account for a significant portion of the reserve credits, funds held liability and surplus relief reported by the Company at year-end 2007:

1. Swiss Re of Zurich; effective August 1, 1999. Covers single premium deferred annuities (SPDA) denominated in US dollars (USD) in Japan. This treaty was succeeded by the AIG Life of Bermuda and RGA Re treaties noted below. There were no premiums for the examination period. Reserve credits were $1,019,530,219 on the 2007 Blue Book, funds held were $1,012,530,292 and surplus relief was $6,999,926.

2. AIG Life of Bermuda; effective April 1, 2003. Covers SPDA products "A" and "B" written in Japan and denominated in USD. Ceded reserve credits were $2,381,139,781on the 2007 Blue Book and were secured by funds held under this treaty of $2,357,259,425. Outstanding surplus relief was $23,880,356 as of year-end 2007.

3. AIG Life of Bermuda; effective April 1, 2003. Covers the Full in Hospital (A&H) business written in Japan. Premiums for 2007 were $177,328,416, reserve credits were $144,024,519, and outstanding surplus relief was $138,285,519.

4. RGA Reinsurance Company; effective December 1, 2003. Covers SPDA product "C" written in Japan and denominated in foreign (non-yen) currencies. Premiums for 2007 were $0, reserve credits were $1,047,639,296 and outstanding surplus relief was $180,651,756. The modified coinsurance reserve on this treaty at year-end 2007 was $9,428,753,664.

The only new substantial ceded coverage engaged by ALICO during the examination period involved separate account or variable business written by the Company's Japan Branch. In 2007, the Company ceded premiums of $183,187,238 to an affiliate, Variable Annuity Life Insurance Company, to 100% reinsure the various guaranteed riders attached to variable annuity products written in Japan.

INTER-COMPANY AGREEMENTS

ALICO operates on a large scale internationally and has well over one hundred (100) inter-company agreements. The Company's branch in Japan alone has in effect over fifty (50) such agreements, covering the Branch's operations from investments to sharing the expenses of a cafeteria. Virtually all services provided to the Company, particularly investment services, come from affiliates.

The more significant inter-company contracts are detailed below:

ALICO is a participant in a Service and Expense Agreement, originally dated February, 1, 1974, among AIG and numerous subsidiaries. The parties to the agreement desire to share among themselves and other AIG affiliates certain expenses such as equipment, office space, management services and personnel.

The shared expenses are paid quarterly at cost. Allocation is to be made, on an item by item basis, by either specific identification or on a proportional basis. For 2007, ALICO paid $35,507,026 under the Service and Expense Agreement.

The Company participates in the Consolidated Federal Income Tax Return of AIG and its domestic subsidiaries, based upon a Tax Payment Allocation Agreement effective January 1, 1992. Basically, the agreement calls for the parent to charge ALICO for that portion of the consolidated tax liability that would have been paid by ALICO if a separate return had been filed. In addition, and of great importance to ALICO, AIG agrees under the terms of the tax sharing agreement to reimburse ALICO for the use of any losses and tax credits to the extent used by AIG in the consolidated tax return. As an insurer operating exclusively overseas, ALICO pays considerable taxes to foreign governments. These foreign tax payments are dollar for dollar tax credits on the U.S. federal tax return of AIG. The parent reimburses ALICO for all foreign taxes utilizable on the U.S. return. This situation has substantially reduced ALICO's exposure to U.S. federal taxes.

ALICO has in place a 2003 Indemnity Agreement with AIG that applies to 105 billion of Japanese yen (approximately $943 million USD) that was invested in assets denominated in U.S. dollars. The Indemnity Agreement was executed to insulate the Company from any foreign exchange loss on the transaction. The 2004 examination noted the Indemnity greement did not provide for settlement or termination dates when any balances due ALICO would be paid, and recommended that the Indemnity Agreement be amended to provide for such dates. The current examination noted that the Indemnity Agreement was not amended, however, ALICO non-admitted the receivable balance ($15,825,328) due under the Indemnity Agreement on the 2007 Blue Book.

In the investment area, ALICO has the following inter-company agreements:

- For the Home Office portfolios:
  - Management - AIG Global Investment Corp. (Ireland)
  - Custodian - AIG Global Investment Trust Services
  - Securities Lending- AIG Global Securities Lending Corp.
- For the Japan Branch
  - Management - AIG Global Investment Corp. (Japan)
- For the U.K. Branch
  - Securities Lending – AIG Global Securities Lending Corp. (Ireland)

ACCOUNTS AND RECORDS

As noted in the Scope of Examination section of this Report, for the period under examination, ALICO's operations were audited by the firm of PricewaterhouseCoopers (PwC), Certified Public Accountants. In performing the 2007 audit, PwC noted exceptions in the Company's calculation of deferred U.S. income taxes. These exceptions are discussed in the Notes to the Financial Statements section of this report.

The examination noted that ALICO's international employees are covered by several pension plans, specific to the country where business is conducted. In Japan, the pension plans are underfunded, however, the Company has accrued a significant liability (approximately $190 million USD) in compliance with local rules and SSAP #89, which requires the reporting entity to accrue a liability for the unfunded portion of the pension liability. The domestic (U.S. based) employees of ALICO participate in the pension program of the parent, AIG. Based on the AIG 2007 10-K report, as audited by PwC, the domestic AIG pension plan appears to be under-funded by $790 million. ALICO has accrued no liability for any portion of the underfunding. As noted in the Subsequent Events section of this report, ALICO is in the process of being sold or becoming an independent, stand-alone entity. In the upcoming separation from AIG, the issue of the obligations for pensions and benefits will need to be resolved.

FINANCIAL STATEMENTS

The Company's financial position on December 31, 2007and the results of operations for 2007 are presented in the following statements. Differences of $1.00 are due to rounding.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets	Notes
Bonds	$49,824,992,206		$49,824,992,206	1
Preferred stocks	462,249,281		462,249,281	
Common stocks	7,405,395,105	$57,945,763	7,347,449,342	2
Mortgage loans on real estate	1,458,154,034	26,791	1,458,127,243	3
Real estate:				
Properties occupied by the Company	163,808,160		163,808,160	
Properties held for income or sale	6,338,504		6,338,504	
Cash and short-term investments	2,024,022,072		2,024,022,072	
Contract loans	1,039,985,192		1,039,985,192	
Other invested assets	517,362,446	134,276,368	383,086,078	
Receivable for securities	113,999,814		113,999,814	
Derivative instruments	(17,891,274)		(17,891,274)	
Investment income due and accrued	667,758,898		667,758,898	
Premiums and considerations:				
Uncollected premiums and agents' balances in course of collection	116,411,052	20,751,540	95,659,512	
Premiums deferred	18,154,596		18,154,596	
Reinsurance:				
Amounts recoverable from reinsurers	36,926,661		36,926,661	
Funds held by reinsured companies	126,533,268		126,533,268	
Other amounts recoverable	17,010,921		17,010,921	
Current federal/foreign tax recoverable	7,912,717		7,912,717	
Electronic data processing equipment and Software	95,431,799	73,216,655	22,215,144	
Furniture and equipment	33,951,193	33,951,193	0	
Receivable from parent, subsidiaries and Affiliates	125,302,134	15,825,328	109,476,806	
Premiums/insurance balances receivable	206,104,247	2,028,219	204,076,028	
Other assets/Prepaid Expenses	81,635,565	81,635,565		
Total assets before Separate Accounts	64,531,548,591	419,657,422	64,111,891,169	
Separate Accounts	37,520,415,818		37,520,415,818	
TOTALS	$102,051,964,409	$419,657,422	$101,632,306,987	

LIABILITES, SURPLUS AND OTHER FUNDS

		Notes
Aggregate reserve for life contracts	$ 44,839,422,293	4
Aggregate reserve for accident and health contracts	3,586,520,860	
Liability for deposit-type contracts	1,087,445,506	
Contract claims:		
Life	300,684,668	
Accident and Health	319,425,370	
Policyholders' dividends due and unpaid	4,767	
Policyholders' dividends apportioned for payment in following year	46,964,221	
Provision for experience rated refunds	66,185,823	
Interest Maintenance Reserve	15,322,618	
Commissions to agents due and accrued	87,608,021	
General Insurance Expenses	126,174,171	
Transfers to Separate Accounts	35,209,367	
Taxes, licenses and fees	59,907,275	
Current federal and foreign taxes	81,157,203	
Net deferred tax liability	548,479,346	5
Unearned investment income	4,946,027	
Amounts held for agents' account	4,391,934	
Remittances and items not allocated	288,925,704	
Liability for benefits to employees	267,187,857	
Asset Valuation Reserve	1,083,191,221	
Reinsurance in unauthorized companies	46,717,612	
Funds held for unauthorized reinsurers	61,730,551	
Payable to parent, subsidiaries and affiliates	173,234,525	
Funds held under coinsurance	4,388,449,289	
Payable for securities	217,019,513	
Reinsurance balance payable	37,005,983	
Accounts payable	19,893,653	
Federal income taxes payable to parent	38,450,669	
Payable to Security Lending Pool – OTTD losses	23,724,054	6
Total liabilities before Separate Accounts	$ 57,855,380,101	
Separate Accounts	36,753,364,656	
Total Liabilities	$ 94,608,744,757	
Common capital stock	$ 3,000,000	
Gross paid in and contributed surplus	1,111,244,658	
Unassigned funds (surplus)	5,909,317,572	
Capital and Surplus	$7,023,562,230	7
TOTAL	$101,632,306,987	

SUMMARY OF OPERATIONS

Premiums and annuity considerations	$33,490,367,659
Considerations for supplementary contracts	6,840,412
Net investment income	2,678,827,681
Amortization of Interest Maintenance Reserve	22,025,337
Separate Accounts net gain from operations	64,304,486
Commissions and expense allowances on reinsurance ceded	359,144,761
Reserve adjustment on reinsurance ceded	(562,809,318)
Other income	34,295,146
Total	$36,092,996,164
Death benefits	$ 687,078,817
Matured endowments	243,407,566
Annuity benefits	298,442,038
Disability and accident and health benefits	726,748,706
Surrenders and withdrawals	17,472,407,609
Interest on deposit-type contracts	20,973,184
Payments on supplementary contracts	1,138,068
Increase in aggregate reserves for life and accident and health contracts	5,689,074,280
Total	$25,139,270,268
Commissions on premiums and annuities	$ 1,064,309,595
Commissions on reinsurance assumed	40,043,069
General insurance expenses	1,580,918,205
Insurance taxes, licenses and fees	50,519,016
Increase in loading on deferred and uncollected premiums	(3,612,724)
Net transfers to separate accounts	6,569,407,784
Experience rating refund	24,613,098
Total	$34,465,468,311
Net gain from operations before policyholder dividends and Federal income taxes	$ 1,627,527,853
Dividends to policyholders	23,680,877
Federal and foreign income taxes	641,054,918
Net gain from operations before realized capital gains	$962,792,058
Net realized capital gains	(225,873,831)
Net income	$736,918,227

CAPITAL AND SURPLUS ACCOUNT

Capital and Surplus, December 31, 2006		$5,733,979,581
Net income	$736,918,227	
Change in unrealized capital gains	(559,742,413)	
Change in net deferred income tax	699,513,372	
Change in non-admitted assets	(156,986,684)	
Change in unrealized foreign exchange	2,111,107	
Change in liability for unauthorized reinsurance	(24,348,369)	
Change in asset valuation reserve	302,883,419	
Surplus contributed to Separate Accounts	(70,863,082)	
Other changes in surplus in Separate Accounts	58,347,723	
Dividends to stockholders	(100,000,000)	
Surplus paid in	394,850,345	
Transfer to property/casualty operation	(4,850,000)	
Other adjustments	11,749,004	
Change in Capital and Surplus for the year		1,289,582,649
Capital and Surplus, December 31, 2007		$7,023,562,230

SCHEDULE OF EXAMINATION ADJUSTMENTS

	Company Amount	Examination Amount	Capital & Surplus Increase/ (Decrease)
Net Deferred Tax Liability	$851,080,661	$548,479,346	$302,601,315
Total Examination Adjustments			$302,601,315
Company Capital and Surplus			$6,720,960,915
Examination Capital and Surplus			$7,023,562,230

NOTES TO FINANCIAL STATEMENTS

Note 1. Bonds

The Company reported $49,824,992,206 for bonds on the 2007 Blue Book Annual Statement. In total amounts, ALICO reported the following for its bond portfolio:

Par Value	$49,720,446,769
Cost	49,973,726,391
Fair Value	49,896,625,137
Book/Carrying Value	49,824,992,206

The NAIC's Securities Valuation Office (SVO) has adopted guidelines which recognize that there are "foreign" securities (from issuers outside the United States) for which the required information needed to value the security might not be available. If these securities are owned by an insurance company that does no more than 20% of its business in the United States (such companies are referred to as "subparagraph D companies"), the following rules apply:

- The insurance company may determine the NAIC designation
- All securities so designated must be affixed with an "F" to denote a foreign security
- The insurance company must provide its domestic regulator with a description of the procedures used to evaluate and assign ratings to foreign securities

ALICO qualifies as a Subparagraph D company. If the Company rates a security using a Nationally Recognized Securities Rating Organization (NRSRO), the NAIC designation shall be the NAIC equivalent of the NRSRO rating. Such securities shall be listed as FE on Schedule D of the Annual Statement. If no NRSRO rating is available, the security shall be listed as simply an F, and the Company has to be able to defend its designation. The SVO also states that no security issued in a country can have a higher NAIC designation than the Sovereign Rating assigned to the government of that country.

Approximately 98% of the Bonds reported by ALICO on the 2007 Blue Book carry the F or FE designation. No exceptions were noted in the review of NAIC designations.

Home Office Portfolios

The examination noted that bonds totaling $2,431,481,277 are assigned to the Wilmington Home Office. The Home Office bonds are composed of several types of portfolios:

- the surplus of ALICO

- portfolios of branches where ALICO has been able to move funds out of the country to the Home Office.
- portfolios representing insurance products that cannot be assigned to any specific branch.

The Home Office portfolios are managed by an affiliate, AIG Global Investment Corp.-Ireland, which also manages the investments of the Company's U.K. Branch. The custodian of the Home Office portfolios is also an affiliate, AIG Global Trust Services (AIGGTS) also located in Ireland.

The 2004 examination noted that the custodian agreement with AIG Global Trust Services (AIGGTS) did not contain all the safeguard language ("the Indemnification Clause) recommended by the NAIC Financial Examiners Handbook. The previous examination also noted that the custodian agreement with AIGGTS had never been submitted to the Delaware Insurance Department for approval as required by the Delaware Insurance Code. Recommendations to correct these exceptions were made by the 2004 examination.

The current examination noted a lack of compliance with either of the recommendations regarding the AIGGTS custodian agreement. However, effective January 1, 2009, ALICO engaged Citibank N.A. to act as the custodian for the Home Office portfolios. The custodian agreement with Citibank was reviewed and found to be acceptable. In view of the subsequent termination of AIGGTS as a Company investment custodian, no recommendations as per the non-compliance at year-end 2007 will be made by this examination.

The Home Office portfolios were utilized in the "domestic" AIG securities lending program, managed by an affiliate, AIG Global Securities Lending Corporation (AIGGSLC). The domestic securities lending program lent U.S. assets to U.S. borrowers. AIGGSLC also managed a separate foreign lending securities program which involved ALICO's U.K. Branch. The securities lending programs were massively unprofitable for AIG in 2007 and 2008. ALICO's exposure (roughly 2-3%) to the losses from these programs was offset by surplus contributions from AIG. The Company's participation in the securities lending program is further discussed in Note #6 to the

Financial Statements.

Note #2 Common Stocks

The Company's common stock portfolio at year-end 2007 consisted of the following segments:

Stock of the parent, AIG Inc.	$3,353,502,694
Stock of subsidiaries & affiliates	2,507,387,185
Other common stocks	1,486,559,463
Total	$7,347,449,342

In addition to the AIG Inc. stock (above) reported on the 2007 Blue Book, ALICO reported $103,529,363 in AIG stock held at its U.K. Branch on the 2007 Green Book.

Note: During the period under examination, ALICO began to non-admit the values of its non-insurance company subsidiaries if a U.S. GAAP audit report is not obtained, in accordance with SSAP #88. At year-end 2007, the Company non-admitted a total of $57,945,763 under SSAP #88.

Of the Company's Other common stocks (above), approximately 96% of the $1,486,559,463 is reported by the ALICO Branch in Japan.

AIG Stock.

ALICO's holding of the stock of its parent, AIG, dates to 1967 and has continually exerted a material influence on the Company's balance sheet. From a cost of $2,310,635, the AIG stock appreciated to $3,454,696,532 through year-end 2007. ALICO held the AIG stock at the Home Office, and at the Japan, U.K. and Aruba Branches. It should be noted that ALICO's ownership of its parent's stock pre-dates the modern Delaware Insurance Code and is therefore permitted under the "grandfather" provisions of the law.

The effect of AIG stock on the Company's financial condition is demonstrated by the following:

- As of year-end 2000, the AIG stock traded at a per share value of $98.563, generating a reported market value of $6,248,052,021. After the deduction of Asset Valuation Reserve, the value of the AIG stock represented 79% of the Company's Capital and Surplus at year-end 2000.

- Effective January 1, 2001, under the NAIC's Codification requirements, insurance companies were required to accrue a tax liability on unrealized capital gains. As of January 1, 2001, ALICO accrued a deferred tax liability of $2,120,543,569 on the appreciation in value on the AIG stock.

- In 2004, in accordance with SSAP #46, ALICO began to reduce the value of its AIG portfolio by the net amount of the Company's reciprocal ownership of the AIG stock.

- At year-end 2004, (the date of the previous examination), the value of the Company's AIG stock, after deductions for deferred taxes, the asset valuation reserve, and reciprocal ownership, was $2,120,420,579 or approximately 50% of the Company's reported Capital and Surplus of $4,232,635,616.

- At year-end **2007**, the value of the Company's AIG stock, after deductions for deferred taxes, the asset valuation reserve, and reciprocal ownership, was $2,083,121,186 or approximately 31% of the Company's reported Capital and Surplus of $6,720,960,915.

ALICO reported an adjusted rate of $54.53 per common stock share for the AIG stock at year-end 2007.

- In 2008, AIG encountered a severe liquidity strain and required a bailout from the U.S. Treasury to remain viable. AIG's share prices plummeted and ALICO reported an adjusted rate of $1.89 per common stock share for the AIG stock. At year-end 2008, the value of the Company's AIG stock, after deductions for deferred taxes, the asset valuation reserve, and reciprocal ownership, was just $78,309,346, or 2% of the Company's reported Capital and Surplus of $3,902,903,907 at year-end 2008.

Subsidiaries-Affiliates

ALICO reported a value of $2,507,387,185 for forty-six (46) subsidiaries or affiliates at year-end 2007. The total cost was $1,874,623,492, reflecting an unrealized gain of $632,763,693 even after non-admitting the value of certain subsidiaries as per the requirements of SSAP #88. At the time of the 2004 examination, the Company's unrealized **loss** on its subsidiaries and affiliates was $28,805,079.

The Company's largest subsidiary at year-end 2007, as per cost, was Unibanco AIG Seguros S.A, a Brazilian company. While the cost of the subsidiary is $565,932,739, Unibanco AIG Seguros' reported value was $309,264,190 at year-end 2007, indicating an unrealized loss of $256,668,549. During the previous examination period, the currency of Brazil, the Real, was devalued by the Brazilian government. While the operations of Unibanco AIG Seguros were generally profitable during the examination period, the devaluation and subsequent currency exchange fluctuations exerted a significant influence of the subsidiary's reported value.

Subsequent Event

ALICO was a 47% shareholder in Unibanco AIG Seguros. In 2008, in the aftermath of AIG's bailout by the U.S. Department of Treasury, ALICO sold the 47% share in the Company's Brazilian subsidiary to the joint partner, Unibanco, the largest bank in Brazil. Under the terms of the stock purchase agreement, ALICO sold the 47% stake in Unibanco AIG Seguros for $820 million USD and bought back a small group of local companies called AIG Brazil for $15 million USD. On a net basis, $805 million USD was paid to ALICO. As per Schedule D of the 2008 Blue Book, ALICO was credited with a consideration of $783,861,827 in the sale of Unibanco AIG Seguros, generating a realized gain of $217,929,089 on the sale of its Brazilian subsidiary. In January 2009 ALICO forwarded a portion of the gain to AIG by paying a dividend of $190,000,000 to the parent.

During the previous examination period, AIG acquired two large, life insurance operations in Japan. ALICO participated in this acquisition through a subsidiary, AIG Financial

Assurance Japan KK, which owns a portion of AIG Edison Life. The Company reported a value of $320,590,626 for AIG Financial Assurance at year-end 2007.

The Company's subsidiaries in Eastern Europe countries have consistently reported profitable margins. ALICO's subsidiary in Poland, from a cost of $395,819,671, reported a fair value of $772,656,976, indicating an unrealized gain of $376,837,305 or 95% above cost. The Company's subsidiary in Slovakia, reported a fair value of $130,671,297 at year-end 2007, against a cost of just $4,881,000, while the subsidiary in the Czech Republic reported a fair value of $126,289,546 against a cost of $77,024,972.

Finally, the examination noted that ALICO reported unrealized capital gains at year-end 2007 for several subsidiaries that had reported unrealized losses as of the previous examination period. Two subsidiaries in particular produced positive results: the Company's subsidiary in France, ALICO, S.A. reported an unrealized gain of $84,132,700 at year-end 2007 while the subsidiary in Chile, Inversiones Interamericana S.A., reported a gain of $54,707,840 on the 2007 Blue Book.

Note #3 Mortgage Loans on Real Estate

The Company reported an amount of $1,458,127,243 for Mortgage Loans on the 2007 Blue Book Annual Statement, a significant increase from the $904,678,492 reported for the same item on the 2004 Annual Statement. At year-end 2007, the Japan Branch had granted twenty-four (24) loans, at a value of $1,450,925,334 or 99.5% of the Annual Statement balance. Of the Japan Branch portfolio, only four loans, for a value of $6,622,155 are residential mortgages. The remaining 20 mortgages are commercial loans, with nine, for a value of $529,258,601, being issued to downstream subsidiary "specialty companies" that are unique to Japan.

The 2004 examination noted exceptions with two sections of the Delaware Insurance Code and made recommendations to ensure compliance:

- Section 1118 of the Code states that mortgages on real property shall be reported at an amount not to exceed 90% of the fair value of the underlying property. The Company had eight (8) mortgages whose book value exceeded 90% of the fair value of the underlying property, in violation of Section 1118.

- The 2004 examination also noted that Section 1323 of the Delaware Code states that, upon issuance of the mortgage loan, no loan shall be issued in excess of 75% of the appraised value of the underlying property. A review of mortgage activity indicated that the Company had issued three mortgages well in excess of 75% of the appraised value.

The examination team on site in Japan noted that ALICO-Japan did not address the recommendations in the 2004 Report of Examination until mid-2007. Prior to that time, four mortgages were issued in violation of Section 1323. Since the middle of 2007, ALICO-Japan has instituted a policy that requires compliance with Section 1323. In view of the Company's corrective action, no recommendation will be made by this examination. No material exceptions were noted as per compliance with Section 1118 of the Insurance Code.

Note #4 Aggregate Reserve for Life Policies and Contracts

At year-end 2007, ALICO reported the following amounts for Aggregate Life Policy Reserves on the Blue Book Annual Statement:

Life Insurance	$19,848,127,964
Individual Annuities	23,163,343,348
Group Annuities	1,125,228,496
Supplemental Contracts	18,984,754
Accidental Death	22,213,650
Active and Disabled Lives	14,550,948
Miscellaneous Reserves	
Japan Contingency Fund	548,656,486
Terminal Benefits	74,345,505
Other	23,971,139
Total	$ 44,839,422,290

As noted previously, the Company reports assets and liabilities of its United Kingdom (U.K.) Branch in the Green Book Separate Account Statement. The U.K reported the following at year-end 2007:

Aggregate reserve for life, annuity and accident and health policies and contracts	$26,807,970,382

ALICO also files two other separate account annual statements, for variable business written in Japan, and all other branches. The Japan Branch reported Aggregate reserves for life, annuity and accident and health policies and contracts of $7,927,627,769 as of year-end 2007, while the Other Branches reported similar reserves of $573,014,028.

In accordance with the parameters detailed in the Scope of Examination section of this report, the examination concentrated its review of ALICO's policy reserves as per the following:

Japan Branch	An on site review was conducted. Detailed testing of the Branch's Policy Master File was conducted. The 2007 audit workpapers of PricewaterhouseCoopers were reviewed. Reports of AIG's Internal Audit Department were reviewed
U.K. Branch	The audit workpapers of PricewaterhouseCoopers were reviewed. The local filing to the UK regulatory body, the FSA was reconciled to the 2007 Green Book. Reports of AIG's Internal Audit Department were reviewed
Greece, Spain, Portugal Lebanon, Cyprus, Bangladesh and UAE:	Amounts reported by the Branches and reflected on the 2007 Blue Book Annual Statements were reconciled to the local statutory audit reports. Reports of AIG's Internal Audit Department were reviewed for each branch.

These branches reported total policy reserves of $78,748,225,176 or 98.3% of the total policy reserves reported on the combined 2007 Blue and Green Books and other Separate Accounts Annual Statements.

No exceptions were noted in the review of premium data during the examination on-site visit and no exceptions were noted in the review of the policy reserves reported by the U.K. and other major branches.

The examination retained the firm of INS Consultants Inc. (INS) for actuarial analysis. INS performed the following procedures:

- A review of ALICO’s workpapers and electronic data files supporting the 2007 Blue Book and Green Book reserves.
- A review of ALICO’s asset adequacy/cash flow testing for the years 2005 through 2007.
- A review of the country Actuarial Opinion Memoranda prepared by ALICO, concentrating on 2007.
- Judgmental samples of randomly-selected life, annuity and accident and health policies were tested. Because the Japan Branch reported 90% of the Blue Book policy reserves, INS limited substantive analysis to the Japan Branch segment.
- Trend analysis was performed wherever possible

INS noted no exceptions during its review and concluded that the amounts reported by the Company appear to be fairly stated.

During the review of the various country Actuarial Opinion Memoranda (AOM), INS noted one exception:

Within the AOMs, most of the branch office memoranda included a discussion of the validation of initial model results. However, the branch office memoranda often either failed to include a discussion of the risks associated with the various business segments within that office or contained only a brief discussion of those risks.

It is therefore recommended that future Actuarial Opinion Memoranda include a thorough discussion of the risks associated with the various business segments for each branch office and each wholly-owned subsidiary.

Note #5-Net Deferred Tax Liability

At year-end 2007, the Company accrued a Net Deferred Tax liability that was obtained through the netting of two amounts:

Deferred Tax Assets	$664,390,950
Deferred Tax Liabilities	($1,515,471,611)
Net deferred tax liability	($851,080,661)

In performing its 2007 audit, PricewaterhouseCoopers (PwC) noted several exceptions in the Company's preparation of its foreign taxes and issued a Control Deficiency Letter. ALICO’s taxes, both current and deferred, were calculated and prepared by the Tax Department of AIG in New York. Most of the exceptions noted by PwC related to credits generated by losses/gains of ALICO's subsidiaries as per an election under APB 23. In several situations, ALICO accrued deferred taxes based on the cumulative results of a subsidiary without regard to APB 23, when in fact a deferred tax asset should have been accrued.

In response to the PwC Control Deficiency Letter, ALICO appointed an in-house tax department that will specialize in the tax exposures specific to ALICO.

After a review of the exceptions noted above, the examination will reduce the balance in this account and increase unassigned funds by $302,601,315. No recommendation will be made because the Company took corrective action by creating a separate tax department within ALICO which should eliminate the errors in the tax calculation at year-end 2007.

<u>Note #6-Payable to Security Lending Pool related to Other than Temporary Decline (OTTD) losses</u>

ALICO accrued $23,724,054 at year-end 2007 for this first-time unrealized loss was prompted by a deficiency in the collateral held by AIG Global Securities Lending Corp. (AIGGSL) for the AIG domestic securities lending program.

At year-end 2007, ALICO participated in three securities lending programs, two of which were administered by AIGGSL:

- The domestic AIG securities lending program, which lent U.S. assets to U.S. borrowers. Various AIG companies participated in this program. ALICO had a minor interest in the program, with a participation level of 2.7%.

- The foreign AIG securities lending program, which lent assets resident outside the U.S. for AIG’s foreign operations. ALICO had a 27% participation level in this program.

Both the domestic and foreign program were administered by AIGGSL. ALICO also participated in a lending program for securities deposited in the Euroclear system. Under this program, lenders in the Euroclear Securities Lending program are provided with a guarantee by Euroclear Bank against counterparty default. ALICO incurred no losses under this program.

Under SAAP 91, the "reporting entity" is required to receive collateral having a fair value equal to 102% of the fair value of the loaned securities. If the loaned securities and collateral are denominated in different currencies, the value of the collateral must be 105% of the fair value of the loaned securities.

As per the Securities Lending Agreement approved by the Delaware Insurance Department, AIGGSL took possession of the collateral, and therefore as per Paragraph 56 of SAAP 91, ALICO did not have to report the collateral as an asset and a liability on its books.

Permitting AIGGSL to hold the collateral presented an additional difficulty:
SAAP 91 requires the comparison of the fair value of the presented collateral to the fair value of the loaned security. The entities borrowing the securities typically deposited cash with AIGGSL as collateral. If the fair value of the collateral fell below 102% of the fair value of the loaned securities, it was the responsibility of the borrower to provide additional collateral to come into compliance with SAAP 91. Cash would normally incur no fluctuation in fair value. However, AIGGSL invested the combined collateral (see next paragraph) and incurred losses. The remedies provided in SAAP 91 to obtain additional collateral from the borrower were no longer available.

AIGGSL invested the collateral it received for the domestic and foreign securities lending programs heavily in U.S. sub-prime mortgages and suffered massive losses. At year-end 2007, the aggregate fair value of the investments in AIG's domestic securities lending collateral "Pool" was $66.2 billion, an amount $4.84 billion below the amortized cost of the collateral. ALICO's

2.7% of that deficiency was $128 million. A similar situation occurred with the foreign securities lending program. ALICO's 27% of the deficiency between fair value and cost of the collateral was $36 million.

AIGGSL termed the above deficiencies noted in the domestic and foreign securities lending programs as unrealized losses due to decline in value. Therefore, AIGGSL treated the losses as "temporary" and did not charge the participating AIG companies. When AIGGSL sold collateral and suffered a realized loss, AIGGSL passed on the losses to the participating insurers. It was AIG's intention to contribute surplus to the insurers to mitigate any losses suffered. In 2007, ALICO received $7,350,345 as a surplus contribution from AIG to offset realized losses in the collateral Pool.

When AIGGSL determined that securities held in the collateral Pool were "Other Than Temporarily Declined" (OTTD), the securities were written down (but not sold). For these OTTD securities, ALICO's 2007 annual statement liability of $23,724,054 was accrued. This liability applied to the domestic security lending program only. ALICO accrued no liability for the foreign securities lending program.

The annual statement liability increased in 2008 to $171,724,345 by June 30, 2008 as the financial markets continued to contract. The liability decreased to $126,329,722 by September 30, 2008 and then was eliminated entirely at year-end 2008 when the New York Federal Reserve Bank intervened to fund a limited liability corporation that acquired all the collateral in the AIGGSL domestic security pool.

The foreign securities lending program encountered similar difficulties. In 2008, AIG, through an affiliate, AIG Funding, loaned $267 million to ALICO. The foreign securities lending program was wound down and the pool of collateral dissolved in September of 2008. The U.K Branch of ALICO was able to repay the $267 million loan in December, 2008.

Finally, in 2008, ALICO received a total of $370,908,731 in four surplus contributions from AIG to partially offset losses the Company incurred as per charges from AIGGSL for realized losses in the sale of collateral.

Note #7-Capital and Surplus

As noted in the Capitalization section of this report, the Company's Common Capital Stock remained unchanged during the period under examination. Gross paid in and contributed surplus increased $408,250,345 from 2004 to 2007, primarily through ALICO receiving contributions from AIG to fund the acquisition of foreign subsidiaries.

The impact of the AIG stock on ALICO's capital and surplus was discussed in Note #2 to the Financial Statements. Traditionally, the appreciation of the Company's AIG stock portfolio represented a significant portion of ALICO's Capital and Surplus. At year-end 2000, the AIG stock represented 79% of ALICO's capital and surplus. This percent decreased to 50% as of 2004, the date of the previous examination. At year-end 2007, the net value of the Company's AIG stock was 31% of the Company's capital and surplus. The Company's continued strong operating results and accumulation of unassigned funds independent of the AIG stock's appreciation were demonstrated in 2008, when due to the financial events of AIG, the value of the AIG stock plummeted and amounted to just 2% of ALICO capital and surplus. Despite this travail, the Company reported capital and surplus of $3,902,903,907 at year-end 2008.

Another area that impacts the Company's Capital and Surplus is foreign exchange. As of the 2004 examination date, ALICO included in its Capital and Surplus a cumulative loss of $318,022,744 due to changes in foreign exchange rates. Like most of the Company's results, the operations in Japan influence the overall results. Through year-end 2004, ALICO has experienced a cumulative loss of $489,997,203 on the exchange rates between the Yen and the U.S. dollar. In 2005, there was a dramatic shift in the Yen-U.S. Dollar exchange position. By year-end 2005, ALICO's Yen position changed to a gain of $277,235,950, indicating a one year gain of $767,233,153.

For the examination period, ALICO reported the following year-end cumulative gains or losses (these amounts are included in the Company's unassigned surplus)

2007	$189,769,172	gain
2006	187,658,058	gain
2005	237,947,265	gain
2004	(318,022,744)	loss

STATUS OF PRIOR EXAMINATION RECOMMENDATIONS

The prior examination report as of December 31, 2004, contained twenty-three (23) recommendations. Those findings with their current status (**in bold**) are as follows:

R1. It is again recommended the Company fill out Schedule Y in compliance with Annual Statement instructions.

No exceptions were noted in this area.

R2. It is recommended the Executive Committee of the Japan Branch report to the ALICO Board of Directors and have the actions of the Japan Executive Committee approved by the ALICO Board.

No exceptions were noted in this area.

R3. It is again recommended that minutes of meetings of the Banking Committee be maintained and it is further recommended that all actions of the Banking Committee be approved by the ALICO Board of Directors.

In 2007, the ALICO Board of Directors voted to dissolve the Banking Committee.

R.4 It is again recommended that any action taken by the Executive Committee be reported to and approved by the Board of Directors at the next meeting following the Executive Committee action.

No exceptions were noted in this area.

R5. It is recommended the Company undertake a project to update the Home Office files for certificates of authority or licenses in every country in which ALICO operates.

No exceptions were noted in this area.

R.6 It is recommended the Company report premiums on ceded reinsurance contracts in accordance with the NAIC Annual Statement Instructions.

No exceptions were noted in this area.

R.7 It is recommended the Company reduce the ceded reinsurance coverage on the property-casualty business in the Mid-East to writing. The ceded reinsurance contracts must contain all clauses required by the Delaware Insurance Code and SSAP 62, and must demonstrate transfer of risk.

No exceptions were noted in this area.

R.8 It is recommended that the guarantees to RGA Reinsurance as per the side agreement with AIGTI be more clearly quantified. The management of ALICO's Japan Branch should be cognizant of the performance guarantees contained in the side agreement.

No exceptions were noted in this area.

R.9 It is recommended the Company amend the reinsurance treaty between the United Kingdom Branch and AIRCO, that currently covers just lapse rates on health insurance, to include the transfer of morbidity risk as required by Regulation 1002 of the Delaware Insurance Code.

No exceptions were noted in this area.

R.10 It is recommended that the Company work with PwC prior to the next examination to resolve the issues that resulted in PwC not providing the Department's examiners access to the workpapers from their annual audit as required by Regulation 301.

No exceptions were noted in this area.

R11. It is recommended the Company's custodian agreement with AIG Global Trust Services be amended to include all of the safeguard language recommended in the NAIC Financial Examiners Handbook.

The Company did not comply with this recommendation. However, effective January 1, 2009, ALICO replaced AIG Global Trust Services as the custodian for its Home Office investment portfolios.

R12. It is recommended the Company obtain evidence of collateral provided for loaned securities to demonstrate compliance with SSAP 18, which states that the reporting (or lending) entity shall receive collateral equal to 102% or 105% of the fair value of loaned securities.

During the period under examination, SAAP 18 was replaced by SAAP 91.

The Company's involvement in the various security lending programs is discussed in Note #6 to the Financial Statements.

R13. It is recommended the Company's amended custodian agreement with AIGGTS be submitted to the Insurance Department for approval. It is additionally recommended that AIGGTS cease loaning ALICO's securities. ALICO already has appointed AIGGSL as its exclusive agent for the securities lending program; furthermore, it is the function of a custodian to safeguard an insurers assets, not engage in lending its securities.

The examination noted that, during the period under examination, AIGGTS ceased lending the Company's securities. The Company did not submit the AIGSTS custodian agreement to the Delaware Insurance Department for approval. Effective January 1, 2009, ALICO replaced AIG Global Trust Services as the custodian for its Home Office investment portfolios.

R14. It is recommended that all common stock mutual funds held internally by the ALICO-Japan Branch be held at a third party custodian. The examination noted that the Japan Branch's separate account or variable mutual fund assets are held by custodians who provide an independent valuation of the shares prices. Additionally, it was noted that the Japan Branch holds bonds, loans, mortgages and other invested assets internally in the "Non-Custody Report." It is further recommended that, wherever possible, invested assets should be held by a third party custodian.

No exceptions were noted in this area.

R15. It is recommended the Company accurately compile Schedule D and not combine several securities for Annual Statement reporting purposes.

No exceptions were noted in this area.

R16. It is recommended that the Company comply with Section 1118 of the Delaware Insurance Code and report values for mortgages that do not exceed 90% of the fair value of the underlying property supporting the mortgage loan.

The examination noted no material exceptions in this area.

R17. It is recommended that the Company comply with Section 1323 of the Delaware Insurance Code and issue no new mortgages for amounts in excess of 75% of the appraised value of the underlying property supporting the mortgage loan.

The examination noted that the Company began complying with this recommendation in mid-2007. Prior to that date, four mortgages were issued that were not in compliance with Section 1323.

R18. It is recommended that any Indemnity Agreement between the Company and its parent provide for mandatory settlement dates or a termination date when any amounts due the Company will be promptly paid or settled.

The Company did not comply with this recommendation. However, the Company non-admitted the indemnity receivable from AIG at year-end 2007.

R19. It is recommended the Company accurately complete the Holding Company Statement and Annual Statement. The disclosures regarding the Indemnity Agreement covering the Yen Swap Loans are inaccurate as the Indemnity Agreement was amended and no longer covers the Yen Swap Loans.

No exceptions were noted in this area.

R20. It is recommended that in the future, the aggregate of reserves and/or actuarial liabilities not subject to cash flow testing or other asset adequacy analysis, should not exceed 2.5% of statutory capital and surplus.

The current examination noted adequate compliance with this recommendation.

R21. It is recommended that future Actuarial Opinion Memorandums include the specific identification of assets supporting any actuarial liabilities excluded from Cash Flow Testing analysis.

The examination noted compliance with this recommendation.

R22. It is recommended that future Actuarial Opinion Memorandums evaluate and discuss all risks inherent in the United Kingdom indexed products.

The examination noted inadequate compliance with this recommendation. This recommendation is expanded to include all branches and is included in this report of examination.

R23. It is recommended that a separate Actuarial Opinion Memorandum be compiled for the Separate Accounts - All Other Branches. Alternatively, the Statement of Actuarial Opinion for All Other Branches Separate Accounts should be required to identify the source of each liability, branch by branch, and to indicate whether that liability has been subjected to asset adequacy analysis.

The current examination noted adequate compliance with this recommendation.

RECOMMENDATION

The Company's attention is directed to the following examination recommendation:

It is recommended that future Actuarial Opinion Memoranda include a thorough discussion of the risks associated with the various business segments for each branch office and each wholly-owned subsidiary. (See Note #4, Aggregate Reserves for Life Policies and Contracts, page 45).

SUMMARY COMMENTS

- ALICO operates in fifty-six (56) countries as a truly global insurance operation. During the examination period, the Company discontinued operations in two (2) countries and began or resumed operations in four (4) countries.

  Assets have grown approximately 71% since the last examination.

- The Company's Japan and United Kingdom branches reported assets of $89,344,986,364 at year-end 2007 and accounted for 87.9% of the Company's total assets at that date. More importantly, the same two branches reported premiums and annuity considerations of $32,022,864,026 for 2007, an amount that represented 95.6% of the Company's writings for 2007.

- ALICO's Capital and Surplus increased $2,488,325,299 (before examination adjustments) since 2004 representing an increase of 58.8%.

- ALICO reported $1,865,861,333 in Net Income during the three (3) year period under review and reported positive Net Income in each year. During the same period, the Company paid $350,000 in dividends to stockholders.

- The Company's holding of the common stock of its parent, AIG, has traditionally impacted the Company's capital and surplus. At year-end 2007, the value of the Company's AIG stock, after deductions for deferred taxes, the asset valuation reserve, and reciprocal ownership, was $2,083,121,186 or approximately 31% of the Company's reported Capital and Surplus of $6,720,960,915.
- ALICO reported a value of $2,507,387,185 for forty-six (46) subsidiaries or affiliates at year-end 2007. The total cost was $1,874,623,492, reflecting an unrealized gain of $632,763,693 even after non-admitting the value of certain subsidiaries as per the requirements of SAAP #88. At the time of the 2004 examination, the Company's unrealized **loss** on its subsidiaries and affiliates was $28,805,079.

The following subsequent events had a dramatic impact on the Company:

- In September, 2008, the Company's parent, American International Group, Inc. (AIG), experienced a severe strain on its liquidity that resulted in AIG on September 22, 2008 entering into an $85 billion revolving credit facility, and a guarantee and pledge agreement, with the Federal Reserve Bank of New York. The Federal credit facility obligations are guaranteed by certain AIG subsidiaries and are secured by a pledge of certain assets of AIG and its subsidiaries. ALICO is not a guarantor of the credit facility, and has not pledged any assets to secure those obligations. However, the Company has been pledged by AIG to secure this loan obligation.
- On October 3, 2008, AIG indicated its intent to focus on its core property and casualty business. AIG began exploring divesture opportunities for its remaining business and assets, <u>including ALICO</u>.
- Despite the turmoil that surrounded AIG in 2008, ALICO reported a gain from operations of $1,251,532,457 for 2008.

- In the wake of the AIG financial events and the U.S. Federal Government taking a substantial equity position in the parent, the stock value of AIG common stock shares plummeted. At year-end 2008, ALICO reported an adjusted rate of $1.89 per common stock share for the AIG stock, and the net value of the Company's AIG stock was $78,309,346, or 2% of the Company's reported Capital and Surplus of $3,902,903,907 at year-end 2008.

In 2008, ALICO received a total of $982,308,731 in surplus contributions from AIG. The 2008 surplus contributions can be allocated as follows:

- $600,000,000 for the Japan Branch, which suffered severe losses to its investment portfolio due to the insolvencies of several U.S. financial institutions.
- $11,400,000 to maintain the Capital and Surplus of the Property and casualty operation in the Gulf States.
- $370,908,731 in four payments for the Securities Lending Program.

In 2008, AIG sold ALICO's 47% share in its Brazilian subsidiary, Unibanco AIG Seguros. The Company received $783,861,827 from the sale of its subsidiary which generated a realized gain of $217,929,089. ALICO no longer has an insurance presence in Brazil.

Late in 2008 and early 2009, ALICO was the subject of due diligence as prospective buyers evaluated the Company. As of the date of this report, no acceptable offers have been received for the Company. Plans for an initial public offering and/or to have the Company operate as a stand alone entity are being formulated, but nothing has been decided at this time.

CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

Description	Current Examination	12/31/2004 Examination	Changes Increases (Decreases)
Assets	$101,632,306,987	$56,252,254,288	$45,380,052,699
Liabilities	94,608,744,757	52,160,248,273	42,448,496,484
Capital and Surplus	7,023,562,230	4,092,006,015	2,931,556,215

In addition to the undersigned, Albert Piccoli, CFE, and Art Lucker FSA, MAAA, of INS Consultants Inc., participated in the examination.

Respectfully submitted,

James J. Blair

James J. Blair CFE, CPA
Examination Supervisor
Insurance Department
State of Delaware

SUBSEQUENT EVENTS

The examination reviewed the 2008 Annual Statements filed by the Company and noted the following variances from the Company's balances at year-end 2007:

	2008	2007	Change
Assets	$86,338,053,229	$101,632,306,987	$(15,294,253,758)
Liabilities	82,435,149,322	94,911,346,072	(12,476,196,750)
Capital and Surplus	3,902,903,907	6,720,960,915	(2,818,057,008)
Summary of Operations:			
Premiums/annuity considerations	$29,905,885,041	$33,490,367,659	$(3,584,482,618)
Gain from operations	1,251,532,457	962,792,058	288,740,399
Net realized capital losses	(1,074,667,412)	(225,873,831)	848,793,581
Net income	176,865,055	736,918,227	(560,053,172)

For 2008, ALICO reported the following entries in the Capital and Surplus Account:

Unrealized capital losses	$ (3,074,389,887)
Change in non-admitted assets	(1,693,805,249)
Surplus paid in	982,308,731
Change in net deferred tax	525,063,099
Change in asset valuation reserve	522,481,575
Correct accounting error	302,601,315
Dividends to stockholders	(300,000,000)
Change in foreign exchange	(242,906,876)
Other changes	(16,274,771)
Net Income	176,865,055
Change in Capital & Surplus- 2008	$ (2,818,057,008)

As noted throughout this report, in September 2008, the Company's parent, American International Group, Inc. (AIG), experienced a severe strain on its liquidity that resulted in AIG on September 22, 2008 entering into an $85 billion revolving credit facility, and a guarantee and pledge agreement with the Federal Reserve Bank of New York. As part of the agreement, AIG issued a new series of perpetual, non-redeemable, Convertible Participating Serial Preferred Stock to a trust that will hold the preferred stock for the benefit of the U.S. Treasury. This preferred stock will participate in 77.9% of any dividends paid by AIG, and will hold 77.9% of the voting rights of common stocks (treating the new preferred shares as if converted).

The Federal credit facility obligations are guaranteed by certain AIG subsidiaries and are secured by a pledge of certain assets of AIG and its subsidiaries. ALICO is not a guarantor of the credit facility, and has not pledged any assets to secure those obligations. However, the Company has been pledged by AIG to secure this loan obligation.

On October 3, 2008, AIG indicated its intent to focus on its core property and casualty business. AIG began exploring divesture opportunities for its remaining business and assets, including ALICO.

In November of 2008, as part of the Troubled Assets Relief Program, AIG sold $40 billion of new preferred shares to the U.S. Department of the Treasury. The proceeds of the sale of this new preferred stock were used to repay borrowing under the Federal credit facility, and in connection, the maximum commitment under the Federal credit facility was reduced from $85 billion to $60 billion.

As noted previously in Notes to the Financial Statements (#2), in the wake of the AIG financial events and the U.S. Federal Government taking a substantial equity position in the parent, the stock value of AIG common stock shares plummeted. At year-end 2007, the value of the Company’s AIG stock, after deductions for deferred taxes, the asset valuation reserve, and reciprocal ownership, was $2,083,121,186 or approximately 31% of the Company’s reported Capital and Surplus of $6,720,960,915. ALICO reported an adjusted rate of $54.53 per common stock share for the AIG stock at year-end 2007. At year-end 2008, ALICO reported an adjusted rate of $1.89 per common stock share for the AIG stock, and the value of the Company’s AIG stock, after deductions for deferred taxes, the asset valuation reserve, and reciprocal ownership, was just $78,309,346 or 2% of the Company’s reported Capital and Surplus of $3,902,903,907 at year-end 2008.

As reflected in the tables above, the massive decline of the Company’s AIG stock generated sizable entries in unrealized capital losses, change in net deferred taxes, and change in asset valuation reserve, and the change in non-admitted assets.

The Company’s President and Chief Operating Officer, Joyce Phillips, resigned after fourteen months in October, 2008. Despite the turmoil that surrounded AIG in 2008, ALICO reported a gain from operations of $1,251,532,457 for 2008.

In 2008, ALICO received a total of $982,308,731 in Surplus Contributions from AIG. The 2008 surplus contributions can be allocated as follows:

- $600,000,000 for the Japan Branch.

- $11,400,000 to maintain the Capital and Surplus of the Property and casualty operation in the Gulf States.
- $370,908,731 in four payments for the Securities Lending Program.

As discussed in Note #2 to the Financial Statements, in 2008, ALICO sold its 47% share in its Brazilian subsidiary, Unibanco AIG Seguros. The Company received $783,861,827 from the sale of its subsidiary which generated a realized gain of $217,929,089. ALICO no longer has an insurance presence in Brazil.

In March, 2009, AIG announced a plan to contribute the equity of ALICO into a Special Purpose Vehicle (SPV) in return for preferred and common interests in the SPV. Basically, this contribution will allow the Federal Reserve Bank of New York to receive a preferred interest in the repayment of the Federal credit facility given to AIG and noted above. The amount of the preference will be equal to the fair market value of ALICO. Until subsequent divestment, ALICO will remain a wholly owned subsidiary of AIG.

Late in 2008 and early 2009, ALICO was the subject of due diligence as prospective buyers evaluated the Company. As of the date of this report, no acceptable offers have been received for the Company. Plans for an initial public offering and to have the Company operate as a stand alone entity are being formulated, but nothing has been decided at this time.

ADDENDUM

American International Group, Inc. and Subsidiaries

As of December 31, 2007

Percentage
of Voting Securities **Jurisdiction**
Held by Immediate Parent **of Incorporation**

American International Group, Inc.(2) Delaware
(3)
AIG Capital Corporation Delaware
100
AIG Capital India Private Limited India
99.99 (4)
AIG Global Asset Management Company
(India) Private Limited India
99 (5)
AIG Consumer Finance Group, Inc. Delaware
100
AIG Bank Polska S.A. Poland
99.92
AIG Credit SA Poland
100
Compania Financiera Argentina S.A. Argentina
100
AIG Credit Corp. Delaware
100
A.I. Credit Consumer Discount Company Pennsylvania
100
A.I. Credit Corp. New Hampshire
100
AICCO, Inc. Delaware
100
AICCO, Inc. California
100
AIG Credit Corp. of Canada Canada
100
Imperial Premium Funding, Inc. Delaware
100
AIG Equipment Finance Holdings, Inc. Delaware
100
AIG Commercial Equipment Finance,
Inc. Delaware
100
AIG Commercial Equipment Finance
Company, Canada Canada
100
AIG Rail Services, Inc. Delaware
100
AIG Finance Holdings, Inc. New York
100
AIG Finance (Hong Kong) Limited Hong Kong
100
American General Finance, Inc. Indiana
100

American Life Insurance Company

American General Auto Finance, Inc.	Delaware	100
American General Finance Corporation	Indiana	100
Merit Life Insurance Co.	Indiana	100
MorEquity, Inc.	Nevada	100
Wilmington Finance, Inc.	Delaware	100
Ocean Finance and Mortgages Limited	England	100
Yosemite Insurance Company	Indiana	100
CommoLoCo, Inc.	Puerto Rico	100
American General Financial Services of Alabama, Inc.	Delaware	100
AIG Global Asset Management Holdings Corp.	Delaware	100
AIG Asset Management Services, Inc.	Delaware	100
AIG Capital Partners, Inc.	Delaware	100
AIG Equity Sales Corp.	New York	100
AIG Global Investment Corp.	New Jersey	100
AIG Global Real Estate Investment Corp.	Delaware	100
AIG Securities Lending Corp.	Delaware	100
Brazos Capital Management, L.P.	Delaware	100
International Lease Finance Corporation	California	67.23 (6)
AIG Egypt Insurance Company S.A.E.	Egypt	90.05 (7)
AIG Federal Savings Bank	USA	100
AIG Financial Advisor Services, Inc.	Delaware	100
AIG Global Investment (Luxembourg) S.A.	Luxembourg	100
AIG Financial Products Corp.	Delaware	100
AIG Matched Funding Corp.	Delaware	100
Banque AIG	France	90 (8)
AIG Funding, Inc.	Delaware	100
AIG Global Trade & Political Risk Insurance Company	New Jersey	100

AIG Israel Insurance Company Ltd.	Israel	50.01
AIG Kazakhstan Insurance Company	Kazakhstan	60
AIG Life Holdings (International) LLC	Delaware	100
AIG Star Life Insurance Co., Ltd.	Japan	100
American International Reinsurance Company, Ltd.	Bermuda	100
AIG Edison Life Insurance Company	Japan	90 (9)
American International Assurance Company, Limited	Hong Kong	100
American International Assurance Company (Australia) Limited	Australia	100
American International Assurance Company (Bermuda) Limited	Bermuda	100
American International Assurance Co. (Vietnam) Limited	Vietnam	100
Tata AIG Life Insurance Company Limited	India	26
Nan Shan Life Insurance Company, Ltd.	Taiwan	95.27
AIG Life Holdings (US), Inc.	Texas	100
AGC Life Insurance Company	Missouri	100
AIG Annuity Insurance Company	Texas	100
AIG Life Holdings (Canada), ULC	Canada	100
AIG Assurance Canada	Canada	100
AIG Life Insurance Company of Canada	Canada	100
AIG Life of Bermuda, Ltd.	Bermuda	100
AIG Life Insurance Company	Delaware	100
American General Life and Accident Insurance Company	Tennessee	100
Volunteer Vermont Holdings, LLC	Vermont	100
Volunteer Vermont Reinsurance Company	Vermont	100
American General Life Insurance Company	Texas	100
AIG Enterprise Services, LLC	Delaware	100

American General Annuity Service Corporation	Texas	100
American General Life Companies, LLC	Delaware	100
The Variable Annuity Life Insurance Company	Texas	100
AIG Retirement Services Company	Texas	100
American International Life Assurance Company of New York	New York	100
American General Bancassurance Services, Inc.	Illinois	100
American General Property Insurance Company	Tennessee	51.85 (10)
American General Property Insurance Company of Florida	Florida	100
The United States Life Insurance Company in the City of New York	New York	100
American General Assurance Company	Illinois	100
American General Indemnity Company	Illinois	100
American General Investment Management Corporation	Delaware	100
American General Realty Investment Corporation	Texas	100
Knickerbocker Corporation	Texas	100
AIG Life Insurance Company of Puerto Rico	Puerto Rico	100
AIG Life Insurance Company (Switzerland) Ltd.	Switzerland	100
AIG Liquidity Corp.	Delaware	100
AIG Privat Bank AG	Switzerland	100
AIG Property Casualty Group, Inc.	Delaware	100
AIG Commercial Insurance Group, Inc.	Delaware	100
AIG Aviation, Inc.	Georgia	100
AIG Casualty Company	Pennsylvania	100
AIG Risk Management, Inc.	New York	100
AIU Insurance Company	New York	52 (11)

AIG General Insurance Company China Limited	China	100
AIG General Insurance (Taiwan) Co., Ltd.	Taiwan	100
American Home Assurance Company	New York	100
AIG General Insurance (Malaysia) Berhad	Malaysia	100
AIG Hawaii Insurance Company, Inc.	Hawaii	100
American Pacific Insurance Company, Inc.	Hawaii	100
American International Realty Corp.	Delaware	31.5 (12)
Pine Street Real Estate Holdings Corp.	New Hampshire	31.47 (13)
Transatlantic Holdings, Inc.	Delaware	33.24 (14)
Transatlantic Reinsurance Company	New York	100
Putnam Reinsurance Company	New York	100
Trans Re Zurich	Switzerland	100
American International Surplus Lines Agency, Inc.	New Jersey	100
Audubon Insurance Company	Louisiana	100
Agency Management Corporation	Louisiana	100
The Gulf Agency, Inc.	Alabama	100
Audubon Indemnity Company	Mississippi	100
Commerce and Industry Insurance Company	New York	100
American International Insurance Company	New York	50 (15)
AIG Advantage Insurance Company	Minnesota	100
American International Insurance Company of California, Inc.	California	100
American International Insurance Company of New Jersey	New Jersey	100
Commerce and Industry Insurance Company of Canada	Canada	100
The Insurance Company of the State of Pennsylvania	Pennsylvania	100
Landmark Insurance Company	California	100

National Union Fire Insurance Company of Pittsburgh, Pa	Pennsylvania	100
AIG Domestic Claims, Inc.	Delaware	100
American International Specialty Lines Insurance Company	Illinois	70 (16)
Lexington Insurance Company	Delaware	70 (17)
AIG Centennial Insurance Company	Pennsylvania	100
AIG Auto Insurance Company of New Jersey	New Jersey	100
AIG Preferred Insurance Company	Pennsylvania	100
AIG Premier Insurance Company	Pennsylvania	100
AIG Indemnity Insurance Company	Pennsylvania	100
JI Accident & Fire Insurance Company, Ltd.	Japan	50
National Union Fire Insurance Company of Louisiana	Louisiana	100
National Union Fire Insurance Company of Vermont	Vermont	100
21st Century Insurance Group	Delaware	32 (18)
21st Century Casualty Company	California	100
21st Century Insurance Company	California	100
21st Century Insurance Company of the Southwest	Texas	100
AIG Excess Liability Insurance Company Ltd.	Delaware	100
AIG Excess Liability Insurance International Limited	Ireland	100
New Hampshire Insurance Company	Pennsylvania	100
AI Network Corporation	Delaware	100
AIG Europe, S.A.	France	70.48 (19)
American International Pacific Insurance Company	Colorado	100
American International South Insurance Company	Pennsylvania	100
Granite State Insurance Company	Pennsylvania	100

Illinois National Insurance Co.	Illinois	100
New Hampshire Indemnity Company, Inc.	Pennsylvania	100
AIG National Insurance Company, Inc.	New York	100
New Hampshire Insurance Services, Inc.	New Hampshire	100
Risk Specialists Companies, Inc.	Delaware	100
HSB Group, Inc.	Delaware	100
The Hartford Steam Boiler Inspection and Insurance Company	Connecticut	100
The Hartford Steam Boiler Inspection and Insurance Company of Connecticut	Connecticut	100
HSB Engineering Insurance Limited	England	100
The Boiler Inspection and Insurance Company of Canada	Canada	100
United Guaranty Corporation	North Carolina	36.31 (20)
A.I.G. Mortgage Holdings Israel, Ltd.	Israel	87.32
E.M.I. - Ezer Mortgage Insurance Company, Ltd.	Israel	100
AIG United Guaranty Agenzia Di Assirazione S.R.L	Italy	100
AIG United Guaranty Insurance (Asia) Limited	Hong Kong	100
AIG United Guaranty Mexico, S.A.	Mexico	100
AIG United Guaranty Mortgage Insurance Company Canada	Canada	100
AIG United Guaranty Re, Ltd.	Ireland	100
United Guaranty Insurance Company	North Carolina	100
United Guaranty Mortgage Insurance Company	North Carolina	100
United Guaranty Mortgage Insurance Company of North Carolina	North Carolina	100
United Guaranty Partners Insurance Company	Vermont	100
United Guaranty Residential Insurance Company	North Carolina	75.03 (21)

United Guaranty Credit Insurance Company	North Carolina	100
United Guaranty Commercial Insurance Company of North Carolina	North Carolina	100
United Guaranty Mortgage Indemnity Company	North Carolina	100
United Guaranty Residential Insurance Company of North Carolina	North Carolina	100
United Guaranty Services, Inc.	North Carolina	100
AIG Marketing, Inc.	Delaware	100
American International Insurance Company of Delaware	Delaware	100
Hawaii Insurance Consultants, Ltd.	Hawaii	100
AIG Retirement Services, Inc.	Delaware	100
SunAmerica Life Insurance Company	Arizona	100
SunAmerica Investments, Inc.	Georgia	70 (22)
AIG Advisor Group, Inc.	Maryland	100
AIG Financial Advisors, Inc.	Delaware	100
Advantage Capital Corporation	New York	100
American General Securities Incorporated	Texas	100
FSC Securities Corporation	Delaware	100
Royal Alliance Associates, Inc.	Delaware	100
AIG SunAmerica Life Assurance Company	Arizona	100
AIG SunAmerica Asset Management Corp.	Delaware	100
AIG SunAmerica Capital Services, Inc.	Delaware	100
First SunAmerica Life Insurance Company	New York	100
AIG Global Services, Inc.	New Hampshire	100
AIG Trading Group Inc.	Delaware	100
AIG International Inc.	Delaware	100
AIU Holdings LLC	Delaware	100
AIG Central Europe & CIS Insurance Holdings Corporation	Delaware	100

AIG Bulgaria Insurance and Reinsurance Company EAD	Bulgaria	100
AIG Czech Republic pojistovna, a.s.	Czech Republic	100
AIG Memsa Holdings, Inc.	Delaware	100
AIG Hayleys Investment Holdings (Private) Ltd.	Sri Lanka	80
Hayleys AIG Insurance Company Limited	Sri Lanka	100
AIG Iraq, Inc.	Delaware	100
AIG Lebanon S.A.L.	Lebanon	100
AIG Libya, Inc.	Delaware	100
AIG Sigorta A.S.	Turkey	100
Tata AIG General Insurance Company Limited	India	26
AIU Africa Holdings, Inc.	Delaware	100
AIG Kenya Insurance Company Limited	Kenya	66.67
AIU North America, Inc.	New York	100
American International Underwriters Corporation	New York	100
American International Underwriters Overseas, Ltd.	Bermuda	100
A.I.G. Colombia Seguros Generales S.A.	Colombia	94 (23)
AIG Brasil Companhia de Seguros S.A.	Brazil	50
AIG Europe (Ireland) Limited	Ireland	100
AIG General Insurance (Thailand) Ltd.	Thailand	100
AIG General Insurance (Vietnam) Company Limited	Vietnam	100
AIG MEMSA Insurance Company Limited	United Arab Emirates	100
AIG UK Holdings Limited	England	82.8 (24)
AIG Germany Holding GmbH	Germany	100
Wurttembergische und Badische Versicherungs-AG	Germany	100
DARAG Deutsche Versicherungs-und Ruckversicherungs-Aktiengesellschaft	Germany	100

AIG UK Financing Limited	England	100
AIG UK Sub Holdings Limited	England	100
AIG UK Limited	England	100
AIG UK Services Limited	England	100
AIG Takaful - Enaya B.S.C.	Bahrain	100
American International Insurance Company of Puerto Rico	Puerto Rico	100
Arabian American Insurance Company (Bahrain) E.C.	Bahrain	100
La Meridional Compania Argentina de Seguros S.A.	Argentina	100
La Seguridad de Centroamerica Compania de Seguros S.A.	Guatemala	100
Richmond Insurance Company Limited	Bermuda	100
Underwriters Adjustment Company, Inc.	Panama	100
American Life Insurance Company	Delaware	100
AIG Life Bulgaria Zhivotozastrahovatelna Druzhestvo .A.D.	Bulgaria	100
ALICO, S.A.	France	100
First American Polish Life Insurance and Reinsurance Company, S.A.	Poland	100
Inversiones Interamericana S.A.	Chile	99.99
Pharaonic American Life Insurance Company	Egypt	74.87 (25)
Unibanco AIG Seguros S.A.	Brazil	46.06 (26)
American Security Life Insurance Company, Ltd.	Lichtenstein	100
Delaware American Life Insurance Company	Delaware	100
Mt. Mansfield Company, Inc.	Vermont	100
The Philippine American Life and General Insurance Company	Philippines	99.78
Pacific Union Assurance Company	California	100
Philam Equitable Life Assurance Company, Inc.	Philippines	95
Philam Insurance Company, Inc.	Philippines	100

(1) Percentages include directors' qualifying shares.

(2) All subsidiaries listed are consolidated in the accompanying financial statements. Certain subsidiaries have been omitted from the tabulation. The omitted subsidiaries, when considered in the aggregate as a single subsidiary, do not constitute a significant subsidiary.

(3) The common stock is owned approximately 14.1 percent by C.V. Starr & Co.,Inc., Edward E. Matthews, Maurice R. and Corinne P. Greenberg Joint Tenancy Company, LLC, Starr International Company, Inc., The Maurice R. Greenberg and Corinne P. Greenberg Family Foundation, Inc. and the Universal Foundation, Inc.

(4) Also owned 0.01 percent by AIG Global Investment Corp.

(5) Also owned 1 percent by AIG Capital Corporation.

(6) Also owned 32.77 percent by National Union Fire Insurance Company of Pittsburgh, Pa.

(7) Also owned 4.69 percent by AIG Memsa Holdings, Inc.

(8) Also owned 10 percent by AIG Matched Funding Corp.

(9) Also owned 10 percent by a subsidiary of American Life Insurance Company.

(10) Also owned 48.15 percent by American General Life and Accident Insurance Company.

(11) Also owned 8 percent by The Insurance Company of the State of Pennsylvania, 32 percent by National Union Fire Insurance Company of the Pittsburgh, Pa., and 8 percent by AIG Casualty Company.

(12) Also owned by 11 other AIG subsidiaries.

(13) Also owned by 11 other AIG subsidiaries.

(14) Also owned 25.78 percent by AIG.

(15) Also owned 25 percent by American Home Assurance Company and 25 percent by AIU Insurance Company.

(16) Also owned 20 percent by the Insurance Company of the State of Pennsylvania and 10 percent by AIG Casualty Company.

(17) Also owned 20 percent by the Insurance Company of the State of Pennsylvania and 10 percent by AIG Casualty Company.

(18) Also owned 16.3 percent by American Home Assurance Company, 31.1 percent by Commerce and Industry Insurance Company and 20.6 percent by New Hampshire Insurance Company.

(19) 100 percent held together with AIG companies.

(20) Also owned 45.88 percent by National Union Fire Insurance Company of Pittsburgh, Pa., 16.95 percent by New Hampshire Insurance Company and 0.86 percent by The Insurance Company of the State of Pennsylvania.

(21) Also owned 24.97 percent by United Guaranty Residential Insurance Company of North Carolina.

(22) Also owned 30 percent by AIG Retirement Services, Inc.

(23) Also owned 3.24 percent by American International Underwriters de Colombia Ltd.

(24) Also owned 5.6 percent by American International Company, Limited, 2.5 percent by AIG Europe (Ireland) Ltd., 8.5 percent by American International Underwriters Overseas Association and 0.6 percent by New Hampshire Insurance Company.

(25) Also owned 7.5 percent by AIG Egypt Insurance Company.

(26) Also owned 0.92 percent by American International Underwriters Overseas, Ltd.