STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON FINANCIAL CONDITION EXAMINATION

OF THE

FIRST SUNAMERICA LIFE INSURANCE COMPANY

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

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EXAMINER:	MARC A. TSE

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

David A. Paterson
Governor

Eric R. Dinallo
Superintendent

June 11, 2009

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

Sir:

In accordance with instructions contained in Appointment No. 22737, dated January 15, 2008, and annexed hereto, an examination has been made into the financial condition of the First SunAmerica Life Insurance Company hereinafter referred to as "the Company," at its office located at 3600 Route 66, Neptune, NJ 07753.

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

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

1. EXECUTIVE SUMMARY

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

The Company reported capital contributions totaling $1.2 billion in 2008 from its parent to alleviate large net realized capital losses from the securities lending program and write-downs on bonds and loaned backed securities due to other than temporary declines. (See Section 6B of this report).

The Company participated in AIG's U.S. securities lending program. Under the securities lending program securities were loaned to various financial institutions. The market value of securities purchased with the cash collateral received for the loaned securities declined significantly during 2008 and trading in these securities became extremely limited. The Company's losses related to securities lending for 2008 were $653.2 million. The Company received capital contributions for losses related to securities lending. On December 12, 2008, the securities lending program was terminated. (See Section 6C of this report).

During the review of reserves for December 31, 2007 the Department recommended more conservatism in assumptions and methodology used for asset adequacy analysis pursuant to Department Regulation No. 126. In response, the Company incorporated the various stipulated adjustments in a manner acceptable to the Department. Primary areas of differences between the Company and the Department include the level of credit risk charges modeled, the applicability of a covariance effect and the probability weighting of interest rate scenarios. Because of these differences, the Company holds $80 million of cash flow testing reserves and looks forward to further discussion of these differences, with the objective of reaching a mutually agreeable framework for future valuations. The adjustments were implemented for the December 31, 2008 reserves. These adjustments produced additional reserves in the amount of $80 million. Due to the extraordinary circumstances which occurred during the second half of 2008 the Department's certificate of reserve valuation for December 31, 2007 is being held in abeyance until the

Department has completed its subsequent review of the December 31, 2008 reserves. The examiner recommends that the Company continue to compute cash flow testing reserves using the assumptions and methodology as agreed upon with the Department. (See Section 5D of this report).

2. SCOPE OF EXAMINATION

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

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

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

The examiner reviewed the corrective actions taken by the Company with respect to the financial violation and recommendation contained in the prior report on examination. The results of the examiner's review are contained in item 7 of this report.

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

3. DESCRIPTION OF COMPANY

A. History

The Company was incorporated as a stock life insurance company under the laws of New York on December 5, 1978 under the name Capitol Life Insurance Company of New York. The Company was licensed and commenced business on September 30, 1980. The Company's present name was adopted on March 20, 1989. Initial resources of $9,000,000, consisting of capital paid up of $3,000,000 and paid in and contributed surplus of $6,000,000, were provided through the sale of 300 shares of common stock (with a par value of $10,000 each) for $30,000 per share.

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

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

Effective January 1, 1999, the Company's then ultimate parent company, SunAmerica Inc., was acquired by AIG in a stock for stock transaction. The Company's capital and paid in and contributed surplus were $3,000,000 and $40,863,578, respectively, as of December 31, 2002.

Capital and surplus increased by $380.7 million or 309.2% during the period under examination. The net increase in capital and surplus was primarily attributed to net gain from operations and capital contributions. The Company received $348.4 million ($115.0 in 2003, $130.0 in 2006 and $103.4 million in 2007) in capital contributions during the period under examination.

Capital and surplus increased to $503.9 million at December 31, 2007 from $397.0 in the prior year. The increase was primarily attributed to the $100.0 million cash contribution from the parent, which was received subsequent to examination date but accrued as of the

December 31, 2007 examination date. The Company had 300 shares of common stock, at $10,000 per share, issued and outstanding at December 31, 2007.

B. Holding Company

The Company is a wholly owned subsidiary of SALIC, an Arizona domiciled life insurer. SALIC is in turn a wholly owned subsidiary of AIG Retirement Services, Inc., a Delaware financial services company. The ultimate parent of the Company is AIG**,** a Delaware holding company.

The Company has two affiliates, The United States Life Insurance Company in the City of New York and American International Life Assurance Company of New York, that are domiciled in New York. The Company has another affiliate, The Variable Annuity Life Insurance Company, that is domiciled in Texas and is licensed to write insurance in New York.

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

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

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

Type of Agreement and Department File Number	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
1. Selling Agreements File No. 29696A	9/7/01	-Advantage Capital Corporation -Royal Alliance Associates, Inc. - FSC Securities Corporation - AIG SunAmerica Capital Services, Inc. -Sentra Securities Corporation** - SunAmerica Securities, Inc. **	the Company	Distribution of variable and fixed annuity contracts and other life insurance products.	2003 ($904,694) 2004 ($764,400) 2005 ($711,467) 2006 ($944,587) 2007 ($883,879)
2. Selling Agreements File No. 29888A	12/15/01	- VALIC Financial Advisors, Inc. - American General Insurance Agency, Inc. - AIG SunAmerica Capital Services, Inc.	the Company	Distribution of variable and fixed annuity contracts and other life insurance products.	2003 ($ 0) 2004 ($218,997) 2005 ($169,809) 2006 ($102,377) 2007 ($283,338)
3. Selling Agreement File No. 30195A	4/28/02	- American General Securities Incorporation ("AGSI") - AIG SunAmerica Capital Services, Inc.	the Company	Distribution of variable and fixed annuity contracts and other life insurance products.	2003 ($ 1,149) 2004 ($ 12,464) 2005 ($160,746) 2006 ($281,364) 2007 ($347,031)
4. General Agent's Agreement File No. 30884A	1/31/03 Terminated 10/31/05	Spelman & Company **	the Company	Solicitation and procurement of applications for certain non-registered annuity contracts issued by the Company.	2003 $0 2004 $0 2005 $0 2006 $0 2007 $0

Type of Agreement and Department File Number	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
5. Selling Agreement File No. 34393B(A)	9/1/05	AIG Financial Advisor, Inc. ("AIGFA")	the Company	Distribution of variable and fixed annuity contracts and other life insurance products.	2003 $ 0 2004 $ 0 2005 $ 0 2006 ($217,174) 2007 ($267,435)
6. Administrative Services Agreement File No. 32321	2/1/04	AIG SunAmerica Asset Management Corp. ("SAAMCo")	the Company	Investment advisor to several investment management companies that serve as investment vehicles for the Company's variable annuity products.	2003 $ 0 2004 ($1,687,000) 2005 ($1,790,000) 2006 ($1,983,000) 2007 ($2,315,000)
7. Service and Expense Agreement, Amendment No. 26 File No. 29924	1/1/02	American International Group, Inc. ("AIG") and subsidiaries	the Company	Provide various services to such subsidiaries at cost, including, but not limited to, advertising, tax, accounting, legal, actuarial, data processing, claims adjustment, employee cafeteria, office space and payroll. The Company became a party under Amendment No. 26.	2003 ($10,101,000) 2004 ($10,668,000) 2005 ($12,644,000) 2006 ($13,922,056) 2007 ($18,314,000)

Type of Agreement and Department File Number	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
8. Securities Lending Agency Agreement File No. 30375	9/1/02	AIG Global Securities Lending Corporation	the Company	AIG Global Securities is exclusive agent and attorney-in-fact of the Company, with full power, discretion and authority to act on the Company's behalf in connection with any loans of the Company's portfolios to third parties.	2003 ($ 106,000) 2004 ($ 629,000) 2005 ($1,039,000) 2006 ($1,494,000) 2007 ($1,375,000)
9. Investment Advisory Agreement File No. 29922	1/1/02	AIG Global Investment Corp. ("AIGGIC")	the Company	Investment management services with respect to cash, securities and other assets. AIGGIC is investment manager, agent and attorney-in-fact of the Company.	2003 ($1,231,583) 2004 ($2,223,498) 2005 ($2,241,437) 2006 ($2,613,380) 2007 ($3,173,000)

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

** Sentra Securities Corporation, Spelman & Company and SunAmerica Securities, Inc. were consolidated with AIGFA in 2005. Effective October 31, 2005, Sentra Securities Corporation and SunAmerica Securities, Inc. terminated their respective Selling Agreements (listed under #1 in the above table) with the Company, and Spelman & Company terminated its Selling Agreement (listed as #4 in the above table) with the Company. Thereafter the services previously provided by Sentra Securities Corporation, SunAmerica Securities, Inc., and Spelman & Company are covered by the Selling Agreement which AIGFA has with the Company, which is the Selling Agreement listed as #5 in the above table.

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

C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than 13 and not more than 19 directors. Directors are elected annually at the annual meeting of the stockholders held in May of each year or such other date or time in the month of May or June as the Company's board of directors may set. As of December 31, 2007, the board of directors consisted of 13 members. Meetings of the board are held immediately after the annual meeting of the shareholders and at such intervals and such dates as the board may designate.

The 13 board members and their principal business affiliation, as of December 31, 2007, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
Bruce R. Abrams The Woodland, TX	Executive Vice President First SunAmerica Life Insurance Company	2003
Mertin Bernard Aidinoff* New York, NY	Senior Counsel Sullivan & Cromwell	2002
Michael J. Akers Houston, TX	Senior Vice President First SunAmerica Life Insurance Company	2006
Patrick J. Foley* Atlantis, FL	Retired	2002
Cecil Gamwell, III* Charlestown, RI	Retired	2002
N. Scott Gillis Santa Clarita, CA	Senior Vice President and Chief Financial Officer First SunAmerica Life Insurance Company	2000
Jana W. Greer Encino, CA	Executive Vice President First SunAmerica Life Insurance Company	1987
Jack R. Harnes* Pawling, NY	Retired	2002
David L. Herzog St. Albans, MO	Executive Vice President and Chief Financial Officer American International Group, Inc.	2003
John I. Howell* Springfield Center, NY	Retired	2002

Name and Residence	Principal Business Affiliation	Year First Elected
Christine A. Nixon Los Angeles, CA	Senior Vice President and Secretary First SunAmerica Life Insurance Company	2000
Christopher J. Swift New Canaan, CT	Executive Vice President and Chief Financial Officer American International Group, Inc.	2005
Jay S. Wintrob Santa Monica, CA	President and Chief Executive Officer First SunAmerica Life Insurance Company	1989

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

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

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

Name	Title
Jay S. Wintrob	President and Chief Executive Officer
Bruce R. Abrams	Executive Vice President
Jana W. Greer	Executive Vice President
Michael J. Akers	Senior Vice President
Timothy W. Still	Senior Vice President
Edwin R. Raquel	Senior Vice President and Chief Actuary
N. Scott Gillis	Senior Vice President and Chief Financial Officer
Stewart R. Polakov	Senior Vice President and Controller
Mallary L. Reznik	Senior Vice President and General Counsel
Christine A. Nixon	Senior Vice President and Secretary
Edward T. Texeria	Vice President
Frank J. Julian*	Vice President and Chief Compliance Officer
Gavin D. Friedman	Vice President and Deputy General Counsel
Michelle H. Powers	Vice President
Rodney A. Haviland	Vice President
Roger E. Hahn	Vice President
Sharla A. Jackson	Vice President
Stephen J. Stone	Vice President
Tracey E. Harris	Vice President
William T. Devanney, Jr.	Vice President
Monica Suryapranata	Vice President and VA Products Controller
Virginia N. Puzon	Assistant Secretary

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

D. Territory and Plan of Operation

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

The Company is licensed to transact business in three states, namely New York, Nebraska and New Mexico. In 2007, 97.3% of life premiums, accident and health premiums, annuity considerations and deposit type funds, were received from New York. Policies are written on a non-participating basis. The Company's main product line is individual deferred annuities.

The Company's agency operations are conducted on a general agency and brokerage basis.

E. Reinsurance

As of December 31, 2007, the Company had reinsurance treaties in effect with 15 companies, of which 12 were authorized or accredited. The Company's life, accident and health business is reinsured on a coinsurance, modified-coinsurance, or yearly renewable term basis. Reinsurance is provided on an automatic or facultative basis.

The total face amount of life insurance ceded as of December 31, 2007, was $475,981,694, which represents 56% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaling $14,264,558, was supported by letters of credit and trust agreements.

The total face amount of life insurance assumed as of December 31, 2007, was $969,873.

On November 1, 2004 the Company entered into a modified coinsurance treaty to assume credit life and credit accident and health from TD Reinsurance (Barbados), Inc. Under this treaty the Company assumed a proportionate share of the underlying risks. On October 31, 2006, the treaty was terminated.

4. SIGNIFICANT OPERATING RESULTS

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

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

	December 31, 2002	December 31, 2007	Increase (Decrease)
Admitted assets	$2,062,360,114	$6,479,345,499	$4,416,985,385
Liabilities	$1,939,219,387	$5,975,441,458	$4,036,222,071
Common capital stock	$ 3,000,000	$ 3,000,000	$ 0
Gross paid in and contributed surplus	40,863,578	389,527,506	348,663,928
Separate account mortality fluctuation fund	5,280	5,280	0
Unassigned funds (surplus)	79,271,869	111,371,255	32,099,386
Total capital and surplus	$ 123,140,727	$ 503,904,041	$ 380,763,314
Total liabilities, capital and surplus	$2,062,360,114	$6,479,345,499	$4,416,985,385

The Company's increase in assets is primarily due to the sales of deferred annuities. The increase in liabilities corresponds to the increase in reserves due to the sales of deferred annuities.

The Company's invested assets as of December 31, 2007, exclusive of separate accounts, were mainly comprised of bonds (84.3%) and mortgage loans (8.2%).

The majority (97.2%) of the Company's bond portfolio, as of December 31, 2007, was comprised of investment grade obligations.

The following has been extracted from the Exhibits of Annuities in the filed annual statements for each of the years under review:

	Ordinary Annuities				
	2003	2004	2005	2006	2007
Outstanding, end of previous year	39,927	70,914	77,814	92,390	103,808
Issued during the year	33,472	9,544	19,512	18,292	16,133
Other net changes during the year	(2,485)	(2,644)	(4,936)	(6,874)	(8,812)
Outstanding, end of current year	70,914	77,814	92,390	103,808	111,129

The Company's number of ordinary fixed annuities increased by 71,202 (178%) during the period under examination. This increase in the number of ordinary annuities is due to the sale of deferred annuities marketed through the Company's proprietary bank channel. The Company attributes the decrease in sales in 2004 to competitors willing to accept low returns to gain market share.

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

	2003	2004	2005	2006	2007
Ordinary:					
Life insurance	$ 865,426	$ 3,202,118	$ 2,350,449	$ 1,480,942	$ 3,527,245
Individual annuities	(20,433,999)	39,253,201	2,465,680	10,461,952	57,038,611
Supplementary contracts	(1,321,933)	(451,632)	95,547	76,990	324,565
Total ordinary	$(20,890,506)	$42,003,687	$ 4,911,676	$12,019,884	$60,890,421
Credit life	$ 0	$ 866,672	$ 8,714,465	$ 6,844,841	$ 0
:					
Group annuities	$ 486,936	$ 706,303	$ 701,735	$ 519,516	$ 1,483,745
:					
Accident and health credit	$ 0	$ (194,423)	$ 2,143,499	$ 1,821,572	$ 0
Total	$(20,403,570)	$43,382,239	$16,471,375	$21,205,813	$62,374,166

The Company reported a net loss of $20,433,999, for individual annuities in 2003. This loss is mainly attributable to the increase in reserves associated with the sales of new deferred annuities in 2003.

The amounts reported for credit life and credit accident and health in 2004, 2005 and 2006 were due to the reinsurance treaty with TD Reinsurance (Barbados), Inc. as discussed in Section 3E of this report.

5. FINANCIAL STATEMENTS

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

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

Admitted Assets

Bonds	$4,701,051,271
Stocks:	
Preferred stocks	148,873,053
Common stocks	13
Mortgage loans on real estate - First liens:	454,660,560
Cash, cash equivalents and short term investments	246,222,620
Contract loans	26,001,931
Other invested assets	517,125
Receivable for securities	1,132,310
Investment income due and accrued	42,804,552
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	80,386
Deferred premiums, agents' balances and installments booked but deferred and not yet due	83,045
Reinsurance:	
Amounts recoverable from reinsurers	1,143,552
Other amounts receivable under reinsurance contracts	330,082
Current federal and foreign income tax recoverable and interest thereon	3,800,279
Net deferred tax asset	6,271,000
Receivables from parent, subsidiaries and affiliates	100,268,633
Health care and other amounts receivable	240,356
From separate accounts, segregated accounts and protected cell accounts	745,864,731
Total admitted assets	$6,479,345,499

Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	$5,168,302,875
Liability for deposit-type contracts	19,044,271
Contract claims - Life	2,387,891
Premiums and annuity considerations for life and accident and health contracts received in advance	2,536
Contract liabilities not included elsewhere - Other amounts payable on reinsurance	1,245,870
Commissions to agents due or accrued	413,853
Transfers to Separate Accounts due or accrued	(15,368,888)
Taxes, licenses and fees due or accrued, excluding federal income taxes	3,504,079
Unearned investment income	21,532
Amounts withheld or retained by company as agent or trustee	1,318,843
Remittances and items not allocated	15,294,868
Miscellaneous liabilities:	
Asset valuation reserve	5,137,677
Reinsurance in unauthorized companies	251
Payable to parent, subsidiaries and affiliates	2,499,312
Payable for securities	383,278
Security lending payable	25,388,479
From separate accounts statement	745,864,731
Total liabilities	$5,975,441,458
Common capital stock	$ 3,000,000
Gross paid in and contributed surplus	389,527,506
Separate account mortality fluctuation fund	5,280
Unassigned funds (surplus)	111,371,255
Total capital and surplus	$ 503,904,041
Total liabilities, capital and surplus	$6,479,345,499

B. CONDENSED SUMMARY OF OPERATIONS

	2003	2004	2005	2006	2007
Premiums and considerations	$1,297,961,059	$540,569,531	$1,101,835,173	$1,226,351,252	$1,154,200,755
Investment income	121,335,583	167,350,692	196,262,233	247,325,794	296,955,798
Commissions and reserve adjustments on reinsurance ceded	55,407	54,865	46,645	59,186	134,850
Miscellaneous income	8,077,946	8,962,151	10,609,856	12,671,809	15,649,211
Total income	$1,427,429,995	$716,937,239	$1,308,753,907	$1,486,408,041	$1,466,940,614
Benefit payments	$ 226,143,033	$259,141,511	$ 371,814,633	$ 540,517,013	$ 614,386,246
Increase in reserves	1,182,877,274	344,132,638	773,061,744	757,615,494	643,410,043
Commissions	74,213,921	32,089,572	93,638,640	97,432,776	60,502,347
General expenses and taxes	13,233,534	20,976,545	20,859,684	10,823,771	20,455,476
Increase in loading on deferred and uncollected premiums	2,559	2,511	1,441	183	2,190
Net transfers to (from) Separate Accounts	(39,882,770)	9,610,089	15,993,355	35,657,699	51,731,262
Reinsurance assumed - modco interest adjustment	0	168,530	1,095,273	918,075	0
Miscellaneous expenses, net	238,014	10,604	20,762	457,217	325,884
SICO compensation expense	0	0	104,000	4,000	56,000
Total deductions	$1,456,825,565	$666,132,000	$1,276,589,532	$1,443,426,228	$1,390,869,448
Net gain (loss)	$ (29,395,570)	$ 50,805,239	$ 32,164,375	$ 42,981,813	$ 76,071,166
Federal and foreign income taxes incurred	(8,992,000)	7,423,000	15,693,000	21,776,000	13,697,000
Net gain (loss) from operations before net realized capital losses	$ (20,403,570)	$ 43,382,239	$ 16,471,375	$ 21,205,813	$ 62,374,166
Net realized capital losses	(7,661,604)	(1,858,215)	(5,492,058)	(2,718,211)	(69,510,817)
Net income	$ (28,065,174)	$ 41,524,024	$ 10,979,317	$ 18,487,602	$ (7,136,561)

The net realized capital loss in 2007 is due to $72.7 million of other than temporary impairment write downs. This amount is mostly comprised of $45.5 million of bonds and loan backed securities and $25.4 million of securities lending losses.

C. CAPITAL AND SURPLUS ACCOUNT

	2003	2004	2005	2006	2007
Capital and surplus, December 31, prior year	$123,140,727	$213,083,725	$261,705,982	$268,572,285	$396,981,283
Net income	$(28,065,174)	$ 41,524,024	$ 10,979,317	$ 18,487,602	$ (7,136,651)
Change in net unrealized capital gains (losses)	1,890,326	(501,437)	698,188	57,584	52,860
Change in net deferred income tax	6,348,608	(3,804,000)	2,661,000	11,558,000	10,336,000
Change in non-admitted assets and related items	(747,758)	1,408,261	(5,269,881)	(26,576,296)	(14,918,337)
Change in liability for reinsurance in unauthorized companies	279,820	(694,844)	(811,853)	1,004,521	501,925
Change in asset valuation reserve	(4,762,824)	(4,649,747)	(1,494,468)	(6,126,413)	14,624,529
Surplus adjustments - Paid in	115,000,000	0	197,496	130,004,000	103,462,432
Prior year surplus adjustment, net of tax	0	15,340,000	0	0	0
Prior year expense for SICO compensation	0	0	(93,496)	0	0
Net change in capital and surplus for the year	$ 89,942,998	$ 48,622,257	$ 6,866,303	$128,408,998	$106,922,758
Capital and surplus, December 31, current year	$213,083,725	$261,705,982	$268,572,285	$396,981,283	$503,904,041

D. RESERVES

The Department conducted a review of reserves as of December 31, 2007. During the review, the Department recommended more conservatism in assumptions and methodology used for asset adequacy analysis pursuant to Department Regulation No. 126. In response, the Company incorporated various stipulated adjustments in a manner acceptable to the Department. Primary areas of differences between the Company and the Department include the level of credit risk charges modeled, the applicability of a covariance effect and the probability weighting of interest rate scenarios. Because of these differences, the Company holds $80 million of cash flow testing reserves and looks forward to further discussion of these differences, with the objective of reaching a mutually agreeable framework for future valuations. The changes were then implemented for December 31, 2008 reserves. These adjustments produced additional reserves in the amount of $80 million. Due to the extraordinary circumstances which occurred during the second half of 2008 (described in Section 6), a review of the December 31, 2008 reserves is in progress. This may lead to further adjustments in the Department Regulation No. 126 asset adequacy analysis and potential increases or decreases to the additional reserves that have already been established. To the extent an increase or decrease in reserves proves necessary, this is expected to be reflected as of the quarter-end immediately following the conclusion of the Department's review. The certificate of reserve valuation for the December 31, 2007 reserves is being held in abeyance until the Department has completed its subsequent review of the December 31, 2008 reserves.

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

6. SUBSEQUENT EVENTS

A. Holding Company

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

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

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

B. Capital Contributions

The Company reported capital contributions totaling $1.2 billion in 2008 from its parent. The contributions consisted of cash and securities and were made to alleviate large net realized capital losses. The capital losses were from the securities lending program and write-downs on bonds and loan backed securities due to other than temporary declines.

C. Securities Lending Program

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

During 2008, participants in the securities lending program recorded significant realized capital losses, including other-than-temporary impairment charges and losses on sales, related to declines in the values of investments made with collateral in the securities lending program. The participants received capital contributions from AIG which largely offset the pretax impact of these realized losses. The Company's losses related to securities lending for 2008 were $653.2 million. The Company received capital contributions for losses related to securities lending.

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

7. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following is the financial condition violation and recommendation contained in the prior report on examination and the subsequent actions taken by the Company in response to each citation:

Item	Description
A	The examiner recommends that the Company review all dormant service agreements and withdraw those agreements for which services are no longer provided or received. The Company terminated the dormant service agreements.
B	The Company violated Section 91.4(f)(5) of Department Regulation No. 33 when it used unacceptable methods based on general indices to allocate its general insurance expenses and taxes, licenses and fees to the 2002 annual statement lines of business. A review of the Company's expense allocation methods indicates that the Company allocated expenses based on time studies.

8. SUMMARY AND CONCLUSIONS

Following are the recommendation and comments contained in this report:

Item	Description	Page No(s).
A	The certificate of reserve valuation for December 31, 2007 reserves is being held in abeyance until the Department has completed its subsequent review of the December 31, 2008 reserves.	21
B	The examiner recommends that the Company continue to compute reserves using the assumptions and methodology as agreed upon with the Department.	21
C	In September 2008 the Company's ultimate parent, AIG, experienced a severe strain on its liquidity that resulted in AIG entering into a revolving credit facility with an initial amount of $85 billion and a guarantee and pledge agreement with the Federal Reserve Bank of New York.	22
D	The Company received capital contributions totaling $1.2 billion in 2008 from its parent to alleviate large net realized capital losses due to other than temporary declines and securities lending.	22
E	The Company's losses related to securities lending for 2008 were $653.2 million. The Company received capital contributions for losses related to securities lending.	23

Respectfully submitted,

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

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

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

_____________/s/___________
Marc A. Tse

Subscribed and sworn to before me

this__________ day of ____________________

APPOINTMENT NO. 22737

STATE OF NEW YORK

INSURANCE DEPARTMENT

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

MARC TSE

as a proper person to examine into the affairs of the

FIRST SUNAMERICA LIFE INSURANCE COMPANY

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

COMPANY

with such other information as he shall deem requisite.

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

this 15th day of January, 2008

ERIC R. DINALLO
Superintendent of Insurance

Superintendent