SECURITIES AND EXCHANGE COMMISSION

FORM 485BPOS

Post-effective amendments [Rule 485(b)]

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AGL SEPARATE ACCOUNT VUL-2	Mailing Address	Business Address
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AGL SEPARATE ACCOUNT VUL-2	Mailing Address	Business Address
CIK:**877625**| IRS No.: **250598210** | State of Incorp.:**TX** | Fiscal Year End: **1231** Type: **485BPOS** | Act: **33** | File No.: **333-102300** | Film No.: **12792786**	*2727-A ALLEN PARKWAY* *-* *HOUSTON TX 77019*	*2727-A ALLEN PARKWAY* *-* *HOUSTON TX 77019* *713-522-1111*

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Exhibit (n)(1)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the use in this Post-Effective Amendment No. 13 to the Registration Statement on Form N-6 of our report dated April 25, 2012 relating to the financial statements of The American General Life Insurance Company Separate Account VUL-2, our report dated April 25, 2012 relating to the consolidated financial statements of American General Life Insurance Company and our report dated April 25, 2012 relating to the statutory basis financial statements of American Home Assurance Company, which appear in such Registration Statement. We also consent to the incorporation by reference in such Registration Statement of our report dated February 23, 2012 relating to the financial statements, financial statement schedules and the effectiveness of internal control over financial reporting, which appears in American International Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2011. We also consent to the reference to us under the heading "Financial Statements" in such Registration Statement.

/s/ PRICEWATERHOUSECOOPERS LLP
Houston, Texas
April 25, 2012

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Exhibit (n)(2)

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in this Post-Effective Amendment No. 13 to the Registration Statement on Form N-6 for The American General Life Insurance Company Separate Account VUL-2, of our report dated 24 February 2012 relating to the consolidated financial statements of AIA Group Limited which appears in American International Group's Amendment No. 1 on Form 10-K/A. We also consent to the reference to us under the heading "Financial Statements" in such Registration Statement.

PRICEWATERHOUSECOOPERS
Hong Kong
25 April 2012

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[AMERICAN GENERAL LIFE COMPANIES LOGO]

Lauren W. Jones
Vice President and Chief Counsel,
Business Lines Legal
Direct Line (713) 831-8470
FAX (713) 620-3878
E-mail: Laurie.Jones@aglife.com

April 30, 2012

BY EDGAR

Securities and Exchange Commission
Division of Investment Management
100 F Street N.E.
Washington, D.C. 20549

Re: American General Life Insurance Company and
American General Life Insurance Company Separate Account VUL-2
("Registrant")
EquiBuilder II - VUL
File No. 333-102300 and No. 811-06366
CIK No. 0000877625

Dear Ladies and Gentlemen:

As Vice President and Chief Counsel, Business Lines Legal of American General Life Insurance Company ("AGL") and counsel to AGL, as the depositor for the Registrant and on behalf of the Registrant, I am transmitting for filing with the Commission pursuant to the Securities Act of 1933 (the "1933 Act") and Rule 101(a) of Regulation S-T, a conformed electronic format copy of Post-Effective Amendment No. 13, which also constitutes Amendment No. 27 under the Investment Company Act of 1940, to Registrant's Form N-6 Registration Statement for EquiBuilder II variable universal life policies.

Any questions or comments about the filing should be addressed to the undersigned at the above referenced number.

Very truly yours,

LAUREN W. JONES

American General Life Insurance Company
2919 Allen Parkway, L4-01 . Houston, TX 77019

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Registration Nos. 333-102300
811-06366

As filed with the Securities and Exchange Commission on April 30, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-6

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 [X]

Pre-effective Amendment No. [ ]

Post-Effective Amendment No. [13]

and/or

REGISTRATION STATEMENT UNDER THE
INVESTMENT COMPANY ACT OF 1940 [X]

Amendment No. [27]

AMERICAN GENERAL LIFE INSURANCE COMPANY SEPARATE ACCOUNT VUL-2
(Exact Name of Registrant)

AMERICAN GENERAL LIFE INSURANCE COMPANY
(Name of Depositor)

2727-A Allen Parkway
Houston, Texas 77019-2191
(Address of Depositor's Principal Executive Offices) (Zip Code)

(713) 831-8470
Depositor's Telephone Number, including Area Code

AMERICAN HOME ASSURANCE COMPANY
(Name of Guarantor)
175 Water Street, 18/th/ Floor
New York, New York 10038

(212) 770-7000
Guarantor's Telephone Number, including Area Code

Lauren W. Jones, Esq.
Vice President and Chief Counsel
American General Life Insurance Company
2919 Allen Parkway, L4-01
Houston, Texas 77019-2111
(Name and Address of Agent for Service for Depositor, Registrant and Guarantor)

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Approximate Date of Proposed Public Offering: Continuous.

It is proposed that this filing will become effective (check appropriate box)

[ ] immediately upon filing pursuant to paragraph (b)

[X] on April 30, 2012 pursuant to paragraph (b)

[ ] 60 days after filing pursuant to paragraph (a)(1)

[ ] on (date) pursuant to paragraph (a)(1) of Rule 485

If appropriate, check the following box:

[ ] This post-effective amendment designates a new effective date for a previously filed post-effective amendment.

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EQUIBUILDER II
FLEXIBLE PREMIUM VARIABLE
UNIVERSAL LIFE INSURANCE POLICIES
issued by
AMERICAN GENERAL LIFE INSURANCE COMPANY
through its Separate Account VUL-2

THIS PROSPECTUS IS DATED
April 30, 2012

This prospectus describes EquiBuilder II flexible premium variable universal life insurance policies (the "Policy" or "Policies") issued by American General Life Insurance Company ("AGL"). EquiBuilder II Policies are designed to provide life insurance coverage with flexibility in death benefits, premium payments and investment choices. We use "you" and "your" to refer to an EquiBuilder II Policy Owner. AGL no longer sells EquiBuilder II Policies.

We deposit your net premium in your Policy Account. You may allocate amounts to our Guaranteed Interest Division (which is part of our General Account and pays interest at a declared rate) or to one or more of the variable investment divisions of Separate Account VUL-2 (the "Separate Account"), or both. (For the first fifteen days after we issue your Policy, we require premiums to be invested in the Fidelity VIP Money Market division.)

- Fidelity(R) VIP Index 500 Portfolio - Initial Class
- Fidelity(R) VIP Investment Grade Bond Portfolio - Initial Class
- Fidelity(R) VIP Money Market Portfolio - Initial Class
- Fidelity(R) VIP Overseas Portfolio - Initial Class
- MFS(R) VIT Core Equity Series - Initial Class
- MFS(R) VIT Growth Series - Initial Class
- MFS(R) VIT Investors Trust Series - Initial Class
- MFS(R) VIT Research Series - Initial Class
- MFS(R) VIT Total Return Series - Initial Class
- MFS(R) VIT Utilities Series - Initial Class

Each of these Funds is available through a variable investment division.

EQUIBUILDER II POLICIES ARE NOT INSURED BY THE FDIC, THE FEDERAL RESERVE BOARD OR ANY SIMILAR AGENCY. THEY ARE NOT A DEPOSIT OR OTHER OBLIGATION OF, NOR ARE THEY GUARANTEED OR ENDORSED BY, ANY BANK OR DEPOSITORY INSTITUTION. AN INVESTMENT IN A VARIABLE UNIVERSAL LIFE INSURANCE POLICY IS SUBJECT TO INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF PRINCIPAL INVESTED.

The variable investment divisions each purchase shares of a corresponding portfolio of the Fidelity(R) Variable Insurance Products ("Fidelity VIP") or the MFS(R) Variable Insurance Trust ("MFS(R) VIT") (each available portfolio referred to in this prospectus as, a "Fund," and collectively, the "Funds"). The prospectuses of the Funds describe the investment objectives, policies and risks of each Fund.

Your investment in the Funds through the variable investment divisions is not guaranteed and involves varying degrees of risk. Net premiums and Policy Account value you direct to the Guaranteed Interest Division earns interest at a rate guaranteed by us.

You should read the prospectuses of the Funds underlying the variable investment divisions that may interest you. You can request free copies from your AGL representative or from our Administrative Center shown under "Contact Information" on page 5.

The Funds available through this Policy are:

- Fidelity(R) VIP Asset Manager(SM) Portfolio - Initial Class
- Fidelity(R) VIP Asset Manager: Growth(R) Portfolio - Initial Class
- Fidelity(R) VIP Contrafund(R) Portfolio - Initial Class
- Fidelity(R) VIP Equity-Income Portfolio - Initial Class

THERE IS NO GUARANTEED CASH SURRENDER VALUE FOR AMOUNTS ALLOCATED TO THE VARIABLE INVESTMENT DIVISIONS.

IF THE CASH SURRENDER VALUE (THE CASH VALUE REDUCED BY ANY LOAN BALANCE) IS INSUFFICIENT TO COVER THE CHARGES DUE UNDER THE POLICY, THE POLICY MAY TERMINATE WITHOUT VALUE.

BUYING THIS POLICY MIGHT NOT BE A GOOD WAY OF REPLACING YOUR EXISTING INSURANCE OR ADDING MORE INSURANCE IF YOU ALREADY OWN A FLEXIBLE PREMIUM VARIABLE UNIVERSAL LIFE INSURANCE POLICY. YOU MAY WISH TO CONSULT WITH YOUR INSURANCE REPRESENTATIVE OR FINANCIAL ADVISER.

NEITHER THE SEC NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE POLICIES ARE NOT AVAILABLE IN ALL STATES. THIS PROSPECTUS DOES NOT OFFER THE POLICIES IN ANY JURISDICTION WHERE THEY CANNOT BE LAWFULLY SOLD. YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS PROSPECTUS, OR ON SALES MATERIALS WE HAVE APPROVED OR THAT WE HAVE REFERRED YOU TO. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION THAT IS DIFFERENT.

THIS PROSPECTUS GENERALLY DESCRIBES ONLY THE VARIABLE PORTION OF THE POLICY, EXCEPT WHERE THE GUARANTEED INTEREST DIVISION IS SPECIFICALLY MENTIONED.

.. Fidelity(R) VIP Growth Portfolio - Initial Class
.. Fidelity(R) VIP High Income Portfolio - Initial Class

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CONTACT INFORMATION

ADDRESSES AND TELEPHONE NUMBERS: HERE IS HOW YOU CAN CONTACT US ABOUT THE EQUIBUILDER II POLICIES.

ADMINISTRATIVE CENTER:		HOME OFFICE:	PREMIUM PAYMENTS:
(EXPRESS DELIVERY) VUL Administration 2727-A Allen Parkway Houston, Texas 77019-2191 1-713-831-3443, 1-800-340-2765 (Hearing Impaired) 1-888-436-5256 Fax: 1-713-620-6653 (EXCEPT PREMIUM PAYMENTS)	(U.S. MAIL) VUL Administration P. O. Box 4880 Houston, Texas 77210-4880	2727-A Allen Parkway Houston, Texas 77019-2191 1-713-831-3443 1-800-340-2765	(EXPRESS DELIVERY) Payment Processing Center 8430 W. Bryn Mawr Avenue 3rd Floor Lockbox 0993 Chicago, IL 60631 (U.S. MAIL) Payment Processing Center P.O. Box 0993 Carol Stream, IL 60132-0993

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POLICY BENEFITS/RISKS SUMMARY

This summary describes the Policy's important benefits and risks. The sections in this prospectus following this summary discuss the Policy's benefits and other provisions in more detail. The definitions on page 58 of this prospectus define certain words and phrases used in this prospectus.

AGL no longer sells EquiBuilder II Policies.

POLICY BENEFITS

You may currently allocate your Policy Account value among the 16 variable investment divisions available under the Policy, each of which invests in an underlying mutual fund portfolio, a "Fund," and the Guaranteed Interest Division, which credits a specified rate of interest. Your Policy Account value will vary based on the investment performance of the variable investment divisions you choose and interest credited in the Guaranteed Interest Division.

DEATH BENEFIT

- Death Benefit Proceeds: We pay the death benefit (less any Policy loan and loan interest and any overdue charges) to the beneficiary when the Insured Person dies. We will increase the death benefit by the amount of any additional insurance provided by the applicable optional benefit rider(s).

- Death Benefit Option A and Option B: You may choose between two death benefit options under the Policy. After the first Policy year, you may change death benefit options and the Face Amount (which is the amount of insurance you select) while the Policy is in force. We calculate the amount available under each death benefit option monthly and as of

the Insured Person's date of death.

- Death Benefit Option A is equal to the greater of: (1) the Face Amount; or (2) the "required minimum death benefit", which is the Policy Account value multiplied by a specified percentage set forth in the Policy.

- Death Benefit Option B is equal to the greater of: (1) the Face Amount plus the Policy Account value; or (2) the required minimum death benefit.

Federal tax law may require us to increase payment under either of the above death benefit options. See "Death Benefits" on page 23.

SURRENDERS, PARTIAL SURRENDERS, TRANSFERS, AND POLICY LOANS

- Surrenders: At any time while the Policy is in force, you may make a written request (by submitting our surrender form to us) to surrender your Policy and receive the net cash surrender value. The net cash surrender value is the cash surrender value less any outstanding loan and loan interest due. A surrender may have adverse tax consequences.

- Partial Surrenders: After the first Policy year, you may make a written request to withdraw part of the net cash surrender value. Partial surrenders may have adverse tax consequences. Partial surrenders are also subject to any surrender charge or fee that then applies.

- Transfers: Within certain limits, you may make transfers among the variable investment divisions and the Guaranteed Interest Division. You may make up to four transfers of Policy Account value among the variable investment divisions in each Policy year without charge. We may assess a $25 charge for each transfer after the fourth transfer in a Policy year. Our current practice, however, is to assess the $25

charge for each transfer after the twelfth transfer in a Policy year. There are special limits on transfers involving the Guaranteed Interest Division.

- Policy Loans: You may take a loan (minimum $500) from your Policy at any time. The maximum loan amount you may take is 90% of the cash surrender value of the Policy on the business day we receive your request for a loan. We charge you a maximum annual interest rate on your loan equal to the greater of 5 1/2% or the Monthly Average Corporate yield published by Moody's Investor Services, Inc. as described under "Policy Account Transactions - Policy Loan Interest," on page 35. We credit interest on loaned amounts; we guarantee that the annual earned interest rate will not be lower than 4 1/2%. Loans may have adverse tax consequences.

PREMIUMS

- Flexibility of Premiums: After you pay the initial premium, you can pay subsequent premiums at any time (prior to the Policy maturity) and in any amount (but not less than $100). You can select a premium payment plan to pay planned periodic premiums monthly, quarterly, semiannually, or annually. You are not required to pay premiums according to the plan. You may also choose to have premiums automatically deducted from your bank account or other source under our automatic payment plan. Under certain circumstances, we may limit the amount of a premium payment or reject a premium payment.

- Free Look: When you receive your Policy, the free look period begins. You may return your Policy during this period and receive a refund. We will refund an amount equal to the greater of: (1) the premiums paid; or (2) the Policy Account value plus any amount deducted from premiums prior to allocation to the Policy Account. The free look period generally expires upon the later of: (1) 10 days after you receive the Policy; or (2) 45 days after you signed Part I of the application. This period will be longer if required by state law.

THE POLICY

- Ownership Rights: While the Insured Person is living, you, as the owner of the Policy, may exercise all of the rights and options described in the Policy. These rights include selecting and changing the beneficiary, changing the owner, and assigning the Policy.

. Separate Account: You may direct the money in your Policy to any of the variable investment divisions of the Separate Account. Each variable investment division invests exclusively in one of the Funds listed on the cover of this prospectus. The value of your investment division depends on the investment results of the related Fund. We do not guarantee any minimum cash value for amounts allocated to the variable investment divisions. If the Fund investments go down, the value of a Policy can decline.

. Guaranteed Interest Division: You may place money in the Guaranteed Interest Division where it earns interest at the rate of 4 1/2% annually. We may declare higher rates of interest, but are not obligated to do so.

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. Policy Account Value: Policy Account value is the sum of your amounts in the variable investment divisions and the Guaranteed Interest Division. Policy Account value varies from day to day, depending on the investment performance of the variable investment divisions you choose, interest we credit to the Guaranteed Interest Division, charges we deduct, and any other transactions (e.g., transfers, partial surrenders and loans). We do not guarantee a minimum Policy Account value.

. Payment Options: There are several ways of receiving proceeds under the death benefit, surrender, and maturity provisions of the Policy, other than in a lump sum. None of these options vary with the investment performance of the Separate Account. More detailed information concerning these settlement options is available on request from our Administrative Center shown under "Contact Information" on page 5. Also see "Payment Options" on page 38.

. Tax Benefits: The Policy is designed to afford the tax treatment normally accorded life insurance policies under federal tax law.

Generally, under federal tax law, the death benefit under a qualifying life insurance policy is excludable from the gross income of the beneficiary. In addition, this means that under a qualifying life insurance policy, cash value builds up on a tax deferred basis and transfers of cash value among the available investment options under the policy may be made tax free. Under a qualifying life insurance policy that is not a modified endowment contract ("MEC"), the proceeds from Policy loans would not be taxed. If the Policy is not a MEC, distributions after the 15th Policy year generally will be treated first as a return of basis or investment in the Policy and then as taxable income. Moreover, loans will generally not be treated as distributions. Finally, neither distributions nor loans from a Policy that is not a MEC are subject to the 10% penalty tax.

SUPPLEMENTAL BENEFITS AND RIDERS

You may be eligible to add an additional rider benefit to your Policy. We offer several riders that provide supplemental benefits under the Policy, such as the Accidental Death Benefit Rider, which provides an additional death benefit payable if the Insured Person dies from bodily injury that results from an accident. We generally deduct any monthly charges for these riders from Policy Account value as part of the monthly deduction. Eligibility for and changes in these benefits are subject to our rules and procedures as well as Internal Revenue Service ("IRS") guidance and rules that pertain to the Internal Revenue Code's definition of life insurance as in effect from time to time. Your insurance representative can help you determine whether any of these riders are suitable for you. Not all riders are available in all states. Please contact us for further details.

POLICY RISKS

INVESTMENT RISK

The Policy is not suitable as a short-term investment. We designed the Policy to meet long-term financial goals. In the Policy's early years, if the total charges exceed total premiums paid or if your investment choices perform poorly, your Policy may not have any cash surrender value. The surrender charge is large enough in the Policy's early years so that if you fully surrender your Policy you may receive no cash surrender value. If you take multiple partial surrenders, your accumulation value may not cover required charges and your Policy would lapse.

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If you invest your Policy Account value in one or more variable investment divisions, then you will be subject to the risk that investment performance will be unfavorable. You will also be subject to the risk that the Policy Account value will decrease because of the unfavorable performance and the resulting higher insurance charges. You could lose everything you invest. You will also be subject to the risk that the investment performance of the variable investment divisions you choose may be less favorable than that of other variable investment divisions, and in order to keep the Policy in force may be required to pay more premiums than originally planned. WE DO NOT GUARANTEE A MINIMUM POLICY ACCOUNT VALUE.

If you allocate net premiums to the Guaranteed Interest Division, then we credit your Policy Account value (in the Guaranteed Interest Division) with a declared rate of interest, but you assume the risk that the rate may decrease, although it will never be lower than a guaranteed minimum annual effective rate of 4 1/2%.

RISK OF LAPSE

If your net cash surrender value is not enough to pay the charges deducted against Policy Account value each month, your Policy may enter a 61-day grace period. We will notify you that the Policy will lapse (terminate without value) at the end of the grace period unless you make a sufficient payment during the grace period. Your Policy may also lapse if outstanding Policy loans plus any accrued interest payable exceeds the net cash surrender value. Your Policy will not lapse at the end of a grace period if you make a premium payment equal to at least the estimated monthly charges under the Policy for three Policy months, plus any loan interest due, before the end of the grace period. You may reinstate a lapsed Policy, subject to certain conditions.

TAX RISKS

We anticipate that the Policy should generally qualify as a life insurance contract under federal tax law. However, due to limited guidance under federal

tax law, there is some uncertainty about the application of the federal tax law to the Policy, particularly if you pay the full amount of premiums permitted under the Policy. Please consult a tax adviser about these consequences.

Depending on the total amount of premiums you pay, the Policy may be treated as a MEC under federal tax laws. If a Policy is treated as a MEC, then surrenders, partial surrenders, and loans under the Policy will be taxable as ordinary income to the extent there are earnings in the Policy. In addition, a 10% penalty tax may be imposed on surrenders, partial surrenders, and loans taken before you reach age 59 1/2.

SEE "Federal Tax Considerations" on page 50. YOU SHOULD CONSULT A QUALIFIED TAX ADVISER FOR ASSISTANCE IN ALL POLICY-RELATED TAX MATTERS.

PARTIAL SURRENDER AND SURRENDER RISKS

The surrender charge under the Policy applies for the first 10 Policy years after the Register Date in the event you surrender the Policy or decrease the Face Amount. The surrender charge may be considerable. Any outstanding loan balance reduces the amount available to you upon a surrender or partial surrender. It is possible that you will receive no net cash surrender value if you surrender your Policy in the first few Policy years. You should purchase the Policy only if you have the financial ability to keep it in force for a substantial period of time. You should not purchase the Policy if you intend to surrender all or part of the Policy Account value in the near future. We designed the Policy to help meet long-term financial goals.

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Even if you do not ask to surrender your Policy, surrender charges may play a role in determining whether your Policy will lapse (terminate without value), because surrender charges affect the net cash surrender value which is a measure we use to determine whether your Policy will enter a grace period (and possibly lapse). See "Risk of Lapse," on page 9.

A SURRENDER OR PARTIAL SURRENDER MAY HAVE ADVERSE TAX CONSEQUENCES.

POLICY LOAN RISKS

A Policy loan, whether or not repaid, will affect Policy Account value over time because we subtract the amount of the loan from the variable investment divisions and/or Guaranteed Interest Division as collateral, and this loan collateral does not participate in the investment performance of the variable investment divisions or receive any excess interest credited to the Guaranteed Interest Division.

We reduce the amount we pay on the Insured Person's death by the amount of any Policy loan and your Policy may lapse (terminate without value) if outstanding Policy loans plus any accrued interest payable reduce the cash surrender value to zero.

If you surrender the Policy or allow it to lapse while a Policy loan remains outstanding, the amount of the loan, to the extent it has not been previously taxed, is treated as a distribution from the Policy and may be subject to federal income tax.

PORTFOLIO RISKS

A discussion of the risks of each Fund may be found in its prospectus. Please refer to the Funds' prospectuses for more information. You may request a copy of any or all of the Fund prospectuses by contacting us at the Administrative Center shown under "Contact Information" on page 5.

There is no assurance that any of the Funds will achieve its stated investment objective.

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TABLES OF CHARGES

The following tables describe the fees and expenses that are payable when buying, owning and surrendering a Policy. No Policy Owner will be charged more

than the amount we show under the "Maximum Guaranteed Charge" columns.

The first tables describe the fees and expenses that are payable at the time that you (1) buy a Policy, (2) surrender a Policy during the first ten Policy years, (3) change a Policy's Face Amount, or (4) transfer Policy Account value between investment divisions.

<TABLE>

TRANSACTION FEES			
CHARGE	WHEN CHARGE IS DEDUCTED	MAXIMUM GUARANTEED CHARGE	CURRENT CHARGE
STATUTORY PREMIUM TAXES/1/	Upon receipt of each premium payment	3.5% of each premium payment	3.5% of each premium payment
SURRENDER CHARGE/2/	Upon a full surrender or lapse in the first 10 Policy years. Also, in the event of a decrease in Face Amount before the end of the 10th Policy year, we deduct a charge that is a portion of the surrender charge.	During Policy years 1-10, 50% of one Target Premium, with the maximum surrender charge decreasing 20% annually following the 6th Policy year/3/	Capped at a total limit of 50% of one Target Premium, but calculated as follows: . 30% of premiums paid during the first Policy year up to one Target Premium; and . 9.0% of additional premiums paid in Policy years 1 - 10, LESS any surrender charge previously deducted for a decrease in Face Amount

</TABLE>

/1/ Statutory premium tax rates vary by state. For example, the highest premium tax rate, 3.5%, is in the state of Nevada, while the lowest premium tax rate, 0.5%, is in the state of Illinois. Certain local jurisdictions may assess additional premium taxes.

/2/ We assess a surrender charge only during the first 10 Policy years.

/3/ The Target Premium is a hypothetical annual premium which is based on the age, sex and risk class of the Insured Person, the initial Face Amount of the Policy and the types and amounts of any additional benefits included in the Policy. The Target Premium for your Policy is shown on the Policy Information page of the Policy.

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<TABLE>

TRANSACTION FEES			
CHARGE	WHEN CHARGE IS DEDUCTED	MAXIMUM GUARANTEED CHARGE	CURRENT CHARGE
PARTIAL SURRENDER PROCESSING FEE	Upon partial surrender	The lesser of $25 or 2.0% of the partial surrender amount	$10
FACE AMOUNT INCREASE CHARGE	Upon each Face Amount increase	$1.50 for each $1,000 of Face Amount increase, up to $300	$1.50 for each $1,000 of Face Amount Increase, up to $300
TRANSFER FEE	Upon transfer	$25 for each transfer/1/	$25 for each transfer/2/
POLICY OWNER ADDITIONAL ILLUSTRATION CHARGE	Upon a Policy Owner's additional illustration request	$25 for each illustration request after the first illustration request in any Policy year	$0

</TABLE>

/1/ At a maximum, we will charge $25 for each transfer after the fourth transfer in a Policy year.

/2/ Currently, the first 12 transfers in a Policy year are free of charge.

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The next table describes the fees and expenses that you will pay during the time that you own the Policy, not including Fund fees and expenses.

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PERIODIC CHARGES (OTHER THAN FUND FEES AND EXPENSES)			
CHARGE	WHEN CHARGE IS DEDUCTED	MAXIMUM GUARANTEED CHARGE	CURRENT CHARGE
ADMINISTRATIVE CHARGE	Monthly, at the beginning of each Policy month	$360 (deducted as $30 per month, during the first 12 Policy months) $144 (deducted as $12 per month, after the first 12 Policy months)	$360 (deducted as $30 per month, during the first 12 Policy months) $72 (deducted as $6 per month, after the first 12 Policy months)
COST OF INSURANCE CHARGE/1/			
Maximum Charge/2/	Monthly, at the beginning of each Policy month	$28.81 per $1,000 of net amount at risk/3/	$28.81 per $1,000 of net amount at risk
Minimum Charge/4/	Monthly, at the beginning of each Policy month	$0.06 per $1,000 of net amount at risk	$0.05 per $1,000 of net amount at risk
Example Charge for the first Policy year - for	Monthly, at the beginning of each Policy month	$0.22 per $1,000 of net amount at risk	$0.12 per $1,000 of net amount at risk

a 38 year old male, non-tobacco user with a Face Amount of $100,000			
MORTALITY AND EXPENSE RISK FEE	Daily	annual effective rate of 0.75% of accumulation value invested in variable investment divisions	annual effective rate of 0.75% of accumulation value invested in variable investment divisions

</TABLE>

/1/ The Cost of Insurance Charge will vary based on the Insured Person's sex, age, risk class, Policy year and Face Amount. The Cost of Insurance Charges shown in the table may not be typical of the charges you will pay. The Policy Information page of your Policy will indicate the guaranteed Cost of Insurance Charge applicable to your Policy. More detailed information concerning your Cost of Insurance Charge is available on request from our Administrative Center shown under "Contact Information" on page 5 of this prospectus. Also see "Illustrations" on page 23 of this prospectus.

/2/ The Maximum Charge for both the maximum guaranteed charge and the current charge occurs during the 12 months following the policy anniversary nearest the insured person's 94th birthday. The policy anniversary nearest the insured person's 95th birthday is the Policy's maximum maturity date. The Maximum Charge is for a male, tobacco user with a Face Amount of $50,000.

/3/ The net amount at risk is the difference between the current death benefit under your Policy and the amount in your Policy Account.

/4/ The Minimum Charge for both the maximum guaranteed charge and the current charge occurs in Policy year 1. The Minimum Charge is for a female, non-tobacco user, age 11 with a Face Amount of $200,000.

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The next table describes the fees and expenses that you will pay periodically, if you choose an optional benefit rider during the time that you own the Policy.

PERIODIC CHARGES (OPTIONAL BENEFIT RIDERS ONLY)			
OPTIONAL BENEFIT RIDER CHARGE/1/	WHEN CHARGE IS DEDUCTED	MAXIMUM GUARANTEED CHARGE	CURRENT CHARGE
ACCIDENTAL DEATH BENEFIT			
Maximum Charge - for a 69 year old male or female, any risk class and any Face Amount	Monthly, at the beginning of each Policy month	$1.80 per $1,000 of rider coverage amount per month	$1.80 per $1,000 of rider coverage amount per month
Minimum Charge - for a 40 year old male or female, any risk class and any Face Amount	Monthly, at the beginning of each Policy month	$0.84 per $1,000 of rider coverage amount per month	$0.84 per $1,000 of rider coverage amount per month
Example Charge - for a 38 year old non-tobacco user, with a Face Amount of $200,000 for the first Policy year	Monthly, at the beginning of each Policy month	$0.84 per $1,000 of rider coverage amount per month	$0.84 per $1,000 of rider coverage amount per month
CHILDREN'S TERM INSURANCE	Monthly, at the beginning of each Policy month	$0.50 per $1,000 of rider coverage amount per month	$0.50 per $1,000 of rider coverage amount per month
ADDITIONAL INSURED TERM INSURANCE			
Maximum Charge - for a 69 year old male, non-tobacco user, with a Face Amount of $200,000 for the first	Monthly, at the beginning of each Policy month	$83.33 per $1,000 of rider coverage amount per month	$83.33 per $1,000 of rider coverage amount per month

Policy year			
Minimum Charge - for a 10 year old female, non-tobacco user, any Face Amount	Monthly, at the beginning of each Policy month	$0.68 per $1,000 of rider coverage amount per month	$0.68 per $1,000 of rider coverage amount per month
Example Charge - for a 38 year old male, non-tobacco user, with a Face Amount of $200,000 for the first Policy year	Monthly, at the beginning of each Policy month	$2.58 per $1,000 of rider coverage amount per month	$1.62 per $1,000 of rider coverage amount per month

</TABLE>

/1/ Charges for the Disability Waiver Benefit rider vary based on the insured's sex, age, risk class and Face Amount. The rider charges shown in the table may not be typical of the charges you would pay. The Policy Information page of your Policy will indicate the rider charges applicable to you. More detailed information concerning the charges for the optional benefit riders is available on request from our Administrative Center, shown under "Contact Information" on page 5 of this prospectus, or from your AGL representative.

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The next table describes the current Fund fees and expenses that you will pay periodically during the time that you own the Policy. The table shows the maximum and minimum Total Annual Fund Operating Expenses before contractual waiver or reimbursement for any of the Funds for the fiscal year ended December 31, 2011. Current and future expenses for the Funds may be higher or lower than those shown.

Annual Fund Fees and Expenses
(expenses that are deducted from the Fund assets)

Charge	Maximum	Minimum
Total Annual Fund Operating Expenses for all the funds (expenses that are deducted from portfolio assets include management fees, distribution (12b-1) fees, and other expenses)/1/	1.01%	0.10%

Details concerning each Fund's specific fees and expenses are contained in the Funds' prospectuses.

/1/ Currently 2 of the Funds have contractual reimbursements or fee waivers. These reimbursements or waivers expire on April 30, 2013. The impact of contractual reimbursements or fee waivers is as follows:

Charge	Maximum	Minimum
Total Annual Fund Operating Expenses for all of the Funds After Contractual Reimbursement or Fee Waiver	0.90%	0.10%

GENERAL INFORMATION

AMERICAN GENERAL LIFE INSURANCE COMPANY

We are American General Life Insurance Company ("AGL"). AGL is a stock life insurance company organized under the laws of Texas. AGL's home office is 2727-A Allen Parkway, Houston, Texas 77019-2191. AGL is a successor in interest to a company originally organized under the laws of Delaware on January 10, 1917. AGL is an indirect, wholly-owned subsidiary of American International Group, Inc. ("AIG"), a Delaware corporation.

AIG is a leading international insurance organization serving customers in more than 130 countries. AIG companies serve commercial, institutional and individual customers through one of the most extensive worldwide property-casualty networks of any insurer. In addition, AIG companies are leading providers of life insurance and retirement services in the United

States. AIG common stock is listed on the New York Stock Exchange and the Tokyo Stock Exchange.

AGL is regulated for the benefit of Policy owners by the insurance regulator in its state of domicile and also by all state insurance departments where it is licensed to conduct business. AGL is required by its regulators to hold a specified amount of reserves in order to meet its contractual obligations to Policy owners. Insurance regulations also require AGL to maintain additional surplus to protect against a financial impairment; the amount of which surplus is based on the risks inherent in AGL's operations.

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American General Life Companies, www.americangeneral.com, is the marketing name for a group of affiliated domestic life insurers, including AGL. The commitments under the Policies are AGL's, and AIG has no legal obligation to back those commitments.

On September 22, 2008, AIG entered into a revolving credit facility ("FRBNY Credit Facility") with the Federal Reserve Bank of New York ("NY Fed"). In connection with the FRBNY Credit Facility, a trust established for the sole benefit of the United States Department of Treasury (the "Department of the Treasury"), held all of the outstanding Series C Perpetual Convertible Participating Preferred Stock ("Series C Preferred Stock"). The Series C Preferred Stock was, to the extent permitted by law, entitled to vote on all matters with the AIG Common Stock and was entitled to approximately 79.8 percent of the voting power of AIG's shareholders entitled to vote on any particular matter. In addition, the United States Department of the Treasury held all of the outstanding AIG Series E Fixed Rate Non-Cumulative Perpetual Preferred Stock and Series F Fixed Rated Non-Cumulative Perpetual Preferred Stock.

On January 14, 2011, AIG completed a series of integrated transactions (the "Recapitalization") to recapitalize AIG. In the Recapitalization, AIG repaid the NY Fed approximately $21 billion in cash, representing complete repayment of all amounts owing under the FRBNY Credit Facility, and the facility was terminated. The Series C Preferred Stock was exchanged for AIG Common Stock which was

transferred by the trust to the Department of the Treasury. The Series E and Series F Stock were exchanged for interests in certain special purpose entities.

As a result of the Recapitalization, AIG is controlled by the Department of Treasury. Immediately after the Recapitalization, the Department of the Treasury owned shares of AIG Common Stock representing approximately 92 percent of AIG Common Stock then outstanding. As a result of certain transactions since the Recapitalization, ownership of AIG Common Stock by the Department of Treasury has been reduced to approximately 70 percent. AIG understands that, subject to market conditions, the Department of the Treasury intends to dispose of its remaining ownership interest over time.

The transactions described above do not alter our obligations to you. More information about AIG may be found in the regulatory filings AIG files from time to time with the U.S. Securities and Exchange Commission ("SEC") at www.sec.gov.

SEPARATE ACCOUNT VUL-2

After we deduct certain amounts from each premium, we put the balance, called the "net premium," into the Policy Account established for each Policy. We credit the net premium to the Policy Account as of the date we receive it, or, if later, the Register Date. We credit the net premium to the Policy Account before deducting any charges against the Policy Account due on that date. See "Charges Under the Policy" beginning on page 42.

We will invest the Policy Account in the Fidelity VIP Money Market division until the fifteenth day after we issue the Policy, or if that is not a business day, until the following business day. We will then allocate the Policy Account to the Guaranteed Interest Division or to one or more of the variable investment divisions, or both, according to your instructions in the

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Policy application. These instructions will apply to any subsequent premium until you provide us with new instructions. Premium allocation percentages may be any whole number from zero to 100, but the sum must equal 100.

We hold the Mutual Fund shares in which any of your accumulation value is invested in Separate Account VUL-2 (the "Separate Account"). The Separate Account is registered as a unit investment trust with the SEC under the Investment Company Act of 1940 (the "1940 Act"). Prior to December 31, 2002, the Separate Account was a separate account of American Franklin, created on April 9, 1991, under Illinois law. On December 31, 2002, and in conjunction with the merger of AGL and American Franklin, the Separate Account became a separate account of AGL under Texas law.

The Separate Account also issues interests under EquiBuilder III variable universal life insurance policies, which have policy features that are similar to those of EquiBuilder II Policies but which have a different sales charge structure. We no longer sell policies having an interest in the Separate Account.

The assets in the Separate Account are our property. The assets in the Separate Account may not be used to pay any liabilities of AGL other than those arising from the Policies. AGL is obligated to pay all amounts under the Policies due the Policy Owners.

Income, gains and losses credited to, or charged against, the Separate Account reflect the Separate Account's own investment experience and not the investment experience of AGL's other assets.

GUARANTEE OF INSURANCE OBLIGATIONS

Insurance obligations under all Policies with a date of issue prior to December 29, 2006 at 4:00 p.m. Eastern time are guaranteed (the "Guarantee") by American Home Assurance Company ("American Home"), an affiliate of AGL. Insurance obligations include, without limitation, Policy values invested in the Guaranteed Interest Division, death benefits and Policy features that provide return of premium or protection against Policy lapse. The Guarantee does not guarantee Policy value or the investment performance of the variable investment divisions available under the Policies. The Guarantee provides that Policy Owners can enforce the Guarantee directly.

As of December 29, 2006 at 4:00 p.m. Eastern time (the "Point of Termination"), the Guarantee was terminated for prospectively issued Policies. The Guarantee will not cover any Policies with a date of issue later than the Point of Termination. The Guarantee will continue to cover all other Policies until all insurance obligations under such Policies are satisfied in full.

American Home is a stock property-casualty insurance company incorporated under the laws of the State of New York on February 7, 1899. American Home's principal executive office is located at 175 Water Street, 18th Floor, New York, New York 10038. American Home is licensed in all 50 states of the United States and the District of Columbia, as well as certain foreign jurisdictions, and engages in a broad range of insurance and reinsurance activities. American Home is an indirect wholly owned subsidiary of American International Group, Inc. and an affiliate of AGL.

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COMMUNICATION WITH AGL

When we refer to "you," we mean the person who is authorized to take any action with respect to a Policy. Generally, this is the owner named in the Policy. Where a Policy has more than one owner, each owner generally must join in any requested action, except for transfers and changes in the allocation of future premiums or changes among the investment options.

Administrative Center. The Administrative Center provides service to all Policy Owners. See "Contact Information" on page 5 of this prospectus. For applicants, your AGL representative will tell you if you should use an address other than the Administrative Center address. All premium payments, requests, directions and other communications should be directed to the appropriate location. You should mail premium payments and loan repayments (or use express delivery, if you wish) directly to the appropriate address shown on your billing statement. If you do not receive a billing statement, send your premium directly to the address for premium payments shown under "Contact Information" on page 5. You should communicate notice of the insured person's death, including any related documentation, to our Administrative Center address.

E-Delivery, E-Service, Telephone Transactions and Written Transactions. There are several different ways to request and receive Policy services.

E-Delivery. Instead of receiving paper copies by mail of certain

documents we are required to provide to you, including annual Policy and Fund prospectuses, you may select E-Delivery. E-Delivery allows you to receive notification by E-mail when new or updated documents are available that pertain to your Policy. You may then follow the link contained within the E-mail to view these documents on-line. You may find electronically received documents easier to review and retain than paper documents. To enroll for E-Delivery, you can complete certain information at the time of your Policy application (with one required extra signature). If you prefer, you can go to www.americangeneral.com and at the same time you enroll for E-Service, enroll for E-Delivery. You do not have to enroll for E-Service to enroll for E-Delivery unless you enroll on-line. You may select or cancel E-Delivery at any time. There is no charge for E-Delivery.

E-Service. You may enroll for E-Service to have access to on-line services for your Policy. These services include transferring values among investment options and changing allocations for future premiums. You can also view Policy statements. If you have elected E-Service, you may choose to handle certain Policy requests by E-Service, in writing or by telephone. We expect to expand the list of available E-Service transactions in the future. To enroll for E-Service, go to www.americangeneral.com, click the "Create Account" link beneath the E-Service login box, and complete the on-line enrollment pages. You may select or cancel the use of E-Service at any time. There is no charge for E-Service.

E-Service Transactions, Telephone Transactions and Written Transactions. Certain transaction requests currently must be made in writing. You must make the following requests in writing (unless you are permitted to make the requests by E-Service or by telephone. See "Telephone transactions" on page 19).

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- transfer of accumulation value;*
- change of allocation percentages for premium payments; *
- change of allocation percentages for Policy deductions; *
- telephone transaction privileges; *

- loan;*
- full surrender;
- partial surrender;*
- premium payments;**
- change of beneficiary or contingent beneficiary;
- loan repayments or loan interest payments;**
- change of death benefit Option or manner of death benefit payment;
- change in specified amount;
- addition or cancellation of, or other action with respect to any benefit riders;
- election of a payment Option for Policy proceeds; and
- tax withholding elections.

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* These transactions are permitted by E-Service, by telephone or in writing.

** These transactions are permitted by E-Service or in writing.

We have special forms which should be used for loans, assignments, partial and full surrenders, changes of owner or beneficiary, and all other contractual changes. You will be asked to return your Policy when you request a full surrender. You may obtain these forms from our Administrative Center, shown under "Contact Information" on page 5, or from your AGL representative. Each communication must include your name, Policy number and, if you are not the insured person, that person's name. We cannot process any requested action that does not include all required information.

One-time Premium Payments Using E-Service. You may use E-Service to schedule one-time premium payments for your Policy. The earliest scheduled payment date available is the next business day. For the purposes of E-Service one-time premium payments only, a business day is a day the United States Federal Reserve System ("Federal Reserve") is open. If payment scheduling is completed after 4:00 p.m. Eastern time, then the earliest scheduled payment date available is the second business day after the date the payment scheduling is completed.

Generally, your payment will be applied to your Policy on the scheduled payment date, and it will be allocated to your chosen variable investment divisions based upon the prices set after 4:00 p.m. Eastern time on the scheduled payment date. See "Business Day and Close of Business" on page 48.

Premium payments may not be scheduled for Federal Reserve holidays, even if the New York Stock Exchange ("NYSE") is open. If the NYSE is closed on your

scheduled payment date, your payment will be allocated to your chosen variable investment divisions based upon the prices set after 4:00 p.m. Eastern time on the first day the NYSE is open following your scheduled payment date.

Telephone Transactions. If you have a completed telephone authorization form on file with us, you may make transfers, or change the allocation of future premium payments or

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deduction of charges, by telephone, subject to the terms of the form. We will honor telephone instructions from any person who provides the correct information, so there is a risk of possible loss to you if unauthorized persons use this service in your name. Our current procedure is that only the owner or your AGL representative may make a transfer request by phone. We are not liable for any acts or omissions based upon instructions that we reasonably believe to be genuine. Our procedures include verification of the Policy number, the identity of the caller, both the insured person's and owner's names, and a form of personal identification from the caller. We will promptly mail a written confirmation of the transaction. If (a) many people seek to make telephone requests at or about the same time, or (b) our recording equipment malfunctions, it may be impossible for you to make a telephone request at the time you wish. You should submit a written request if you cannot make a telephone request. Also, if due to malfunction or other circumstances your telephone request is incomplete or not fully comprehensible, we will not process the transaction. The phone number for telephone requests is 1-800-340-2765.

General. It is your responsibility to carefully review all documents you receive from us and immediately notify the Administrative Center of any potential inaccuracies. We will follow up on all inquiries. Depending on the facts and circumstances, we may retroactively adjust your Policy, provided you notify us of your concern within 30 days of receiving the transaction confirmation, statement or other document. Any other adjustments we deem warranted are made as of the time we receive notice of the potential error. If you fail to notify the Administrative Center of any potential mistakes or inaccuracies within 30 days of receiving any document, we will deem you to have

ratified the transaction.

VARIABLE INVESTMENT DIVISIONS

We divided the Separate Account into variable investment divisions, each of which invests in shares of a corresponding Fund of Fidelity VIP and MFS(R) VIT. One or more of the Funds may sell its shares to other funds. Currently, you may invest premium payments in variable investment divisions investing in the following Funds.

<TABLE>

SERIES	FUND DESCRIPTIONS	INVESTMENT ADVISER (SUB-ADVISER, IF APPLICABLE)
Fidelity(R) VIP Asset Manager(SM) - Initial Class	High total return with reduced risk	Fidelity Management & Research Company ("FMR") (FMR Co., Inc.) (Fidelity Investments Money Management, Inc.) (Other affiliates of FMR)
Fidelity(R) VIP Asset Manager: Growth(R) - Initial Class	Maximize total return	FMR (FMR Co., Inc.) (Fidelity Investments Money Management, Inc.) (Other affiliates of FMR)
Fidelity(R) VIP Contrafund(R) - Initial Class	Long-term capital appreciation	FMR (FMR Co., Inc.) (Other affiliates of FMR)
Fidelity(R) VIP Equity-Income - Initial Class	Reasonable income and potential capital appreciation	FMR (FMR Co., Inc.) (Other affiliates of FMR)
Fidelity(R) VIP Growth - Initial Class	Capital appreciation	FMR (FMR Co., Inc.) (Other affiliates of FMR)

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SERIES	FUND DESCRIPTIONS	INVESTMENT ADVISER (SUB-ADVISER, IF APPLICABLE)
Fidelity(R) VIP High Income - Initial Class	High level of current income while considering growth of capital	FMR (FMR Co., Inc.) (Other affiliates of FMR)
Fidelity(R) VIP Index 500 - Initial Class	Total return of common stocks publicly traded in the United States, as represented by the Standard & Poor's 500(R) Index	FMR (FMR Co., Inc.) (Geode Capital Management, LLC)
Fidelity(R) VIP Investment Grade Bond - Initial Class	High level of current income consistent with preservation of capital	FMR (Fidelity Investments Money Management, Inc.) (Other affiliates of FMR)
Fidelity(R) VIP Money Market - Initial Class	High level of current income consistent with preservation of capital and liquidity	FMR (Fidelity Investments Money Management, Inc.) (Other affiliates of FMR)
Fidelity(R) VIP Overseas - Initial Class	Long-term growth of capital	FMR (FMR Co., Inc.) (Other affiliates of FMR)
MFS(R) VIT Core Equity - Initial Class	Capital appreciation	Massachusetts Financial Services Company ("MFS")
MFS(R) VIT Growth - Initial Class	Capital appreciation	MFS
MFS(R) VIT Investors Trust - Initial Class	Capital appreciation	MFS

MFS(R) VIT Research - Initial Class	Capital appreciation	MFS
MFS(R) VIT Total Return - Initial Class	Total return	MFS
MFS(R) VIT Utilities - Initial Class	Total return	MFS

</TABLE>

From time to time, certain Fund names are changed. When we are notified of a name change, we will make changes so that the new name is properly shown. However, until we complete the changes, we may provide you with various forms, reports and confirmations that reflect a Fund's prior name.

YOU CAN LEARN MORE ABOUT THE FUNDS, THEIR INVESTMENT POLICIES, RISKS, EXPENSES AND ALL OTHER ASPECTS OF THEIR OPERATIONS BY READING THEIR PROSPECTUSES. You should carefully read the Funds' prospectuses before you select any investment division. We do not guarantee that any Fund will achieve its objective. In addition, no single Fund or investment division, by itself, constitutes a balanced investment plan. A Fund's prospectus may be supplemented by the Fund's Investment Adviser. Please check the EquiBuilder II webpage at www.americangeneral.com/life/life.nsf/contents/productsindividuals_prospectuses _VUL_notsold to view your Fund prospectuses and their supplements.

Affiliates of the Funds compensate us for administering the Funds as variable funding options for the EquiBuilder II Policies. Currently, Massachusetts Financial Services Company, the investment adviser for MFS(R) VIT, and Fidelity Management & Research Company ("FMR"), the investment adviser for Fidelity VIP, pay us fees on an annualized basis, of a maximum of 0.35% of the aggregate net assets of each Fund attributable to the EquiBuilder II Policies and certain other variable contracts we issue. This fee will not be paid by the Funds, their shareholders or the Policy Owners.

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VOTING RIGHTS OF A POLICY OWNER

We invest the variable investment divisions' assets in shares of the Funds. We are the legal owner of the shares held in the Separate Account, and we have the right to vote on certain issues. Among other things, we may:

- vote to elect the Boards of Trustees of the Funds;

- vote to ratify the selection of independent auditors for the Funds; and

- vote on issues described in the Fund's current prospectus or requiring a vote by shareholders under the 1940 Act.

Even though we own the shares, we give you the opportunity to tell us how to vote the number of shares attributable to your Policy Account value. We vote the shares in accordance with your instructions at meetings of investment portfolio shareholders. We vote any portfolio shares that are not attributable to Policies, and any investment portfolio shares where the owner does not give us instructions, the same way we vote where we did receive owner instructions.

We reserve the right to vote investment portfolio shares without getting instructions from Policy Owners if the federal securities laws, regulations, or their interpretations change to allow this.

You may only instruct us on matters relating to the investment portfolios corresponding to divisions where you have invested assets as of the record date set by the investment portfolio's Board for the portfolio's shareholders meeting. We determine the number of investment portfolio shares in each division that we attribute to your Policy by dividing your account value allocated to that division by the net asset value of one share of the matching investment portfolio.

We count fractional shares. If you have a voting interest, we send you proxy material and a form on which to give us your voting instructions.

All investment portfolio shares have the right to one vote. The votes of all investment portfolios are cast together on a collective basis, except on issues where the interests of the portfolios differ. In these cases, voting is done on a portfolio-by-portfolio basis.

Examples of issues that require a portfolio-by-portfolio vote are:

- changes in the fundamental investment Policy of a particular investment portfolio; or

- approval of an investment advisory agreement.

THE GUARANTEED INTEREST DIVISION

We invest any accumulation value you have allocated to our Guaranteed Interest Division as part of our general assets. Unlike the Separate Account, our general assets may be used to pay any liabilities of AGL in addition to those arising from the Policies. We credit interest on that

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account value at a rate which we declare from time to time. We guarantee that the interest will be credited at an annual effective rate of at least 4 1/2%. Although this interest increases the amount of any account value that you have in our Guaranteed Interest Division, account value will also be reduced by any charges that are allocated to this option under the procedures described under "Tables of Charges" beginning on page 11. The charges and expenses of the Funds shown under "Tables of Charges" beginning on page 11 do not apply to our Guaranteed Interest Division.

You may transfer Policy Account value into the Guaranteed Interest Division at any time. However, there are restrictions on the amount you may transfer out of the Guaranteed Interest Division in a Policy year. Please see "Transfers from the Guaranteed Interest Division" on page 34.

ILLUSTRATIONS

We may provide you with illustrations for your Policy's death benefit, Policy Account value, and cash surrender value based on hypothetical rates of return. Hypothetical illustrations also assume costs of insurance for a hypothetical person. These illustrations are illustrative only and should not be considered a representation of past or future performance. Your actual rates of return and actual charges may be higher or lower than these illustrations. The

actual return for your Policy Account value will depend on factors such as the amounts you allocate to particular investment divisions, the amounts deducted for the Policy's fees and charges, the variable investment divisions' fees and charges, and your Policy loan and partial surrender history.

Upon your request, we will provide a personalized illustration that takes into account your Policy's actual values and features as of the date the illustration is prepared. We reserve the right to charge a maximum fee of $25 for each personalized illustration prepared if you request us to do so more than once each year. We do not currently charge for additional personalized illustrations.

POLICY FEATURES

Keep in mind as you review the following Policy features that we no longer sell EquiBuilder II Policies.

AGE

Generally, our use of age in your Policy and this prospectus refers to a person who is between six months younger and six months older than the stated age. Sometimes we refer to this as the "attained" age.

DEATH BENEFITS

We will pay the death benefit (less any Policy loan and loan interest and any overdue charges) to your beneficiary when the Insured Person dies. You may choose one of the following two death benefit options:

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- Option A - the greater of (i) the Policy's Face Amount and (ii) the required minimum death benefit; or
- Option B - the greater of (i) the Policy's Face Amount plus the Policy Account value and (ii) a multiple of the required minimum death

benefit.

The value of the death benefit under Option B is variable and fluctuates with Policy Account value. However; insurance under Option B costs more per month than under Option A. The value of the Policy Account and the net cash surrender value of the Policy under Option B will be lower than under Option A, all other things being equal.

Under both death benefit options, the required minimum death benefit applies if it would provide a greater benefit (before deductions for any outstanding Policy loan and loan interest). This benefit is a percentage multiple of the amount in your Policy Account value. The percentage declines as the Insured Person gets older. The benefit will be your Policy Account value on the day the Insured Person dies multiplied by the percentage for the Insured Person's age (as of his or her nearest birthday) at the beginning of the Policy year of the Insured Person's death. For ages that are not shown on the table set forth below, the applicable percentages will decrease proportionately for each full year.

TABLE OF DEATH BENEFITS BASED ON POLICY ACCOUNT VALUES

INSURED PERSON'S ATTAINED AGE*	40 or under	45	50	55	60	65	70	75	95
MINIMUM DEATH BENEFIT AS A PERCENTAGE OF THE POLICY ACCOUNT	250%	215%	185%	150%	130%	120%	115%	105%	100%

*The percentages are interpolated for ages that are not shown here.

For example, if the Insured Person is 40 years old and the Policy Account value is $100,000, the death benefit would be at least $250,000 (250% of $100,000).

These percentages are based on provisions of federal tax law which require a minimum death benefit in relation to cash value for a Policy to qualify as

life insurance. See "Federal Tax Considerations," on page 50.

Under either Option A or Option B, the length of time a Policy remains in force depends on the net cash surrender value of the Policy. Because we deduct the charges that maintain the Policy from the Policy Account, coverage will last as long as the net cash surrender value can cover these deductions. See "Policy Lapse and Reinstatement," on page 49. The investment experience (which may be either positive or negative) of any amounts in the variable investment divisions and the interest earned in the Guaranteed Interest Division affect your Policy Account value. As a result, the returns from these divisions will affect the length of time a Policy remains in force.

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If you prefer to have insurance coverage that varies with the investment experience of your Policy Account, you should choose Option B. The death benefit under Option B will always be at least the Face Amount of the Policy or the required minimum death benefit described above (in either case, less any outstanding Policy loan and loan interest), whichever is greater. If you prefer to have insurance coverage that does not vary in amount and that has lower cost of insurance charges, you should choose Option A.

MATURITY BENEFIT

If the Insured Person is still living on the Policy anniversary nearest his or her 95th birthday, we will pay you the Policy Account value net of any outstanding loan and loan interest. The Policy will then end.

POLICY ISSUANCE INFORMATION

When you complete an application for a Policy, it is submitted to us. We make the decision to issue a Policy based on the information in the application and our standards for issuing insurance and classifying risks. If we decide not to issue a Policy, we will refund any premium paid.

We will not issue a new Policy having a Face Amount that is less than

$50,000, nor will we issue a Policy for an Insured Person who is older than 75.

No insurance under a Policy will take effect: (a) until we deliver a Policy and you pay the full initial premium while the Insured Person is living and (b) unless the information in the application continues to be true and complete, without material change, as of the time you pay the premium.

See "Flexible Premium Payments" on page 26 of this prospectus, for additional information concerning procedures for obtaining a Policy.

RIGHT TO EXAMINE

You have a right to examine your Policy. If for any reason you are not satisfied with it, you may cancel the Policy within the time limits described below by sending it to us with a written request to cancel.

A request to cancel the Policy must be postmarked no later than the latest of the following two dates:

- 10 days after you receive your Policy; or

- 45 days after you sign Part 1 of the Policy application.

If you cancel the Policy, we will, within seven days of receipt of the Policy and a duly executed, timely notice of cancellation, refund an amount equal to the greater of (1) the premiums paid or (2) the Policy Account value plus any amount deducted from the premiums

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paid prior to allocation to the Policy Account. Insurance coverage ends when you send a request for cancellation.

FLEXIBLE PREMIUM PAYMENTS

You may choose the amount and frequency of your premium payments, as long

as they are within the limits described below. Even though premiums are flexible, the Policy Information page of each Policy will show a "planned" periodic premium. You determine the planned premium, within limits we set when you apply for a Policy. Planned premiums may not equal the amount of premiums that will keep your Policy in effect. Planned premiums are generally the amount you decide you want to pay and you can change them at any time. If mandated under applicable law, we may be required to reject a premium payment.

You must pay a minimum initial premium on or before the date on which we deliver the Policy. The insurance will not go into effect until we receive this minimum initial premium. We determine the applicable minimum initial premium based on the age, sex and risk class of the Insured Person, the initial Face Amount of the Policy and any additional benefits you select. Make the first premium payment by check or money order payable to "American General Life Insurance Company" or "AGL." Pay any additional premiums by check payable to "American General Life Insurance Company" or "AGL" and send them to our Administrative Center, shown under "Contact Information" on page 5.

We will send you premium reminder notices based on your planned premium unless you request that we not do so in your application, or by writing to our Administrative Center. Nevertheless, you may make the planned payment, skip the planned payment or change the frequency or the amount of the payment.

Generally, you may pay other premiums at any time and in any amount, as long as each payment is at least $100. (In some states, Policies may have different minimum premium payments.) We may increase this minimum upon 90 days' written notice. We may also reject premium payments in a Policy year if the payments would cause the Policy to cease to qualify as life insurance under federal tax law. See "Federal Tax Considerations," on page 50.

If you stop paying premiums temporarily or permanently, the Policy will continue in effect until the net cash surrender value no longer covers the monthly charges against the Policy Account for the benefits selected. PLANNED PREMIUMS MAY NOT BE SUFFICIENT TO MAINTAIN A POLICY BECAUSE OF INVESTMENT EXPERIENCE, POLICY CHANGES OR OTHER FACTORS.

We have filed a Statement of Additional Information ("SAI") with the SEC which includes more information about your Policy. The back cover page to this prospectus describes how you can obtain a copy of the SAI.

PREMIUM PAYMENTS AND TRANSACTION REQUESTS IN GOOD ORDER

We will accept the Policy Owner's instructions to allocate premium payments to investment options, to make redemptions (including loans) or to transfer values among the Policy Owner's investment options, contingent upon the Policy Owner's providing us with instructions

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in good order. This means that the Policy Owner's request must be accompanied by sufficient detail to enable us to allocate, redeem or transfer assets properly.

When we receive a premium payment or transaction request in good order, it will be treated as described in this prospectus. If we receive an instruction that is not in good order, the requested action will not be completed, and any premium payments that cannot be allocated will be held in a non-interest bearing account until we receive all necessary information.

We will attempt to obtain Policy Owner guidance on requests not received in good order for up to five business days following receipt. For instance, one of our representatives may telephone the Policy Owner to determine the intent of a request. If a Policy Owner's request is still not in good order after five business days, we will cancel the request, and return any unallocated premiums to the Policy Owner along with the date the request was canceled.

CHANGES IN EQUIBUILDER II POLICIES

EquiBuilder II Policies provide you flexibility to choose from a variety of strategies which enable you to increase or decrease your insurance protection.

A reduction in Face Amount lessens emphasis on the Policy's insurance coverage by reducing both the death benefit and the net amount at risk (the difference between the current death benefit under the Policy and the amount of the Policy Account). The reduced net amount at risk results in lower cost of insurance charges against the Policy Account. See "Changing the Face Amount of Insurance," on page 28.

A partial withdrawal of net cash surrender value reduces the Policy Account

and death benefit and may reduce the Policy's Face Amount, while providing a cash payment. It does not reduce the net amount at risk or the cost of insurance charges. See "Policy Account Transactions - Withdrawing Money from the Policy Account," on page 37.

Choosing not to make premium payments may have the effect of reducing the Policy Account. Reducing the Policy Account will, under Option A, increase the net amount at risk (and thereby increase cost of insurance charges) while leaving the death benefit unchanged. Under Option B, it will decrease the death benefit while leaving the net amount at risk and the cost of insurance charge unchanged. See "Flexible Premium Payments," on page 26.

Increases in the Face Amount emphasize insurance coverage by increasing both the death benefit and the net amount at risk. See "Changing the Face Amount of Insurance," on page 28.

Additional premium payments may increase the Policy Account, which has the effect, under Option A, of reducing the net amount at risk and cost of insurance charge while leaving the death benefit unchanged, or, under Option B, of increasing the death benefit while leaving the net amount at risk and cost of insurance charge unchanged. See "Flexible Premium Payments," on page 26.

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CHANGING THE FACE AMOUNT OF INSURANCE

Any time after the first Policy year while a Policy is in force, you may change your Policy's Face Amount. You can do this by sending a written request to us. Any change will be subject to our approval.

For increases in the Face Amount, we must have satisfactory evidence that the Insured Person is still insurable. Our current procedure if the Insured Person has become a more expensive risk is to ask you to confirm that you will pay higher cost of insurance charges on the amount of the increase.

Any increase in the Face Amount must be at least $10,000. Monthly

deductions from the Policy Account for the cost of insurance will increase, beginning on the date the increase in the Face Amount takes effect. In addition, we will assess a one-time administrative charge against the Policy Account for each Face Amount increase. This charge is currently $1.50 for each additional $1,000 of insurance, up to a maximum charge of $300. An increase in the Face Amount will not increase the maximum surrender charge. Increasing the Face Amount may increase the amount of premium you would need to pay to avoid a lapse of your Policy.

You may not reduce the Face Amount below the minimum we require to issue a Policy at the time of the reduction. We will lower monthly charges against the Policy Account for the cost of insurance if you reduce the Face Amount. If you reduce the Face Amount during the first ten Policy years, we will assess a pro rata share of the applicable surrender charge against the Policy Account. See "Charges under the Policy - Transaction Fees - Surrender Charge," on page 43.

Our current procedure is to disapprove a requested decrease in the Face Amount if it would trigger the required minimum death benefit. (This is the federal tax law provision, discussed earlier in this prospectus, that can require us to pay as a death benefit a percentage multiple of the Policy Account value.) Instead, we will ask you to make a partial withdrawal of net cash surrender value from the Policy Account, and then we decrease the Face Amount. See "Policy Features - Death Benefits," on page 23.

Currently, if you request a Face Amount decrease when you have previously increased the Face Amount, we will apply the decrease first against the most recent increase in the Face Amount. We will then apply decreases to prior increases in the Face Amount in the reverse order in which such increases took place, and then to the original Face Amount.

Policy changes that result in a reduction of the death benefit, such as a decrease in the Face Amount, may cause a Policy to become a MEC or may have other adverse tax consequences. See "Federal Tax Considerations," page 50.

CHANGING DEATH BENEFIT OPTIONS

Any time after the first Policy year while a Policy is in force, you may change the death benefit option by sending us a written request. If you change the death benefit from Option A to Option B, the Face Amount will go down by the amount of Policy Account value on the date of the change. We will not allow this change if it would reduce the Face Amount below the minimum we require to issue a Policy. If you change the death benefit from Option B to

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Option A, the Face Amount of insurance will go up by the amount of Policy Account value on the date of the change. These increases and decreases in the Face Amount are made so that the amount of the death benefit remains the same on the date of the change. When the death benefit remains the same, there is no change in the net amount at risk, which is the amount on which cost of insurance charges are based. See "Charges under the Policy - Periodic Charges - Cost of Insurance Charge," on page 45.

Changing the death benefit option may have adverse tax consequences. You should consult a tax adviser before changing the death benefit option.

We will not require evidence of insurability for the increase in the Face Amount when you change from Option B to Option A, nor will we charge for this increase. We will not assess a surrender charge for the decrease in the Face Amount when you change from Option A to Option B.

WHEN FACE AMOUNT AND DEATH BENEFIT CHANGES GO INTO EFFECT

Any change in the Face Amount or death benefit option of a Policy will be effective at the beginning of the Policy month following the date we approve the request. Any adjustment to Policy charges on account of the change will take effect at the same time. After we approve the request, we will send you a written notice of the approval showing each change. You should attach this notice to your Policy. We may also request that you return your Policy to us so that we can make the appropriate changes.

In some cases, we may not approve a change you request because it might disqualify the Policy as life insurance under applicable federal tax law. We will send you a written notice of our decision to disapprove any requested change for this reason. See "Federal Tax Considerations," on page 50.

REPORTS TO POLICY OWNERS

After the end of each Policy year, we will send you a report that shows the current death benefit for your Policy, the value of your Policy Account, information about the variable investment divisions, the cash surrender value of your Policy, the amount of any outstanding Policy loans, the amount of any interest you owe on the loan and information about the current loan interest rate. The annual report will also show any transactions involving your Policy Account that occurred during the year. Transactions include premium allocations, deductions, and any transfers or withdrawals that you made in that year. We will also include in reports any information required by state law.

We will send you notices of transfers of amounts between variable investment divisions and certain other Policy transactions.

POLICY PERIODS, ANNIVERSARIES, DATES AND AGES

We measure Policy years, Policy months and Policy anniversaries from the Register Date shown on the Policy Information page in the Policy. Each Policy month begins on the same day in each calendar month as the day of the month that the Register Date occurred. For purposes of

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receiving Policy Owner requests, we are open for business at the same time that the NYSE is open for business.

The Register Date is the earlier of the issue date or the date of payment. The date of payment will normally be the day we receive a check for the full initial premium. The issue date, shown on the Policy Information page of each Policy, is the date we actually issue a Policy, and depends on the underwriting and other requirements for issuing a particular Policy. Contestability is measured from the issue date, as is the suicide exclusion.

If we receive your premiums through payroll allotment, such as salary deduction or salary reduction programs, we consider that we receive your premium on the day we actually receive it, rather than the day the deduction from your payroll occurs. This is important for you to know because your premium receives

no interest or earnings for the time between the deduction from your payroll and our receipt of the payment. We do not accept military allotment programs.

We will put the initial net premium in the Policy Account as of the date of payment. We will allocate it to the Fidelity VIP Money Market division of the Separate Account, regardless of your premium allocation percentages, until the first business day 15 days after the issue date. We will allocate any other net premium we receive during that period to the Fidelity VIP Money Market division. On the first business day 15 days after the issue date, we will reallocate the amount in the Policy Account in accordance with your premium allocation percentages. The first time that we assess charges and deductions under the Policy is as of the Register Date. See "Policy Features - Policy Issuance Information," on page 25, regarding the commencement of insurance coverage.

The final Policy date is the Policy anniversary nearest the Insured Person's 95th birthday. The Policy ends on that date if the Insured Person is still alive and the maturity benefit is paid.

ADDITIONAL BENEFIT RIDERS

You may be eligible to add additional benefit riders to your Policy. We will assess a monthly charge against the Policy Account for each additional benefit rider. You can cancel these benefit riders at any time. Some of the riders provide guaranteed benefits that are obligations against our general assets and not of the Separate Account. See "The Guaranteed Interest Division," on page 22. Please see the "Tables of Charges" on page 11 of this prospectus for the fees associated with these riders. Your Policy will have more details if you select any of these benefits. Eligibility for and changes in these benefits are subject to our rules and procedures as well as Internal Revenue Service guidance and rules that pertain to the Internal Revenue Code's definition of life insurance as in effect from time to time. The following additional benefit riders are currently available:

DISABILITY WAIVER BENEFIT RIDER

With this benefit, we waive monthly charges from the Policy Account if the Insured Person becomes totally disabled on or after the Insured Person's fifth birthday and the disability continues for six months. There is a charge for this rider. If the disability starts before the Policy anniversary nearest the Insured Person's 60th birthday, we will waive monthly charges for life as long as the disability continues. If the disability starts after that, we will waive monthly

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charges only up to the Policy anniversary nearest the Insured Person's 65th birthday (as long as the disability continues). You may later elect to terminate this rider. If you do so, the charge will cease.

ACCIDENTAL DEATH BENEFIT RIDER

We will pay an additional benefit if the Insured Person dies from bodily injury that results from an accident, provided the Insured Person dies before the Policy anniversary nearest his or her 70th birthday. There is a charge for this rider. You may later elect to terminate this rider. If you do so, the charge will cease.

CHILDREN'S TERM INSURANCE RIDER

This benefit provides term life insurance on the lives of the Insured Person's children, including natural children, stepchildren and legally adopted children. There is a charge for this rider. Coverage for an insured child must begin before the child has reached age eighteen. Coverage lasts only until the Insured Person reaches age 65 or the child reaches age 25, whichever happens first. You may terminate this rider at any time. If you do so, the charge will cease.

TERM INSURANCE ON AN ADDITIONAL INSURED PERSON RIDER

This rider allows you to obtain term insurance for another person, such as the Insured Person's spouse. There is a charge for this rider. This rider is a level death benefit term insurance rider with annually increasing cost of insurance charges. The minimum amount of coverage is $25,000 and the maximum is five times the Policy's Face Amount. The coverage and deductions expire on the Policy anniversary nearest the Insured Person's age 70. You may later elect to terminate this rider. If you do so, the charge will cease.

POLICY ACCOUNT TRANSACTIONS

The following transactions may have different effects on the Policy Account, death benefit, Face Amount or cost of insurance. You should consider the net effects before requesting Policy Account transactions. See "Policy Features - Changes in EquiBuilder II Policies," on page 27. Certain transactions also include charges. For information regarding other charges, see "Charges Under the Policy" on page 42.

E-DELIVERY, E-SERVICE, TELEPHONE TRANSACTIONS AND WRITTEN TRANSACTIONS

See page 18 for information regarding E-Delivery, E-Service, telephone transactions and written transactions.

CHANGING PREMIUM AND DEDUCTION ALLOCATION PERCENTAGES

You may change the allocation percentages of your net premiums or your monthly deductions by giving instructions to us. These changes will go into effect as of the date we receive the request, and they will affect transactions on and after that date.

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TRANSFERS OF POLICY ACCOUNT VALUE AMONG INVESTMENT DIVISIONS

You may transfer amounts from any variable investment division to any other variable investment division or to the Guaranteed Interest Division. You may make up to four transfers of Policy Account value among the variable investment divisions in each Policy year without charge. We consider your instruction to transfer from or to more than one investment division at the same time to be one transfer. Depending on the overall cost of performing these transactions, we may charge up to $25 for each additional transfer, except that we will impose no charge for a transfer of all amounts in the variable investment divisions to the Guaranteed Interest Division. Our current practice is to assess the $25 charge for each transfer after the twelfth transfer in a Policy year. To make a transfer, give us instructions at our Administrative Center, shown under "Contact Information" on page 5.

If there is a charge for making a transfer, we will allocate the charge as described under "Charges under the Policy - Allocation of Policy Account Charges," on page 47. All simultaneous transfers included in one transfer request count as one transfer for purposes of any fee.

A transfer from a variable investment division will take effect as of the business day we receive instructions to make the transfer. The minimum amount we will transfer on any date will be shown on the Policy Information page in each Policy and is usually $500. This minimum need not come from any one variable investment division or be transferred to any one variable investment division as long as the total amount transferred that day equals or exceeds the minimum. However, we will transfer the entire amount in any variable investment division even if it is less than the minimum specified in a Policy. Note that we will allocate future premiums and deductions to variable investment divisions or the Guaranteed Interest Division in accordance with existing allocations unless you also instruct us to change them.

Special rules apply to transfers from the Guaranteed Interest Division. See "Policy Account Transactions - Transfers from the Guaranteed Interest Division," on page 34.

MARKET TIMING

The Policies are not designed for professional market timing organizations or other entities or individuals using programmed and frequent transfers involving large amounts. Market timing carries risks with it, including:

- dilution in the value of Fund shares underlying investment options of other Policy Owners;

- interference with the efficient management of the Fund's portfolio; and

- increased administrative costs.

We have policies and procedures affecting your ability to make exchanges within your Policy. We use the term "exchange" to mean two things in this discussion about market timing. We are not referring to the exchange of one life insurance policy for another policy or contract. An exchange can be your allocation of all or a portion of a new premium payment to an

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investment option. An exchange can also be a transfer of your accumulation value in one investment option (all or a portion of the value) to another investment option.

We are required to monitor the Policies to determine if a Policy Owner requests:

- an exchange out of a variable investment division within two calendar weeks of an earlier exchange into that same variable investment division; or

- an exchange into a variable investment division within two calendar weeks of an earlier exchange out of that same variable investment division; or

- an exchange out of a variable investment division followed by an exchange into that same variable investment division, more than twice in any one calendar quarter; or

- an exchange into a variable investment division followed by an exchange out of that same variable investment division, more than twice in any one calendar quarter.

If any of the above transactions occurs, we will suspend such Policy Owner's same day or overnight delivery transfer privileges (including website, e-mail and facsimile communications) with notice to prevent market timing efforts that could be harmful to other Policy Owners or beneficiaries. Such notice of suspension will take the form of either a letter mailed to your last known address, or a telephone call from our Administrative Center to inform you that effective immediately, your same day or overnight delivery transfer privileges have been suspended. A Policy Owner's first violation of this policy will result in the suspension of Policy transfer privileges for ninety days. A Policy Owner's subsequent violation of this policy will result in the suspension of Policy transfer privileges for six months.

In most cases, exchanges into and out of the money market investment division are not considered market timing; however, we examine all of the above transactions without regard to any exchange into or out of the money market investment division. We treat such transactions as if they are exchanges directly into and out of the same variable investment division. For instance:

(1) if a Policy Owner requests an exchange out of any variable investment division into the money market investment division, and

(2) the same Policy Owner, within two calendar weeks requests an exchange out of the money market investment division back into that same variable investment division, then

(3) the second transaction above is considered market timing.

Transfers under dollar cost averaging, automatic rebalancing or any other automatic transfer arrangements to which we have agreed are not affected by these procedures.

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The procedures above will be followed in all circumstances, and we will treat all Policy Owners the same.

In addition, Policy Owners incur a $25 charge for each transfer in excess of 12 each Policy year.

RESTRICTIONS INITIATED BY THE FUNDS AND INFORMATION SHARING OBLIGATIONS

The Funds have policies and procedures restricting transfers into the Fund. For this reason or for any other reason the Fund deems necessary, a Fund may instruct us to reject a Policy Owner's transfer request. Additionally, a Fund may instruct us to restrict all purchases or transfers into the Fund by a particular Policy Owner. We will follow the Fund's instructions. The availability of transfers from any investment option offered under the Policy is

unaffected by the Fund's policies and procedures.

Please read the Funds' prospectuses and supplements for information about restrictions that may be initiated by the Funds.

In order to prevent market timing, the Funds have the right to request information regarding Policy Owner transaction activity. If a Fund requests, we will provide mutually agreed upon information regarding Policy Owner transactions in the Fund.

TRANSFERS FROM THE GUARANTEED INTEREST DIVISION

You may request a transfer of unloaned amounts in the Guaranteed Interest Division to one or more of the variable investment divisions. We will make the transfer as of the date we receive a written request for it, BUT WE WILL ONLY PROCESS A TRANSFER OUT OF THE GUARANTEED INVESTMENT DIVISION IF WE RECEIVE IT WITHIN 30 DAYS AFTER A POLICY ANNIVERSARY. The maximum amount that you may transfer is the greater of 25% of the unloaned value in the Guaranteed Interest Division on the date the transfer takes effect or the minimum transfer amount shown in the Policy when we issued it. The smallest amount that you may transfer is the lesser of the unloaned value in the Guaranteed Interest Division on the date the transfer takes effect or the minimum transfer amount shown in the Policy.

BORROWING FROM THE POLICY ACCOUNT

At any time that a Policy has a net cash surrender value, you may borrow money from us using only your Policy as security for the loan. The maximum aggregate amount that we will loan is 90% of the cash surrender value of the Policy on the business day we receive the request for a loan. Any new loan must be at least the minimum amount shown on the Policy Information page of a Policy, usually $500. Any amount that secures a loan remains part of the Policy Account but is assigned to the Guaranteed Interest Division. This loaned amount earns interest at a rate that we expect will be different from the interest rate for unloaned amounts in the Guaranteed Interest Division. See "Federal Tax Considerations," on page 50, with respect to the federal income tax consequences of a loan.

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LOAN REQUESTS

Send requests for loans to us. You may specify how much of the loan should be taken from the unloaned amount, if any, of your Policy Account allocated to the Guaranteed Interest Division and how much should be taken from the amounts allocated to the variable investment divisions. If you request a loan from a variable investment division, we will redeem units sufficient to cover that part of the loan and transfer the amount to the loaned portion of the Guaranteed Interest Division. We determine the amounts in each division as of the day we receive the request for a loan.

If you do not specify how to allocate a loan, we will allocate it according to your deduction allocation percentages. If we cannot allocate it based on these percentages, we will allocate it based on the proportions of the unloaned amount, if any, of your Policy Account allocated to the Guaranteed Interest Division and the respective amounts allocated to each variable investment division to the unloaned value of the Policy Account.

POLICY LOAN INTEREST

Interest on a Policy loan accrues daily at an adjustable interest rate. We determine the rate at the beginning of each Policy year. The same rate applies to any outstanding Policy loans and any new amounts borrowed during the year. We will notify you of the current rate when you request a loan. We determine loan rates as follows:

The maximum rate is the greater of:

- 5 1/2% ; or

- the "Published Monthly Average" for the calendar month that ends two months before the interest rate is set. The "Published Monthly Average" is the Monthly Average Corporate yield shown in Moody's Corporate Bond Yield Averages published by Moody's Investor Services, Inc.

If this average is no longer published, we will use any successor or the average established by the insurance supervisory official of the jurisdiction in

which we delivered the Policy.

We will not charge more than the maximum rate permitted by applicable law. We may also set a rate lower than the maximum.

Any change in the rate from one year to the next will be at least 1/2 of 1%. The current loan interest rate will only change, therefore, if the Published Monthly Average differs from the previous loan interest rate by at least 1/2 of 1%. We will give advance notice of any increase in the interest rate on any loans outstanding.

WHEN INTEREST IS DUE

Interest on any money you borrow from your Policy Account is due on each Policy anniversary. If you do not pay interest when it is due, we will add it to the outstanding loan and

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allocate it based on the deduction allocation percentages for the Policy Account then in effect. This means that we make an additional loan to pay the interest, and transfer amounts from the variable investment divisions and the unloaned portion of the Guaranteed Interest Division to make the loan. If we cannot allocate the interest based on these percentages, we will allocate it as described above for allocating the loan.

REPAYING THE LOAN

You may repay all or part of a Policy loan at any time while the Insured Person is alive and a Policy is in force, provided that any loan repayment currently must be at least $100 (unless the amount of the outstanding loan and loan interest is less than $100). While a Policy loan is outstanding, we will apply all amounts we receive in respect to that Policy as a loan repayment unless you include with the payment written instructions that we should apply it as a premium payment.

We will first allocate loan repayments to the Guaranteed Interest Division until the amount of any loans originally allocated to that division is repaid. For example, if you borrowed $500 from the Guaranteed Interest Division and $500 from the Fidelity VIP Equity - Income Division, we will not allocate repayments to the Fidelity VIP Equity - Income Division until the $500 borrowed from the Guaranteed Interest Division is repaid. After you have repaid this amount, you may specify how we should allocate subsequent repayments. If you do not give us instructions, we will allocate repayments based on current premium allocation percentages at the time you make the repayment.

THE EFFECTS OF A POLICY LOAN ON THE POLICY ACCOUNT

A loan against a Policy will have a permanent effect on the value of the Policy Account and, therefore, on benefits under the Policy, even if you repay it. When we make a loan against a Policy, the amount of the loan is set aside in the Guaranteed Interest Division where it earns a declared rate for loaned amounts. The loan amount will not be available for investment in the variable investment divisions or in the unloaned portion of the Guaranteed Interest Division.

We expect the interest rate credited to loaned amounts in the Guaranteed Interest Division to be different from the rate that applies to unloaned amounts in the Guaranteed Interest Division. Currently, the interest rate for loaned amounts in all years in the Guaranteed Interest Division is 2% less than the interest rate charged on the loan, minus any charge for taxes or reserves for taxes, but never less than 4 1/2%. Each month, we add this interest to unloaned amounts of the Policy Account in the Guaranteed Interest Division.

The impact of a loan on a Policy Account will depend, on one hand, on the investment experience of the variable investment divisions and the rates declared for the unloaned portion of the Guaranteed Interest Division and, on the other hand, the rates declared for the loaned portion of the Guaranteed Interest Division. For example, if $1,000 is borrowed against $5,000 in the Fidelity VIP Money Market division, the $1,000 will be set aside in the Guaranteed Interest Division. This $1,000 would not be affected by any increases or decreases in the value of units in the Fidelity VIP Money Market division. However, the $1,000 earns interest at a declared interest rate.

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A Policy loan may also affect the amount of time that the insurance provided by a Policy remains in force. For example, a Policy may lapse more quickly when a loan is outstanding because you cannot use the loaned amount to cover monthly charges against the Policy Account. This may have negative tax consequences. If the monthly charges exceed the net cash surrender value of the Policy, then the lapse provisions of the Policy will apply. Since the Policy permits loans up to 90% of the cash surrender value, you may have to pay additional premium payments to keep the Policy in force if you borrowed the maximum amount. For more information about these provisions, see "Policy Lapse and Reinstatement," on page 49 of this prospectus.

WITHDRAWING MONEY FROM THE POLICY ACCOUNT

After a Policy has been in effect for a year, you may request a partial surrender of the net cash surrender value by sending us a written request. The partial surrender and any reductions in Face Amount and net cash surrender value will be effective as of the business day we receive the request for them. Any partial surrender is subject to certain conditions. It must:

- be at least $500;
- not cause the death benefit or Face Amount to fall below the minimum for which we would issue the Policy; and
- not cause the Policy to fail to qualify as life insurance under applicable law.

You may specify how much of the partial surrender you want taken from each investment division. If you do not give us instructions, we will make the partial surrender on the basis of the then-current deduction allocation percentages. If we cannot withdraw the amount based on your directions or on the deduction allocation percentages, we will withdraw the amount based on the proportions of the unloaned amount, if any, of the Policy Account allocated to the Guaranteed Interest Division and the respective amounts allocated to the variable investment divisions to the total unloaned value of the Policy Account. For example, if 50% of a Policy Account were in the Guaranteed Interest Division and 50% were in the Fidelity VIP Money Market Division and you wanted to withdraw $1,000, we would take $500 from each division.

When you make a partial surrender of net cash surrender value, we assess a partial surrender processing fee against the Policy Account of a maximum of the lesser of $25 or 2% of the partial surrender amount. This charge is currently $10. We will allocate this charge equally among the divisions from which the partial surrender was made. If we cannot allocate the charge in this manner, we will allocate it as described under "Charges under the Policy - Allocation of Policy Account Charges," on page 47.

A partial surrender of net cash surrender value reduces the amount in the Policy Account. It also reduces the cash surrender value and the death benefit on a dollar-for-dollar basis. If the death benefit based on a percentage multiple applies, the reduction in death benefit can be greater. See "Policy Features - Death Benefits," on page 23.

If you elected death benefit Option A, we will also reduce the Face Amount of the Policy by the amount of the partial surrender so there will be no change in the net amount at risk. We will not assess a surrender charge in connection with the reduction in Face Amount. We will

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send you an endorsement to reflect this change. We may ask you to return the Policy to us so that we can make a change. A partial surrender will not affect the Face Amount of the Policy if death benefit Option B is in effect. See "Federal Tax Considerations," on page 50, for the tax consequences of a partial surrender. A Policy loan may be more advantageous if your need for cash is temporary.

SURRENDERING THE POLICY FOR ITS NET CASH SURRENDER VALUE

During the first ten Policy years, the cash surrender value of a Policy is the amount in the Policy Account minus the surrender charge described under "Charges under the Policy - Transaction Fees - Surrender Charge," on page 43. After ten Policy years, the cash surrender value and Policy Account are the same. Especially during the initial Policy years, the applicable surrender

charge may be a substantial portion of the premiums paid.

You may surrender a Policy for its net cash surrender value at any time while the Insured Person is living. You can do this by sending to us the Policy and a written request in a form satisfactory to us. The net cash surrender value of the Policy equals the cash surrender value minus any outstanding loan and loan interest. We will compute the net cash surrender value as of the business day we receive a request for surrender and the Policy, and all insurance coverage under the Policy will end on that date. See "Federal Tax Considerations," on page 50, for the tax consequences of a surrender.

POLICY PAYMENTS

PAYMENT OPTIONS

We can pay Policy benefits or other payments, such as the net cash surrender value or death benefit, immediately in one sum, or in another form of payment described below. Payments under these options do not depend on the investment experience of any variable investment division because none of the payment options is a variable payment option. Instead, interest accrues pursuant to the options chosen. (Such interest will be appropriately includable in federal gross income of the beneficiary). If you do not arrange for a specific form of payment before the Insured Person dies, the beneficiary will have the choice. However, if you make an arrangement for payment of the money, the beneficiary cannot change that choice after the Insured Person dies. Payment options will also be subject to our rules at the time of selection. Currently, you can pick these alternate payment options only if the proceeds applied are $1,000 or more and any periodic payment will be at least $20.

The following payment options are generally available:

Income Payments for a Fixed Period. We will pay the amount applied in equal installments (including applicable interest) for a specific number of years, for up to 30 years.

Life Income with Payments Guaranteed for a Fixed Term of Years. We will make payment at agreed intervals for a definite number of equal payments and as long thereafter as the payee lives. You (or the beneficiary in some cases) may choose any one of four definite periods: 5, 10, 15 or 20 years.

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Proceeds at Interest. The money will stay on deposit with us while the payee is alive. Interest will accrue on the money at a declared interest rate, and interest will be paid at agreed-upon intervals.

Fixed Amount. We will pay the sum in installments in a specified amount. Installments will be paid until the original amount, together with any interest, has been exhausted.

We guarantee interest under the foregoing options at the rate of 3% a year.

We may also pay or credit excess interest on the options from time to time. We will determine the rate and manner of payment or crediting. Under the second option we will pay no excess interest on the part of the proceeds used to provide payments beyond the fixed term of years.

The beneficiary or any other person who is entitled to receive payment may name a successor to receive any amount that would otherwise be paid to that person's estate if that person died. No successor may be named if a payment option chosen is contingent on the life of a beneficiary. The person who is entitled to receive payment may change the successor at any time.

We must approve any arrangements that involve more than one of the payment options, or a payee who is not a natural person (for example, a corporation), or a payee who is a fiduciary. Also, the details of all arrangements will be subject to our rules at the time the arrangements take effect. This includes rules on the minimum amount payable under an option, minimum amounts for installment payments, withdrawal or commutation rights (rights to cancel an arrangement involving payments over time in return for a lump sum payment), the naming of people who are entitled to receive payment and their successors and the ways of proving age and survival.

You may change your choice of a payment option (and may make later changes) and that change will take effect in the same way as it would if a beneficiary were being changed. See "The Beneficiary," on page 39. Any amounts we pay under the payment options will not be subject to the claims of creditors or to legal process, to the extent that the law provides.

We may be required under applicable law to block a request for payment under a Policy until we receive instructions from the appropriate regulator.

THE BENEFICIARY

You must name a beneficiary when you apply for a Policy. The beneficiary is entitled to the insurance benefits of the Policy. You may change the beneficiary during the Insured Person's lifetime by sending us written notice satisfactory to us. The change will take effect on the date the notice is signed. However, the change will be subject to all payments made and actions we took under the Policy before we received the notice. Changing the beneficiary will cancel any previous arrangement made as to a payment option for benefits. You can pick a payment option for the new beneficiary.

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At the time of the Insured Person's death, we will pay the benefit equally to the primary beneficiaries, or, if no primary beneficiaries are living, the first contingent beneficiaries (if any), or, if no primary or first contingent beneficiaries are living, the second contingent beneficiaries (if any). If no beneficiary is living when the Insured Person dies, we will pay the death benefit to you or to your executors or administrators.

ASSIGNMENT OF A POLICY

You may assign (transfer) your rights in a Policy to someone else as collateral for a loan or for some other reason. We will not be bound by an assignment unless it is received in writing. You must provide us with two copies of the assignment. We are not responsible for any payment we make or any action we take before we receive a complete notice of the assignment in good order. We are also not responsible for the validity of the assignment. An absolute assignment is a change of ownership. Because there may be unfavorable tax consequences, including recognition of taxable income and the loss of income tax-free treatment for any death benefit payable to the beneficiary, you should consult a qualified tax adviser before making an assignment.

PAYMENT OF PROCEEDS

We generally will pay any death benefits, net cash surrender value or loan proceeds within seven days after we receive the required form or request (and other documents that may be required) at our Administrative Center, shown under "Contact Information" on page 5. We determine death benefits as of the date of death of the Insured Person. Subsequent changes in the unit values of the variable investment divisions will not affect death benefits. We will pay interest covering the period from the date of death to the date of payment.

We may defer determination of values and payment for one or more of the following reasons:

- We contest the Policy, or we are deciding whether or not to contest the Policy;
- the NYSE is closed other than weekend and holiday closings;
- trading on the NYSE is restricted;
- an emergency exists as determined by the SEC or other appropriate regulatory authority such that disposal of securities or determination of the value of the variable investment divisions is not reasonably practicable;
- the SEC by order so permits for the protection of Policy Owners; or
- we are on notice that the Policy is the subject of a court proceeding, an arbitration, a regulatory matter or other legal action.

We may defer payment of any net cash surrender value or loan amount from the Guaranteed Interest Division for up to six months after receipt of a request. We will pay interest

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of at least 3% a year from the date we receive a request for withdrawal of net cash surrender value if payment from the Guaranteed Interest Division is delayed more than 30 days.

DELAY REQUIRED UNDER APPLICABLE LAW

We may be required under applicable law to block a request for payment under a Policy until we receive instructions from the appropriate regulator.

ADDITIONAL RIGHTS THAT WE HAVE

We have the right at any time to:

- transfer the resulting balance in an investment division in accordance with any transfer request you make that reduces your accumulation value for that division to below $500;

- transfer the entire balance in proportion to any other investment divisions you then are using, if the accumulation value in an investment division is below $500 for any other reason;

- replace the underlying Fund that any investment division uses with another fund, subject to SEC and other required regulatory approvals;

- add, delete or limit investment divisions, combine two or more investment divisions, or withdraw assets relating to the Policies from one investment division and put them into another, subject to SEC and other required regulatory approvals;

- operate the Separate Account under the direction of a committee or discharge such a committee at any time;

- change our underwriting and risk class guidelines;

- operate the Separate Account, or one or more investment options, in any other form the law allows, including a form that allows us to make direct investments. The Separate Account may be charged an advisory fee if its investments are made directly rather than through another investment company. In that case, we may make any legal investments we wish; or

- make other changes in the Policy that in our judgment are necessary or appropriate to ensure that the Policy continues to qualify for tax treatment as life insurance, or that do not reduce any cash surrender value, death benefit, accumulation value, or other accrued rights or benefits.

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VARIATIONS IN POLICY OR INVESTMENT DIVISION TERMS AND CONDITIONS

We have the right to make some variations in the terms and conditions of a Policy or its investment divisions. Any variations will be made only in accordance with uniform rules that we establish. We intend to comply with all applicable laws in making any changes and, if necessary, we will seek Policy Owner approval and SEC and other regulatory approvals. Here are some of the potential variations:

POLICIES PURCHASED THROUGH "INTERNAL ROLLOVERS"

We maintain published rules that describe the procedures necessary to replace life insurance policies we have issued. Not all types of other insurance are eligible to be replaced with a Policy. Our published rules may be changed from time to time, but are evenly applied to all our customers.

STATE LAW REQUIREMENTS

AGL is subject to the insurance laws and regulations in every jurisdiction in which the Policies are sold. As a result, various time periods and other terms and conditions described in this prospectus may vary depending on where you reside. These variations will be reflected in your Policy and related endorsements.

EXPENSES OR RISKS

AGL may vary the charges and other terms within the limits of the Policy

where special circumstances result in sales, administrative or other expenses, mortality risks or other risks that are different from those normally associated with the Policy.

UNDERLYING INVESTMENTS

You will be notified as required by law if there are any material changes in the underlying investments of an investment division that you are using.

CHARGES UNDER THE POLICY

Generally, we allocate monthly charges or certain transaction fees among the variable investment divisions and the unloaned portion of the Guaranteed Interest Division in accordance with the deduction allocation percentages you specify in your application, or in accordance with your subsequent instructions. However, we generally make deductions for the first Policy month from the Fidelity VIP Money Market division.

The following information describes the charges under the Policy as shown beginning on page 11 in the "Tables of Charges" section. Please review both prospectus sections, and the Policy form itself, for information on charges. We deduct the charges described below to cover costs and expenses, services provided, and risks assumed under the Policies. The amount of a charge may not necessarily correspond to the cost of providing the services or benefits indicated

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by the designation of the charge or associated with the particular Policy. For example, the surrender charge may not fully cover all of the sales and distribution expenses we actually incur, and we may use proceeds from other charges, including the mortality and expense risk charge and the cost of insurance charge, to cover such expenses.

TRANSACTION FEES

Statutory Premium Taxes. All states and certain other jurisdictions tax premium payments (the deduction is called a tax charge back if we issued your Policy in Oregon). Taxes currently range up to 3.5%. We deduct the applicable tax from each premium payment. This is a tax to AGL, so you cannot deduct it on your income tax return. The amount of the tax will vary depending on where you live. Since the tax deduction is a percentage of your premium, the amount of the tax will also vary with the amount of the premium payment. If you change your place of residence, we will change the deduction to match the new tax rate. Please notify us if you move.

Surrender Charge (for full surrenders). Your Policy Information page shows the maximum surrender charge, which will equal 50% of one Target Premium. This maximum will not vary with the amount of premiums paid or when they are paid. At the end of the sixth Policy year, and at the end of each of the four succeeding Policy years, the maximum surrender charge will decrease by 20% of the initial maximum surrender charge. After the end of the tenth Policy year, there is no surrender charge.

The maximum surrender charge will not be more than 50% of one Target Premium. Subject to the maximum surrender charge, we calculate the surrender charge based on actual premium payments. The surrender charge we currently assess equals the sum of

- 30% of premium payments you make during the first Policy year up to the amount of one Target Premium, and

- 9% of any additional premiums you pay during the first through tenth Policy years.

Under the Policy's formula used to calculate surrender charges, paying less than one Target Premium in the first Policy year results in a surrender charge of less than the maximum surrender charge in the first year. If you continue to pay less than one Target Premium in the following years, you can surrender your Policy and pay less than the maximum surrender charge. Keep in mind, however, that the less premiums you pay, the less value your Policy will have to pay monthly charges, which increases the possibility your Policy will lapse. In addition, paying less premiums may increase cost of insurance charges (which are based on amount at risk).

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Assume a $200,000 initial Face Amount Policy for a male age 40. This Policy would have a Target Premium of $2,280 and a maximum surrender charge of $1,140 ($2,280 x 50%). Also, assume that all premium payments are made at the beginning of each Policy year and that no benefit riders have been selected. The following table shows the surrender charge only which would apply under different premium payment assumptions if surrender of the Policy were to occur during the indicated Policy year.

DURING YEAR	PREMIUM PAYMENT ASSUMPTIONS	CHARGE	PREMIUM PAYMENT ASSUMPTIONS	CHARGE	PREMIUM PAYMENT ASSUMPTIONS	CHARGE
1	$3000	$ 749	$2280	$ 684	$1140	$ 342
2	3000	1019	2280	889	3420	650
3	3000	1140	2280	1094	2280	855
4	3000	1140	2280	1140	2280	1060
5	3000	1140	2280	1140	2280	1140
6	3000	1140	2280	1140	2280	1140
7	3000	912	2280	912	2280	912
8	3000	684	2280	684	2280	684
9	3000	456	2280	456	2280	456
10	3000	228	2280	228	2280	228

We reduce the maximum surrender charge by the amount of any pro rata surrender charge we previously imposed in connection with a decrease in the Face Amount.

Surrender Charge (for Face Amount decreases). During the first ten Policy years, we will treat a decrease in the Face Amount of a Policy as a surrender, and we will deduct a portion of the surrender charge. If the Face Amount of a Policy increases and then decreases, a surrender charge will apply only to a decrease below the original Face Amount (i.e., the Face Amount when we issue the Policy). Generally, we determine the pro rata surrender charge for a partial surrender by dividing the amount of the Face Amount decrease (excluding the portion that merely reverses a prior increase) by the original Face Amount and

multiplying the fraction by the surrender charge that would apply to a total surrender.

For example, assume that we issue a Policy for a male age 40 with a Face Amount of $200,000. In the third Policy year, you decide to decrease this Face Amount by $100,000. Assume also that you paid an annual premium of $3,000 for each of the first three Policy years and that the maximum surrender charge for the third Policy year is $1,140. To determine the pro rata surrender charge:

Divide the amount of the Face Amount decrease by the initial Face Amount. ($100,000/$200,000 = .5)

Then multiply this fraction by the surrender charge in effect before the decrease.

Pro rata surrender charge = .5 x $1,140 = $570.

Thus, you would be charged $570 for decreasing the Face Amount of this Policy from $200,000 to $100,000 during the third Policy year. The maximum surrender charge you might pay in the future would be reduced proportionately. We would send you a new Policy Information page that shows the new maximum charges. You will pay the maximum only if you surrender the Policy or let the Policy lapse after you pay enough premiums to reach the maximum.

Partial Surrender Processing Fee. For withdrawals of less than your full Policy Account value, we will deduct a maximum fee equal to the lesser of 2% of the amount withdrawn or $25 for each partial surrender you make. This charge is currently $10. We use this charge to help pay for the expense of making a partial surrender. See "Policy Account Transactions - Withdrawing Money from the Policy Account" on page 37.

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We do not charge a partial surrender processing fee for Face Amount decreases.

Face Amount Increase Charge. There is an administrative charge that is currently $1.50 for each $1,000 of Face Amount increase up to a maximum charge of $300. See "Policy Features - Changes in EquiBuilder II Policies," on page 27.

Transfers. If you make more than four transfers of Policy Account value in a Policy year among variable investment divisions, we may charge up to $25 for each additional transfer in that Policy year. Our current practice is to assess the $25 charge for each transfer after the twelfth transfer in a Policy year. However, if you transfer all of the assets to the Guaranteed Interest Division, we will not impose any transfer charge. See "Policy Account Transactions - Transfers of Policy Account Value Among Investment Divisions," on page 32. We will consider a request for transfer involving the simultaneous transfer of funds from or to more than one investment division to be one transfer.

Policy Owner Additional Illustration Charge. If you request more than one illustration of projected death benefits and Policy Account and cash surrender values in a Policy year, we may charge a $25 fee.

PERIODIC CHARGES

At the beginning of each Policy month, we deduct the following charges from each Policy Account.

Administrative Charge. At the beginning of each of the first 12 Policy months that a Policy is in effect, we will also deduct an administrative charge of $30 per month. After the first 12 Policy months, the current charge will be $6 per month. We may raise this $6 charge to reflect higher costs, but we guarantee it will never be more than $12 per month.

For the first 12 Policy months, we use this charge to recover costs of issuing and placing the Policy such as application processing, medical examinations, establishment of Policy records and underwriting costs (determining insurability and assigning the Insured Person to a risk class). After the first 12 Policy months, this charge is used to cover the continuing costs of maintaining the EquiBuilder II Policies, such as premium billing and collection, claim processing, Policy transactions, record keeping, other expenses, overhead, and communications with Policy Owners, such as regulatory mailings and responding to Policy Owners' requests.

Cost of Insurance Charge. The monthly cost of insurance is our current monthly cost of insurance rate multiplied by the net amount at risk at the

beginning of the Policy month divided by $1,000. The net amount at risk is the difference between the current death benefit and the amount in the Policy Account. If the current death benefit for the month rises due to the requirements of federal tax law (see "Policy Features - Death Benefits," on page 23), the net amount at risk for the month will also rise.

For this purpose we determine the amount of each Policy Account before deducting the cost of insurance charge, but after all other charges due on that date. The cost of insurance charge will vary from month to month with changes in the net amount at risk and with the Insured Person's increasing age.

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We base the cost of insurance rates on the Insured Person's sex, age and risk class and the Face Amount of the Policy at the time of the charge. We may change these rates from time to time, but they will never be more than the maximum guaranteed rates set forth in a particular Policy. We base the maximum guaranteed charges on the Commissioner's 1980 Standard Ordinary Male and Female Mortality Tables.

In Montana and Massachusetts cost of insurance rates will not vary based on sex. Where required, we will provide cost of insurance charges that do not distinguish between males and females. See "Employee Benefit Plans" on page 7 of the SAI.

Mortality and Expense Risk Charge. We deduct a charge from the variable investment divisions for assuming mortality and expense risks. The mortality risk that we assume is that Insured Persons will live for shorter periods than estimated. When this happens, we have to pay a larger death benefit than expected in relation to the cost of insurance charges we received. The expense risk we assume is that the cost of issuing and administering Policies will be greater than we expected. We assess a daily charge for mortality and expense risks at an annual effective rate of 0.75% of the value of the assets in the Separate Account attributable to EquiBuilder II Policies. This charge affects the unit values for the variable investment divisions. See "Policy Account Value - Determination of the Unit Value" on page 48.

We may profit from this charge and may use such profits for any lawful purpose including paying distribution expenses.

Fees and Expenses and Money Market Investment Division. During periods of low short-term interest rates, and in part due to Policy fees and expenses that are assessed as frequently as daily, the yield of the money market investment division may become extremely low and possibly negative. If the daily dividends paid by the underlying mutual fund for the money market investment division are less than the Policy's fees and expenses, the money market investment division's unit value will decrease. In the case of negative yields, your accumulation value in the money market investment division will lose value.

Optional Rider Charges. We will deduct the cost of any additional (optional) benefit riders on a monthly basis. We may change these charges, but each Policy contains tables showing the guaranteed maximum rates for all of these insurance costs. See "Tables of Charges" on page 11.

ANNUAL FUND EXPENSES

The value of the net assets of each variable investment division reflects the management fees and other expenses incurred by the corresponding Fund in which the variable investment division invests. For further information, consult the Funds' prospectuses and the "Tables of Charges" section in this prospectus.

We guarantee that the fees for partial withdrawals, increases in Face Amounts and for transfers will never exceed the Maximum Guaranteed Charges shown in the "Tables of Charges." See also "Charges Under the Policy - Transaction Fees - Surrender Charge," on page 43.

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ALLOCATION OF POLICY ACCOUNT CHARGES

Allocation percentages for deductions may be any whole numbers (from zero to one hundred) which add up to one hundred. You may change deduction allocation

percentages by giving us instructions. Changes will be effective as of the date we receive your instructions in good order.

We will subtract charges for partial withdrawals of net cash surrender value and transfers of Policy Account values equally among the divisions from which the transactions were made. If we cannot make the charge this way, we will make it based on the proportion of the unloaned amounts in the Guaranteed Interest Division, if any, and the amounts in the variable investment divisions, to the total unloaned value of the Policy Account.

POLICY ACCOUNT VALUE

The amount in a Policy Account is the sum of the amounts allocated to the Guaranteed Interest Division and to the variable investment divisions. The amount in a Policy Account also reflects various deductions and charges. We deduct monthly charges on the first day of each Policy month. We deduct transaction charges or surrender charges on the effective date of the transaction.

Charges against the Separate Account are reflected daily. Any amount you allocate to a variable investment division will increase or decrease depending on the investment experience of that division, and there is no guaranteed minimum cash value. We guarantee the value of amounts in a Policy Account you allocate to the Guaranteed Interest Division, and interest credited to those amounts. See "The Guaranteed Interest Division" on page 22.

AMOUNTS IN THE VARIABLE INVESTMENT DIVISIONS

We use amounts you allocate, transfer or add to the variable investment divisions to purchase units representing undivided interests in the various divisions. The value of the units we credit to the Policy Account for a division represents the amount in that division. We calculate the number of units purchased or redeemed in a variable investment division by dividing the dollar amount of the transaction by the division's unit value next calculated at the close of business on the effective date of the transaction. (See "Policy Account Transactions" on page 31 regarding the effective dates of Policy Account transactions.)

The number of units changes only when you purchase or redeem them, but the value of a unit will change with the investment performance of the corresponding Fund. The value of a unit also reflects charges we assess against the Separate Account. On any given day, the value your Policy Account has in a variable

investment division is the unit value times the number of units you have in that division. The units of each variable investment division have different unit values.

You purchase units of a variable investment division when you allocate premiums, repay loans or transfer amounts to that division. You redeem or sell units when you make withdrawals or transfer amounts from a variable investment division (including transfers for loans) or when

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we pay a death benefit when the Insured Person dies. We also redeem units for monthly charges or other charges from the Separate Account.

BUSINESS DAY AND CLOSE OF BUSINESS

We compute unit values for each variable division on each day that the NYSE is open for business. We call each such day a "business day." We compute Policy values as of the time the NYSE closes on each business day, which usually is 3:00 p.m. Central time. We call this our "close of business." We are closed only on those holidays the NYSE is closed.

Generally we consider that we have received a premium payment or another communication from you on the day we actually receive it in good order at any of the addresses shown on page 5 of this prospectus. If we receive it after the close of business on any business day, however, we consider that we have received it on the business day following that business day. Any premium payments we receive after our close of business are held in our general account until the next business day.

DETERMINATION OF THE UNIT VALUE

The initial unit value for each investment division was set at $100. Subsequently, the unit value for any business day equals the unit value for the preceding business day multiplied by the net investment factor for that division on that business day.

We determine a net investment factor for each variable investment division every business day as follows:

- First, each Fund produces a price per Fund share following each close of the NYSE and provides that price to us;

- Next, we determine the value of the shares belonging to the division in the corresponding Fund at the close of business that day (before giving effect to any Policy transactions for that day, such as premium payments or surrenders);

- Then, we add any dividends or capital gains distributions paid for the corresponding Fund on that day;

- Then, we divide this sum by the value of the amounts in the investment division at the close of business on the immediately preceding business day (after giving effect to any Policy transactions on that day);

- Then, we subtract a daily mortality and expense risk charge for each calendar day between business days. (For example, a Monday calculation may include charges for Saturday and Sunday). The daily charge is 0.00002063, which is an annual effective rate of 0.75%; and

- Finally, we subtract any daily charge for taxes or amounts set aside as a reserve for taxes.

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Generally, this means that unit values are adjusted to reflect what happens to the Funds, and also for the mortality and expense risk charge and any charge for taxes.

POLICY LAPSE AND REINSTATEMENT

LAPSE OF THE POLICY

If the net cash surrender value is insufficient to pay the charges that are made against the Policy Account each month, or if the total of any Policy loan plus loan interest exceeds the cash surrender value, we will start procedures to terminate the Policy. We will notify you and any assignee shown on our records in writing that the net cash surrender value is insufficient to pay monthly charges or that an outstanding Policy loan plus loan interest exceeds the cash surrender value of the Policy. In either case, we will notify you and give you a grace period of 61 days to pay an additional premium to prevent lapse of the Policy, and that you must pay an amount of premium that we determine will cover estimated monthly charges for three months, plus any loan interest due, to avoid lapse of the Policy. The grace period begins with the first day of the Policy month for which all charges could not be paid.

If we receive at least the amount to cover three months' charges, plus any loan interest due, before the end of the grace period, we will use the payment to satisfy the overdue charges. We will place any remaining balance in the Policy Account, and will allocate it in the same manner as previous premium payments. We will apply a payment of less than the specified amount we receive before the end of the grace period to overdue charges. This will not prevent lapse of the Policy.

If we do not receive at least the amount to cover three months' charges, plus any loan interest due, within the 61 days, the Policy will lapse without value. We will withdraw any amount left in your Policy Account and apply this amount to the charges owed us, including any applicable surrender charge. We will inform you that your Policy has ended without value.

If the Insured Person dies during the grace period, we will pay the insurance benefits to the beneficiary, minus any outstanding Policy loan and loan interest and overdue charges.

REINSTATEMENT OF THE POLICY

You may reinstate your Policy within three years after it lapses if:

- you provide evidence that the Insured Person is still insurable; and

- you send us a premium payment sufficient to keep the Policy in force for three months after the date it is reinstated.

The effective date of the reinstated Policy will be the beginning of the Policy month which coincides with or follows the date we approve the reinstatement application. Upon reinstatement, we will reduce your maximum surrender charge by the amount of all surrender charges you have already paid. We will calculate future surrender charges as if the Policy had been in force since the original Register Date. We will not reinstate previous loans.

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FEDERAL TAX CONSIDERATIONS

Generally, the death benefit paid under a Policy is not subject to income tax. Earnings on your accumulation value are not subject to income tax as long as we do not pay them out to you. If we do pay any amount of your Policy's accumulation value upon surrender, partial surrender, or maturity of your Policy, all or part of that distribution may be treated as a return of the premiums you paid, which is not subject to income tax.

Amounts you receive as Policy loans are not taxable to you, unless you have paid such a large amount of premiums that your Policy becomes what the tax law calls a "modified endowment contract." In that case, the loan will be taxed as if it were a partial surrender. Furthermore, loans, partial surrenders and other distributions from a modified endowment contract may require you to pay additional taxes and penalties that otherwise would not apply. If your Policy lapses, you may have to pay income tax on a portion of any outstanding loan.

This discussion is based on current federal income tax law and interpretations. It assumes that the Policy Owner is a natural person who is a U.S citizen or U.S. resident. The consequences for corporate taxpayers, non-U.S. residents or non-U.S. citizens, may be different. The following discussion of federal income tax treatment is general in nature and is not intended as tax advice. You should consult with a competent tax adviser to determine the specific tax treatment of your Policy based on your individual factual situation.

General. The Policy will be treated as "life insurance" for federal income

tax purposes (a) if it meets the definition of life insurance under Section 7702 of the Internal Revenue Code of 1986, as amended (the "Code") and (b) for as long as the investments made by the underlying Mutual Funds satisfy certain investment diversification requirements under Section 817(h) of the Code. We believe that the Policy will at issue meet these requirements and that:

- the death benefit received by the beneficiary under your Policy will generally not be subject to federal income tax; and

- increases in your Policy's accumulation value as a result of interest or investment experience will not be subject to federal income tax unless and until there is a distribution from your Policy, such as a surrender or a partial surrender.

The federal income tax consequences of a distribution from your Policy can be affected by whether your Policy is determined to be a "modified endowment contract," as explained in the following discussion. In all cases, however, the character of all income that is described as taxable to the payee will be ordinary income (as opposed to capital gain).

TESTING FOR MODIFIED ENDOWMENT CONTRACT STATUS

The Code provides for a "seven-pay test." This test determines if your Policy will be a "modified endowment contract."

If, at any time during the first seven Policy years:

- you have paid a cumulative amount of premiums;

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- the cumulative amount exceeds the premiums you would have paid by the same time under a similar fixed-benefit insurance policy; and

- the fixed benefit policy was designed (based on certain assumptions mandated under the Code) to provide for paid-up future benefits

("paid-up" means no future premium payments are required) after the payment of seven level annual premiums;

then your Policy will be a modified endowment contract.

Whenever there is a "material change" under a policy, the policy will generally be (a) treated as a new contract for purposes of determining whether the policy is a modified endowment contract and (b) subjected to a new seven-pay period and a new seven-pay limit. The new seven-pay limit would be determined taking into account, under a prescribed formula, the accumulation value of the policy at the time of such change. A materially changed policy would be considered a modified endowment contract if it failed to satisfy the new seven-pay limit at any time during the new seven-pay period. A "material change" for these purposes could occur as a result of a change in death benefit option. A material change will occur as a result of an increase in your Policy's specified amount, and certain other changes.

If your Policy's benefits are reduced during the first seven Policy years (or within seven years after a material change), the calculated seven-pay premium limit will be redetermined based on the reduced level of benefits and applied retroactively for purposes of the seven-pay test. (Such a reduction in benefits could include, for example, a decrease in the specified amount that you request or that results from a partial surrender). If the premiums previously paid are greater than the recalculated seven-payment premium level limit, the Policy will become a modified endowment contract.

We will monitor your Policy and attempt to notify you on a timely basis to prevent additional premium payments from causing your Policy to become a modified endowment contract.

A life insurance Policy that is received in a tax free exchange under Section 1035 of the Code for a modified endowment contract will also be considered a modified endowment contract.

OTHER EFFECTS OF POLICY CHANGES

Changes made to your Policy (for example, a decrease in specified amount that you request or that results from a partial surrender that you request) may also have other effects on your Policy. Such effects may include impacting the maximum amount of premiums that can be paid under your Policy, as well as the maximum amount of accumulation value that may be maintained under your Policy. Under Notice 2006-95 published by the Internal Revenue Service, certain policy

changes, not expressly provided for in your Policy, may have adverse federal income tax effects. You should consult your own competent, professional tax advisor on this issue.

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RIDER BENEFITS

We believe that premium payments and any death benefits or other benefits to be paid under any rider you may purchase under your Policy will not disqualify your Policy as life insurance for tax purposes. However, the tax law related to rider benefits is complex and some uncertainty exists. You should consult a qualified tax adviser regarding the impact of any rider you may purchase.

TAXATION OF PRE-DEATH DISTRIBUTIONS IF YOUR POLICY IS NOT A MODIFIED ENDOWMENT CONTRACT

As long as your Policy remains in force during the insured person's lifetime and not as a modified endowment contract, a Policy loan will be treated as indebtedness, and no part of the loan proceeds will be subject to current federal income tax. Interest on the Policy loan generally will not be tax deductible.

After the first 15 Policy years, the proceeds from a partial surrender will not be subject to federal income tax except to the extent such proceeds exceed your "basis" in your Policy. (Your basis generally will equal the premiums you have paid, less the amount of any previous distributions from your Policy that were not taxable.) During the first 15 Policy years, however, the proceeds from a partial surrender could be subject to federal income tax, under a complex formula, to the extent that your accumulation value exceeds your basis in your Policy.

On the maturity date or upon full surrender, any excess in the amount of proceeds we pay (including amounts we use to discharge any Policy loan) over your basis in the Policy, will be subject to federal income tax. In addition, if

a Policy ends after a grace period while there is a Policy loan, the cancellation of such loan and any accrued loan interest will be treated as a distribution and could be subject to federal income tax under the above rules. Finally, if you make an assignment of rights or benefits under your Policy you may be deemed to have received a distribution from your Policy, all or part of which may be taxable.

TAXATION OF PRE-DEATH DISTRIBUTIONS IF YOUR POLICY IS A MODIFIED ENDOWMENT CONTRACT

If your Policy is a modified endowment contract, any distribution from your Policy while the insured person is still living will be taxed on an "income-first" basis. Distributions:

- include loans (including any increase in the loan amount to pay interest on an existing loan, or an assignment or pledge to secure a loan) and partial surrenders;

- will be considered taxable income to you to the extent your accumulation value exceeds your basis in the Policy; and

- have their taxability determined by aggregating all modified endowment contracts issued by the same insurer (or its affiliates) to the same owner (excluding certain qualified plans) during any calendar year.

For modified endowment contracts, your basis:

- is similar to the basis described above for other Policies; and

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- will be increased by the amount of any prior loan under your Policy that was considered taxable income to you.

A 10% penalty tax also will apply to the taxable portion of most distributions from a Policy that is a modified endowment contract. The penalty

tax will not, however, apply:

- to taxpayers 59 1/2 years of age or older;
- in the case of a disability (as defined in the Code); or
- to distributions received as part of a series of substantially equal periodic annuity payments for the life (or life expectancy) of the taxpayer or the joint lives (or joint life expectancies) of the taxpayer and his or her beneficiary.

If your Policy ends after a grace period while there is a Policy loan, the cancellation of the loan will be treated as a distribution to the extent not previously treated as such and could be subject to tax, including the 10% penalty tax, as described above. In addition, on the maturity date or upon a full surrender, any excess of the proceeds we pay (including any amounts we use to discharge any Policy loan) over your basis in the Policy, will be subject to federal income tax and, unless one of the above exceptions applies, the 10% penalty tax.

Distributions that occur during a Policy year in which your Policy becomes a modified endowment contract, and during any subsequent Policy years, will be taxed as described in the two preceding paragraphs. In addition, distributions from a Policy within two years before it becomes a modified endowment contract also will be subject to tax in this manner. This means that a distribution made from a Policy that is not a modified endowment contract could later become taxable as a distribution from a modified endowment contract.

POLICY LAPSES AND REINSTATEMENTS

A Policy which has lapsed may have the tax consequences described above, even though you may be able to reinstate that Policy. For tax purposes, some reinstatements may be treated as the purchase of a new insurance contract.

DIVERSIFICATION AND INVESTOR CONTROL

Under Section 817(h) of the Code, the Treasury Department has issued regulations that implement investment diversification requirements. Our failure to comply with these regulations would disqualify your Policy as a life insurance Policy under Section 7702 of the Code. If this were to occur, you would be subject to federal income tax on the income under the Policy for the period of the disqualification and for subsequent periods. Also, if the insured

person died during such period of disqualification or subsequent periods, a portion of the death benefit proceeds would be taxable to the beneficiary. The Separate Account, through the Mutual Funds, intends to comply with these requirements. Although we do not have direct control over the investments or activities of the Mutual Funds, we will enter into agreements with them requiring the Mutual Funds to comply with the diversification requirements of the Section 817(h) Treasury Regulations.

The Treasury Department has issued only limited guidance describing the circumstances in which the ability of a Policy Owner to direct his or her investment to particular Mutual Funds within the Separate Account may cause the Policy Owner, rather than the insurance company, to be treated as the owner of the assets in the account. Due to the lack of specific guidance on investor control, there is some uncertainty about when a Policy Owner is considered the owner of the assets for tax purposes. If you were considered the owner of the assets of the Separate Account, income and gains from the account would be included in your gross income for federal income tax purposes. Under current law, however, we believe that AGL, and not the owner of a Policy, would be considered the owner of the assets of the Separate Account. However, we reserve the right to make changes that we deem necessary to insure that the Policy qualifies as a life insurance contract.

ESTATE AND GENERATION SKIPPING TAXES

If the insured person is the Policy's owner, the death benefit under the Policy will generally be includable in the owner's estate for purposes of federal estate tax. If the owner is not the insured person, under certain conditions, only an amount approximately equal to the cash surrender value of the Policy would be includable. In addition, an unlimited marital deduction may be available for federal estate tax purposes.

The enactment of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (H.R. 4853) (the "Tax Relief Act of 2010") brought forth a compromise to the expiration of the estate and generation skipping

transfer ("GST") tax rates and exemptions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (P.L. 107-16) (the "2001 Act"). The Tax Relief Act of 2010 increases the estate tax applicable exclusion amount to $5 million for 2011 and $5.12 million for 2012 and provides a top tax rate of 35% for individuals dying in 2011 or 2012. However, there is still uncertainty regarding the estate tax exclusion and rates for individuals dying after 2012. Please contact your tax advisor for further updates.

As a general rule, if a "transfer" is made to a person two or more generations younger than the Policy's owner, a generation skipping tax may be payable at rates similar to the maximum estate tax rate in effect at the time. The generation skipping tax provisions generally apply to "transfers" that would be subject to the gift and estate tax rules. For years 2011 and 2012, individuals are generally allowed a generation skipping tax exemption of $5 million and $5.12 million, respectively. As discussed above, there is currently uncertainty with regard to the amount of the exclusion for 2013 and future years. Therefore, you should consult with a qualified tax adviser for specific information, especially where benefits are passing to younger generations.

The particular situation of each Policy Owner, insured person or beneficiary will determine how ownership or receipt of Policy proceeds will be treated for purposes of federal estate and generation skipping taxes, as well as state and local estate, inheritance and other taxes.

LIFE INSURANCE IN SPLIT DOLLAR ARRANGEMENTS

The IRS and Treasury have issued regulations on split dollar life insurance arrangements. In general, a split dollar insurance arrangement involves two parties agreeing to split the

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premium and/or benefits of a life insurance policy. These arrangements are often used as a type of employee compensation or for making gifts among family members. The regulations provide two mutually exclusive regimes for taxing split dollar life insurance arrangements: the "economic benefit" regime and the "loan"

regime. The economic benefit regime, under which the non-owner of the policy is treated as receiving certain economic benefits from its owner, applies to endorsement arrangements and most non-equity split dollar life insurance arrangements. The loan regime applies to collateral assignment arrangements and other arrangements in which the non-owner could be treated as loaning amounts to the owner. These regulations apply to any split dollar life insurance arrangement entered into after September 17, 2003. Additionally, these regulations apply to any split dollar life insurance arrangements entered into before September 17, 2003, if the arrangement is materially modified after September 17, 2003.

In addition, it should be noted that split dollar arrangements characterized as loans for tax purposes may be affected by the Corporate Responsibility Act of 2002 also referred to as the Sarbanes-Oxley Act of 2002 (the "Act"). The Act prohibits loans from companies publicly traded in the United States to their executives and officers. The status of split dollar arrangements under the Act is uncertain, in part because the SEC may view the tax treatment of such arrangements as instructive.

Purchasers of life insurance policies are strongly advised to consult with a qualified tax adviser to determine the tax treatment resulting from a split dollar arrangement.

PENSION AND PROFIT-SHARING PLANS

If a life insurance policy is purchased by a trust or other entity that forms part of a pension or profit-sharing plan qualified under Section 401(a) of the Code for the benefit of participants covered under the plan, the federal income tax treatment of such policies will be somewhat different from that described above.

The reasonable net premium cost for such amount of insurance that is purchased as part of a pension or profit-sharing plan is required to be included annually in the plan participant's gross income. This cost (sometimes referred to as the "P.S. 58" cost) is reported to the participant annually. If the plan participant dies while covered by the plan and the Policy proceeds are paid to the participant's beneficiary, then the excess of the death benefit over the Policy's accumulation value will not be subject to federal income tax. However, the Policy's accumulation value will generally be taxable to the extent it exceeds the participant's cost basis in the Policy. The participant's cost basis will generally include the costs of insurance previously reported as income to the participant. Special rules may apply if the participant had borrowed from

the Policy or was an owner-employee under the plan. The rules for determining "P.S. 58" costs are currently provided under Notice 2002-8, 2002-1 CB 398.

There are limits on the amounts of life insurance that may be purchased on behalf of a participant in a pension or profit-sharing plan. Complex rules, in addition to those discussed above, apply whenever life insurance is purchased by a tax qualified plan. You should consult a qualified tax adviser.

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OTHER EMPLOYEE BENEFIT PROGRAMS

Complex rules may also apply when a Policy is held by an employer or a trust, or acquired by an employee, in connection with the provision of other employee benefits. These Policy Owners must consider whether the Policy was applied for by or issued to a person having an insurable interest under applicable state law and with the insured person's consent. The lack of an insurable interest or consent may, among other things, affect the qualification of the Policy as life insurance for federal income tax purposes and the right of the beneficiary to receive a death benefit.

ERISA

Employers and employer-created trusts may be subject to reporting, disclosure and fiduciary obligations under the Employee Retirement Income Security Act of 1974, as amended. You should consult a qualified legal adviser.

OUR TAXES

We report the operations of the Separate Account in our federal income tax return, but we currently pay no income tax on the Separate Account's investment income and capital gains, because these items are, for tax purposes, reflected in our variable universal life insurance Policy reserves. We currently make no charge to any Separate Account division for taxes. We reserve the right to make a charge in the future for taxes incurred; for example, a charge to the Separate Account for income taxes we incur that are allocable to the Policy.

We may have to pay state, local or other taxes in addition to applicable taxes based on premiums. At present, these taxes are not substantial. If they increase, we may make charges for such taxes when they are attributable to the Separate Account or allocable to the Policy.

Certain Mutual Funds in which your accumulation value is invested may elect to pass through to AGL taxes withheld by foreign taxing jurisdictions on foreign source income. Such an election will result in additional taxable income and income tax to AGL. The amount of additional income tax, however, may be more than offset by credits for the foreign taxes withheld which are also passed through. These credits may provide a benefit to AGL.

WHEN WE WITHHOLD INCOME TAXES

Generally, unless you provide us with an election to the contrary before we make the distribution, we are required to withhold income tax from any proceeds we distribute as part of a taxable transaction under your Policy. In some cases, where generation skipping taxes may apply, we may also be required to withhold for such taxes unless we are provided satisfactory written notification that no such taxes are due.

In the case of non-resident aliens who own a Policy, the withholding rules may be different. With respect to distributions from modified endowment contracts, non-resident aliens are generally subject to federal income tax withholding at a statutory rate of 30% of the distributed amount. In some cases, the non-resident alien may be subject to lower or even no withholding if the United States has entered into a tax treaty with his or her country of residence.

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TAX CHANGES

The U.S. Congress frequently considers legislation that, if enacted, could change the tax treatment of life insurance policies. In addition, the Treasury

Department may amend existing regulations, issue regulations on the qualification of life insurance and modified endowment contracts, or adopt new interpretations of existing law. State and local tax law or, if you are not a U.S. citizen and resident, foreign tax law, may also affect the tax consequences to you, the insured person or your beneficiary, and are subject to change. Any changes in federal, state, local or foreign tax law or interpretation could have a retroactive effect. We suggest you consult a qualified tax adviser.

LEGAL PROCEEDINGS

AGL is a party to various lawsuits and proceedings arising in the ordinary course of business. Many of these lawsuits and proceedings arise in jurisdictions that permit recovery of damages in excess of the maximum amount of policy benefits available. In addition, various federal, state and other regulatory agencies may from time to time review, examine or inquire into the operations, practices and procedures of AGL and its subsidiaries, such as through financial examinations, market conduct exams or regulatory inquiries. Based upon information presently available, AGL believes that the total amounts that will ultimately be paid, if any, arising from these lawsuits, proceedings and regulatory exams or inquiries will not have a material adverse effect on AGL's results of operations, cash flows and financial position.

FINANCIAL STATEMENTS

The Financial Statements of AGL, the Separate Account and American Home can be found in the SAI. You may obtain a free copy of these Financial Statements if you write us at our Administrative Center at VUL Administration, P.O. Box 4880, Houston, Texas 77210-4880, or call us at 1-800-340-2765.

REGISTRATION STATEMENTS

Registration statements under the Securities Act of 1933, as amended, related to the Policies offered by this prospectus are on file with the SEC. This prospectus does not contain all of the information contained in the registration statements and exhibits. For further information regarding the Separate Account, AGL and its general account, the variable investment divisions and the Policy, please refer to the registration statements and exhibits.

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DEFINITIONS

Here are definitions of certain terms used in this prospectus:

ADMINISTRATIVE CENTER - The address of the Administrative Center of AGL is Variable Universal Life Administration, P.O. Box 4880, Houston, Texas 77210-4880. See "Contact Information" on page 5.

AGE - The age of the Insured Person on his or her birthday nearest the date on which a determination of the Insured Person's age is made.

AGL, WE, OUR, US - American General Life Insurance Company, a Texas stock life insurance company and the issuer of the EquiBuilder II individual flexible premium variable universal life insurance Policies described in this prospectus.

FACE AMOUNT - The face amount of insurance shown on the Policy Information page of a Policy. The Face Amount is the minimum death benefit payable under a Policy while the Policy remains in effect. The death benefit proceeds will be reduced by any outstanding loan and loan interest on the Policy and any due and unpaid charges.

FUND(S) - Portfolio(s) of Fidelity Variable Insurance Products and MFS(R) Variable Insurance Trust, which are all "series" type mutual funds. Each portfolio is referred to as a Fund or Mutual Fund, and collectively, as the Funds or Mutual Funds.

GUARANTEED INTEREST DIVISION - A part of AGL's General Account in which amounts in a Policy Account other than those allocated to the Separate Account earn interest at a rate stipulated in advance and guaranteed by AGL.

INSURED PERSON - The person whose life is insured under a Policy.

POLICY ACCOUNT - The sum of amounts allocated to the investment divisions of the Separate Account and AGL's Guaranteed Interest Division for a particular Policy.

POLICY ANNIVERSARY - An anniversary of the Register Date of a Policy while the Policy is in effect.

POLICY MONTH - A month-long period beginning on the Register Date and on the same day in each subsequent calendar month while a Policy is in effect.

POLICY OWNER, YOU, YOUR - The person designated as Policy Owner on the Policy Information page of a Policy.

POLICY YEAR - An annual period beginning on the Register Date and on each anniversary of the Register Date while the Policy is in effect.

REGISTER DATE - The date we issue a Policy or the date we receive a full initial premium payment, whichever is earlier.

SEC - The Securities and Exchange Commission.

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SEPARATE ACCOUNT - Separate Account VUL-2, a segregated investment account of AGL established under the Insurance Laws of the State of Texas in which amounts in a Policy Account other than those in the Guaranteed Interest Division are held for investment in one of the portfolios of the Funds. The value of amounts in the Separate Account will fluctuate in accordance with the performance of the corresponding Funds.

STATEMENT OF ADDITIONAL INFORMATION - The Statement of Additional Information ("SAI") is a document, separate from this prospectus, that contains additional information about the EquiBuilder II Policies.

TARGET PREMIUM - A hypothetical annual premium which is based on the age and sex of the Insured Person, the initial Face Amount of the Policy and the types and amounts of any additional benefits included in the Policy. The Target Premium for each EquiBuilder II Policy is shown on the Policy Information page of the Policy.

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AGLC105775 Rev 03/2012

AMERICAN GENERAL
Life Companies

FACTS WHAT DOES AMERICAN GENERAL LIFE COMPANIES DO WITH YOUR PERSONAL INFORMATION?

WHY? Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.

WHAT? The types of personal information we collect and share depend on the product or service you have with us. This information can include:
. Social Security number and Medical Information
. Income and Credit History
. Payment History and Employment Information
When you are NO LONGER our customer, we continue to share your information as described in this notice.

HOW? All financial companies need to share customers' personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers' personal information; the reasons American General Life Companies chooses to share; and whether you can limit this sharing.

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Reasons we can share your personal information	Does American General Life Companies share?	Can you limit this sharing?

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FOR OUR EVERYDAY BUSINESS PURPOSES-- such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	Yes	No
FOR OUR MARKETING PURPOSES-- to offer our products and services to you	Yes	No
FOR JOINT MARKETING WITH OTHER FINANCIAL COMPANIES	Yes	No
FOR OUR AFFILIATES' EVERYDAY BUSINESS PURPOSES-- information about your transactions and experiences	No	We don't share
FOR OUR AFFILIATES' EVERYDAY BUSINESS PURPOSES-- information about your creditworthiness	No	We don't share
FOR NONAFFILIATES TO MARKET TO YOU	No	We don't share

QUESTIONS? CALL 800-231-3655 OR GO TO WWW.AMERICANGENERAL.COM

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AGLC105775 Rev 03/2012

AMERICAN GENERAL
Life Companies

WHO WE ARE

WHO IS PROVIDING THIS NOTICE? All American General Life Companies

[a complete list is described below]

WHAT WE DO

HOW DOES AMERICAN GENERAL LIFE COMPANIES PROTECT MY PERSONAL INFORMATION?	To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings. We restrict access to employees, representatives, agents, or selected third parties who have been trained to handle nonpublic personal information.
HOW DOES AMERICAN GENERAL LIFE COMPANIES COLLECT MY PERSONAL INFORMATION?	We collect your personal information, for example, when you . apply for insurance or pay insurance premiums . file an insurance claim or give us your income information . provide employment information We also collect your personal information from others, such as credit bureaus, affiliates, or other companies.
WHY CAN'T I LIMIT ALL SHARING?	Federal law gives you the right to limit only . sharing for affiliates' everyday business purposes--information about your creditworthiness . affiliates from using your information to market to you . sharing for nonaffiliates to market to you State laws and individual companies may give you additional rights to limit sharing.

DEFINITIONS

AFFILIATES	Companies related by common ownership or control. They can be financial and nonfinancial companies. . OUR AFFILIATES INCLUDE THE MEMBER COMPANIES OF AMERICAN INTERNATIONAL GROUP, INC.
NONAFFILIATES	Companies not related by common ownership or control. They can be financial and nonfinancial companies. . AMERICAN GENERAL LIFE COMPANIES DOES NOT SHARE WITH NONAFFILIATES SO THEY CAN MARKET TO YOU.
JOINT MARKETING	A formal agreement between nonaffiliated financial companies that together market financial products or services to you. . OUR JOINT MARKETING PARTNERS INCLUDE COMPANIES WITH WHICH WE JOINTLY OFFER INSURANCE PRODUCTS, SUCH AS A BANK.

OTHER IMPORTANT INFORMATION

This Privacy Notice is provided on behalf of the following companies: AGC Life Insurance Company, AIG Life of Bermuda, Ltd., American General Assurance Company, American General Equity Services Corporation, American General Indemnity Company, American General Life and Accident Insurance Company, American General Life Insurance Company, American General Property Insurance Company, Delaware American Life Insurance Company, The United States Life Insurance Company in the City of New York, American General Life Insurance Company of Delaware.

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[GRAPHIC]

Enroll in VUL eDelivery --
The natural choice

Every day the choices we make impact those around us. How about making a choice that impacts our environment? When you enroll in VUL eDelivery, you do that.

American General Life Companies has partnered with the National Forest Foundation and for every enrollment in VUL eDelivery, a tree will be planted in appreciation.

VUL eDelivery is an electronic service enabling you to receive email notifications when your account-related documents are available to view online.

It's fast, simple and saves our environment! To enroll in VUL eDelivery, call Customer Service or log in to eService at www.americangeneral.com, select "My Profile" and edit your communication preference. Once you've subscribed to VUL eDelivery, you will get a change confirmation email.

NEED FURTHER CONVINCING? BY CHOOSING VUL EDELIVERY, YOU CAN:

.. Preserve the environment
.. Reduce paperwork clutter
.. Receive documents faster

SIGN UP FOR VUL EDELIVERY AND MAKE THE NATURAL CHOICE.

Not available for all products. American General Life Companies, www.americangeneral.com, is the marketing name for a group of affiliated domestic life insurers including American General Life Insurance Company (AGL), American General Life Insurance Company of Delaware (AGLD) and The United States Life Insurance Company in the City of New York (US Life). Variable universal life insurance policies issued by AGL, AGLD or US Life are distributed by American General Equity Services Corporation, member FINRA. AGL and AGLD do not solicit business in the state of New York. Policies and riders not available in all states. For more information contact Customer Service at P.O. Box 4880, Houston, Texas 77210-4880, phone number 800.340.2765 or for hearing impaired 888.436.5256.
AGLC105386 REV0212

For more information on the National Forest Foundation please visit www.nationalforests.org.

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[Logo] American General Life Companies

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AMERICAN GENERAL
Life Companies

For additional information about the EquiBuilder II Policies and the Separate Account, you may request a copy of the Statement of Additional Information (the "SAI"), dated April 30, 2012. We have filed the SAI with the SEC and have incorporated it by reference into this prospectus. You may obtain a free copy of the SAI and the Policy or Fund prospectuses if you write us at our Administrative Center, which is located at VUL Administration, P. O. Box 4880, Houston, Texas 77210-4880 or call us at 1-800-340-2765. You may also obtain the SAI from your AGL representative through which the Policies may be purchased. Additional information about the EquiBuilder II Policies, including personalized illustrations of death benefits, cash surrender values, and Policy Account values is available without charge to individuals considering purchasing a Policy, upon request to the same address or phone number printed above. We may charge current Policy Owners $25 per illustration if they request more than one personalized illustration in a Policy year.

For E-SERVICE and E-DELIVERY, or to view and Print Policy or Fund prospectuses visit us at www.americangeneral.com

Information about the Separate Account, including the SAI, can also be reviewed and copied at the SEC's Office of Investor Education and Advocacy in Washington, D.C. Inquiries on the operations of the Office of Investor Education and Advocacy may be made by calling the SEC at 1-202-942-8090. Reports and other information about the Separate Account are available on the SEC's Internet site at http://www.sec.gov and copies of this information may be obtained, upon payment of a duplicating fee, by writing the Office of Investor Education and

Advocacy of the SEC, 100 F Street N.E., Washington,
D.C. 20549.

Policies issued by:
AMERICAN GENERAL LIFE INSURANCE COMPANY
2727-A Allen Parkway, Houston, TX 77019

EQUIBUILDER II FLEXIBLE PREMIUM VARIABLE UNIVERSAL
LIFE INSURANCE
Policy Form Number T1735

Not available in the state of New York

Distributed by American General Equity Services
Corporation
Member FINRA

The underwriting risks, financial obligations and
support functions associated with the products
issued by American General Life Insurance Company
("AGL") are its responsibility. AGL is responsible
for its own financial condition and contractual
obligations. American General Life Companies,
www.americangeneral.com, is the marketing name for
a group of affiliated domestic life insurers,
including AGL. AGL does not solicit business in the
state of New York. The Policies are not available
in all states.

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AMERICAN GENERAL LIFE INSURANCE COMPANY
SEPARATE ACCOUNT VUL-2

EQUIBUILDER II POLICIES

FLEXIBLE PREMIUM VARIABLE UNIVERSAL LIFE INSURANCE POLICIES

ISSUED BY

AMERICAN GENERAL LIFE INSURANCE COMPANY

VUL ADMINISTRATION DEPARTMENT

P.O. BOX 4880, HOUSTON, TEXAS 77210-4880

TELEPHONE: 1-800-340-2765; 1-713-831-3443; HEARING IMPAIRED: 1-888-436-5256

STATEMENT OF ADDITIONAL INFORMATION

DATED APRIL 30, 2012

This Statement of Additional Information ("SAI") is not a prospectus. It should be read in conjunction with the prospectus for American General Life Insurance Company Separate Account VUL-2 (the "Separate Account" or "Separate Account VUL-2") dated April 30, 2012, describing the EquiBuilder II flexible premium variable universal life insurance policies (the "Policy" or "Policies"). The prospectus sets forth information that a prospective investor should know before investing. For a copy of the prospectus, and any prospectus supplements, contact American General Life Insurance Company ("AGL" or "Company") at the address or telephone numbers given above. Each term used in this SAI that is defined in the related prospectus has the same meaning as the prospectus' definition.

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GENERAL INFORMATION

AGL

We are American General Life Insurance Company ("AGL"). AGL is a stock life insurance company organized under the laws of the State of Texas. AGL is a successor in interest to a company originally organized under the laws of Delaware on January 10, 1917. AGL is an indirect, wholly-owned subsidiary of American International Group, Inc. ("AIG"), a Delaware corporation.

AIG is a leading international insurance organization serving customers in more than 130 countries. AIG companies serve commercial, institutional and individual customers through one of the most extensive worldwide property-casualty networks of any insurer. In addition, AIG companies are

leading providers of life insurance and retirement services in the United States.

American General Life Companies, www.americangeneral.com, is the marketing name for a group of affiliated domestic life insurers, including USL. The commitments under the Contracts are AGL's, and American International Group, Inc. has no legal obligation to back those commitments.

SEPARATE ACCOUNT VUL-2

We hold the Fund shares in which any of your accumulation value is invested in Separate Account VUL-2. Separate Account VUL-2 is registered as a unit investment trust with the Securities and Exchange Commission ("SEC") under the Investment Company Act of 1940. Prior to December 31, 2002, the Separate Account was a separate account of American Franklin, created on April 9, 1991, under Illinois law. On December 31, 2002, and in conjunction with the merger of AGL and American Franklin, the Separate Account became a separate account of AGL under Texas law.

For record keeping and financial reporting purposes, Separate Account VUL-2 is divided into 16 separate "divisions," all of which are available under the Policies offered by the prospectus as variable "investment options." All of these 16 divisions are also offered under another AGL policy. We hold the Fund shares in which we invest your accumulation value for an investment option in the division that corresponds to that investment option. One or more of the Funds may sell its shares to other funds.

The assets in Separate Account VUL-2 are our property. The assets in the Separate Account may not be used to pay any liabilities of AGL other than those arising from the Policies. AGL is obligated to pay all amounts under the Policies due the Policy Owners. We act as custodian for the Separate Account's assets.

AMERICAN HOME ASSURANCE COMPANY

All references in this SAI to American Home Assurance Company ("American Home") apply only to Policies with a date of issue prior to December 29, 2006 at 4:00 p.m. Eastern time.

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American Home is a stock property-casualty insurance company incorporated under the laws of the State of New York on February 7, 1899. American Home's principal executive office is located at 175 Water Street, 18th Floor, New York, New York 10038. American Home is licensed in all 50 states of the United States and the District of Columbia, as well as certain foreign jurisdictions, and engages in a broad range of insurance and reinsurance activities. American Home is an indirect wholly-owned subsidiary of American International Group, Inc. and an affiliate of AGL.

SERVICES

AGL and American General Life Companies, LLC ("AGLC"), are parties to a services agreement. AGL and AGLC are each indirect wholly-owned subsidiaries of American International Group, Inc. and therefore affiliates of one another. AGLC is a Delaware limited liability company established on August 30, 2002. Prior to that date, AGLC was a Delaware business trust. Its address is 2727-A Allen Parkway, Houston, Texas 77019-2191. Under the services agreement, AGLC provides shared services to AGL and certain other life insurance companies under the American International Group, Inc. holding company system at cost. Those services include data processing systems, customer services, product development, actuarial, internal auditing, accounting and legal services. During 2011, 2010 and 2009, AGL paid AGLC for these services $345,841,461, $349,841,461 and $352,001,525 respectively.

AGLC was merged into AGL at the end of 2011. AGL now performs all of the services itself that were previously provided by AGLC.

We have not designed the Policies for professional market timing organizations or other entities or individuals using programmed and frequent transfers involving large amounts. We currently have no contractual agreements or any other formal or informal arrangements with any entity or individual permitting such transfers and receive no compensation for any such contract or arrangement.

MORE INFORMATION ON LAPSE OF THE POLICY

A Policy which has lapsed may have tax consequences, even though you may be able to reinstate that Policy. For tax purposes, some reinstatements may be treated as the purchase of a new insurance contract.

If your Policy lapses, you will not be able to take any loans or surrenders from your Policy unless you make a full surrender (subject to applicable surrender charges). You will also not be permitted to transfer Policy Account value between investment divisions while your Policy is in lapse.

DISTRIBUTION OF THE POLICIES

American General Equity Services Corporation ("AGESC"), 2727-A Allen Parkway, 2-G7, Houston, Texas 77019, a Delaware corporation and a direct wholly-owned subsidiary of AGL, is the principal underwriter and distributor of the Policies for the Separate Account under a Distribution Agreement between AGESC and AGL. AGESC also acts as principal underwriter for AGL's other separate accounts and for the separate accounts of certain AGL affiliates.

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AGESC is a registered broker-dealer under the Securities Exchange Act of 1934, as amended and a member of the Financial Industry Regulatory Authority ("FINRA"). AGESC, as the principal underwriter and distributor, is not paid any fees on the Policies.

The Policies are offered on a continuous basis.

We sell our Policies primarily through our insurance agents or brokers, who are authorized by law to sell variable universal life insurance. These persons are registered representatives of broker-dealers that are members of FINRA, and with which AGESC may enter into a selling agreement.

Broker-dealers earn commissions on Policy sales of up to 90% of premiums paid during the first Policy year. For Policies issued on or after October 8, 1997, annual trail commissions are earned at an annual rate of 0.25% on the amount in the Policy Account that is in the Separate Account. These commissions (and other distribution expenses, such as production incentive bonuses, agent's insurance and pensions benefits, agency management compensation and bonuses and expense allowances) are paid by AGL. They do not result in any additional charges against the Policy that are not described in the Policy prospectus.

Under the Public Disclosure Program, FINRA Regulation ("FINRA") provides certain information regarding the disciplinary history of FINRA member

broker-dealers and their associated persons in response to written, electronic or telephonic inquiries. FINRA's toll-free Public Disclosure Program Hotline telephone number is 1-800-289-9999 and their Web site address is www.finra.org. An investor brochure that includes information describing the Public Disclosure Program is available from FINRA.

ADDITIONAL INFORMATION

The purpose of this section is to provide you with information to help clarify certain discussion found in the related prospectus. Many topics, such as Policy sales loads and increases in your Policy's death benefit, have been fully described in the related prospectus. For any topics that we do not discuss in this SAI, please see the related prospectus.

MATERIAL CONFLICTS

We are required to track events to identify any material conflicts from using investment portfolios for both variable universal life and variable annuity separate accounts. The boards of the Funds, AGL, and other insurance companies participating in the Funds have this same duty. There may be a material conflict if:

- state insurance law or federal income tax law changes;

- investment management of an investment portfolio changes; or

- voting instructions given by owners of variable universal life insurance Policies and variable annuity contracts differ.

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The investment portfolios may sell shares to certain qualified pension and retirement plans qualifying under Code Section 401. These include cash or deferred arrangements under Code Section 401(k). One or more of the investment portfolios may sell its shares to other investment portfolios. Therefore, there is a possibility that a material conflict may arise between the interests of owners in general, or certain classes of owners, and these retirement plans or participants in these retirement plans.

If there is a material conflict, we have the duty to determine appropriate action, including removing the portfolios involved from our variable investment options. We may take other action to protect Policy Owners. This could mean delays or interruptions of the variable operations.

When state insurance regulatory authorities require us, we may ignore instructions relating to changes in an investment portfolio's adviser or its investment policies. If we do ignore voting instructions, we give you a summary of our actions in the next semi-annual report to owners.

LIMITS ON AGL'S RIGHT TO CHALLENGE A POLICY

We can challenge the validity of an insurance Policy (based on material misstatements in the application or, with respect to any Policy change, in the application for the change) if it appears that the Insured Person is not actually covered by the Policy under our rules. However, there are some limits on how and when we can challenge the Policy.

Except on the basis of fraud, we cannot challenge the Policy after it has been in effect, during the Insured Person's lifetime, for two years from the date the Policy was issued or reinstated. (Some states may require this time to be measured in some other way.)

Except on the basis of fraud, we cannot challenge any Policy change that requires evidence of insurability (such as an increase in Face Amount) after the change has been in effect for two years during the Insured Person's lifetime.

We can challenge at any time an additional benefit that provides benefits to the Insured Person in the event that the Insured Person becomes totally disabled. We can also require proof of continuing disability.

If the Insured Person dies within the time that the validity of the Policy may be challenged, we may delay payment until we decide whether to challenge the Policy.

If the Insured Person's age or sex is misstated on any application, we can provide the death benefit and any additional benefits that would have been purchased by the most recent deduction for the cost of insurance and the cost of any additional benefits at the Insured Person's correct age and sex.

If the Insured Person commits suicide within two years after the date on which the Policy was issued or reinstated, we will limit the proceeds payable to

the total of all premiums that you paid to the time of death minus the amount of any outstanding Policy loan and loan interest and minus any partial withdrawals of net cash surrender value. If the Insured Person commits suicide

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within two years after the effective date of an increase in death benefit that you requested, we will pay the death benefit which was in effect before the increase, plus the monthly cost of insurance deductions for the increase (including the expense charge). (Some states require this time to be measured by some other date.)

SPECIAL PURCHASE PLANS

Special purchase plans provide for variations in, or elimination of, certain Policy charges, and would be available to a defined group of individuals. We currently do not provide for or support any special purchase plans.

UNDERWRITING PROCEDURES AND COST OF INSURANCE CHARGES

Cost of insurance charges for the Policies will not be the same for all Policy Owners. The chief reason is that the principle of pooling and distribution of mortality risks is based upon the assumption that each Policy Owner pays a cost of insurance charge related to the Insured Person's mortality risk which is actuarially determined based upon factors such as age, sex and risk class of the Insured Person and the face amount size band of the Policy. In the context of life insurance, a uniform mortality charge (the "cost of insurance charge") for all Insured Persons would discriminate unfairly in favor of those Insured Persons representing greater mortality risks to the disadvantage of those representing lesser risks. Accordingly, although there will be a uniform "public offering price" for all Policy Owners, because premiums are flexible and amounts allocated to the Separate Account will be subject to some charges that are the same for all owners, there will be a different "price" for each actuarial category of Policy Owners because different cost of insurance rates will apply. The "price" will also vary based on net amount at risk. The Policies will be offered and sold pursuant to this cost of insurance schedule and our underwriting standards and in accordance with state insurance laws. Such laws prohibit unfair discrimination among Insured Persons,

but recognize that premiums must be based upon factors such as age, sex, health and occupation. A table showing the maximum cost of insurance charges will be delivered as part of the Policy.

Our underwriting procedures are designed to treat applicants for Policies in a uniform manner. Collection of required medical information is conducted in a confidential manner. We maintain underwriting standards designed to avoid unfair or inconsistent decisions about which underwriting class should apply to a particular proposed insured person.

EMPLOYEE BENEFIT PLANS

Employers and employee organizations should consider, in consultation with counsel, the impact of Title VII of the Civil Rights Act of 1964 on the purchase of Policies in connection with an employment-related insurance or benefit plan. The United States Supreme Court held, in a 1983 decision, that, under Title VII, optional annuity benefits under a deferred compensation plan could not vary on the basis of sex. We did not design the Policies for use in connection with qualified plans or trusts under federal tax laws.

DIVIDENDS

We pay no dividends on the Policies offered by this Prospectus.

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FINANCIAL STATEMENTS

PricewaterhouseCoopers LLP, located at 1201 Louisiana Street, Suite 2900, Houston, Texas 77002, is the independent registered public accounting firm for the Separate Account VUL-2 and AGL. PricewaterhouseCoopers LLP is also the independent registered public accounting firm of AIG and American Home.

SEPARATE ACCOUNT FINANCIAL STATEMENTS

The financial statements of Separate Account VUL-2 as of December 31, 2011 and the results of its operations and the changes in its net assets for each of the periods indicated, included in this Statement of Additional Information have been so included in reliance on the report of PricewaterhouseCoopers LLP, an

independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

AGL CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of AGL as of December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011 included in this Statement of Additional Information have been so included in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

AMERICAN HOME STATUTORY BASIS FINANCIAL STATEMENTS

The statutory financial statements of American Home as of December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011 included in this Statement of Additional Information have been so included in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

AMERICAN INTERNATIONAL GROUP, INC. FINANCIAL INFORMATION

On March 30, 2011, American International Group, Inc. and the Company entered into an Unconditional Capital Maintenance Agreement.

The consolidated financial statements, the financial statement schedules and management's assessment of the effectiveness of internal control over financial reporting incorporated into this Statement of Additional Information by reference to American International Group's Annual Report on Form 10-K filed on February 23, 2012, for the year ended December 31, 2011, have been so incorporated in reliance upon the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements of AIA Group Limited incorporated into this Statement of Additional Information by reference to American International Group's Amendment No. 1 on Form 10-K/A have been so incorporated in reliance upon the report of

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PricewaterhouseCoopers, independent accountants, given on the authority of said firm as experts in auditing and accounting.

American International Group, Inc. does not underwrite any insurance policy referenced herein.

INDEX TO FINANCIAL STATEMENTS

You should consider the consolidated financial statements of AGL that we include in this SAI as bearing on the ability of AGL to meet its obligations under the Policies.

You should only consider the financial statements of American Home that we include in this SAI as bearing on the ability of American Home, as guarantor under a guarantee agreement, to meet its obligations under Policies with a date of issue prior to December 29, 2006 at 4:00 p.m. Eastern time.

I. Separate Account VUL-2 Financial Statements

Report of Independent Registered Public Accounting Firm
Statement of Net Assets as of December 31, 2011
Statement of Operations for the period ended December 31, 2011
Statement of Changes in Net Assets for the years ended December 31, 2011 and 2010, except as indicated
Notes to Financial Statements

II. AGL Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets as of December 31, 2011 and 2010
Consolidated Statements of Income (Loss) for the years ended December 31,
Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2011, 2010 and 2009
Consolidated Statements of Shareholder's Equity for the years ended December 31, 2011, 2010 and 2009
Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009
Notes to Consolidated Financial Statements

III. American Home Statutory Basis Financial Statements

Report of Independent Auditors
Statements of Admitted Assets as of December 31, 2011 and 2010
Statements of Liabilities, Capital and Surplus as of December 31, 2011 and 2010
Statements of Income and Changes in Capital and Surplus for the years ended December 31, 2011, 2010 and 2009
Statements of Cash Flow for the years ended December 31, 2011, 2010 and 2009
Notes to Statutory Basis Financial Statements

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[GRAPHIC]

Variable Universal Life Insurance
Separate Account VUL-2

2011

ANNUAL REPORT

December 31, 2011

American General Life Insurance Company

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of
American General Life Insurance Company and Policy Owners of
American General Life Insurance Company Separate Account VUL-2

In our opinion, the accompanying statements of net assets, including the schedules of portfolio investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of each of the Divisions listed in Note 1 of American General Life Insurance Company Separate Account VUL-2 at December 31, 2011, the results of each of their operations for the year then ended, the changes in each of their net assets for each of the two years in the period then ended and each of their financial highlights for each of the five

years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the management of American General Life Insurance Company; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of investment securities at December 31, 2011 by correspondence with the mutual fund companies, provide a reasonable basis for our opinion.

/s/PRICEWATERHOUSECOOPERS LLP
Houston, Texas
April 25, 2012

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AMERICAN GENERAL LIFE INSURANCE COMPANY
SEPARATE ACCOUNT VUL-2

STATEMENTS OF NET ASSETS
DECEMBER 31, 2011

<TABLE>
<CAPTION>

Divisions	Investment securities - at fair value	Due from (to) American General Life Insurance Company	NET ASSETS
<S>	<C>	<C>	<C>
Fidelity VIP Asset Manager Portfolio - Initial Class	$13,489,249	$-	$13,489,249
Fidelity VIP Asset Manager: Growth Portfolio - Initial Class	7,314,354	-	7,314,354
Fidelity VIP Contrafund Portfolio - Initial Class	33,474,831	-	33,474,831
Fidelity VIP Equity-Income Portfolio - Initial Class	30,863,300	-	30,863,300
Fidelity VIP Growth Portfolio - Initial Class	42,820,514	-	42,820,514

Fidelity VIP High Income Portfolio - Initial Class	2,720,562	-	2,720,562
Fidelity VIP Index 500 Portfolio - Initial Class	30,429,606	-	30,429,606
Fidelity VIP Investment Grade Bond Portfolio - Initial Class	4,636,031	-	4,636,031
Fidelity VIP Money Market Portfolio - Initial Class	3,605,376	-	3,605,376
Fidelity VIP Overseas Portfolio - Initial Class	8,435,661	-	8,435,661
MFS VIT Core Equity Series - Initial Class	5,891,193	-	5,891,193
MFS VIT Growth Series - Initial Class	10,403,657	-	10,403,657
MFS VIT Investors Trust Series - Initial Class	2,626,198	-	2,626,198
MFS VIT Research Series - Initial Class	4,465,249	-	4,465,249
MFS VIT Total Return Series - Initial Class	5,037,891	-	5,037,891
MFS VIT Utilities Series - Initial Class	9,966,356	-	9,966,356

</TABLE>

See accompanying notes.

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AMERICAN GENERAL LIFE INSURANCE COMPANY
SEPARATE ACCOUNT VUL-2

STATEMENTS OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2011

<TABLE>
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	A	B	A+B=C	D	E
Divisions	Dividends from mutual funds	Mortality and expense risk and administrative charges	NET INVESTMENT INCOME (LOSS)	Net realized gain (loss) on investments	Capital gain distributions from mutual funds
<S>	<C>	<C>	<C>	<C>	<C>
Fidelity VIP Asset Manager Portfolio - Initial Class	$279,655	$(111,839)	$ 167,816	$ 32,551	$ 68,369
Fidelity VIP Asset Manager: Growth Portfolio - Initial Class	130,023	(63,112)	66,911	10,974	15,646
Fidelity VIP Contrafund Portfolio - Initial Class	360,487	(281,565)	78,922	320,542	-
Fidelity VIP Equity-Income Portfolio - Initial Class	803,953	(250,212)	553,741	341,749	-
Fidelity VIP Growth Portfolio - Initial Class	166,954	(352,809)	(185,855)	490,109	162,165

Fidelity VIP High Income Portfolio - Initial Class	191,532	(22,005)	169,527	(25,175)	-
Fidelity VIP Index 500 Portfolio - Initial Class	614,033	(243,905)	370,128	162,212	786,390
Fidelity VIP Investment Grade Bond Portfolio - Initial Class	149,123	(35,257)	113,866	(42,904)	124,852
Fidelity VIP Money Market Portfolio - Initial Class	4,573	(30,761)	(26,188)	-	-
Fidelity VIP Overseas Portfolio - Initial Class	140,597	(78,818)	61,779	12,847	20,608
MFS VIT Core Equity Series - Initial Class	61,713	(48,473)	13,240	66,598	-
MFS VIT Growth Series - Initial Class	21,769	(85,793)	(64,024)	109,093	-
MFS VIT Investors Trust Series - Initial Class	26,427	(21,409)	5,018	23,471	-
MFS VIT Research Series - Initial Class	41,791	(36,556)	5,235	44,296	-
MFS VIT Total Return Series - Initial Class	139,907	(40,370)	99,537	23,914	-
MFS VIT Utilities Series - Initial Class	337,755	(79,264)	258,491	133,402	-

</TABLE>
<TABLE>
<CAPTION>

Divisions	F Net change in unrealized appreciation (depreciation) of investments	C+D+E+F INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS
<S>	<C>	<C>
Fidelity VIP Asset Manager Portfolio - Initial Class	$ (709,086)	$ (440,350)
Fidelity VIP Asset Manager: Growth Portfolio - Initial Class	(656,102)	(562,571)
Fidelity VIP Contrafund Portfolio - Initial Class	(1,552,050)	(1,152,586)
Fidelity VIP Equity-Income Portfolio - Initial Class	(791,536)	103,954
Fidelity VIP Growth Portfolio - Initial Class	(555,920)	(89,501)
Fidelity VIP High Income Portfolio - Initial Class	(42,534)	101,818
Fidelity VIP Index 500 Portfolio - Initial Class	(888,061)	430,669
Fidelity VIP Investment Grade Bond Portfolio - Initial Class	101,475	297,289
Fidelity VIP Money Market Portfolio - Initial Class	-	(26,188)
Fidelity VIP Overseas Portfolio - Initial Class	(1,974,158)	(1,878,924)
MFS VIT Core Equity Series - Initial Class	(182,597)	(102,759)
MFS VIT Growth Series - Initial Class	(147,910)	(102,841)
MFS VIT Investors Trust Series - Initial Class	(106,332)	(77,843)
MFS VIT Research Series - Initial Class	(106,663)	(57,132)
MFS VIT Total Return Series - Initial Class	(72,905)	50,546
MFS VIT Utilities Series - Initial Class	236,357	628,250

</TABLE>

See accompanying notes.

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AMERICAN GENERAL LIFE INSURANCE COMPANY
SEPARATE ACCOUNT VUL-2

SCHEDULES OF PORTFOLIO INVESTMENTS
DECEMBER 31, 2011

<TABLE>
<CAPTION>

DIVISIONS	Shares	Net Asset Value Per Share	Value of Shares at Fair Value	Cost of Shares Held	Level (1)
<S>	<C>	<C>	<C>	<C>	<C>
Fidelity VIP Asset Manager Portfolio - Initial Class	977,482	$ 13.80	$13,489,249	$14,141,470	1
Fidelity VIP Asset Manager: Growth Portfolio - Initial Class	547,892	13.35	7,314,354	7,794,389	1
Fidelity VIP Contrafund Portfolio - Initial Class	1,454,163	23.02	33,474,831	32,878,537	1
Fidelity VIP Equity-Income Portfolio - Initial Class	1,651,327	18.69	30,863,300	29,593,106	1
Fidelity VIP Growth Portfolio - Initial Class	1,160,762	36.89	42,820,514	40,952,512	1
Fidelity VIP High Income Portfolio - Initial Class	504,742	5.39	2,720,562	2,953,334	1
Fidelity VIP Index 500 Portfolio - Initial Class	235,287	129.33	30,429,606	29,981,586	1
Fidelity VIP Investment Grade Bond Portfolio - Initial Class	357,443	12.97	4,636,031	4,798,920	1
Fidelity VIP Money Market Portfolio - Initial Class	3,605,376	1.00	3,605,376	3,605,376	1
Fidelity VIP Overseas Portfolio - Initial Class	618,904	13.63	8,435,661	9,875,150	1
MFS VIT Core Equity Series - Initial Class	384,292	15.33	5,891,193	5,672,747	1
MFS VIT Growth Series - Initial Class	423,602	24.56	10,403,657	9,958,593	1
MFS VIT Investors Trust Series - Initial Class	135,301	19.41	2,626,198	2,572,678	1
MFS VIT Research Series - Initial Class	237,766	18.78	4,465,249	4,255,045	1
MFS VIT Total Return Series - Initial Class	271,878	18.53	5,037,891	4,922,965	1
MFS VIT Utilities Series - Initial Class	382,146	26.08	9,966,356	9,262,827	1

</TABLE>

(1) Represents the level within the fair value hierarchy under which the portfolio is classified as defined in ASC 820 and described in Note 3 to the financial statements.

See accompanying notes.

<PAGE>

AMERICAN GENERAL LIFE INSURANCE COMPANY
SEPARATE ACCOUNT VUL-2

STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

<TABLE>
<CAPTION>

	Divisions		
	Fidelity VIP Asset Manager Portfolio - Initial Class	Fidelity VIP Asset Manager: Growth Portfolio - Initial Class	Fidelity VIP Contrafund Portfolio - Initial Class
<S>	<C>	<C>	<C>
FOR THE YEAR ENDED DECEMBER 31, 2011			
OPERATIONS:			
Net investment income (loss)	$ 167,816	$ 66,911	$ 78,922
Net realized gain (loss) on investments	32,551	10,974	320,542
Capital gain distributions from mutual funds	68,369	15,646	-
Net change in unrealized appreciation (depreciation) of investments	(709,086)	(656,102)	(1,552,050)
Increase (decrease) in net assets resulting from operations	(440,350)	(562,571)	(1,152,586)
PRINCIPAL TRANSACTIONS:			
Net premiums	1,375,321	841,624	2,857,721
Net transfers from (to) other Divisions or fixed rate option	(136,156)	79,799	(531,560)
Cost of insurance and other charges	(1,668,509)	(818,165)	(3,039,460)
Policy loans	(84,605)	(120,507)	(211,013)
Death benefits	(73,336)	(26,183)	(132,238)
Withdrawals	(1,577,135)	(966,056)	(4,471,730)
Increase (decrease) in net assets resulting from principal			

transactions	(2,164,420)	(1,009,488)	(5,528,280)
TOTAL INCREASE (DECREASE) IN NET ASSETS	(2,604,770)	(1,572,059)	(6,680,866)
NET ASSETS:			
Beginning of year	16,094,019	8,886,413	40,155,697
End of year	$13,489,249	$ 7,314,354	$33,474,831
FOR THE YEAR ENDED DECEMBER 31, 2010			
OPERATIONS:			
Net investment income (loss)	$ 142,622	$ 34,361	$ 170,740
Net realized gain (loss) on investments	(495,633)	(55,283)	(267,973)
Capital gain distributions from mutual funds	78,592	27,235	16,682
Net change in unrealized appreciation (depreciation) of investments	2,240,560	1,225,734	5,869,527
Increase (decrease) in net assets resulting from operations	1,966,141	1,232,047	5,788,976
PRINCIPAL TRANSACTIONS:			
Net premiums	1,440,792	926,709	3,244,036
Net transfers from (to) other Divisions or fixed rate option	36,605	(107,115)	(747,165)
Cost of insurance and other charges	(1,796,654)	(868,804)	(3,313,942)
Policy loans	(104,524)	(41,239)	(321,185)
Death benefits	(81,563)	(34,736)	(103,533)
Withdrawals	(1,813,637)	(1,138,079)	(5,258,565)
Increase (decrease) in net assets resulting from principal transactions	(2,318,981)	(1,263,264)	(6,500,354)
TOTAL INCREASE (DECREASE) IN NET ASSETS	(352,840)	(31,217)	(711,378)
NET ASSETS:			
Beginning of year	16,446,859	8,917,630	40,867,075
End of year	$16,094,019	$ 8,886,413	$40,155,697

</TABLE>
<TABLE>
<CAPTION>

<S>	<C> Fidelity VIP Equity-Income Portfolio - Initial Class
FOR THE YEAR ENDED DECEMBER 31, 2011	
OPERATIONS:	
Net investment income (loss)	$ 553,741
Net realized gain (loss) on investments	341,749
Capital gain distributions from mutual funds	-
Net change in unrealized appreciation (depreciation) of investments	(791,536)
Increase (decrease) in net assets resulting from operations	103,954
PRINCIPAL TRANSACTIONS:	
Net premiums	3,173,422
Net transfers from (to) other Divisions or fixed rate option	(332,155)
Cost of insurance and other charges	(3,547,371)
Policy loans	(265,103)
Death benefits	(92,204)
Withdrawals	(3,294,515)
Increase (decrease) in net assets resulting from principal transactions	(4,357,926)
TOTAL INCREASE (DECREASE) IN NET ASSETS	(4,253,972)
NET ASSETS:	
Beginning of year	35,117,272
End of year	$30,863,300
FOR THE YEAR ENDED DECEMBER 31, 2010	
OPERATIONS:	
Net investment income (loss)	$ 344,410
Net realized gain (loss) on investments	(2,555,594)
Capital gain distributions from mutual funds	-
Net change in unrealized appreciation (depreciation) of	

investments	6,765,977
Increase (decrease) in net assets resulting from operations	4,554,793
PRINCIPAL TRANSACTIONS:	
Net premiums	3,564,132
Net transfers from (to) other Divisions or fixed rate option	(607,693)
Cost of insurance and other charges	(3,917,803)
Policy loans	(325,278)
Death benefits	(142,592)
Withdrawals	(4,641,323)
Increase (decrease) in net assets resulting from principal transactions	(6,070,557)
TOTAL INCREASE (DECREASE) IN NET ASSETS	(1,515,764)
NET ASSETS:	
Beginning of year	36,633,036
End of year	$35,117,272

</TABLE>

See accompanying notes.

<PAGE>

AMERICAN GENERAL LIFE INSURANCE COMPANY
SEPARATE ACCOUNT VUL-2

STATEMENTS OF CHANGES IN NET ASSETS - CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

<TABLE>
<CAPTION>

	Divisions		
	Fidelity VIP	Fidelity VIP High	Fidelity VIP Index

<S>	Growth Portfolio - Initial Class <C>	Income Portfolio - Initial Class <C>	500 Portfolio - Initial Class <C>
FOR THE YEAR ENDED DECEMBER 31, 2011			
OPERATIONS:			
Net investment income (loss)	$ (185,855)	$ 169,527	$ 370,128
Net realized gain (loss) on investments	490,109	(25,175)	162,212
Capital gain distributions from mutual funds	162,165	-	786,390
Net change in unrealized appreciation (depreciation) of investments	(555,920)	(42,534)	(888,061)
Increase (decrease) in net assets resulting from operations	(89,501)	101,818	430,669
PRINCIPAL TRANSACTIONS:			
Net premiums	4,737,700	278,133	3,522,786
Net transfers from (to) other Divisions or fixed rate option	(550,893)	(111,708)	(304,115)
Cost of insurance and other charges	(4,935,987)	(312,072)	(3,515,199)
Policy loans	(244,484)	(13,205)	(190,374)
Death benefits	(143,422)	(15,558)	(90,284)
Withdrawals	(4,514,614)	(332,109)	(3,588,089)
Increase (decrease) in net assets resulting from principal transactions	(5,651,700)	(506,519)	(4,165,275)
TOTAL INCREASE (DECREASE) IN NET ASSETS	(5,741,201)	(404,701)	(3,734,606)
NET ASSETS:			
Beginning of year	48,561,715	3,125,263	34,164,212
End of year	$42,820,514	$2,720,562	$30,429,606
FOR THE YEAR ENDED DECEMBER 31, 2010			
OPERATIONS:			
Net investment income (loss)	$ (215,194)	$ 212,796	$ 371,005
Net realized gain (loss) on investments	(4,743,121)	(112,733)	(2,010,677)
Capital gain distributions from mutual funds	149,039	-	661,987
Net change in unrealized appreciation (depreciation) of investments	14,302,439	254,316	5,342,330
Increase (decrease) in net assets resulting from operations	9,493,163	354,379	4,364,645

PRINCIPAL TRANSACTIONS:			
Net premiums	5,314,749	306,637	3,940,170
Net transfers from (to) other Divisions or fixed rate option	(675,534)	209,478	(665,898)
Cost of insurance and other charges	(5,379,579)	(342,984)	(3,861,919)
Policy loans	(449,649)	(42,042)	(328,082)
Death benefits	(163,380)	(3,373)	(76,999)
Withdrawals	(5,774,441)	(309,599)	(4,627,565)
Increase (decrease) in net assets resulting from principal transactions	(7,127,834)	(181,883)	(5,620,293)
TOTAL INCREASE (DECREASE) IN NET ASSETS	2,365,329	172,496	(1,255,648)
NET ASSETS:			
Beginning of year	46,196,386	2,952,767	35,419,860
End of year	$48,561,715	$3,125,263	$34,164,212

</TABLE>
<TABLE>
<CAPTION>

<S>	<C> Fidelity VIP Investment Grade Bond Portfolio - Initial Class
FOR THE YEAR ENDED DECEMBER 31, 2011	
OPERATIONS:	
Net investment income (loss)	$ 113,866
Net realized gain (loss) on investments	(42,904)
Capital gain distributions from mutual funds	124,852
Net change in unrealized appreciation (depreciation) of investments	101,475
Increase (decrease) in net assets resulting from operations	297,289
PRINCIPAL TRANSACTIONS:	
Net premiums	466,757

Net transfers from (to) other Divisions or fixed rate option	198,494
Cost of insurance and other charges	(515,435)
Policy loans	(18,939)
Death benefits	(14,350)
Withdrawals	(804,384)
Increase (decrease) in net assets resulting from principal transactions	(687,857)
TOTAL INCREASE (DECREASE) IN NET ASSETS	(390,568)
NET ASSETS:	
Beginning of year	5,026,599
End of year	$4,636,031

FOR THE YEAR ENDED DECEMBER 31, 2010

OPERATIONS:	
Net investment income (loss)	$ 141,135
Net realized gain (loss) on investments	2,451
Capital gain distributions from mutual funds	54,629
Net change in unrealized appreciation (depreciation) of investments	147,026
Increase (decrease) in net assets resulting from operations	345,241
PRINCIPAL TRANSACTIONS:	
Net premiums	518,755
Net transfers from (to) other Divisions or fixed rate option	404,912
Cost of insurance and other charges	(558,240)
Policy loans	11,222
Death benefits	(20,622)
Withdrawals	(729,340)
Increase (decrease) in net assets resulting from principal transactions	(373,313)
TOTAL INCREASE (DECREASE) IN NET ASSETS	(28,072)
NET ASSETS:	
Beginning of year	5,054,671

End of year	$5,026,599

</TABLE>

See accompanying notes.

<PAGE>

AMERICAN GENERAL LIFE INSURANCE COMPANY
SEPARATE ACCOUNT VUL-2

STATEMENTS OF CHANGES IN NET ASSETS - CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

<TABLE>
<CAPTION>

	Divisions		
	Fidelity VIP Money Market Portfolio - Initial Class	Fidelity VIP Overseas Portfolio - Initial Class	MFS VIT Core Equity Series - Initial Class
<S>	<C>	<C>	<C>
FOR THE YEAR ENDED DECEMBER 31, 2011			
OPERATIONS:			
Net investment income (loss)	$ (26,188)	$ 61,779	$ 13,240
Net realized gain (loss) on investments	-	12,847	66,598
Capital gain distributions from mutual funds	-	20,608	-
Net change in unrealized appreciation (depreciation) of investments	-	(1,974,158)	(182,597)
Increase (decrease) in net assets resulting from operations	(26,188)	(1,878,924)	(102,759)
PRINCIPAL TRANSACTIONS:			
Net premiums	539,239	943,450	680,598
Net transfers from (to) other Divisions or fixed rate option	759,877	(179,059)	(77,812)
Cost of insurance and other charges	(612,978)	(943,470)	(631,674)
Policy loans	(32,281)	(77,127)	(44,905)

Death benefits	(7,650)	(30,767)	(10,264)
Withdrawals	(1,791,126)	(1,019,952)	(833,085)
Increase (decrease) in net assets resulting from principal transactions	(1,144,919)	(1,306,925)	(917,142)
TOTAL INCREASE (DECREASE) IN NET ASSETS	(1,171,107)	(3,185,849)	(1,019,901)
NET ASSETS:			
Beginning of year	4,776,483	11,621,510	6,911,094
End of year	$ 3,605,376	$ 8,435,661	$ 5,891,193
FOR THE YEAR ENDED DECEMBER 31, 2010			
OPERATIONS:			
Net investment income (loss)	$ (30,841)	$ 68,366	$ 23,918
Net realized gain (loss) on investments	-	(41,426)	70,770
Capital gain distributions from mutual funds	3,039	20,591	-
Net change in unrealized appreciation (depreciation) of investments	-	1,193,143	902,998
Increase (decrease) in net assets resulting from operations	(27,802)	1,240,674	997,686
PRINCIPAL TRANSACTIONS:			
Net premiums	593,607	1,050,001	786,600
Net transfers from (to) other Divisions or fixed rate option	829,325	(110,434)	(125,202)
Cost of insurance and other charges	(726,793)	(1,026,293)	(696,620)
Policy loans	(247)	(159,949)	(60,207)
Death benefits	(47,806)	(40,165)	(57,496)
Withdrawals	(2,268,352)	(1,509,817)	(887,407)
Increase (decrease) in net assets resulting from principal transactions	(1,620,266)	(1,796,657)	(1,040,332)
TOTAL INCREASE (DECREASE) IN NET ASSETS	(1,648,068)	(555,983)	(42,646)
NET ASSETS:			
Beginning of year	6,424,551	12,177,493	6,953,740
End of year	$ 4,776,483	$11,621,510	$ 6,911,094

</TABLE>
<TABLE>

<CAPTION>

<S>	MFS VIT Growth Series - Initial Class <C>
FOR THE YEAR ENDED DECEMBER 31, 2011	
OPERATIONS:	
Net investment income (loss)	$ (64,024)
Net realized gain (loss) on investments	109,093
Capital gain distributions from mutual funds	-
Net change in unrealized appreciation (depreciation) of investments	(147,910)
Increase (decrease) in net assets resulting from operations	(102,841)
PRINCIPAL TRANSACTIONS:	
Net premiums	1,179,334
Net transfers from (to) other Divisions or fixed rate option	(176,747)
Cost of insurance and other charges	(1,092,618)
Policy loans	(54,271)
Death benefits	(11,298)
Withdrawals	(1,452,973)
Increase (decrease) in net assets resulting from principal transactions	(1,608,573)
TOTAL INCREASE (DECREASE) IN NET ASSETS	(1,711,414)
NET ASSETS:	
Beginning of year	12,115,071
End of year	$10,403,657
FOR THE YEAR ENDED DECEMBER 31, 2010	
OPERATIONS:	
Net investment income (loss)	$ (73,776)
Net realized gain (loss) on investments	555,242
Capital gain distributions from mutual funds	-

Net change in unrealized appreciation (depreciation) of investments	1,077,740
Increase (decrease) in net assets resulting from operations	1,559,206
PRINCIPAL TRANSACTIONS:	
Net premiums	1,361,419
Net transfers from (to) other Divisions or fixed rate option	(320,060)
Cost of insurance and other charges	(1,189,580)
Policy loans	(120,825)
Death benefits	(56,492)
Withdrawals	(1,788,993)
Increase (decrease) in net assets resulting from principal transactions	(2,114,531)
TOTAL INCREASE (DECREASE) IN NET ASSETS	(555,325)
NET ASSETS:	
Beginning of year	12,670,396
End of year	$12,115,071

</TABLE>

See accompanying notes.

<PAGE>

AMERICAN GENERAL LIFE INSURANCE COMPANY
SEPARATE ACCOUNT VUL-2

STATEMENTS OF CHANGES IN NET ASSETS - CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

<TABLE>
<CAPTION>

	Divisions		
	MFS VIT Investors Trust	MFS VIT	MFS VIT Total

	Series - Initial Class	Research Series - Initial Class	Return Series - Initial Class
<S>	<C>	<C>	<C>
FOR THE YEAR ENDED DECEMBER 31, 2011			
OPERATIONS:			
Net investment income (loss)	$ 5,018	$ 5,235	$ 99,537
Net realized gain (loss) on investments	23,471	44,296	23,914
Capital gain distributions from mutual funds	-	-	-
Net change in unrealized appreciation (depreciation) of investments	(106,332)	(106,663)	(72,905)
Increase (decrease) in net assets resulting from operations	(77,843)	(57,132)	50,546
PRINCIPAL TRANSACTIONS:			
Net premiums	270,181	497,874	559,150
Net transfers from (to) other Divisions or fixed rate option	(12,687)	(61,077)	17,591
Cost of insurance and other charges	(269,986)	(494,790)	(562,366)
Policy loans	(28,268)	(56,349)	(32,682)
Death benefits	(3,155)	(5,773)	(58,024)
Withdrawals	(249,925)	(518,099)	(523,097)
Increase (decrease) in net assets resulting from principal transactions	(293,840)	(638,214)	(599,428)
TOTAL INCREASE (DECREASE) IN NET ASSETS	(371,683)	(695,346)	(548,882)
NET ASSETS:			
Beginning of year	2,997,881	5,160,595	5,586,773
End of year	$2,626,198	$4,465,249	$5,037,891
FOR THE YEAR ENDED DECEMBER 31, 2010			
OPERATIONS:			
Net investment income (loss)	$ 13,879	$ 8,968	$ 117,434
Net realized gain (loss) on investments	49,175	177,156	(198,061)
Capital gain distributions from mutual funds	-	-	-
Net change in unrealized appreciation (depreciation) of investments	218,974	507,338	593,390
Increase (decrease) in net assets resulting from operations	282,028	693,462	512,763

PRINCIPAL TRANSACTIONS:			
Net premiums	300,938	558,999	598,974
Net transfers from (to) other Divisions or fixed rate option	(5,785)	(136,499)	99,894
Cost of insurance and other charges	(294,902)	(538,166)	(607,858)
Policy loans	(7,743)	(38,257)	(52,104)
Death benefits	(9,902)	(14,406)	(1,941)
Withdrawals	(410,830)	(666,952)	(926,250)
Increase (decrease) in net assets resulting from principal transactions	(428,224)	(835,281)	(889,285)
TOTAL INCREASE (DECREASE) IN NET ASSETS	(146,196)	(141,819)	(376,522)
NET ASSETS:			
Beginning of year	3,144,077	5,302,414	5,963,295
End of year	$2,997,881	$5,160,595	$5,586,773

</TABLE>
<TABLE>
<CAPTION>

<S>	MFS VIT Utilities Series - Initial Class <C>
FOR THE YEAR ENDED DECEMBER 31, 2011	
OPERATIONS:	
Net investment income (loss)	$ 258,491
Net realized gain (loss) on investments	133,402
Capital gain distributions from mutual funds	-
Net change in unrealized appreciation (depreciation) of investments	236,357
Increase (decrease) in net assets resulting from operations	628,250
PRINCIPAL TRANSACTIONS:	
Net premiums	786,479
Net transfers from (to) other Divisions or fixed rate option	(18,853)
Cost of insurance and other charges	(774,620)

Policy loans	(124,358)
Death benefits	(6,563)
Withdrawals	(1,355,200)
Increase (decrease) in net assets resulting from principal transactions	(1,493,115)
TOTAL INCREASE (DECREASE) IN NET ASSETS	(864,865)
NET ASSETS:	
Beginning of year	10,831,221
End of year	$ 9,966,356

FOR THE YEAR ENDED DECEMBER 31, 2010

OPERATIONS:	
Net investment income (loss)	$ 265,216
Net realized gain (loss) on investments	814,932
Capital gain distributions from mutual funds	-
Net change in unrealized appreciation (depreciation) of investments	155,040
Increase (decrease) in net assets resulting from operations	1,235,188
PRINCIPAL TRANSACTIONS:	
Net premiums	855,608
Net transfers from (to) other Divisions or fixed rate option	(100,744)
Cost of insurance and other charges	(826,567)
Policy loans	(151,698)
Death benefits	(72,425)
Withdrawals	(1,584,493)
Increase (decrease) in net assets resulting from principal transactions	(1,880,319)
TOTAL INCREASE (DECREASE) IN NET ASSETS	(645,131)
NET ASSETS:	
Beginning of year	11,476,352
End of year	$10,831,221

</TABLE>

See accompanying notes.

<PAGE>

AMERICAN GENERAL LIFE INSURANCE COMPANY
SEPARATE ACCOUNT VUL-2
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

Separate Account VUL-2 (the "Separate Account") was established on September 30, 1991 to fund variable universal life insurance policies issued by The American Franklin Life Insurance Company ("AMFLIC"). On December 31, 2002, AMFLIC merged with and into its parent company, The Franklin Life Insurance Company ("Franklin"). This was followed by an immediate merger of Franklin with and into an affiliate, American General Life Insurance Company ("American General").

As a result of the merger, American General became the depositor of the Separate Account, and its assets are the property of American General. American General is now responsible for all policies funded through the Separate Account. The mergers did not affect the rights of the policy owners.

The following products are included in the Separate Account: EquiBuilder II and EquiBuilder III. EquiBuilder II and EquiBuilder III policies are no longer for sale.

American General is an indirect, wholly-owned subsidiary of American International Group, Inc. The Separate Account is registered with the Securities and Exchange Commission as a unit investment trust pursuant to the provisions of the Investment Company Act of 1940, as amended.

The Separate Account is divided into "Divisions" that invest in independently managed mutual fund portfolios ("Funds"). The Funds available to policy owners through the various Divisions are as follows:

FIDELITY(R) VARIABLE INSURANCE PRODUCTS ("FIDELITY(R) VIP"):
Fidelity(R) VIP Asset Manager(SM) Portfolio - Initial Class
Fidelity(R) VIP Asset Manager: Growth(R) Portfolio - Initial Class

Fidelity(R) VIP Contrafund(R) Portfolio - Initial Class
Fidelity(R) VIP Equity-Income Portfolio - Initial Class
Fidelity(R) VIP Growth Portfolio - Initial Class
Fidelity(R) VIP High Income Portfolio - Initial Class
Fidelity(R) VIP Index 500 Portfolio - Initial Class
Fidelity(R) VIP Investment Grade Bond Portfolio - Initial Class
Fidelity(R) VIP Money Market Portfolio - Initial Class
Fidelity(R) VIP Overseas Portfolio - Initial Class

MFS(R) VARIABLE INSURANCE TRUST(SM) ("MFS(R) VIT"):
MFS(R) VIT Core Equity Series - Initial Class
MFS(R) VIT Growth Series - Initial Class
MFS(R) VIT Investors Trust Series - Initial Class
MFS(R) VIT Research Series - Initial Class
MFS(R) VIT Total Return Series - Initial Class
MFS(R) VIT Utilities Series - Initial Class

In addition to the Divisions above, policy owners may allocate policy funds to a fixed account, which is part of American General's general account. Policy owners should refer to the prospectus and prospectus supplements for a complete description of the available Funds and the fixed account.

The assets of the Separate Account are segregated from American General's other assets. The operations of the Separate Account are part of American General.

Net premiums from the policies are allocated to the Divisions and invested in the Funds in accordance with policy owner instructions. The premiums are recorded as principal transactions in the Statements of Changes in Net Assets.

<PAGE>

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

The accompanying financial statements of the Separate Account have been prepared on the basis of accounting principles generally accepted in the United

States of America ("GAAP"). The accounting principles followed by the Separate Account and the methods of applying those principles are presented below.

USE OF ESTIMATES - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expenses during the year. Actual results could differ from those estimates.

SECURITY TRANSACTIONS AND RELATED INVESTMENT INCOME - Security transactions which represent purchases and sales of investments, are accounted for on the trade date at fair value. Realized gains and losses from security transactions are determined on the basis of first-in first-out. Dividend income and distributions of capital gains are recorded on the ex-dividend date and reinvested upon receipt.

POLICY LOANS - When a policy loan is made, the loan amount is transferred to American General from the policy owner's selected investment Division(s), and held as collateral. Interest on this collateral amount is credited to the policy. Loan repayments are invested in the policy owner's selected investment Division(s), after they are first used to repay all loans taken from the declared fixed interest account option.

FEDERAL INCOME TAXES - American General is taxed as a life insurance company under the Internal Revenue Code and includes the operations of the Separate Account in determining its federal income tax liability. As a result, the Separate Account is not taxed as a "Regulated Investment Company" under subchapter M of the Internal Revenue Code. Under existing federal income tax law, the investment income and capital gains from sales of investments realized by the Separate Account are not taxable. Therefore, no federal income tax provision has been made.

ACCUMULATION UNIT - This is a measuring unit used to calculate the policy owner's interest. Such units are valued on each day that the New York Stock Exchange ("NYSE") is open for business to reflect investment performance and the prorated daily deduction for mortality and expense risk charges.

NOTE 3 - FAIR VALUE MEASUREMENTS

Assets and liabilities recorded at fair value in the Separate Account balance sheet are measured and classified in a hierarchy for disclosure purposes consisting of three "levels" based on the observability of inputs available in the marketplace used to measure the fair values as discussed below. In certain

cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Separate Account's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgments. In making the assessment, the Separate Account considers factors specific to the asset or liability.

Level 1-- Fair value measurements that are quoted prices (unadjusted) in active markets that the Separate Account has the ability to access for identical assets or liabilities. Market price data generally is obtained from exchange or dealer markets. The Separate Account does not adjust the quoted price for such instruments. Assets and liabilities measured at fair value on a recurring basis and classified as Level 1 include government and agency securities, actively traded listed common stocks and derivative contracts, most separate account assets and most mutual funds.

Level 2-- Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liability in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Assets and liabilities measured at fair value on a recurring basis and classified as Level 2 generally include certain government securities, most investment-grade and high-yield corporate bonds, certain asset backed securities, certain listed equities, state, municipal and provincial obligations, hybrid securities, and derivative contracts.

<PAGE>

NOTE 3 - FAIR VALUE MEASUREMENTS - CONTINUED

Level 3-- Fair value measurements based on valuation techniques that use

significant inputs that are unobservable. These measurements include circumstances in which there is little, if any, market activity for the asset or liability. Assets and liabilities measured at fair value on a recurring basis and classified as Level 3 principally include fixed maturities.

The Separate Account assets measured at fair value as of December 31, 2011 consist of investments in registered mutual funds that generally trade daily and are measured at fair value using quoted prices in active markets for identical assets, which are classified as Level 1. See the Schedule of Portfolio Investments for the table presenting information about assets measured at fair value on a recurring basis at December 31, 2011, and respective hierarchy levels. As all assets of the Separate Account are classified as Level 1, no reconciliation of Level 3 assets and change in unrealized gains (losses) for Level 3 assets still held as of December 31, 2011, is presented.

NOTE 4 - POLICY CHARGES

DEDUCTIONS FROM PREMIUM PAYMENTS - Certain jurisdictions require that a deduction be made from each premium payment for premium taxes. The amount of such deduction currently ranges from 0% to 3.5%. With respect to the EquiBuilder III, American General makes a sales expense deduction equal to 5% of each premium paid during any policy year up to a "target" premium, which is based on the annual premium for a fixed whole life insurance policy on the life of the insured person (no sales expense deduction is made for premiums in excess of the target premium paid during that policy year). The balance remaining after any such deduction, the net premium, is placed by American General in a policy account established for each policy owner.

MORTALITY AND EXPENSE RISK AND ADMINISTRATIVE CHARGES - Deductions for administrative expenses and mortality and expense risks assumed by American General are assessed through the daily unit value calculation at an annual rate of 0.75% and paid to American General from the daily net asset value of the Divisions.

MONTHLY ADMINISTRATIVE CHARGE - American General makes a monthly charge against each policy account for the administrative expenses (currently $6 per month plus an additional charge of $24 per month for each of the first 12 months a policy is in effect). The administrative expenses are paid by redemption of units outstanding. Administrative expenses are included with cost of insurance in the Statements of Changes in Net Assets under principal transactions.

COST OF INSURANCE CHARGE - Since determination of both the insurance rate and American General's net amount at risk depends upon several factors, the cost of insurance deduction may vary from month to month. Policy accumulation value, specified amount of insurance and certain characteristics of the insured person are among the variables included in the calculation for the monthly cost of insurance deduction. The cost of insurance charges are paid by redemption of units outstanding. Cost of insurance charges are included in the Statements of Changes in Net Assets under principal transactions.

FACE AMOUNT INCREASE CHARGE - American General charges for an increase in the face amount of insurance. The current charge is $1.50 for each $1,000 increase in the face amount of insurance up to a maximum charge of $300. The face amount increase charge is paid by redemption of units outstanding. The face amount increase charge is included with cost of insurance in the Statements of Changes in Net Assets under principal transactions.

TRANSFER CHARGES - American General may charge for a transfer between investment Divisions in any policy year in which four transfers have already been made (up to $25 for each additional transfer in a given policy year). Transfer requests are subject to American General's published rules concerning market timing. A policy owner who violates these rules will for a period of time (typically six months), have certain restrictions placed on transfers. The transfer charges are paid by redemption of units outstanding. Transfer charges are included with net transfers from (to) other divisions or fixed rate option in the Statements of Changes in Net Assets under principal transactions.

<PAGE>

NOTE 4 - POLICY CHARGES - CONTINUED

OPTIONAL RIDER CHARGES - American General deducts monthly charges, if the policy owner selects additional benefit riders for certain policies. The charges for any rider selected will vary by policy within a range based on either the personal characteristics of the insured person or the specific coverage chosen under the rider. The rider charges are paid by redemption of units outstanding. Optional rider charges are included with cost of insurance

in the Statements of Changes in Net Assets under principal transactions.

SURRENDER CHARGE - During the first ten years a policy is in effect, a surrender charge may be deducted from a policy account by American General if the policy is surrendered for its net cash surrender value, the face amount of the policy is reduced or the policy is permitted to lapse. The maximum surrender charge is equal to 50% of one "target" premium. This maximum will not vary with the amount of premiums paid or when premiums are paid. At the end of the sixth policy year, and at the end of each of the four succeeding policy years, the maximum surrender charge will decrease by 20%. The current surrender charges for EquiBuilder II and EquiBuilder III policies will equal 30% and 25%, respectively, of premium payments made during the first policy year up to one "target" premium and 9% of any additional premiums paid during the first ten policy years. The surrender charges are paid by redemption of units outstanding. Surrender and partial withdrawal charges are included with withdrawals in the Statements of Changes in Net Assets under principal transactions.

POLICY LOAN - A loan may be requested against a policy while the policy has a net cash surrender value. The daily interest charge on the loan is paid to American General for the expenses of administering and providing policy loans. The interest charge is collected through any loan repayment from the policyholder.

<PAGE>

NOTE 5 - PURCHASES AND SALES OF INVESTMENTS

For the year ended December 31, 2011, the aggregate cost of purchases and proceeds from the sales of investments were:

<TABLE>
<CAPTION>

Divisions	Cost of Purchases	Proceeds from Sales

<S> <C> <C>

Fidelity VIP Asset Manager Portfolio - Initial Class	$ 477,734	$2,405,969
Fidelity VIP Asset Manager: Growth Portfolio - Initial Class	387,841	1,314,800
Fidelity VIP Contrafund Portfolio - Initial Class	531,494	5,980,653
Fidelity VIP Equity-Income Portfolio - Initial Class	1,032,962	4,837,083
Fidelity VIP Growth Portfolio - Initial Class	697,787	6,372,821
Fidelity VIP High Income Portfolio - Initial Class	326,912	663,904
Fidelity VIP Index 500 Portfolio - Initial Class	1,698,216	4,706,901
Fidelity VIP Investment Grade Bond Portfolio - Initial Class	699,228	1,148,276
Fidelity VIP Money Market Portfolio - Initial Class	1,023,587	2,194,682
Fidelity VIP Overseas Portfolio - Initial Class	366,173	1,590,760
MFS VIT Core Equity Series - Initial Class	165,132	1,068,977
MFS VIT Growth Series - Initial Class	200,380	1,872,948
MFS VIT Investors Trust Series - Initial Class	113,973	402,796
MFS VIT Research Series - Initial Class	124,411	757,329
MFS VIT Total Return Series - Initial Class	296,722	796,613
MFS VIT Utilities Series - Initial Class	499,075	1,733,697

</TABLE>

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NOTE 6 - SUMMARY OF CHANGES IN UNITS

Summary of Changes in Units for the years ended December 31, 2011 and December 31, 2010.

<TABLE>
<CAPTION>

Divisions	Accumulation Units Issued	Accumulation Units Redeemed	Net Increase (Decrease)
<S>	<C>	<C>	<C>
2011			
Fidelity VIP Asset Manager Portfolio - Initial Class	1,401	(7,817)	(6,416)
Fidelity VIP Asset Manager: Growth Portfolio - Initial Class	1,857	(6,097)	(4,240)

Fidelity VIP Contrafund Portfolio - Initial Class	2,269	(16,039)	(13,770)
Fidelity VIP Equity-Income Portfolio - Initial Class	2,188	(11,972)	(9,784)
Fidelity VIP Growth Portfolio - Initial Class	3,717	(17,469)	(13,752)
Fidelity VIP High Income Portfolio - Initial Class	872	(3,081)	(2,209)
Fidelity VIP Index 500 Portfolio - Initial Class	3,440	(15,800)	(12,360)
Fidelity VIP Investment Grade Bond Portfolio - Initial Class	1,849	(4,252)	(2,403)
Fidelity VIP Money Market Portfolio - Initial Class	6,740	(13,370)	(6,630)
Fidelity VIP Overseas Portfolio - Initial Class	1,587	(6,563)	(4,976)
MFS VIT Core Equity Series - Initial Class	1,987	(9,065)	(7,078)
MFS VIT Growth Series - Initial Class	3,322	(15,042)	(11,720)
MFS VIT Investors Trust Series - Initial Class	1,210	(3,672)	(2,462)
MFS VIT Research Series - Initial Class	1,459	(6,497)	(5,038)
MFS VIT Total Return Series - Initial Class	1,729	(5,281)	(3,552)
MFS VIT Utilities Series - Initial Class	1,316	(6,733)	(5,417)
2010			
Fidelity VIP Asset Manager Portfolio - Initial Class	4,708	(12,355)	(7,647)
Fidelity VIP Asset Manager: Growth Portfolio - Initial Class	4,250	(10,045)	(5,795)
Fidelity VIP Contrafund Portfolio - Initial Class	9,094	(27,411)	(18,317)
Fidelity VIP Equity-Income Portfolio - Initial Class	8,983	(24,268)	(15,285)
Fidelity VIP Growth Portfolio - Initial Class	15,571	(36,482)	(20,911)
Fidelity VIP High Income Portfolio - Initial Class	2,210	(3,159)	(949)
Fidelity VIP Index 500 Portfolio - Initial Class	13,145	(31,968)	(18,823)
Fidelity VIP Investment Grade Bond Portfolio - Initial Class	3,401	(4,760)	(1,359)
Fidelity VIP Money Market Portfolio - Initial Class	8,200	(17,530)	(9,330)
Fidelity VIP Overseas Portfolio - Initial Class	4,377	(11,871)	(7,494)
MFS VIT Core Equity Series - Initial Class	6,857	(15,981)	(9,124)
MFS VIT Growth Series - Initial Class	11,264	(28,777)	(17,513)
MFS VIT Investors Trust Series - Initial Class	2,769	(6,710)	(3,941)
MFS VIT Research Series - Initial Class	4,939	(12,315)	(7,376)
MFS VIT Total Return Series - Initial Class	4,225	(9,675)	(5,450)
MFS VIT Utilities Series - Initial Class	3,628	(11,717)	(8,089)

</TABLE>

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NOTE 7 - FINANCIAL HIGHLIGHTS

A summary of units outstanding, unit values, and net assets for the variable life policies and the investment income ratios, expense ratios (excluding expenses of the underlying Divisions) and total returns for each of the five years in the period ended December 31, 2011 are as follows:

<TABLE>
<CAPTION>

	At December 31		
	Units	Unit Value	Net Assets
<S>	<C>	<C>	<C>
Fidelity VIP Asset Manager Portfolio - Initial Class			
2011	41,691	$323.55	$13,489,249
2010	48,107	334.55	16,094,019
2009	55,754	294.99	16,446,859
2008	66,193	230.19	15,237,184
2007	78,442	325.37	25,522,359
Fidelity VIP Asset Manager: Growth Portfolio - Initial Class			
2011	32,252	$226.79	$ 7,314,354
2010	36,492	243.52	8,886,413
2009	42,287	210.88	8,917,630
2008	48,025	159.86	7,677,461
2007	54,473	250.93	13,668,698
Fidelity VIP Contrafund Portfolio - Initial Class			
2011	85,761	$390.33	$33,474,831
2010	99,531	403.45	40,155,697
2009	117,848	346.78	40,867,075
2008	139,997	257.45	36,042,683
2007	164,665	451.23	74,301,652
Fidelity VIP Equity-Income Portfolio - Initial Class			
2011	69,731	$442.61	$30,863,300
2010	79,515	441.64	35,117,272
2009	94,800	386.42	36,633,036

2008	113,899	299.01	34,056,595
2007	134,263	525.34	70,534,041
Fidelity VIP Growth Portfolio - Initial Class			
2011	107,523	$398.25	$42,820,514
2010	121,275	400.43	48,561,715
2009	142,186	324.90	46,196,386
2008	169,568	255.17	43,268,210
2007	196,531	486.62	95,635,278
Fidelity VIP High Income Portfolio - Initial Class			
2011	11,867	$229.25	$ 2,720,562
2010	14,076	222.02	3,125,263
2009	15,025	196.53	2,952,767
2008	16,265	137.54	2,237,102
2007	19,537	184.74	3,609,252
Fidelity VIP Index 500 Portfolio - Initial Class			
2011	90,165	$337.49	$30,429,606
2010	102,525	333.23	34,164,212
2009	121,348	291.89	35,419,860
2008	141,953	232.28	32,972,935
2007	164,933	371.47	61,267,283

</TABLE>
<TABLE>
<CAPTION>

	For the year ended December 31		
	Investment Income Ratio (1)	Expense Ratio (2)	Total Return (3)
<S>	<C>	<C>	<C>
Fidelity VIP Asset Manager Portfolio - Initial Class			
2011	1.89%	0.75%	-3.29%
2010	1.61%	0.75%	13.41%
2009	2.24%	0.75%	28.15%
2008	2.60%	0.75%	-29.25%
2007	6.04%	0.75%	14.64%
Fidelity VIP Asset Manager: Growth Portfolio - Initial Class			
2011	1.61%	0.75%	-6.87%

2010	1.10%	0.75%	15.48%
2009	1.49%	0.75%	31.91%
2008	1.92%	0.75%	-36.29%
2007	4.20%	0.75%	18.07%
Fidelity VIP Contrafund Portfolio - Initial Class			
2011	0.98%	0.75%	-3.25%
2010	1.14%	0.75%	16.34%
2009	1.29%	0.75%	34.70%
2008	0.95%	0.75%	-42.94%
2007	0.93%	0.75%	16.71%
Fidelity VIP Equity-Income Portfolio - Initial Class			
2011	2.44%	0.75%	0.22%
2010	1.68%	0.75%	14.29%
2009	2.09%	0.75%	29.24%
2008	2.42%	0.75%	-43.08%
2007	1.81%	0.75%	0.77%
Fidelity VIP Growth Portfolio - Initial Class			
2011	0.37%	0.75%	-0.54%
2010	0.25%	0.75%	23.25%
2009	0.41%	0.75%	27.33%
2008	0.80%	0.75%	-47.56%
2007	0.83%	0.75%	26.01%
Fidelity VIP High Income Portfolio - Initial Class			
2011	6.55%	0.75%	3.26%
2010	7.73%	0.75%	12.97%
2009	8.16%	0.75%	42.88%
2008	8.66%	0.75%	-25.55%
2007	8.09%	0.75%	2.01%
Fidelity VIP Index 500 Portfolio - Initial Class			
2011	1.90%	0.75%	1.28%
2010	1.79%	0.75%	14.16%
2009	2.35%	0.75%	25.66%
2008	2.11%	0.75%	-37.47%
2007	3.64%	0.75%	4.65%

</TABLE>

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AMERICAN GENERAL LIFE INSURANCE COMPANY
SEPARATE ACCOUNT VUL-2
NOTES TO FINANCIAL STATEMENTS - CONTINUED

NOTE 7 - FINANCIAL HIGHLIGHTS - CONTINUED

A summary of units outstanding, unit values, and net assets for the variable life policies and the investment income ratios, expense ratios (excluding expenses of the underlying Divisions) and total returns for each of the five years in the period ended December 31, 2011 are as follows:

<TABLE>
<CAPTION>

	At December 31		
	Units	Unit Value	Net Assets
<S>	<C>	<C>	<C>
Fidelity VIP Investment Grade Bond Portfolio - Initial Class			
2011	15,492	$299.25	$ 4,636,031
2010	17,895	280.89	5,026,599
2009	19,254	262.52	5,054,671
2008	21,336	228.56	4,876,542
2007	24,356	238.01	5,797,124
Fidelity VIP Money Market Portfolio - Initial Class			
2011	20,956	$172.05	$ 3,605,376
2010	27,586	173.15	4,776,483
2009	36,916	174.03	6,424,551
2008	39,324	174.09	6,845,766
2007	30,972	170.25	5,273,013
Fidelity VIP Overseas Portfolio - Initial Class			
2011	37,504	$224.93	$ 8,435,661
2010	42,480	273.57	11,621,510
2009	49,974	243.67	12,177,493

2008	59,381	194.03	11,521,843
2007	68,736	347.89	23,912,244
MFS VIT Core Equity Series - Initial Class			
2011	46,411	$126.94	$ 5,891,193
2010	53,489	129.21	6,911,094
2009	62,613	111.06	6,953,740
2008	72,711	84.49	6,143,530
2007	84,684	139.91	11,848,299
MFS VIT Growth Series - Initial Class			
2011	77,073	$134.98	$10,403,657
2010	88,793	136.44	12,115,071
2009	106,306	119.19	12,670,396
2008	125,129	87.22	10,914,213
2007	147,162	140.42	20,665,107
MFS VIT Investors Trust Series - Initial Class			
2011	22,730	$115.54	$ 2,626,198
2010	25,192	119.00	2,997,881
2009	29,133	107.92	3,144,077
2008	34,221	85.69	2,932,251
2007	39,236	129.01	5,061,773
MFS VIT Research Series - Initial Class			
2011	35,502	$125.78	$ 4,465,249
2010	40,540	127.29	5,160,595
2009	47,916	110.66	5,302,414
2008	56,097	85.41	4,791,043
2007	65,980	134.64	8,883,295

</TABLE>
<TABLE>
<CAPTION>

	For the year ended December 31		
	Investment Income Ratio (1)	Expense Ratio (2)	Total Return (3)
<S>	<C>	<C>	<C>
Fidelity VIP Investment Grade Bond Portfolio - Initial Class			
2011	3.09%	0.75%	6.53%

2010	3.56%	0.75%	7.00%
2009	8.74%	0.75%	14.86%
2008	4.32%	0.75%	-3.97%
2007	4.32%	0.75%	3.56%
Fidelity VIP Money Market Portfolio - Initial Class			
2011	0.11%	0.75%	-0.64%
2010	0.17%	0.75%	-0.51%
2009	0.76%	0.75%	-0.03%
2008	2.98%	0.75%	2.25%
2007	5.47%	0.75%	4.42%
Fidelity VIP Overseas Portfolio - Initial Class			
2011	1.40%	0.75%	-17.78%
2010	1.27%	0.75%	12.27%
2009	1.95%	0.75%	25.58%
2008	2.54%	0.75%	-44.23%
2007	3.36%	0.75%	16.43%
MFS VIT Core Equity Series - Initial Class			
2011	0.96%	0.75%	-1.76%
2010	1.06%	0.75%	16.34%
2009	1.64%	0.75%	31.44%
2008	0.82%	0.75%	-39.61%
2007	0.35%	0.75%	10.31%
MFS VIT Growth Series - Initial Class			
2011	0.19%	0.75%	-1.07%
2010	0.11%	0.75%	14.48%
2009	0.31%	0.75%	36.65%
2008	0.24%	0.75%	-37.89%
2007	0.00%	0.75%	20.26%
MFS VIT Investors Trust Series - Initial Class			
2011	0.94%	0.75%	-2.91%
2010	1.17%	0.75%	10.27%
2009	1.58%	0.75%	25.95%
2008	0.90%	0.75%	-33.58%
2007	0.85%	0.75%	9.48%
MFS VIT Research Series - Initial Class			
2011	0.87%	0.75%	-1.19%

2010	0.88%	0.75%	15.03%
2009	1.42%	0.75%	29.57%
2008	0.56%	0.75%	-36.56%
2007	0.71%	0.75%	12.35%

</TABLE>

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NOTE 7 - FINANCIAL HIGHLIGHTS - CONTINUED

A summary of units outstanding, unit values, and net assets for the variable life policies and the investment income ratios, expense ratios (excluding expenses of the underlying Divisions) and total returns for each of the five years in the period ended December 31, 2011 are as follows:

<TABLE>
<CAPTION>

	At December 31			For the year ended December 31		
<S>	Units <C>	Unit Value <C>	Net Assets <C>	Investment Income Ratio (1) <C>	Expense Ratio (2) <C>	Total Return (3) <C>
MFS VIT Total Return Series - Initial Class						
2011	29,554	$170.46	$ 5,037,891	2.63%	0.75%	1.01%
2010	33,106	168.75	5,586,773	2.80%	0.75%	9.11%
2009	38,556	154.66	5,963,295	3.84%	0.75%	17.15%
2008	49,065	132.03	6,477,816	3.34%	0.75%	-22.71%
2007	57,260	170.83	9,781,589	2.65%	0.75%	3.43%
MFS VIT Utilities Series - Initial Class						
2011	35,674	$279.38	$ 9,966,356	3.25%	0.75%	5.99%
2010	41,091	263.59	10,831,221	3.09%	0.75%	12.96%
2009	49,180	233.36	11,476,352	4.82%	0.75%	32.22%
2008	59,186	176.49	10,445,567	1.62%	0.75%	-38.14%

2007	69,229	285.28	19,749,835	0.97%	0.75%	26.94%

</TABLE>

(1) These amounts represent the dividends, excluding capital gain distributions from mutual funds, received by the Division from the underlying mutual fund, net of management fees assessed by the fund manager, divided by the average net assets. These ratios exclude those expenses, such as mortality and expense risk charges, that result in direct reduction in the unit value. The recognition of investment income by the Division is affected by the timing of the declaration of dividends by the underlying fund in which the Divisions invest.

(2) These amounts represent the annualized policy expenses of the Separate Account, consisting primarily of mortality and expense risk charges, for each year indicated. These ratios include only those expenses that result in a direct reduction to unit values. Charges made directly to policy owner accounts through the redemption of units and expenses of the underlying fund have been excluded.

(3) These amounts represent the total return for the years indicated, including changes in the value of the underlying Division, and reflect deductions for those expenses that result in a direct reduction to unit values. The total return does not include policy charges deducted directly from account values.

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NOTE 8 - OTHER MATTERS

The Company is a subsidiary of American International Group. Information on American International Group is publicly available in its regulatory filings with the U.S. Securities and Exchange Commission ("SEC").

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AMERICAN GENERAL LIFE INSURANCE COMPANY

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Consolidated Statements of Income (Loss) - Years Ended December 31, 2011, 2010 and 2009	4
Consolidated Statements of Comprehensive Income - Years Ended December 31, 2011, 2010 and 2009	5
Consolidated Statements of Equity - Years Ended December 31, 2011, 2010 and 2009	6
Consolidated Statements of Cash Flows - Years Ended December 31, 2011, 2010 and 2009	7 to 8
Notes to Consolidated Financial Statements	9 to 71

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholder of
American General Life Insurance Company:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income (loss), of comprehensive income, of equity and of cash flows present fairly, in all material respects, the financial position of American General Life Insurance Company and its subsidiaries (the "Company"), an indirect, wholly owned subsidiary of American International Group, Inc., at December 31, 2011 and 2010, and the results of their operations

and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for other-than-temporary impairments of fixed maturity securities as of April 1, 2009, as well as the classification of non-controlling interests in partially owned consolidated subsidiaries as of January 1, 2009.

/S/ PRICEWATERHOUSECOOPERS LLP

Houston, Texas

April 25, 2012

<PAGE>

AMERICAN GENERAL LIFE INSURANCE COMPANY
CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

	December 31,	
	2011	2010
	(In Millions)	
<S>	<C>	<C>

	2011	2010
ASSETS		
Investments:		
Fixed maturity securities, available for sale, at fair value (amortized cost: 2011--$61,915; 2010--$52,299)	$ 67,802	$ 55,623
Fixed maturity securities, trading, at fair value	509	499
Hybrid securities, at fair value (cost: 2011--$25; 2010--$1)	25	1
Equity securities, available for sale, at fair value (cost: 2011--$34; 2010--$38)	69	68
Equity securities, trading, at fair value	--	1
Mortgage and other loans receivable (net of allowance: 2011--$126; 2010--$190)	6,282	6,089
Policy loans	1,718	1,775
Investment real estate (net of accumulated depreciation of: 2011--$157; 2010--$150)	166	80
Partnerships and other invested assets	3,418	3,132
Aircraft (net of accumulated depreciation and impairment of: 2011--$527; 2010--$418)	540	687
Short-term investments (portion measured at fair value: 2011--$258; 2010--$3,770)	622	7,108
Derivative assets, at fair value	64	55
Total investments	81,215	75,118
Cash	144	114
Restricted cash	44	46
Investment in AIG (cost: 2011--$10; 2010--$10)	3	6
Accrued investment income	908	837
Amounts due from related parties	33	37
Reinsurance receivables	1,084	1,107
Deferred policy acquisition costs and value of business acquired	5,163	5,587
Deferred sales inducements	221	218
Other assets	327	344
Separate account assets, at fair value	26,061	27,359
TOTAL ASSETS	$115,203	$110,773

</TABLE>

See accompanying notes to consolidated financial statements

<PAGE>

AMERICAN GENERAL LIFE INSURANCE COMPANY
CONSOLIDATED BALANCE SHEETS (Continued)

<TABLE>
<CAPTION>

	December 31, 2011	December 31, 2010
	(In Millions, except share data)	
LIABILITIES AND EQUITY		
Liabilities:		
Future policy benefits	$ 16,726	$ 15,139
Policyholder contract deposits	50,253	47,921
Policy claims and benefits payable	483	410
Other policyholders' funds	1,905	1,947
Income taxes payable to parent	2,540	2,075
Amounts due to related parties	138	425
Derivative liabilities, at fair value	39	94
Other liabilities	1,025	1,064
Separate account liabilities	26,061	27,359
TOTAL LIABILITIES	99,170	96,434
COMMITMENTS AND CONTINGENT LIABILITIES (SEE NOTE 11)		
AMERICAN GENERAL LIFE INSURANCE SHAREHOLDER'S EQUITY:		
Preferred stock, $100 par value, 8,500 shares authorized, issued and outstanding	1	1
Common stock, $10 par value, 600,000 shares authorized, issued and outstanding	6	6
Additional paid-in capital	12,896	13,201
Retained earnings (accumulated deficit)	--	(1,105)
Accumulated other comprehensive income	3,026	2,103

TOTAL AMERICAN GENERAL LIFE INSURANCE SHAREHOLDER'S EQUITY	15,929	14,206
NONCONTROLLING INTERESTS	104	133
TOTAL EQUITY	16,033	14,339
TOTAL LIABILITIES AND EQUITY	$115,203	$110,773

</TABLE>

See accompanying notes to consolidated financial statements

<PAGE>

AMERICAN GENERAL LIFE INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF INCOME (LOSS)

<TABLE>
<CAPTION>

	Years ended December 31,		
	2011	2010	2009
	(In Millions)		
REVENUES:			
Premiums and other considerations	$1,032	$1,029	$ 1,038
Net investment income	4,279	4,589	3,841
Net realized investment gains (losses):			
Total other-than-temporary impairments on available for sale securities	(193)	(443)	(901)
Portion of other-than-temporary impairments on available for sale fixed maturity securities recognized in accumulated other comprehensive income	(40)	(48)	(196)
Net other-than-temporary impairments on available for sale securities recognized in net income (loss)	(233)	(491)	(1,097)
Other realized investment gains (losses)	629	321	(161)

Total net realized investment gains (losses)	396	(170)	(1,258)
Insurance charges	895	962	1,067
Other	778	775	585
TOTAL REVENUES	7,380	7,185	5,273
BENEFITS AND EXPENSES:			
Policyholder benefits	2,561	2,419	2,210
Interest credited on policyholder contract deposits	1,856	1,860	1,843
Amortization of deferred policy acquisition costs and value of business acquired	608	642	517
Amortization of deferred sales inducements	23	17	13
General and administrative expenses, net of deferrals	517	519	535
Commissions, net of deferrals	159	153	150
TOTAL BENEFITS AND EXPENSES	5,724	5,610	5,268
INCOME BEFORE INCOME TAX EXPENSE (BENEFIT)	1,656	1,575	5
INCOME TAX EXPENSE (BENEFIT):			
Current	(196)	153	(14)
Deferred	198	(561)	205
TOTAL INCOME TAX EXPENSE (BENEFIT)	2	(408)	191
NET INCOME (LOSS)	1,654	1,983	(186)
LESS: NET INCOME (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(29)	2	(6)
NET INCOME (LOSS) ATTRIBUTABLE TO AMERICAN GENERAL LIFE INSURANCE	$1,683	$1,981	$ (180)

</TABLE>

See accompanying notes to consolidated financial statements

<PAGE>

AMERICAN GENERAL LIFE INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<TABLE>
<CAPTION>

	Years ended December 31,		
	2011	2010	2009
	(In Millions)		
NET INCOME (LOSS)	$1,654	$ 1,983	$ (186)
OTHER COMPREHENSIVE INCOME:			
Net unrealized gains of fixed maturity investments on which other-than-temporary credit impairments were taken--net of reclassification adjustments	168	278	538
Deferred income tax expense on above changes	(59)	(97)	(191)
Net unrealized gains on all other invested assets arising during the current period--net of reclassification adjustments	2,521	2,806	5,389
Deferred income tax expense on above changes	(896)	(1,015)	(1,858)
Adjustment to deferred policy acquisition costs and deferred sales inducements	(329)	(536)	(637)
Deferred income tax benefit on above changes	115	187	223
Insurance loss recognition	(911)	--	--
Deferred income tax benefit on above changes	319	--	--
Foreign currency translation adjustments	(7)	(1)	5
Deferred income tax (expense) benefit on above changes	2	--	(2)
OTHER COMPREHENSIVE INCOME	923	1,622	3,467
COMPREHENSIVE INCOME	2,577	3,605	3,281
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(29)	2	(6)
COMPREHENSIVE INCOME ATTRIBUTABLE TO AMERICAN GENERAL LIFE INSURANCE	$2,606	$ 3,603	$ 3,287

See accompanying notes to consolidated financial statements

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AMERICAN GENERAL LIFE INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF EQUITY

<TABLE>
<CAPTION>

<S>	Years ended December 31, 2011 <C>	2010 <C>	2009 <C>
	(In Millions)		
PREFERRED STOCK:			
Balance at beginning and end of year	$ 1	$ 1	$ 1
COMMON STOCK:			
Balance at beginning and end of year	6	6	6
ADDITIONAL PAID-IN CAPITAL:			
Balance at beginning of year	13,201	13,199	11,941
Capital contributions from Parent (see Note 12)	10	2	1,286
Return of capital	(315)	--	--
Other	--	--	(28)
Balance at end of year	12,896	13,201	13,199
ACCUMULATED DEFICIT:			
Balance at beginning of year	(1,105)	(3,087)	(5,285)
Cumulative effect of accounting change, net of tax	--	1	2,378
Net income (loss) attributable to AGL	1,683	1,981	(180)
Dividends	(587)	--	--
Other	9	--	--
Balance at end of year	--	(1,105)	(3,087)
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):			
Balance at beginning of year	2,103	481	(1,343)
Cumulative effect of accounting change, net of tax	--	--	(1,643)
Other comprehensive income	923	1,622	3,467
Balance at end of year	3,026	2,103	481
TOTAL AMERICAN GENERAL LIFE INSURANCE SHAREHOLDER'S EQUITY	15,929	14,206	10,600

NONCONTROLLING INTERESTS:			
Balance at beginning of year	133	131	137
Net income (loss) attributable to noncontrolling interests	(29)	2	(6)
Balance at end of year	104	133	131
TOTAL EQUITY	$16,033	$14,339	$10,731

</TABLE>

See accompanying notes to consolidated financial statements

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AMERICAN GENERAL LIFE INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	Years ended December 31,		
	2011	2010	2009
	(In Millions)		
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$ 1,654	$ 1,983	$ (186)
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Interest credited to policyholder account balances	1,856	1,860	1,843
Fees charged for policyholder contract deposits	(859)	(835)	(917)
Amortization of deferred policy acquisition costs and value of business acquired	608	642	539
Amortization of deferred sales inducements	23	17	13
Net realized investment (gains) losses	(469)	183	1,249
Equity in (income) loss of partnerships and other invested assets	(103)	(159)	168
Depreciation and amortization	25	28	31
Amortization (accretion) of net premium/discount on investments	(391)	(583)	(329)
Provision for deferred income taxes	205	(623)	(14)
Unrealized (gains) losses in earnings--net	(5)	(193)	3

Capitalized interest	(92)	(102)	(112)
CHANGE IN:			
Trading securities, at fair value	8	38	30
Hybrid securities, at fair value	(16)	54	(43)
Accrued investment income	(71)	(71)	(18)
Amounts due to/from related parties	(229)	283	(33)
Reinsurance receivables	23	(12)	(3)
Deferral of deferred policy acquisition costs and value of business acquired	(497)	(423)	(497)
Deferral of sales inducements	(8)	(6)	(12)
Income taxes currently receivable/payable	(266)	169	211
Other assets	5	11	23
Future policy benefits	763	562	391
Other policyholders' funds	(41)	(71)	45
Other liabilities	(36)	(293)	176
Other, net	(38)	72	(24)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,049	2,531	2,534
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of:			
Fixed maturity securities, available for sale	(18,773)	(11,505)	(7,785)
Fixed maturity securities, trading	--	(23)	--
Equity securities	(1)	(4)	(1)
Mortgage and other loans	(630)	(235)	(178)
Other investments, excluding short-term investments	(2,925)	(4,493)	(3,182)
Sales of:			
Fixed maturity securities, available for sale	5,629	6,224	4,621
Equity securities	55	69	22
Other investments, excluding short-term investments	2,564	3,763	2,934
Redemptions and maturities of:			
Fixed maturity securities, available for sale	4,363	2,510	1,878
Mortgage and other loans	390	426	399
Other investments, excluding short-term investments	315	394	784
Purchases of property, equipment and software	(14)	(17)	(5)
Sales of property, equipment and software	1	--	2
Change in short-term investments	6,565	(517)	(3,387)
NET CASH USED IN INVESTING ACTIVITIES	$ (2,461)	$ (3,408)	$(3,898)

</TABLE>

See accompanying notes to consolidated financial statements

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AMERICAN GENERAL LIFE INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

<TABLE>
<CAPTION>

<S>	Years ended December 31, 2011 <C>	2010 <C>	2009 <C>
	(In Millions)		
CASH FLOWS FROM FINANCING ACTIVITIES			
Policyholder account deposits	$ 4,594	$ 4,369	$ 4,601
Policyholder account withdrawals	(3,600)	(3,990)	(5,257)
Net exchanges to/(from) separate accounts	627	599	714
Claims and annuity payments	(307)	(175)	(98)
Cash overdrafts	30	67	(2)
Cash capital contribution	--	--	1,280
Return of capital	(315)	--	--
Dividend paid to Parent Company	(587)	--	--
NET CASH PROVIDED BY FINANCING ACTIVITIES	442	870	1,238
INCREASE (DECREASE) IN CASH	30	(7)	(126)
CASH AT BEGINNING OF PERIOD	114	121	247
CASH AT END OF PERIOD	$ 144	$ 114	$ 121
SUPPLEMENTAL CASH FLOW INFORMATION			
Income taxes (received) paid	$ 62	$ 45	$ (3)
Interest (received) paid	$ --	$ --	$ 44

Non-cash activity:

Sales inducements credited to policyholder contract deposits.	$ 33	$ 37	$ 43
Other various non-cash contributions.........................	$ 10	$ 2	$ 6

</TABLE>

See accompanying notes to consolidated financial statements

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AMERICAN GENERAL LIFE INSURANCE COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

American General Life Insurance Company ("AGL" or the "Company"), including its wholly owned subsidiaries, is a wholly owned subsidiary of AGC Life Insurance Company ("AGC Life" or the "Parent"), which is in turn an indirect, wholly owned subsidiary of American International Group, Inc. ("AIG").

The Company is a leading provider of individual term and universal life insurance solutions to middle-income and high-net-worth customers. Primary products include term, universal and whole life insurance, accident and health insurance, fixed and indexed deferred annuities, fixed payout annuities, private placement variable annuities, structured settlements, terminal funding, corporate-owned life insurance, bank-owned life insurance and group benefits. The Company distributes its products through Matrix Direct and various independent marketing organizations, independent and career insurance agents, structured settlement brokers, benefit consultants and direct-to-consumer platforms. The Company, through its subsidiaries Integra Business Processing Solutions, Inc. ("Integra"), AIG Enterprise Services ("AIGES"), and AGL's wholly owned broker-dealer subsidiary American General Equity Services Corporation ("AGESC"), also provides support services to certain affiliated insurance companies. The financial results of The Variable Annuity Life Insurance Company ("VALIC"), a wholly owned subsidiary of the Company, are also included in these consolidated financial statements. VALIC is a leading provider of defined contribution retirement savings plans sponsored by education, not-for-profit and government organizations. Primary products include fixed and variable group annuities, and group mutual funds. VALIC also offers group administrative and compliance services, and individual annuity and mutual fund products. VALIC utilizes career and independent financial advisors to provide enrollment support and comprehensive financial planning services.

VALIC is licensed in 50 states and the District of Columbia.

The operations of the Company are influenced by many factors, including general economic conditions, financial condition of AIG, monetary and fiscal policies of the federal government and policies of state and other regulatory authorities. The level of sales of the Company's insurance and financial products is influenced by many factors, including general market rates of interest, the strength, weakness and volatility of equity markets and terms and conditions of competing products. The Company is exposed to the risks normally associated with a portfolio of fixed income securities, namely interest rate, option, liquidity and credit risks. The Company controls its exposure to these risks by, among other things, closely monitoring and matching the duration and cash flows of its assets and liabilities, monitoring and limiting prepayments and extension risk in its portfolio, maintaining a large percentage of its portfolio in highly liquid securities, engaging in a disciplined process of underwriting, and reviewing and monitoring credit risk. The Company also is exposed to market risk, policyholder behavior risk and mortality/longevity risk. Market volatility may result in increased risks related to death and living guaranteed benefits on the variable annuity products, as well as reduced fee income on variable product assets held in separate accounts. These guaranteed benefits are sensitive to equity market conditions.

Effective December 31, 2011, American General Life Companies ("AGLC"), a subsidiary of AGL, merged with AGL, the surviving entity. The merger represented a transaction between entities under common control. Assets and liabilities transferred between entities under common control are accounted for at historical cost. The accompanying consolidated financial statements include the financial position, operating results and cash flows of AGLC for all periods presented.

On July 31, 2009, pursuant to a Stock Purchase Agreement dated June 12, 2009 and a Plan of Reorganization dated July 9, 2009, the Company entered into an affiliated transaction in which it purchased 100 percent of the outstanding stock of Pacific Union Assurance Company ("PACU"), a California domestic insurer, from its parent, Philippine American Life and General Insurance Company at a price of $22 million, representing the net book value of PACU. Effective December 31, 2009, PACU merged with AGL, the surviving entity.

In November 2009, AGL entered into an affiliated transaction in which it acquired 100 percent of the outstanding common stock of AIG Business Processing Services Inc. ("BPSI") from AIG Global Services Inc. at a price of $7 million, which represents the net book value of BPSI as of November 30, 2009. On

December 12, 2009, BPSI was renamed Integra.

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The Company's acquisitions of PACU and Integra from other affiliates represented transactions between entities under common control. Assets, liabilities, and equity transferred between entities under common control are accounted for at historical cost, while the aggregate purchase price represented a capital transaction that reduced additional paid-in capital by approximately $28 million. The accompanying consolidated financial statements include the financial position, operating results and cash flows of PACU and Integra for all periods presented.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PREPARATION OF FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of the Company, including its wholly owned subsidiaries and a variable interest entity ("VIE") in which the Company has a partial ownership interest. All significant intercompany accounts and transactions are eliminated in consolidation. Certain prior period items have been reclassified to conform to the current period's presentation.

USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires the application of accounting policies that often involve a significant degree of judgment. The Company considers that its accounting policies that are most dependent on the application of estimates and assumptions are those relating to items considered by management in the determination of:

- future policy benefits for life and accident and health contracts;
- policyholder contract deposits;

- recoverability of deferred policy acquisition costs ("DAC");
- estimated gross profits ("EGPs") for investment-oriented products;
- other-than-temporary impairments;
- estimates with respect to income taxes, including recoverability of deferred tax assets; and
- fair value measurements of certain financial assets and liabilities, including the Company's economic interest in Maiden Lane II LLC ("ML II"), a Delaware limited liability company whose sole member is the Federal Reserve Bank of New York ("New York Fed"). See Note 3 herein.

These accounting estimates require the use of assumptions about matters, some of which are highly uncertain at the time of estimation. To the extent actual experience differs from the assumptions used, the Company's consolidated financial condition, results of operations and cash flows could be materially affected.

OUT OF PERIOD ADJUSTMENTS

In 2011, the Company recorded the net effect of certain out of period adjustments which decreased pretax income for 2011 by $23 million. The out of period adjustments are primarily related to valuation system or administration system related coding errors which caused calculated reserves to be either overstated or understated.

In 2010, the Company recorded out of period adjustments primarily related to the effect of recording corrections to the valuation system extracts associated with a block of deferred annuities and accounting for restricted participating dividends for certain life insurance policies.

The Company evaluated these errors taking into account both qualitative and quantitative factors and considered the impact of these errors to 2011 and 2010, as well as the materiality to the periods in which they originated.

Management believes these errors are not material to the accompanying financial statements.

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CONSOLIDATION OF VARIABLE INTEREST ENTITY

On September 23, 2003, the Company purchased 68.0 percent of the non-voting preferred equity issued by Castle 2003-1 Trust ("Castle 1 Trust"), a Delaware statutory trust established on July 31, 2003 (see Notes 6 and 14). The business of Castle 1 Trust and its wholly owned subsidiaries is limited to acquiring, owning, leasing, maintaining, operating and selling a portfolio of commercial jet aircraft. The accounts of Castle 1 Trust have been included in these consolidated financial statements.

INSURANCE CONTRACTS

The insurance contracts accounted for in these consolidated financial statements include primarily long-duration contracts. Long-duration contracts include traditional whole life, limited payment, endowment, guaranteed renewable term life, participating life, universal life, variable universal life and investment contracts. Long-duration contracts generally require the performance of various functions and services over a period of more than one year. The contract provisions generally cannot be changed or canceled by the insurer during the contract period; however, most contracts issued in the future by the Company allow the insurer to revise certain elements used in determining premium rates or policy benefits, subject to guarantees stated in the contracts.

INVESTMENTS

FIXED MATURITY AND EQUITY SECURITIES

Fixed maturity and equity securities classified as available-for-sale are carried at fair value. Unrealized gains and losses, net of deferred taxes and an adjustment to DAC and deferred sales inducements, are recorded as a separate component of accumulated other comprehensive income (loss), within shareholder's equity. Realized gains and losses on the sale of investments are recognized in income at the date of sale and are determined by using the specific cost identification method.

Interest on fixed maturity securities is recorded as income when earned and is adjusted for any amortization of premium or accretion of discount. Premiums and discounts arising from the purchase of bonds classified as available for sale are treated as yield adjustments over their estimated holding periods, until maturity, or call date, if applicable. Dividend income on equity securities is generally recognized as income on the ex-dividend date.

The Company may elect to measure any hybrid financial instrument at fair value, with changes in fair value recognized in net investment income, if the hybrid instrument contains an embedded derivative that would otherwise be required to be bifurcated and accounted for separately. The election to measure the hybrid instrument at fair value is made on an instrument-by-instrument basis at the acquisition or issuance date and is irrevocable.

Fixed maturity and equity securities classified as trading securities are carried at fair value. Trading securities include the Company's economic interest in ML II, which is carried at fair value. For discussion on ML II, see Notes 3 and 4. Realized and unrealized gains and losses on trading securities are reported in net investment income.

EVALUATING INVESTMENTS FOR OTHER-THAN-TEMPORARY IMPAIRMENTS

On April 1, 2009, the Company adopted prospectively an accounting standard addressing the evaluation of fixed maturity securities for other-than-temporary impairments. These requirements have significantly altered the Company's policies and procedures for determining impairment charges recognized through earnings. The standard requires a company to recognize the credit component (a credit impairment) of an other-than-temporary impairment of a fixed maturity security in earnings and the non-credit component in accumulated other comprehensive income (loss) when the company does not intend to sell the security or it is more likely than not that the company will not be required to sell the security prior to recovery. The standard also changes the threshold for determining when an other-than-temporary impairment has occurred on a fixed maturity security with respect to intent and ability to hold the security until recovery and requires additional disclosures. A credit impairment, which is recognized in earnings when it occurs, is the difference between the amortized cost of the fixed maturity security and the estimated present value of cash flows expected to be collected ("recovery value"), as determined by management. The difference between fair value and amortized cost that is not related to a credit impairment is recognized as a separate

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component of accumulated other comprehensive income (loss). The Company refers to both credit impairments and impairments recognized as a result of intent to sell as "impairment charges." The impairment model for equity securities was not affected by the standard.

IMPAIRMENT POLICY -- EFFECTIVE APRIL 1, 2009 AND THEREAFTER

FIXED MATURITY SECURITIES

If the Company intends to sell a fixed maturity security or it is more likely than not that the Company will be required to sell a fixed maturity security before recovery of its amortized cost basis and the fair value of the security is below amortized cost, an other-than-temporary impairment has occurred and the amortized cost is written down to current fair value, with a corresponding charge to earnings.

For all other fixed maturity securities for which a credit impairment has occurred, the amortized cost is written down to the estimated recovery value with a corresponding charge to earnings. Changes in fair value compared to recovery value, if any, are charged to unrealized appreciation (depreciation) of fixed maturity investments on which other-than-temporary credit impairments are taken (a component of accumulated other comprehensive income (loss)).

When assessing the Company's intent to sell a fixed maturity security, or whether it is more likely than not that the Company will be required to sell a fixed maturity security before recovery of its amortized cost basis, management evaluates relevant facts and circumstances including, but not limited to, decisions to reposition the Company's investment portfolio, sales of securities to meet cash flow needs and sales of securities to take advantage of favorable pricing.

The Company considers severe price declines in its assessment of potential credit impairments. The Company may also modify its modeled outputs for certain securities when it determines that price declines are indicative of factors not comprehended by the cash flow models.

In periods subsequent to the recognition of an other-than-temporary impairment charge for available for sale fixed maturity securities that are not foreign exchange related, the Company generally prospectively accretes into earnings the difference between the new amortized cost and the expected undiscounted recovery value over the remaining expected holding period of the security.

In assessing whether a credit impairment has occurred for a structured fixed maturity security (e.g. residential mortgage-backed securities ("RMBS"), commercial mortgage-backed securities ("CMBS"), collateralized debt obligations ("CDO"), asset backed securities ("ABS")), the Company performs evaluations of expected future cash flows. Certain critical assumptions are made with respect to the performance of the securities.

When estimating future cash flows for a structured fixed maturity security, management considers historical performance of underlying assets and available market information as well as bond-specific structural considerations, such as credit enhancement and priority of payment structure of the security. In addition, the process of estimating future cash flows includes, but is not limited to, the following critical inputs, which vary by asset class:

- Current delinquency rates;
- Expected default rates and the timing of such defaults;
- Loss severity and the timing of any recovery; and
- Expected prepayment speeds.

For corporate, municipal and sovereign fixed maturity securities determined to be credit impaired, management considers the fair value as the recovery value when available information does not indicate that another value is more relevant or reliable. When management identifies information that supports a recovery value other than the fair value, the determination of a recovery value considers scenarios specific to the issuer and the security, and may be

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based upon estimates of outcomes of corporate restructurings, political and macroeconomic factors, stability and financial strength of the issuer, the value of any secondary sources of repayment and the disposition of assets.

EQUITY SECURITIES

The impairment model for equity securities and other cost and equity method investments was not affected by the adoption of the accounting standard related to other-than-temporary impairments in the second quarter of 2009. The Company continues to evaluate its available for sale equity securities, equity method and cost method investments for impairment by considering such securities as candidates for other-than-temporary impairment if they meet any of the following criteria:

- The security has traded at a significant (25 percent or more) discount to cost for an extended period of time (nine consecutive months or longer);

- A discrete credit event has occurred resulting in (i) the issuer defaulting on a material outstanding obligation; (ii) the issuer seeking protection from creditors under the bankruptcy laws or any similar laws intended for court-supervised reorganization of insolvent enterprises; or (iii) the issuer proposing a voluntary reorganization pursuant to which creditors are asked to exchange their claims for cash or securities having a fair value substantially lower than par value of their claims; or

- The Company has concluded that it may not realize a full recovery on its investment, regardless of the occurrence of one of the foregoing events.

The determination that an equity security is other-than-temporarily impaired requires the judgment of management and consideration of the fundamental condition of the issuer, its near-term prospects and all the relevant facts and circumstances. The above criteria also consider circumstances of a rapid and severe market valuation decline in which the Company could not reasonably assert that the impairment period would be temporary (severity losses).

MORTGAGE AND OTHER LOANS RECEIVABLE

Mortgage and other loans receivable includes mortgage loans on real estate (net of related collateral), commercial loans and guaranteed loans. Mortgage loans

are classified as loans held for investment or loans held for sale.

Loans classified as "held for investment" are those that the Company has the intent and ability to hold for the foreseeable future, or until maturity or payoff. Mortgage loans held for investment are carried at unpaid principal balances less valuation allowances and deferred fees or expenses and plus or minus adjustments for the accretion or amortization of discount or premium. Interest income on such loans is accrued as earned. Interest income, amortization of premiums and discounts and prepayment fees are reported in net investment income in the consolidated statements of income (loss). Non-refundable loan origination fees and certain incremental direct origination costs are offset and the resulting net amount is deferred and amortized in net investment income over the life of the related loan as an adjustment of the loan's yield. Loan commitment fees are generally deferred and recognized in net investment income as an adjustment of yield over the related life of the loan or upon expiration of the commitment if the commitment expires unexercised.

The Company does not currently hold any loans classified as held for sale.

Impairment of mortgage and other loans receivable is based on certain risk factors, including past due status. For commercial mortgages in particular, risk factors evaluated in monitoring credit quality also include debt service coverage ratio, loan-to-value or the ratio of the loan balance to the estimated value of the property, property occupancy, profile of the borrower and major property tenants, economic trends in the market where the property is located, and condition of the property. Mortgage and other loans receivable are considered impaired when collection of all amounts due under contractual terms is not probable. This impairment is generally measured based on the present value of expected future cash flows discounted at the loan's effective interest rate subject to the fair value of underlying collateral. Interest income on such impaired loans is recognized as cash is received.

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POLICY LOANS

Policy loans are carried at unpaid principal amount. There is no allowance for policy loans because these loans serve to reduce the death benefit paid when the death claim is made and the balances are effectively collateralized by the cash surrender value of the policy.

INVESTMENT REAL ESTATE

Real estate is classified as held for investment or available for sale, based on management's intent. Real estate held for investment is carried at cost, less accumulated depreciation and impairment write-downs. Properties acquired through foreclosure and held for sale are carried at the lower of its carrying amount or fair value less estimated costs to sell the property.

The Company's investments in real estate are periodically evaluated for recoverability whenever changes in circumstances indicate the carrying amount of an asset may be impaired. When impairment indicators are present, the Company compares expected investment cash flows to carrying value. When the expected cash flows are less than the carrying value, the investments are written down to fair value with a corresponding charge to earnings.

PARTNERSHIPS AND OTHER INVESTED ASSETS

Partnerships in which AIG holds less than a five percent interest are carried at fair value and the change in fair value is recognized as a component of accumulated other comprehensive income (loss). With respect to partnerships in which AIG holds in the aggregate a five percent or greater interest or less than five percent interest but in which AIG has more than a minor influence over the operations of the investee, the Company's carrying value is its share of the net asset value of the partnerships. The changes in such net asset values, accounted for under the equity method, are recorded in earnings through net investment income. In applying the equity method of accounting, the Company consistently uses the most recently available financial information provided by the general partner or manager of each of these investments, which is generally one to three months prior to the end of the Company's reporting period. The financial statements of these investees are generally audited annually.

The Company's partnership investments are evaluated for impairment consistent with the evaluation of equity securities for impairments as discussed above. Such evaluation considers market conditions, events and volatility that may impact the recoverability of the underlying investments within these partnerships and is based on the nature of the underlying investments and specific inherent risks. Such risks may evolve based on the nature of the

underlying investments.

Other invested assets include preferred equity investments in partially owned companies. Generally, the equity method of accounting is used for the Company's investment in companies in which the Company's ownership interest approximates 20 percent but is not greater than 50 percent. At December 31, 2011 and 2010, the Company's investments in partially owned companies included its 38.7 percent interest in the non-voting preferred equity of Castle 2003-2 Trust ("Castle 2 Trust"; see Note 14).

AIRCRAFT

Aircraft owned by Castle 1 Trust are recorded at cost (adjusted for any impairment charges), net of accumulated depreciation. Depreciation is generally computed on a straight-line basis to a residual value of approximately 15 percent of the cost of the asset over its estimated useful life of 25 years. Certain major additions and modifications to aircraft may be capitalized. The residual value estimates are reviewed periodically to ensure continued appropriateness. Aircraft are periodically reviewed for impairment and an impairment loss is recorded when the estimate of undiscounted future cash flows expected to be generated by the aircraft is less than its carrying value (net book value).

SHORT-TERM INVESTMENTS

Short-term investments include interest-bearing money market funds, investment pools, and other investments with original maturities within one year from the date of purchase.

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DERIVATIVE FINANCIAL INSTRUMENTS

The Company takes positions from time to time in certain derivative financial instruments in order to mitigate or hedge the impact of changes in interest rates, foreign currencies and equity markets on cash flows from investment

income, policyholder liabilities and equity. Financial instruments used by the Company for such purposes include interest rate swaps, foreign currency swaps, index options (long and short positions) and futures contracts (short positions on U.S. treasury notes and U.S. long bonds). The Company does not engage in the use of derivative instruments for speculative purposes and is neither a dealer nor trader in derivative instruments.

The Company issues equity-indexed universal life and annuity products, which contain embedded derivatives associated with guarantees tied to certain indices. The Company purchases call options from the S&P 500 Index, the Dow Jones EURO STOXX 50, Nikkei 225 Index and the Hang Seng Index to offset the increase in its liabilities resulting from the indexed features of these products. With the exception of premiums required for the purchase of publicly-traded or over-the-counter traded options and futures, derivatives contracts purchased by the Company require no up-front cash payment and provide for net settlement.

The Company believes its hedging activities have been and remain economically effective, but do not currently qualify for hedge accounting. The Company carries all derivatives, with the exception of bifurcated embedded derivatives, at fair value in the consolidated balance sheets as derivative assets or derivative liabilities. The fair value of the bifurcated embedded derivatives is reflected in policyholder contract deposits in the consolidated balance sheets. Changes in the fair value of all derivatives are reported as part of net realized investment gains and losses in the consolidated statements of income (loss). See Notes 3 and 5 for additional disclosures.

CASH

Cash represents cash on hand and non-interest bearing demand deposits.

RESTRICTED CASH

Castle 1 Trust maintains various restricted cash accounts, primarily lessee-funded accounts, which are not available for general use. Restricted cash consists of security deposits from lessees and swap collateral from the swap counterparty that are required to be segregated from other funds.

DEFERRED POLICY ACQUISITION COSTS, VALUE OF BUSINESS ACQUIRED ("VOBA") AND DEFERRED SALES INDUCEMENTS

Policy acquisition costs of writing an insurance policy, including commissions,

underwriting, and certain marketing expenses, are deferred and reported as DAC. The costs assigned to certain insurance contracts in force at January 31, 1995, the date of American General Corporation's ("AGC") acquisition of The Franklin Life Insurance Company, is reported as VOBA.

Policy acquisition costs for traditional life and accident and health insurance products are generally deferred and amortized, with interest, over the premium paying period. Policy acquisition costs and policy issuance costs related to universal life, and investment-type products (investment-oriented products) are deferred and amortized, with interest, in relation to the incidence of EGPs to be realized over the estimated lives of the contracts. EGPs are based on management's best estimates and are composed of net interest income, net realized investment gains and losses, fees, surrender charges, expenses, and mortality gains and losses. If management's assumptions underlying the EGPs change significantly, DAC is recalculated using the new assumptions. Any resulting adjustment is included in income as an adjustment to DAC. DAC is grouped consistent with the manner in which the insurance contracts are acquired, serviced and measured for profitability and is reviewed for recoverability based on the current and projected future profitability of the underlying insurance contracts.

DAC for investment-oriented products is also adjusted with respect to EGPs as a result of changes in the net unrealized gains or losses on fixed maturity and equity securities available for sale. Because fixed maturity and equity securities available for sale are carried at aggregate fair value, an adjustment is made to DAC equal to the change in amortization that would have been recorded if such securities had been sold at their stated aggregate fair

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value and the proceeds reinvested at current yields. The change in this adjustment, net of tax, is included with the change in net unrealized gains (losses) on fixed maturity and equity securities available for sale that is credited or charged directly to accumulated other comprehensive income (loss).

VOBA is determined at the time of acquisition and is reported in the consolidated balance sheets with DAC. This value is based on the present value

of future pre-tax profits discounted at yields applicable at the time of purchase. For participating life, traditional life and accident and health insurance products, VOBA is amortized over the life of the business similar to that for DAC based on the assumptions at purchase. For universal life, and investment-oriented products, VOBA is amortized in relation to the EGPs to date for each period. Similar to DAC, VOBA is adjusted for the impact of net unrealized gains (losses) on securities in the same manner as DAC and reported with the same financial statement line items.

With respect to the variable annuity contracts of VALIC, the Company uses a "reversion to the mean" methodology which allows the Company to maintain its long-term assumptions, while also giving consideration to the effect of deviations from these assumptions occurring in the current period. The use of a reversion to the mean assumption is common within the industry; however, the parameters used in the methodology are subject to judgment and vary within the industry. Any resulting adjustment is included in income as an adjustment to DAC.

With respect to the Company's variable universal life policies and variable annuity products, the assumption for the long-term growth of the separate account assets used by the Company in the determination of DAC amortization is 8.3 percent and 8.5 percent, respectively.

The Company currently offers sales inducements, which may include enhanced crediting rates or bonus payments to policyholders on certain of its products. Sales inducements provided to the policyholder are recognized as part of the liability for policyholder contract deposits on the consolidated balance sheets. To qualify for such accounting treatment, the sales inducement must be explicitly identified in the contract at inception, and the Company must demonstrate that such amounts are incremental to amounts the Company credits on similar contracts without bonus interest, and are higher than the contracts expected ongoing crediting rates for periods after the bonus period. The cost of such sales inducements is deferred and amortized over the life of the policy using the same methodology and assumptions used to amortize DAC.

SEPARATE ACCOUNT ASSETS AND LIABILITIES

The Company issues or has issued variable annuities and variable universal life contracts, for which the investment risk lies solely with the policyholder, except with respect to amounts invested in the fixed-rate account option and minimum guarantees made by the Company with respect to certain policies. The assets supporting the variable portion of variable annuities and variable

universal life contracts are carried at fair value and reported as separate account assets with an equivalent liability in the consolidated balance sheets. Separate account assets are primarily shares in mutual funds, which are based on the quoted net asset value per share and are insulated from the Company's creditors. Investment income, realized investment gains (losses), and policyholder account deposits and withdrawals related to separate accounts are excluded from the consolidated statements of income (loss), comprehensive income and cash flows. The Company receives administrative fees and other fees for assuming mortality and certain expense risks. Such fees are included in other revenue in the consolidated statements of income (loss).

FUTURE POLICY BENEFITS

The liability for future policy benefits is established using assumptions described in Note 8 herein. Future policy benefits primarily include the reserves for traditional life and annuity payout contracts and are based on estimates of the cost of future policy benefits. Reserves for traditional life are determined using the net level premium method based on actuarial assumptions as to mortality, persistency, interest and expenses established at the policy issue date. Also included in future policy benefits is the liability for annuities issued in structured settlement arrangements whereby a claimant has agreed to settle a general insurance claim in exchange for fixed payments over a fixed determinable period of time with a life contingency feature. Structured settlement liabilities are presented on a discounted basis as the settled claims are fixed and determinable. Additionally, the future policy benefits include the liability for guaranteed minimum death benefit ("the GMDB"). A majority of the Company's variable annuity

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products are issued with a death benefit feature which provides that, upon the death of a policyholder, the policyholder's beneficiary will receive the greater of (i) the policyholder's account value, or (ii) a guaranteed minimum benefit that varies by product and type of benefit elected by the policyholder. Depending on the product, the GMDB may equal the principal invested, adjusted for withdrawals. The GMDB has issue age and other restrictions to reduce mortality risk exposure. The Company bears the risk that death claims following

a decline in the financial markets may exceed policyholder account balances, and that the fees collected under the contract are insufficient to cover the costs of the benefit to be provided.

The Company provides reserves for future GMDB-related benefits. The GMDB liability is determined each period end by estimating the expected value of death benefits in excess of the projected account balance and recognizing the excess ratably over the accumulation period based on total expected assessments. Changes in liabilities for GMDB are included in policyholder benefits in the consolidated statements of income (loss). The Company regularly evaluates estimates used and adjusts the liability balance, with a related charge or credit to policyholder benefits, if actual experience or other evidence suggests that earlier assumptions should be revised.

Guaranteed minimum income benefits ("GMIB") is a feature the Company offered on certain variable annuity products intermittently from 1998 to 2006. If included in the contract, GMIB provides a minimum fixed annuity payment guarantee after a specified waiting period. The Company bears the risk that the performance of the financial markets will not be sufficient for accumulated contract holder account balances to support GMIB benefits and that the fees collected under the contract are insufficient to cover the costs of the benefit to be provided.

The GMIB liability is included as part of future policy benefits and determined each period end by estimating the expected value of the annuitization benefits in excess of the projected account balance at the date of annuitization and recognizing the excess ratably over the accumulation period based on total expected assessments. The GMIB liability is determined each period end by estimating the expected value of the annuitization benefits in excess of the projected account balance at the date of annuitization and recognizing the excess ratably over the accumulation period based on total expected assessments. The Company regularly evaluates estimates used and adjusts the liability balance, with a related charge or credit to policyholder benefits, if actual experience or other evidence suggests that earlier assumptions should be revised. See Note 8 for additional disclosure.

POLICYHOLDER CONTRACT DEPOSITS

Policyholder contract deposits are recorded at accumulated value (deposits received and net transfers from separate accounts, plus accrued interest, less withdrawals and assessed fees). Deposits collected on non-traditional life insurance and annuity products, such as those sold by the Company, are not reflected as revenues in the Company's consolidated statements of income

(loss), as they are recorded directly to policyholder contract deposits upon receipt. Policyholder contract deposits also include the Company's liabilities for guaranteed minimum withdrawal benefit ("GMWB") accounted for as embedded derivatives at fair value. The changes in fair value of the liability for GMWB are reported in net realized investment gains (losses) in the consolidated statements of income (loss).

The variable annuities with a GMWB feature are primarily sold through VALIC. VALIC offers a GMWB feature on certain variable annuity products. If available and elected by the policyholder at time of issuance and depending on the provisions of the feature elected, this feature provides a guaranteed annual stream of income payments either for a specified period of time or for life, regardless of market performance. The amount of the guaranteed withdrawal stream is determined from a guaranteed benefit base amount that is dependent upon the specific feature elected. The Company bears the risk that protracted under-performance of the financial markets and/or better than expected longevity could result in higher GMWB benefits being higher than the underlying policyholder account balance and the risk that the fees collected under the contract are insufficient to cover the costs of the benefits to be provided.

There is a GMWB rider that is available on certain equity-indexed annuities which are sold through AGL. These products are annuities maintained in the general account. As long as no excess withdrawals are taken, the GMWB rider guarantees that the rider benefit amount withdrawals will be available for life and will never decrease, without the need to convert the contract into a payout annuity at the date of annuitization, even if the annuity value declines to zero. The rider benefit amount is based on a percentage of the contract's account value. That percentage is dependent on the attained age of the annuitant.

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The fair value of the liabilities for GMWB requires significant management estimates and is based on the present value of expected benefits to be paid less the present value of fee income associated with the guarantees. The fair value estimate of the GMWB guarantees include unobservable inputs such as

management's estimate of policyholder behavior as well as such observable inputs as swap curves and market calibrated implied volatility. The valuation technique used to measure the fair value of embedded derivatives was modified during 2008, primarily with respect to the development of long-dated equity volatility assumptions and the discount rates applied to certain projected benefit payments. The valuation technique used to measure the fair value of embedded derivatives was modified again in 2010, primarily to revise the non-performance risk adjustment to reflect a market participant's view of the Company's claims-paying ability. As a result, in 2010 the Company incorporated an additional spread to the swap curve used to value embedded policy derivatives.

Equity-indexed annuities and equity-indexed universal life contracts offer a guaranteed minimum interest rate plus a contingent return based on some internal or external equity index. This feature is accounted for in accordance with accounting standards for derivative instruments.

POLICY CLAIMS AND BENEFITS PAYABLE

Policy claims and benefits payable include amounts representing: (i) the actual in-force amounts for reported life claims and an estimate of incurred but not reported ("IBNR") claims; and (ii) an estimate, based upon prior experience, for accident and health reported and IBNR losses. The methods of making such estimates and establishing the resulting reserves are continually reviewed and updated and any adjustments are reflected in current period income.

The Company recorded an increase of approximately $65 million in the estimated reserves for IBNR death claims in 2011 in conjunction with the use of the Social Security Death Master File ("SSDMF") to identify potential claims not yet filed. Although the Company has enhanced its claims practices to include use of the SSDMF, it is possible that industry-wide regulatory inquiries, audits and other regulatory activity could result in the payment of additional death claims, additional escheatment of funds deemed abandoned under state laws, administrative penalties and interest.

OTHER POLICYHOLDERS' FUNDS

Included in other policyholders' funds are primarily unearned revenue reserves ("URR"), liabilities for dividends arising out of participating business, reserves for experience-rated group products and liabilities for policyholder premium deposit funds.

URR consists of front end loads on interest sensitive contracts, representing those policy loads that are non-level and typically higher in initial policy years than in later policy years. Front end loads for interest sensitive life insurance policies are generally deferred and amortized, with interest, in relation to the incidence of EGPs to be realized over the estimated lives of the contracts and are subject to the same adjustments due to changes in the assumptions underlying EGPs as DAC.

Liabilities for dividends arise from participating products issued by the Company. Participating products are those which share in the earnings of the company based on provisions within the insurance contracts sold. These dividends are declared annually by the Company's Board of Directors and may be paid in cash, or they may be applied to reduce future premiums or purchase additional benefits, or they may be left to accumulate with interest until a later date. In addition, certain participating whole life insurance contracts are subject to unique participating policyholder dividend requirements that are imposed by state law. As such, the Company establishes an additional liability because it is required by statute to return 90% of the profits from the contracts to the policyholders in the form of policyholder dividends which will be paid in the future but are not yet payable. The profits used in the liability calculation consist of discrete components for operating income, realized gains and losses and unrealized gains and losses pertaining to the policies and the assets supporting them. The impact of the unrealized gains and losses component is recorded through other comprehensive income.

Provisions for experience rating refunds arise from contractual obligations between the Company and the groups being insured. Periodic assessments of the experience of the insured groups are undertaken and the group

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participates in the profits of the business, either through adjustments to premiums or through refunds from the liability for the refund.

Premium deposit funds represent a liability for premiums received in advance of their due dates. Such premiums are allowed to accumulate with interest until they are due, at which time the premiums are applied to the underlying policies.

PREMIUM RECOGNITION

Premiums for traditional life insurance products are recognized when due. For limited-payment contracts, net premiums are recorded as revenue. The difference between the gross received and the net premium is deferred and recognized as a change in policyholder benefits in the consolidated statements of income (loss).

Most receipts for annuities and interest-sensitive life insurance policies are classified as deposits instead of revenue. Revenues for these contracts consist of mortality, expense, and surrender charges and are included in insurance charges in the consolidated statements of income (loss). As discussed under "Other Policyholders' Funds" within this note, policy charges that compensate the Company for future services are deferred and recognized in income over the period earned, using the same assumptions used to amortize DAC. Variable annuity and variable universal life fees and asset management fees are recorded as income in other revenue when earned. Net retained broker dealer commissions are recognized as income on a trade date basis.

Premiums on accident and health policies are reported as earned over the contract term. The portion of accident and health premiums which is not earned at the end of a reporting period is recorded as reserves for unearned premiums within future policy benefits in the consolidated balance sheets. The Company estimates and accrues group premiums due but not yet collected.

NET INVESTMENT INCOME

Net investment income represents income primarily from the following sources in the Company's operations:

- Interest income and related expenses, including amortization of premiums and accretion of discounts on bonds with changes in the timing and the amount of expected principal and interest cash flows reflected in the yield, as applicable.

- Dividend income from common and preferred stock and distributions from other investments.

- Realized and unrealized gains and losses from investments in trading securities accounted for at fair value.

- Earnings from private equity funds and hedge funds investments accounted

for under the equity method.

- Interest income on mortgage, policy and other loans.

NET REALIZED INVESTMENT GAINS AND LOSSES

Net realized investment gains and losses are determined by specific identification. The net realized investment gains and losses are generated primarily from the following sources:

- Sales of fixed maturity and equity securities (except trading securities accounted for at fair value), real estate, investments in private equity funds and hedge funds and other types of investments.

- Reductions to the cost basis of fixed maturity and equity securities (except trading securities accounted for at fair value) and other invested assets for other-than-temporary impairments.

- Changes in fair value of derivative assets and liabilities.

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- Exchange gains and losses resulting from foreign currency transactions.

INCOME TAXES

Deferred taxes and liabilities are established for temporary differences between the financial reporting basis and the tax basis of assets and liabilities, at the enacted tax rates expected to be in effect when the temporary differences reverse. The effect of a tax rate change is recognized in income in the period of enactment. State income taxes are included in income tax expense.

A valuation allowance for deferred tax assets is provided if it is more likely than not that some portion of the deferred tax asset will not be realized. An increase or decrease in a valuation allowance that results from a change in

circumstances that causes a change in judgment about the realizability of the related deferred tax asset is included in income.

ACCOUNTING CHANGES

FUTURE APPLICATION OF ACCOUNTING STANDARDS

ACCOUNTING FOR COSTS ASSOCIATED WITH ACQUIRING OR RENEWING INSURANCE CONTRACTS

In October 2010, the Financial Accounting Standards Board ("FASB") issued an accounting standard that amends the accounting for costs incurred by insurance companies that can be capitalized in connection with acquiring or renewing insurance contracts. The standard amends how to determine whether the costs incurred in connection with the acquisition of new or renewal insurance contracts qualify as DAC. The standard is effective for interim and annual periods beginning on January 1, 2012 with early adoption permitted. Prospective or retrospective application is also permitted.

The Company will adopt the standard retrospectively on January 1, 2012. Upon adoption, retrospective application will result in a reduction to opening retained earnings for the earliest period presented and a decrease in the amount of capitalized costs in connection with the acquisition or renewal of insurance contracts because the Company will only defer costs that are incremental and directly related to the successful acquisition of new or renewal business.

As a result of adopting this standard at January 1, 2012, the Company expects a pre-tax reduction of DAC of approximately $1.5 billion and an after-tax decrease in the Company shareholder's equity of approximately $959 million, which consists of an increase in accumulated deficit of approximately $1.2 billion and an increase in accumulated other comprehensive income of $220 million at January 1, 2012. The retrospective adoption will favorably (unfavorably) affect income before income tax expense (benefit) by approximately $29 million, $(26) million and ($115) million for the years ended December 31, 2011, 2010, and 2009, respectively. The reduction in DAC is primarily due to lower deferrals associated with unsuccessful efforts as well as advertising costs included in DAC that no longer meet the criteria for deferral under the accounting standard.

RECONSIDERATION OF EFFECTIVE CONTROL FOR SECURED BORROWINGS

In April 2011, the FASB issued an accounting standard that amends the criteria

used to determine effective control for repurchase agreements and other similar agreements such as securities lending transactions. The standard modifies the criteria for determining when these transactions would be accounted for as secured borrowings (i.e., financings) instead of sales of the securities.

The standard removes from the assessment of effective control the requirement that the transferor have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee. The removal of this requirement makes the level of collateral received by the transferor in a repurchase agreement or similar agreement irrelevant in determining whether the transaction should be accounted for as a sale. Consequently, more repurchase agreements, securities lending transactions and similar arrangements will be accounted for as secured borrowings.

The guidance in the new standard must be applied prospectively to transactions or modifications of existing transactions that occur on or after January 1, 2012. Early adoption is prohibited.

COMMON FAIR VALUE MEASUREMENT AND DISCLOSURE REQUIREMENTS IN GAAP AND INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

In May 2011, the FASB issued an accounting standard that amends certain aspects of the fair value measurement guidance in GAAP, primarily to achieve the FASB's objective of a converged definition of fair value and substantially converged measurement and disclosure guidance with IFRS. Consequently, when the standard becomes effective on January 1, 2012, fair value measurement and disclosure requirements under GAAP and IFRS will be consistent, with certain exceptions including the accounting for day one gains and losses, measuring the fair value of alternative investments using net asset value and certain disclosure requirements.

The standard's fair value guidance applies to all companies that measure assets, liabilities, or instruments classified in shareholder's equity at fair value or provide fair value disclosures for items not recorded at fair value.

While many of the amendments are not expected to significantly affect current practice, the guidance clarifies how a principal market is determined, addresses the fair value measurement of financial instruments with offsetting market or counterparty credit risks and the concept of valuation premise (i.e., in-use or in exchange) and highest and best use, extends the prohibition on blockage factors to all three levels of the fair value hierarchy, and requires additional disclosures.

The standard is effective for the Company for interim and annual periods beginning on January 1, 2012. The new disclosure requirements must be applied prospectively. The standard will not have a material effect on the Company's consolidated financial condition, results of operations or cash flows.

PRESENTATION OF COMPREHENSIVE INCOME

In June 2011, the FASB issued an accounting standard that requires the presentation of comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components, followed consecutively by a second statement that presents total other comprehensive income and its components. This presentation is effective January 1, 2012, and is required to be applied retrospectively.

THE COMPANY ADOPTED THE FOLLOWING ACCOUNTING STANDARDS DURING 2011:

FAIR VALUE MEASUREMENTS AND DISCLOSURES

In January 2010, the FASB issued an accounting standard that requires fair value disclosures about significant transfers between Level 1 and 2 measurement categories and separate presentation of purchases, sales, issuances, and settlements within the rollforward of Level 3 activity. Also, this fair value guidance clarifies the disclosure requirements about the level of disaggregation and valuation techniques and inputs. This guidance became effective for the Company beginning on January 1, 2010, except for the disclosures about purchases, sales, issuances, and settlements within the rollforward of Level 3 activity, which were effective for the Company beginning on January 1, 2011. See Note 3.

CONSOLIDATION OF INVESTMENTS IN SEPARATE ACCOUNTS

In April 2010, the FASB issued an accounting standard that clarifies that an insurance company should not combine any investments held in separate account

interests with its interest in the same investment held in its general account when assessing the investment for consolidation. Separate accounts represent funds for which investment income and investment gains and losses accrue directly to the policyholders who bear the investment risk. The standard also provides guidance on how an insurer should consolidate an investment fund when the insurer concludes that consolidation of an investment is required and the insurer's interest is through its general account in addition to any separate accounts. The new standard became effective for the Company on January 1, 2011. The adoption of this standard did not have a material effect on the Company's consolidated financial condition, results of operations or cash flows.

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A CREDITOR'S DETERMINATION OF WHETHER A RESTRUCTURING IS A TROUBLED DEBT RESTRUCTURING

In April 2011, the FASB issued an accounting standard that amends the guidance for a creditor's evaluation of whether a restructuring is a troubled debt restructuring ("TDR") and requires additional disclosures about a creditor's troubled debt restructuring activities. The standard clarifies the existing guidance on the two criteria used by creditors to determine whether a modification or restructuring is a troubled debt restructuring: (i) whether the creditor has granted a concession and (ii) whether the debtor is experiencing financial difficulties. The standard became effective for the Company for interim and annual periods beginning on July 1, 2011. The Company applied the guidance in the accounting standard retrospectively for all modifications and restructuring activities that had occurred since January 1, 2011. For receivables that were considered impaired under the guidance, the Company was required to measure the impairment of those receivables prospectively in the first period of adoption. In addition, the Company must provide the disclosures about troubled debt restructuring activities in the period of adoption. The adoption of this standard did not have a material effect on the Company's consolidated financial condition, results of operations or cash flows. See Note 4.

THE COMPANY ADOPTED THE FOLLOWING ACCOUNTING STANDARDS DURING 2010:

CONSOLIDATION OF VARIABLE INTEREST ENTITIES

In June 2009, the FASB issued an accounting standard that amends the guidance addressing consolidation of certain variable interest entities with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly affect the entity's economic performance and has (i) the obligation to absorb losses of the entity or (ii) the right to receive benefits from the entity. The standard also requires enhanced financial reporting by enterprises involved with variable interest entities. The adoption of the standard did not have a material effect on the Company's consolidated financial condition, results of operations or cash flows.

In February 2010, the FASB also issued an update to the aforementioned accounting standard that defers the revised consolidation rules for variable interest entities with attributes of, or similar to, an investment company or money market fund. The primary effect of this deferral is that the Company will continue to apply the consolidation rules in effect before the amended guidance discussed above for its interests in eligible entities.

ACCOUNTING FOR EMBEDDED CREDIT DERIVATIVES

In March 2010, the FASB issued an accounting standard that amends the accounting for embedded credit derivative features in structured securities that redistribute credit risk in the form of subordination of one financial instrument to another. The standard clarifies how to determine whether embedded credit derivative features, including those in CDOs, credit-linked notes ("CLNs"), synthetic CDOs and CLNs and other synthetic securities (e.g., commercial and residential mortgage-backed securities issued by securitization entities that wrote credit derivatives), are considered to be embedded derivatives that should be analyzed for potential bifurcation and separate accounting or, alternatively, for fair value accounting in connection with the application of the fair value option to the entire hybrid instrument. The Company adopted the standard on July 1, 2010. Upon adoption, the Company accounts for its investments in synthetic securities otherwise requiring bifurcation at fair value, with changes in fair value recognized in earnings. The adoption of this standard did not have a material effect on the Company's consolidated financial condition, results of operations or cash flows.

DISCLOSURES ABOUT THE CREDIT QUALITY OF FINANCING RECEIVABLES AND THE ALLOWANCE FOR CREDIT LOSSES

In July 2010, the FASB issued an accounting standard that requires enhanced disclosures about the credit quality of financing receivables that are not measured at fair value. This guidance requires a greater level of disaggregated information about the credit quality of financing receivables and the related allowance for credit losses. In addition, this guidance requires disclosure of credit quality indicators, past due information, and modifications of financing receivables. For nonpublic entities, the disclosures as of the end of a reporting period became effective for annual reporting periods ended on or after December 15, 2011. The disclosures about activity that occurs during a reporting period became effective for interim and annual reporting periods beginning on or after December 15, 2010. In January 2011, the FASB issued an accounting standard that temporarily deferred the effective date for

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disclosures on modifications of financing receivables by creditors. In April 2011, the FASB issued an accounting standard that amended the guidance for a creditor's evaluation of whether a restructuring is a troubled debt restructuring. In addition, this guidance requires additional disclosures about a creditor's troubled debt restructuring activities in interim and annual periods beginning on July 1, 2011.

THE COMPANY ADOPTED THE FOLLOWING ACCOUNTING STANDARDS DURING 2009:

NONCONTROLLING INTERESTS IN CONSOLIDATED FINANCIAL STATEMENTS

In December 2007, the FASB issued an accounting standard that requires noncontrolling (i.e., minority) interests in partially owned consolidated subsidiaries to be classified in the consolidated balance sheets as a separate component of equity, or in the mezzanine section of the balance sheets (between liabilities and equity) if such interests do not qualify for "permanent equity" classification. The standard also specifies the accounting treatment for subsequent acquisitions and sales of noncontrolling interests and how noncontrolling interests should be presented in the consolidated statements of income (loss). The noncontrolling interests' share of subsidiary income (loss) should be reported as a part of consolidated net income (loss) with disclosure

of the attribution of consolidated net income (loss) to the controlling and noncontrolling interests on the face of the consolidated statements of income (loss).

The Company adopted the standard on January 1, 2009 and applied it prospectively, except for presentation and disclosure requirements. The consolidated statement of income (loss) for the year ended December 31, 2008 has been retrospectively recast to include net income (loss) attributable to both the controlling and noncontrolling interests.

DISCLOSURES ABOUT DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

In March 2008, the FASB issued an accounting standard that requires enhanced disclosures about (i) how and why the Company uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for and (iii) how derivative instruments and related hedged items affect the Company's consolidated financial condition, results of operations, and cash flows. The Company adopted the standard on January 1, 2009. See Note 5 for related disclosures.

RECOGNITION AND PRESENTATION OF OTHER-THAN-TEMPORARY IMPAIRMENTS

In April 2009, the FASB issued an accounting standard that requires a company to recognize the credit component of an other-than-temporary impairment of a fixed maturity security in earnings and the non-credit component in accumulated other comprehensive income (loss) when the company does not intend to sell the security or it is more likely than not that the company will not be required to sell the security prior to recovery. The standard also changed the threshold for determining when an other-than-temporary impairment has occurred on a fixed maturity security with respect to intent and ability to hold until recovery. The standard does not change the recognition of other-than-temporary impairment for equity securities. The standard requires additional disclosures in interim and annual reporting periods for fixed maturity and equity securities. See Note 4 herein for the expanded disclosures.

The Company adopted the standard on April 1, 2009 and recorded an after-tax cumulative effect adjustment to increase the Company's shareholder's equity by $735 million as of April 1, 2009, consisting of a decrease in accumulated deficit of $2.4 billion and an increase to accumulated other comprehensive loss of $1.6 billion, net of tax. The net increase in the Company's shareholder's equity was due to a reversal of a portion of the deferred tax asset valuation allowance for certain previous non-credit impairment charges directly

attributable to the change in accounting principle (see Note 13 herein). The cumulative effect adjustment resulted in an increase of approximately $3.0 billion in the amortized cost of fixed maturity securities, which has the effect of significantly reducing the accretion of investment income over the remaining life of the underlying securities, beginning in the second quarter of 2009. The effect of the reduced investment income will be offset, in part, by a decrease in the amortization of DAC and sales inducements assets.

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The standard reduced the level of other-than-temporary impairment charges recorded in earnings for fixed maturity securities due to the following required changes in the Company's accounting policy for other-than-temporary impairments:

- Impairment charges for non-credit (e.g., severity) losses are no longer recognized;

- The amortized cost basis of credit impaired securities will be written down through a charge to earnings to the present value of expected cash flows, rather than to fair value; and

- For fixed maturity securities that are not deemed to be credit-impaired, the Company is no longer required to assert that it has the intent and ability to hold such securities to recovery to avoid an other-than-temporary impairment charge. Instead, an impairment charge through earnings is required only when the Company has the intent to sell the fixed maturity security or it is more likely than not that the Company will be required to sell the security prior to recovery.

The following table presents the components of the change in the Company's shareholder's equity at April 1, 2009 due to the adoption of the accounting standard for other-than-temporary impairments:

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	(Increase) Decrease to Accumulated Deficit	(Increase) Decrease to Accumulated Other Comprehensive Loss	Net Increase in the Company's Shareholder's Equity
		(In Millions)	
Net effect of the increase in amortized cost of available for sale fixed maturity securities.....	$3,033	$(3,033)	$ --
Net effect of related DAC, sales inducement assets and other insurance balances..............	(493)	493	--
Net effect on deferred income tax assets...........	(162)	897	735
Net increase in the Company's shareholder's equity.	$2,378	$(1,643)	$735

</TABLE>

DETERMINING FAIR VALUE WHEN VOLUME AND LEVEL OF ACTIVITY FOR THE ASSET OR LIABILITY HAVE SIGNIFICANTLY DECREASED AND IDENTIFYING TRANSACTIONS THAT ARE NOT ORDERLY

In April 2009 the FASB issued an accounting standard that provides guidance for estimating fair value of assets and liabilities when the volume and level of activity for an asset or liability have significantly decreased and for identifying circumstances that indicate a transaction is not orderly. The adoption of the standard on April 1, 2009, did not have a material effect on the Company's consolidated financial condition, results of operations or cash flows.

MEASURING LIABILITIES AT FAIR VALUE

In August 2009, the FASB issued an accounting standard to clarify how the fair value measurement principles should be applied to measuring liabilities carried at fair value. The standard explains how to prioritize market inputs in measuring liabilities at fair value and what adjustments to market inputs are appropriate for debt obligations that are restricted from being transferred to another obligor. The standard was effective beginning October 1, 2009 for the Company. The adoption of the standard did not have a material effect on the Company's consolidated financial condition, results of operations or cash flows.

INVESTMENTS IN CERTAIN ENTITIES THAT CALCULATE NET ASSET VALUE PER SHARE (OR ITS EQUIVALENT)

In September 2009, the FASB issued an accounting standard that permits, as a practical expedient, a company to measure the fair value of an investment that is within the scope of the standard on the basis of the net asset value per share of the investment (or its equivalent) if that value is calculated in accordance with fair value as defined by the FASB. The standard also requires enhanced disclosures. The standard applies to investment companies that do not have readily determinable fair values such as certain hedge funds and private equity funds. The standard was effective for interim and annual periods ending after December 15, 2009. The adoption of the standard did not have

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a material effect on the Company's consolidated financial condition, results of operations or cash flows. See Note 3 herein for disclosure.

3. FAIR VALUE MEASUREMENTS

Fair Value Measurements on a Recurring Basis

The Company carries certain financial instruments at fair value. The fair value of a financial instrument is the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between willing, able and knowledgeable market participants at the measurement date.

The degree of judgment used in measuring the fair value of financial instruments generally correlates with the level of observable valuation inputs. The Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgment is used in measuring fair value. Conversely, financial instruments for which no quoted prices are available have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction, liquidity and general market conditions.

Fair Value Hierarchy

Assets and liabilities recorded at fair value in the consolidated balance sheets are measured and classified in a hierarchy for disclosure purposes, consisting of three "levels" based on the observability of inputs available in the marketplace used to measure the fair values, as discussed below:

- Level 1--Fair value measurements that are quoted prices (unadjusted) in active markets that the Company has the ability to access for identical assets or liabilities. Market price data generally is obtained from exchange or dealer markets. The Company does not adjust the quoted price for such instruments.

- Level 2--Fair value measurements based on inputs other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.

- Level 3--Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3. These measurements include circumstances in which there is little, if any, market activity for the asset or liability. Therefore, the Company must make certain assumptions as to the inputs a hypothetical market participant would use to value that asset or liability.

In certain cases, the inputs used to measure the fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment. In making the assessment, the Company considers factors specific to the asset or liability.

Valuation Methodologies

The following is a description of the valuation methodologies used for instruments carried at fair value. These methodologies are applied to assets

and liabilities across the levels noted above, and it is the observability of the inputs used that determines the appropriate level in the fair value hierarchy for the respective asset or liability.

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INCORPORATION OF CREDIT RISK IN FAIR VALUE MEASUREMENTS

- THE COMPANY'S OWN CREDIT RISK. Fair value measurements for certain freestanding derivatives incorporate the Company's own credit risk by determining the explicit cost for each counterparty to protect against its net credit exposure to the Company at the balance sheet date by reference to observable credit default swap ("CDS") or cash bond spreads. A derivative counterparty's net credit exposure to the Company is determined based on master netting agreements, when applicable, which take into consideration all derivative positions with the Company, as well as collateral posted by the Company with the counterparty at the balance sheet date.

- COUNTERPARTY CREDIT RISK. Fair value measurements for freestanding derivatives incorporate counterparty credit risk by determining the explicit cost for the Company to protect against its net credit exposure to each counterparty at the balance sheet date by reference to observable counterparty CDS spreads, when available. When not available, other directly or indirectly observable credit spreads will be used to derive the best estimates of the counterparty spreads. The Company's net credit exposure to a counterparty is determined based on master netting agreements, which take into consideration all derivative positions with the counterparty, as well as collateral posted by the counterparty at the balance sheet date.

A CDS is a derivative contract that allows the transfer of third-party credit risk from one party to the other. The buyer of the CDS pays an upfront and/or periodic premium to the seller. The seller's payment obligation is triggered by the occurrence of a credit event under a specified reference security and is determined by the loss on that specified reference security. The present value

of the amount of the upfront and/or periodic premium therefore represents a market-based expectation of the likelihood that the specified reference party will fail to perform on the reference obligation, a key market observable indicator of non-performance risk (the "CDS spread").

Fair values for fixed maturity securities based on observable market prices for identical or similar instruments implicitly incorporate counterparty credit risk. Fair values for fixed maturity securities based on internal models incorporate counterparty credit risk by using discount rates that take into consideration cash issuance spreads for similar instruments or other observable information.

The cost of credit protection is determined under a discounted present value approach considering the market levels for single name CDS spreads for each specific counterparty, the mid market value of the net exposure (reflecting the amount of protection required) and the weighted average life of the net exposure. CDS spreads are provided to the Company by an independent third party. The Company utilizes an interest rate based on the benchmark London Interbank Offered Rate ("LIBOR") curve to derive its discount rates.

While this approach does not explicitly consider all potential future behavior of the derivative transactions or potential future changes in valuation inputs, management believes this approach provides a reasonable estimate of the fair value of the assets and liabilities, including consideration of the impact of non-performance risk.

FIXED MATURITY SECURITIES--TRADING AND AVAILABLE FOR SALE

Whenever available, the Company obtains quoted prices in active markets for identical assets at the balance sheet date to measure fixed maturity securities at fair value in its available for sale and trading portfolios. Market price data is generally obtained from third party pricing vendors.

Management is responsible for the determination of the value of the investments carried at fair value and the supporting methodologies and assumptions. The Company employs independent third-party valuation service providers to gather, analyze, and interpret market information in order to derive fair value estimates for individual investments based upon market-accepted methodologies and assumptions. The methodologies used by these independent third-party valuation services are reviewed and understood by the Company's management, via periodic discussion with and information provided by the valuation services. In addition, as discussed further below, control processes are applied to the fair

values received from third-party valuation services to ensure the accuracy of these values.

Valuation service providers typically obtain data about market transactions and other key valuation model inputs from multiple sources and, through the use of widely accepted valuation methodologies, which may utilize matrix

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pricing, financial models, accompanying model inputs and various assumptions, provide a single fair value measurement for individual securities. The inputs used by the valuation service providers include, but are not limited to, market prices from completed transactions for identical securities and transactions of comparable securities, benchmark yields, interest rate yield curves, credit spreads, currency rates, quoted prices for similar securities and other market-observable information, as applicable. If fair value is determined using financial models, these models generally take into account, among other things, market observable information as of the measurement date as well as the specific attributes of the security being valued, including its term, interest rate, credit rating, industry sector, and when applicable, collateral quality and other security or issuer-specific information. When market transactions or other market observable data is limited, the extent to which judgment is applied in determining fair value is greatly increased.

The Company has control processes designed to ensure that the fair values received from third party valuation services are accurately recorded, that their data inputs and valuation techniques are appropriate and consistently applied and that the assumptions used appear reasonable and consistent with the objective of determining fair value. The Company assesses the reasonableness of individual security values received from valuation service providers through various analytical techniques, and has procedures to escalate related questions internally and to the third party valuation services for resolution. In order to assess the degree of pricing consensus among various valuation services for specific asset types, the Company has conducted comparisons of prices received from available sources. Management has used these comparisons to establish a hierarchy for the fair values received from third party valuations services to be used for particular security classes. The Company also validates prices for

selected securities through reviews by members of management who have relevant expertise and who are independent of those charged with executing investing transactions.

When the Company's third-party valuation service providers are unable to obtain sufficient market observable information upon which to estimate the fair value for a particular security, fair value is determined either by requesting brokers who are knowledgeable about these securities to provide a price quote, which is generally non-binding, or by employing widely accepted valuation models. Fair values provided by brokers are subject to similar control processes to those noted above for fair values from third party valuation services, including management reviews. Fair values determined internally are also subject to management review in order to ensure that valuation models and related inputs are reasonable.

The methodology above is relevant for all fixed maturity securities; following are discussions of certain procedures unique to specific classes of securities.

FIXED MATURITY SECURITIES ISSUED BY GOVERNMENT ENTITIES

For most debt securities issued by government entities, the Company obtains fair value information from independent third-party valuation service providers, as quoted prices in active markets are generally only available for limited debt securities issued by government entities. The fair values received from these valuation service providers may be based on a market approach using matrix pricing, which considers a security's relationship to other securities for which a quoted price in an active market may be available, or alternatively based on an income approach, which uses valuation techniques to convert future cash flows to a single present value amount.

FIXED MATURITY SECURITIES ISSUED BY CORPORATE ENTITIES

For most debt securities issued by corporate entities, the Company obtains fair value information from independent third-party valuation service providers. For certain corporate debt securities, the Company obtains fair value information from brokers. For those corporate debt instruments (for example, private placements) that are not traded in active markets or that are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and non-transferability, and such adjustments generally are based on available market evidence. When observable price quotations are not available, fair value is determined based on discounted cash flow models using discount rates based on credit spreads, yields or price levels of publicly-traded debt of the issuer

or other comparable securities, adjusted for illiquidity and structure.

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RMBS, CMBS, CDOS AND OTHER ABS

Independent third-party valuation service providers also provide fair value information for the majority of the Company's investments in RMBS, CMBS, CDOs and other ABS. Where pricing is not available from valuation service providers, the Company obtains fair value information from brokers. Broker prices may be based on an income approach, which converts expected future cash flows to a single present value amount, with specific consideration of inputs relevant to structured securities, including ratings, collateral types, geographic concentrations, underlying loan vintages, loan delinquencies, and weighted average coupons and maturities. Broker prices may also be based on a market approach that considers recent transactions involving identical or similar securities. When the volume or level of market activity for an investment in RMBS, CMBS, CDOs or other ABS is limited, certain inputs used to determine fair value may not be observable in the market.

ML II

The fixed maturity securities, trading portfolio includes an interest in ML II. See Note 4 for additional background information on ML II. At inception, the Company's economic interest in ML II was valued at the transaction price of $350 million. Subsequently and prior to March 31, 2011, the ML II interest has been valued using a discounted cash flow methodology that (i) uses the estimated future cash flows and the fair value of the ML II assets, (ii) allocates the estimated future cash flows according to the ML II waterfall, and (iii) determines the discount rate to be applied to the Company's interest in ML II by reference to the discount rate implied by the estimated value of ML II assets and the estimated future cash flows of the Company's interest in the capital structure. Estimated cash flows and discount rates used in the valuations are validated, to the extent possible, using market observable information for securities with similar asset pools, structures and terms.

As a result of the announcement on March 31, 2011 by the New York Fed of its plan to begin selling the assets in the ML II portfolio over time through a competitive sales process, the Company modified its methodology for estimating the fair value of its interest in ML II to incorporate the assumption of the current liquidation, which (i) uses the estimated fair value of the ML II assets and (ii) allocates the estimated asset fair value according to the ML II waterfall.

As of December 31, 2011, the Company expected to receive cash flows (undiscounted) in excess of the Company's initial investment, and any accrued interest, in the ML II interest after repayment of the first priority obligations owed to the New York Fed. The fair value of the Company's interest in ML II is most affected by the liquidation proceeds realized by the New York Fed from the sale of the collateral securities.

The LIBOR interest rate curve changes are determined based on observable prices, interpolated or extrapolated to derive a LIBOR for a specific maturity term as necessary. The spreads over LIBOR for the Company's interest in ML II (including collateral-specific credit and liquidity spreads) can change as a result of changes in market expectations about the future performance of these investments as well as changes in the risk premium that market participants would demand at the time of the transactions.

See Note 16 for a subsequent event related to ML II.

EQUITY SECURITIES - AVAILABLE FOR SALE AND TRADING

Whenever available, the Company obtains quoted prices in active markets for identical assets at the balance sheet date to measure at fair value marketable equity securities in its available for sale and trading portfolios. Market price data is generally obtained from exchange or dealer markets.

PARTNERSHIPS AND OTHER INVESTED ASSETS

The Company initially estimates the fair value of investments in certain hedge funds, private equity funds and other investment partnerships by reference to the transaction price. Subsequently, the Company generally obtains the fair value of these investments from net asset value information provided by the general partner or manager of the investments, the financial statements of which are generally audited annually. The Company considers observable

market data and performs certain control procedures to validate the appropriateness of using the net asset value as a fair value measurement.

SHORT-TERM INVESTMENTS

For short-term investments that are measured at fair value, the carrying values of these assets approximate fair values because of the relatively short period of time between origination and expected realization, and their limited exposure to credit risk.

SEPARATE ACCOUNT ASSETS

Separate account assets are composed primarily of registered and unregistered open-end mutual funds that generally trade daily and are measured at fair value in the manner discussed above for equity securities traded in active markets.

Changes in the fair value of separate account assets are completely offset in the consolidated statements of income (loss) and comprehensive income by changes in separate account liabilities, which are not carried at fair value.

DERIVATIVE ASSETS AND LIABILITIES

Derivative assets and liabilities can be exchange-traded or traded over-the-counter ("OTC"). The Company generally values exchange-traded derivatives using quoted prices in active markets for identical derivatives at the balance sheet date.

OTC derivatives are valued using market transactions and other observable market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value an OTC derivative depends on the contractual terms of, and specific risks inherent in the instrument, as well as the availability of pricing information in the market. The Company generally uses similar models to value similar instruments.

Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, such as swaps and options, model inputs can generally be corroborated by observable market data by correlation or other means, and model selection does not involve significant management judgment.

Certain OTC derivatives trade in less liquid markets with limited pricing information, and the determination of fair value for these derivatives is inherently more difficult. When the Company does not have corroborating market evidence to support significant model inputs and cannot verify the model to market transactions, the transaction price may provide the best estimate of fair value. Accordingly, when a pricing model is used to value such an instrument, the model is adjusted so the model value at inception equals the transaction price. The Company will update valuation inputs in these models only when corroborated by evidence such as similar market transactions, third party pricing services and/or broker or dealer quotations, or other empirical market data. When appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads and credit considerations. Such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

EMBEDDED POLICY DERIVATIVES INCLUDED IN POLICYHOLDER CONTRACT DEPOSITS

Certain variable annuity and equity-indexed annuity and life contracts contain embedded policy derivatives that the Company bifurcates from the host contracts and accounts for separately at fair value, with changes in fair value recognized in earnings. The Company concluded these contracts contain (i) written option guarantees on minimum accumulation value, (ii) a series of written options that guarantee withdrawals from the highest anniversary value within a specific period or for life, or (iii) equity-indexed written options that meet the criteria of derivatives that must be bifurcated.

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The fair value of embedded policy derivatives contained in certain variable

annuity and equity-indexed annuity and life contracts is measured based on actuarial and capital market assumptions related to projected cash flows over the expected lives of the contracts. These cash flow estimates primarily include benefits and related fees assessed, when applicable, and incorporate expectations about policyholder behavior. Estimates of future policyholder behavior are subjective and based primarily on the Company's historical experience.

With respect to embedded policy derivatives in the Company's variable annuity contracts, because of the dynamic and complex nature of the expected cash flows, risk neutral valuations are used. Estimating the underlying cash flows for these products involves many estimates and judgments, including those regarding expected market rates of return, market volatility, correlations of market index returns to funds, fund performance, discount rates and policyholder behavior.

With respect to embedded derivatives in the Company's equity-indexed life and annuity contracts, option pricing models are used to estimate fair value, taking into account assumptions for future equity index growth rates, volatility of the equity index, future interest rates, and determinations on adjusting the participation rate and the cap on equity-indexed credited rates in light of market conditions and policyholder behavior assumptions. This methodology incorporates an explicit risk margin to take into consideration market participant estimates of projected cash flows and policyholder behavior.

The Company also incorporates its own risk of non-performance in the valuation of the embedded policy derivatives associated with variable annuity and equity-indexed annuity and life contracts. Historically, the expected cash flows were discounted using the interest rate swap curve ("swap curve"), which is commonly viewed as being consistent with the credit spreads for highly-rated financial institutions (S&P AA-rated or above). A swap curve shows the fixed-rate leg of a plain vanilla swap against the floating rate (e.g. LIBOR) leg of a related tenor. The swap curve was adjusted, as necessary, for anomalies between the swap curve and the U.S. Treasury yield curve. During the fourth quarter of 2010, the Company revised the non-performance risk adjustment to reflect a market participant's view of the Company's claims-paying ability. As a result, in 2010 the Company incorporated an additional spread to the swap curve used to value embedded policy derivatives. Primarily as a result of this change, the fair value of the embedded derivative liabilities decreased by $66 million, which is partially offset by $7 million of DAC amortization.

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AMERICAN GENERAL LIFE INSURANCE COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present information about assets and liabilities measured at fair value on a recurring basis and indicate the level of the fair value measurement based on the levels of the inputs used:

At December 31, 2011	Level 1	Level 2	Level 3	Counterparty Netting (a)	Cash Collateral (b)	Total Fair Value
	(In Millions)					
ASSETS:						
Fixed maturity securities, available for sale:						
U.S. government obligations	$ 51	$ 616	$ --	$ --	$ --	$ 667
Foreign government	--	1,552	--	--	--	1,552
States, territories & political subdivisions	--	990	360	--	--	1,350
Corporate securities	--	48,400	630	--	--	49,030
RMBS	--	7,399	3,070	--	--	10,469
CMBS	--	984	1,863	--	--	2,847
CDO/ABS	--	898	989	--	--	1,887
Total fixed maturity securities, available for sale	51	60,839	6,912	--	--	67,802
Fixed maturity securities, trading:						
CMBS	--	--	18	--	--	18
CDO/ABS	--	--	491	--	--	491
Total fixed maturity securities, trading	--	--	509	--	--	509
Hybrid securities:						
RMBS	--	--	15	--	--	15
CMBS	--	--	2	--	--	2
CDO/ABS	--	--	8	--	--	8

Total hybrid securities	--	--	25	--	--	25
Equity securities, available for sale:						
Common stocks	5	--	18	--	--	23
Preferred stocks	--	6	40	--	--	46
Total equity securities, available for sale	5	6	58	--	--	69
Partnerships and other invested assets (c)	--	274	1,250	--	--	1,524
Short-term investments (d)	20	238	--	--	--	258
Derivative assets:						
Interest rate contracts	7	28	--	--	--	35
Foreign exchange contracts	--	43	--	--	--	43
Equity contracts	22	13	9	--	--	44
Counterparty netting and cash collateral	--	--	--	(43)	(15)	(58)
Total derivative assets	29	84	9	(43)	(15)	64
Separate account assets	25,766	295	--	--	--	26,061
Total	$25,871	$61,736	$8,763	$(43)	$(15)	$96,312
LIABILITIES:						
Policyholder contract deposits (e)	$ --	$ --	$ 256	$ --	$ --	$ 256
Derivative liabilities:						
Interest rate contracts	--	2	--	--	--	2
Foreign exchange contracts	--	80	--	--	--	80
Counterparty netting and cash collateral	--	--	--	(43)	--	(43)
Total derivative liabilities	--	82	--	(43)	--	39
Total	$ --	$ 82	$ 256	$(43)	$ --	$ 295

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At December 31, 2010	Level 1	Level 2	Level 3	Counterparty Netting (a)	Cash Collateral (b)	Total Fair Value
			(In Millions)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
ASSETS:						
Fixed maturity securities, available for sale:						
U.S. government obligations	$ --	$ 467	$ --	$ --	$ --	$ 467
Foreign government	--	786	--	--	--	786
States, territories & political subdivisions	--	595	229	--	--	824
Corporate securities	--	41,993	755	--	--	42,748
RMBS	--	4,506	1,862	--	--	6,368
CMBS	--	565	1,743	--	--	2,308
CDO/ABS	--	822	1,300	--	--	2,122
Total fixed maturity securities, available for sale	--	49,734	5,889	--	--	55,623
Fixed maturity securities, trading:						
Corporate securities	--	4	--	--	--	4
CMBS	--	--	19	--	--	19
CDO/ABS	--	--	476	--	--	476
Total fixed maturity securities, trading	--	4	495	--	--	499
Hybrid securities:						
CMBS	--	--	1	--	--	1
Total hybrid securities	--	--	1	--	--	1
Equity securities, available for sale:						
Common stocks	8	3	23	--	--	34
Preferred stocks	--	6	28	--	--	34
Total equity securities, available for sale	8	9	51	--	--	68
Equity securities, trading:						
Common stocks	--	--	1	--	--	1

Total equity securities, trading	--	--	1	--	--	1
Partnerships and other invested assets (c)	3	275	1,149	--	--	1,427
Short-term investments (d)	21	3,749	--	--	--	3,770
Derivative assets:						
Interest rate contracts	--	36	--	--	--	36
Foreign exchange contracts	14	30	--	--	--	44
Equity contracts	8	31	7	--	--	46
Counterparty netting and cash collateral	--	--	--	(48)	(23)	(71)
Total derivative assets	22	97	7	(48)	(23)	55
Separate account assets	27,056	303	--	--	--	27,359
Total	$27,110	$54,171	$7,593	$(48)	$(23)	$88,803
LIABILITIES:						
Policyholder contract deposits (e)	$ --	$ --	$ 239	$ --	$ --	$ 239
Derivative liabilities:						
Interest rate contracts	--	12	--	--	--	12
Foreign exchange contracts	14	110	--	--	--	124
Equity contracts	--	6	--	--	--	6
Counterparty netting and cash collateral	--	--	--	(48)	--	(48)
Total derivative liabilities	14	128	--	(48)	--	94
Total	$ 14	$ 128	$ 239	$(48)	$ --	$ 333

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(a) Represents netting of derivative exposures covered by a qualifying master netting agreement.

(b) Represents cash collateral posted and received.

(c) Amounts presented for partnerships and other invested assets in the tables above differ from the amounts presented in the consolidated balance sheets as these tables only include partnerships carried at estimated fair value on a recurring basis.

(d) Amounts exclude short-term investments that are carried at cost, which approximate fair value of $364 million and $3.3 billion at December 31, 2011 and 2010, respectively.

(e) Amount presented for policyholder contract deposits in the tables above differ from the amounts presented in the consolidated balance sheets as

these tables only include the GMWB embedded derivatives which are measured at estimated fair value on a recurring basis.

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At December 31, 2011 and 2010, Level 3 assets were 7.6 percent and 6.9 percent of total assets, respectively, and Level 3 liabilities were 0.3 percent and 0.2 percent of total liabilities, respectively.

Transfers of Level 1 and Level 2 Assets and Liabilities

The Company's policy is to record transfers of assets and liabilities between Level 1 and Level 2 at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. The Company had no significant transfers between Level 1 and Level 2 during the year ended December 31, 2011.

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Changes in Level 3 Recurring Fair Value Measurements

The following tables present changes during 2011 and 2010 in Level 3 assets and liabilities measured at fair value on a recurring basis, and the realized and unrealized gains (losses) recorded in the consolidated statements of income (loss) during 2011 and 2010 related to the Level 3 assets and liabilities that remained in the consolidated balance sheets at December 31, 2011 and 2010:

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December 31, 2011	Fair Value Beginning of Year	Net Realized and Unrealized Gains (Losses) included in Income	Accumulated Other Comprehensive Income (Loss)	Purchases, Sales, Issuances and Settlements, Net	Gross Transfers In	Gross Transfers Out	Fair Value End of Year	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Year
				(In Millions)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
ASSETS:								
Fixed maturity securities, available for sale:								
Foreign government....................	$ --	$ --	$ --	$ 1		$ (1)	$ --	$ --
States, territories & political subdivisions..............	229	--	56	126	--	(51)	360	--
Corporate securities.................	755	1	(21)	96	1,202	(1,403)	630	--
RMBS.................................	1,862	(50)	199	785	298	(24)	3,070	--
CMBS.................................	1,743	17	32	53	52	(34)	1,863	--
CDO/ABS..............................	1,300	21	60	(406)	420	(406)	989	--
Total fixed maturity securities, available for sale....................	5,889	(11)	326	655	1,972	(1,919)	6,912	--
Fixed maturity securities, trading:								
Corporate securities.................	--	--	--	(4)	4	--	--	--
CMBS.................................	19	3	--	(4)	--	--	18	3
CDO/ABS..............................	476	15	--	--	--	--	491	2
Total fixed maturity securities, trading.	495	18	--	(8)	4	--	509	5
Hybrid securities:								
RMBS.................................	--	(1)	--	16	--	--	15	(2)
CMBS.................................	1	1	--	--	--	--	2	1
CDO/ABS..............................	--	--	--	8	--	--	8	--
Total hybrid securities.................	1	--	--	24	--	--	25	(1)

Equity securities, available for sale:								
Common stocks	23	16	(4)	(19)	5	(3)	18	--
Preferred stocks	28	(1)	13	--	--	--	40	--
Total equity securities, available for sale	51	15	9	(19)	5	(3)	58	--
Equity securities, trading:								
Common stocks	1	--	--	(1)	--	--	--	--
Total equity securities, trading	1	--	--	(1)	--	--	--	--
Partnerships and other invested assets	1,149	9	87	42	55	(92)	1,250	--
Derivative assets								
Equity contracts	7	(3)		5	--	--	9	--
Total derivative assets	7	(3)	--	5	--	--	9	--
Total	$7,593	$ 28	$422	$ 698	$2,036	$(2,014)	$8,763	$ 4
LIABILITIES:								
Policyholder contract deposits	$ 239	$ 60	$ --	$ (43)	$ --	$ --	$ 256	$(54)
Total	$ 239	$ 60	$ --	$ (43)	$ --	$ --	$ 256	$(54)

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	Net Realized	Changes in Unrealized Gains (Losses)

December 31, 2010	Fair Value Beginning of Year	and Unrealized Gains (Losses) included in Income	Accumulated Other Comprehensive Income (Loss)	Purchases, Sales, Issuances and Settlements, Net	Net Transfers	Fair Value End of Year	Included in Income on Instruments Held at End of Year
			(In Millions)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
ASSETS:							
Fixed maturity securities, available for sale:							
States, territories & political subdivisions	$ 113	$ --	$ (2)	$ 147	$ (29)	$ 229	$--
Corporate securities	1,632	(35)	61	(11)	(892)	755	--
RMBS	1,871	(15)	210	(521)	317	1,862	--
CMBS	1,133	(354)	970	(132)	126	1,743	--
CDO/ABS	1,237	53	71	(232)	171	1,300	--
Total fixed maturity securities, available for sale	5,986	(351)	1,310	(749)	(307)	5,889	--
Fixed maturity securities, trading:							
CMBS	8	11	--	(34)	34	19	--
CDO/ABS	266	175	--	35	--	476	86
Total fixed maturity securities, trading	274	186	--	1	34	495	86
Hybrid securities:							
Foreign government	50	--	--	(50)	--	--	--
Corporate securities	3	--	--	(3)	--	--	--
CMBS	--	--	--	1	--	1	--
Total hybrid securities	53	--	--	(52)	--	1	--
Equity securities, available for sale:							
Common stocks	12	(1)	11	3	(2)	23	--
Preferred stocks	23	(2)	3	3	1	28	--
Total equity securities, available for sale	35	(3)	14	6	(1)	51	--
Equity securities, trading:							
Common stocks	1	--	--	--	--	1	--
Total equity securities, trading	1	--	--	--	--	1	--

Partnerships and other invested assets	749	(32)	143	215	74	1,149	--
Derivative assets							
Equity contracts	7	(4)	--	4	--	7	(3)
Total derivative assets	7	(4)	--	4	--	7	(3)
Total	$7,105	$(204)	$1,467	$(575)	$(200)	$7,593	$83
LIABILITIES:							
Policyholder contract deposits	$ 240	$ (42)	$ --	$ 41	$ --	$ 239	$--
Total	$ 240	$ (42)	$ --	$ 41	$ --	$ 239	$--

</TABLE>

<PAGE>

Net realized and unrealized gains and losses related to Level 3 items shown above are reported in the consolidated statements of income (loss) as follows:

<TABLE>
<CAPTION>

At December 31, 2011	Net Investment Income	Net Realized Investment Gains (Losses)	Total
	(In Millions)		
Fixed maturity securities, available for sale	$161	$(172)	$(11)
Fixed maturity securities, trading	18	--	18
Equity securities, available for sale	--	15	15
Partnerships and other invested assets	15	(6)	9
Derivative assets	--	(3)	(3)
Policyholder contract deposits	--	60	60

</TABLE>

<TABLE>
<CAPTION>

At December 31, 2010	Net Investment Income	Net Realized Investment Gains (Losses)	Total
	(In Millions)		
<S>	<C>	<C>	<C>
Fixed maturity securities, available for sale.	$ 80	$(431)	$(351)
Fixed maturity securities, trading............	186	--	186
Equity securities, available for sale.........	--	(3)	(3)
Partnerships and other invested assets........	51	(83)	(32)
Derivative assets.............................	--	(4)	(4)
Policyholder contract deposits................	--	(42)	(42)

</TABLE>

<PAGE>

The following table presents the gross components of purchases, sales, issuances and settlements, net, shown above:

<TABLE>
<CAPTION>

December 31, 2011	Purchases	Sales	Settlements	Purchases, Sales, Issuances and Settlements, Net (a)
		(In Millions)		
<S>	<C>	<C>	<C>	<C>
ASSETS:				
Fixed maturity securities, available for sale:				
Foreign government...........................	$ 1	$ --	$ --	$ 1

States, territories & political subdivisions	126	--	--	126
Corporate securities	229	(30)	(103)	96
RMBS	1,068	--	(283)	785
CMBS	130	(6)	(71)	53
CDO/ABS	165	(8)	(563)	(406)
Total fixed maturity securities, available for sale	1,719	(44)	(1,020)	655
Fixed maturity securities, trading:				
Corporate securities	--	--	(4)	(4)
CMBS	--	(4)	--	(4)
Total fixed maturity securities, trading	--	(4)	(4)	(8)
Hybrid securities:				
RMBS	18	--	(2)	16
CDO/ABS	8	--	--	8
Total hybrid securities	26	--	(2)	24
Equity securities, available for sale:				
Common stocks	--	(19)	--	(19)
Preferred stocks	16	(16)	--	--
Total equity securities, available for sale	16	(35)	--	(19)
Equity securities, trading:				
Common stocks	--	--	(1)	(1)
Total equity securities, trading	--	--	(1)	(1)
Partnerships and other invested assets	196	(59)	(95)	42
Derivative assets				
Equity contracts	5	--	--	5
Total derivative assets	5	--	--	5
Total	$1,962	$(142)	$(1,122)	$ 698
LIABILITIES:				
Policyholder contract deposits	$ --	$ (43)	$ --	$ (43)

Total	$ --	$ (43)	$ --	$ (43)

</TABLE>

(a)There were no issuances during the year ended December 31, 2011.

Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3 in the tables above. As a result, the unrealized gains (losses) on instruments held at December 31, 2011 and 2010 may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable inputs (e.g., changes in unobservable long-dated volatilities).

Transfers of Level 3 Assets and Liabilities

The Company's policy is to transfer assets and liabilities into Level 3 when a significant input cannot be corroborated with market observable data. This may include circumstances in which market activity has

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dramatically decreased and transparency to underlying inputs cannot be observed, current prices are not available and substantial price variances in quotations among market participants exist.

During the year ended December 31, 2011, transfers into Level 3 included certain RMBS, CMBS, ABS, private placement corporate debt and certain investment partnerships. The transfers into Level 3 of investments in certain RMBS, CMBS and certain ABS were due to a decrease in market transparency, downward credit migration and an overall increase in price disparity for certain individual security types. The downward credit migration in part reflected the Company's move to using composite credit ratings for these securities commencing in 2011 in order to reduce reliance on any single rating agency. Transfers into Level 3 for private placement corporate debt and certain other ABS were primarily the result of the Company adjusting matrix pricing information downward to better reflect the additional risk premium associated

with those securities that the Company believes was not captured in the matrix. Certain private equity funds and hedge funds were transferred into Level 3 due to these investments being carried at fair value and no longer being accounted for using the equity method of accounting, consistent with the changes to the Company's ownership and lack of ability to exercise significant influence over the respective investments. Other private equity funds and hedge funds transferred into Level 3 represented interests in hedge funds carried at fair value with limited market activity due to fund-imposed redemption restrictions.

Assets are transferred out of Level 3 when circumstances change such that significant inputs can be corroborated with market observable data. This may be due to a significant increase in market activity for the asset, a specific event, one or more significant input(s) becoming observable or when a long-term interest rate significant to a valuation becomes short-term and thus observable. In addition, transfers out of Level 3 also occur when investments are no longer carried at fair value as the result of a change in the applicable accounting methodology, given changes in the nature and extent of the Company's ownership interest. During the year ended December 31, 2011, transfers out of Level 3 primarily related to investments in private placement corporate debt, investments in certain CMBS and ABS and certain private equity funds and hedge funds. Transfers out of Level 3 for private placement corporate debt and for ABS were primarily the result of the Company using observable pricing information or a third party pricing quotation that appropriately reflects the fair value of those securities, without the need for adjustment based on the Company's own assumptions regarding the characteristics of a specific security or the current liquidity in the market. Transfers out of Level 3 for certain CMBS and certain other ABS investments were primarily due to increased observations of market transactions and price information for those securities. Certain private equity funds and hedge funds were transferred out of Level 3 due to these investments no longer being carried at fair value, based on the Company's use of the equity method of accounting consistent with the changes to the Company's ownership and ability to exercise significant influence over the respective investments.

The Company had no transfers of liabilities into or out of Level 3 during the year ended December 31, 2011.

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Investments in Certain Entities Carried at Fair Value Using Net Asset Value Per Share

The following table includes information related to the Company's investments in certain other invested assets, including private equity funds, hedge funds and other alternative investments that calculate net asset value per share (or its equivalent). For these investments, which are measured at fair value on a recurring or non-recurring basis, the Company uses the net asset value per share as a practical expedient for fair value.

<TABLE>
<CAPTION>

		DECEMBER 31, 2011		DECEMBER 31, 2010	
	INVESTMENT CATEGORY INCLUDES	FAIR VALUE USING NET ASSET VALUE	UNFUNDED COMMITMENTS	FAIR VALUE USING NET ASSET VALUE	UNFUNDED COMMITMENTS
INVESTMENT CATEGORY		(IN MILLIONS)			
<S>	<C>	<C>	<C>	<C>	<C>
PRIVATE EQUITY FUNDS:					
Leveraged buyout	Debt and/or equity investments made as part of a transaction in which assets of mature companies are acquired from the current shareholders, typically with the use of financial leverage.	$ 482	$ 143	$ 444	$ 202
Non-U.S.	Investments that focus primarily on Asian and European based				

	buyouts, expansion capital, special situations, turnarounds, venture capital, mezzanine and distressed opportunities strategies.	18	29	19	23
Venture capital	Early-stage, high-potential, growth companies expected to generate a return through an eventual realization event, such as an initial public offering or sale of the company.	18	6	13	8
Fund of funds	Funds that invest in other funds, which invest in various diversified strategies.	--	--	23	--
Distressed	Securities of companies that are already in default, under bankruptcy protection, or troubled.	64	15	97	19
Other	Real estate, energy, multi-strategy, mezzanine, and industry-focused strategies.	300	93	316	137

Total private equity funds		882	286	912	389
HEDGE FUNDS:					
Event-driven	Securities of companies undergoing material structural changes, including mergers, acquisitions and other reorganizations.	209	--	178	--
Long-short	Securities that the manager believes are undervalued, with corresponding short positions to hedge market risk.	147	--	66	--
Distressed	Securities of companies that are already in default, under bankruptcy protection or troubled.	160	10	162	20
Other	Non-U.S. companies, futures and commodities, macro and multi-strategy and industry-focused strategies.	58	--	79	--
Total hedge funds		574	10	485	20

Total	$1,456	$ 296	$1,397	$ 409

</TABLE>

At December 31, 2011, private equity fund investments included above are not redeemable during the lives of the funds and have expected remaining lives that extend in some cases more than ten years. At that date, 18 percent of the total above had expected remaining lives of less than three years, 67 percent between three and seven years and 15 percent between seven and ten years. Expected lives are based upon legal maturity, which can be extended at the fund manager's discretion, typically in one-year increments.

At December 31, 2011, hedge fund investments included above are redeemable quarterly (56 percent), semi-annually (23 percent) and annually (21 percent), with redemption notices ranging from 30 days to 180 days. More than 90 percent require redemption notices of less than 90 days. Investments representing approximately 72 percent of the value of the hedge fund investments cannot be redeemed, either in whole or in part, because the investments include various restrictions. The majority of these restrictions were put in place prior to 2009 and do not have stated

<PAGE>

end dates. The restrictions that have pre-defined end dates are generally expected to be lifted by the end of 2012. The partial restrictions relate to certain hedge funds that hold at least one investment that the fund manager deems to be illiquid. In order to treat investors fairly and to accommodate subsequent subscription and redemption requests, the fund manager isolates these illiquid assets from the rest of the fund until the assets become liquid.

Fair Value Measurements on a Non-Recurring Basis

The Company also measures the fair value of certain assets on a non-recurring basis, generally quarterly, annually, or when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. These assets include cost and equity-method investments and

mortgage and other loans. The Company uses a variety of techniques to measure the fair value of these assets when appropriate, as described below:

COST AND EQUITY-METHOD INVESTMENTS. When the Company determines that the carrying value of these assets may not be recoverable, the Company records the assets at fair value with the loss recognized in earnings. In such cases, the Company measures the fair value of these assets using the techniques discussed in Valuation Methodologies, above, for partnerships and other invested assets.

MORTGAGE AND OTHER LOANS RECEIVABLE. When the Company determines that the carrying value of these assets may not be recoverable, the assets are recorded at fair value with the loss recognized in earnings. In such cases, the Company measures the fair value of these assets using the techniques discussed below for mortgage and other loans receivable.

Fair Value Option--Fixed Maturity Securities, Trading

The Company may elect to measure financial instruments at fair value and certain other assets and liabilities that are not otherwise required to be measured at fair value. Subsequent changes in fair value for designated items are reported in earnings.

The Company has elected fair value accounting for its economic interest in ML II. The Company recorded gains (losses) of $16 million, $187 million and $(9) million in the years ended December 31, 2011, 2010 and 2009, respectively, to reflect the change in the fair value of ML II, which were reported as a component of net investment income in the consolidated statements of income (loss).

Fair Value Information about Financial Instruments Not Measured at Fair Value

Information regarding the estimation of fair value for financial instruments not carried at fair value (excluding insurance contracts) is discussed below.

MORTGAGE AND OTHER LOANS RECEIVABLE

Fair values of mortgage loans were estimated for disclosure purposes using discounted cash flow calculations based upon discount rates the Company believes market participants would use in determining the price that they would pay for such assets. For certain loans, the Company's current incremental lending rates for similar type loans is used as the discount rate, as it is believed that this rate approximates the rate that market participants would

use. Fair values of collateral, commercial and guaranteed loans were estimated principally by using independent pricing services, broker quotes and other independent information.

POLICY LOANS

The fair values of the policy loans are generally estimated based on unpaid principal amount as of each reporting date.

PARTNERSHIPS AND OTHER INVESTED ASSETS

The majority of partnerships and other invested assets that are not measured at fair value represent investments in hedge funds, private equity funds and other investment partnerships for which the Company uses the equity method

<PAGE>

of accounting. The fair value of the Company's investment in these funds is measured based on the Company's share of the funds' reported net asset value.

SHORT-TERM INVESTMENTS

The carrying value of these assets approximates fair value because of the relatively short period of time between origination and expected realization, and their limited exposure to credit risk.

POLICYHOLDER CONTRACT DEPOSITS ASSOCIATED WITH INVESTMENT-TYPE CONTRACTS

Fair value for policyholder contract deposits associated with investment-type contracts (those without significant mortality risk) not accounted for at fair value were estimated for disclosure purposes using discounted cash flow calculations based upon interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued. Where no similar contracts are being offered, the discount rate is the appropriate tenor swap rates (if available) or current risk-free interest rates consistent with the currency in which cash flows are denominated.

The following table presents the carrying value and estimated fair value of the Company's financial instruments not measured at fair value:

	2011		2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In Millions)			
ASSETS				
Mortgage and other loans receivable	$ 6,282	$ 6,922	$ 6,089	$ 6,373
Policy loans	1,718	1,718	1,775	1,775
Partnerships and other invested assets	1,894	1,894	1,705	1,705
Short-term investments	364	364	3,338	3,338
Cash	144	144	114	114
LIABILITIES				
Policyholder contract deposits (a)	42,632	50,639	40,356	44,542

(a) Net embedded derivatives within liability host contracts are presented within policyholder contract deposits.

4. INVESTMENTS

FIXED MATURITY AND EQUITY SECURITIES

AVAILABLE FOR SALE SECURITIES

The amortized cost or cost, gross unrealized gains and losses, and fair value of fixed maturity and equity securities available for sale by major category

were as follows:

<TABLE>
<CAPTION>

<S>	Amortized Cost or Cost <C>	Gross Unrealized Gains <C>	Gross Unrealized Losses <C>	Fair Value <C>	Other-Than-Temporary Impairments in AOCI (a) <C>
			(In Millions)		
December 31, 2011					
Fixed maturity securities, available for sale:					
U.S. government obligations	$ 496	$ 171	$ --	$ 667	$ --
Foreign government	1,405	156	(9)	1,552	--
States, territories & political subdivisions	1,189	166	(5)	1,350	--
Corporate securities	44,158	5,343	(471)	49,030	53
RMBS	10,132	589	(252)	10,469	(95)
CMBS	2,708	330	(191)	2,847	102
CDO/ABS	1,827	152	(92)	1,887	18
Total fixed maturity securities, available for sale	61,915	6,907	(1,020)	67,802	78
Equity securities, available for sale:					
Common stocks	10	14	(1)	23	--
Preferred stocks	24	22	--	46	--
Total equity securities, available for sale	34	36	(1)	69	--
Investment in AIG	10	--	(7)	3	--
Total	$61,959	$6,943	$(1,028)	$67,874	$ 78

</TABLE>

<PAGE>

<TABLE>

<CAPTION>

<S>	Amortized Cost or Cost <C>	Gross Unrealized Gains <C>	Gross Unrealized Losses <C>	Fair Value <C>	Other-Than-Temporary Impairments in AOCI (a) <C>
	(In Millions)				
December 31, 2010					
Fixed maturity securities, available for sale:					
U.S. government obligations	$ 413	$ 54	$ --	$ 467	$ --
Foreign government	705	83	(2)	786	--
States, territories & political subdivisions	849	8	(33)	824	--
Corporate securities	39,502	3,641	(395)	42,748	22
RMBS	6,426	259	(317)	6,368	(140)
CMBS	2,257	257	(206)	2,308	(32)
CDO/ABS	2,147	123	(148)	2,122	(44)
Total fixed maturity securities, available for sale	52,299	4,425	(1,101)	55,623	(194)
Equity securities, available for sale:					
Common stocks	13	20	--	33	--
Preferred stocks	25	11	(1)	35	--
Total equity securities, available for sale	38	31	(1)	68	--
Investment in AIG	10	--	(4)	6	--
Total	$52,347	$4,456	$(1,106)	$55,697	$(194)

</TABLE>

(a) Represents the amount of other-than-temporary impairment losses recognized in accumulated other comprehensive income. This amount includes unrealized gains and losses on impaired securities relating to changes in the value of such securities subsequent to the impairment measurement date.

The following table summarizes the Company's fair values and gross unrealized losses on fixed maturity and equity securities available for sale, aggregated by major investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2011 and 2010:

<TABLE>
<CAPTION>

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In Millions)					
December 31, 2011						
Fixed maturity securities, available for sale:						
Foreign government	$ 210	$ (9)	$ --	$ --	$ 210	$ (9)
States, territories & political subdivisions	6	--	36	(5)	42	(5)
Corporate securities	4,199	(240)	1,331	(231)	5,530	(471)
RMBS	2,279	(162)	821	(90)	3,100	(252)
CMBS	694	(78)	380	(113)	1,074	(191)
CDO/ABS	380	(10)	283	(82)	663	(92)
Total fixed maturity securities, available for sale	7,768	(499)	2,851	(521)	10,619	(1,020)
Equity securities, available for sale:						
Common stocks	2	(1)	--	--	2	(1)
Total equity securities, available for sale	2	(1)	--	--	2	(1)
Investment in AIG	2	(7)	--	--	2	(7)
Total	$7,772	$(507)	$2,851	$(521)	$10,623	$(1,028)

</TABLE>

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<TABLE>
<CAPTION>

Less than 12 Months		12 Months or More		Total	
Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses

(In Millions)

December 31, 2010						
Fixed maturity securities, available for sale:						
Foreign government	$ 100	$ (2)	$ --	$ --	100	(2)
States, territories & political subdivisions	492	(23)	50	(10)	542	(33)
Corporate securities	5,136	(199)	1,635	(196)	6,771	(395)
RMBS	1,368	(27)	1,353	(290)	2,721	(317)
CMBS	203	(5)	876	(201)	1,079	(206)
CDO/ABS	618	(47)	497	(101)	1,115	(148)
Total fixed maturity securities, available for sale	7,917	(303)	4,411	(798)	12,328	(1,101)
Equity securities, available for sale:						
Preferred stocks	4	(1)	--	--	4	(1)
Total equity securities, available for sale	4	(1)	--	--	4	(1)
Investment in AIG	--	--	6	(4)	6	(4)
Total	$7,921	$(304)	$4,417	$(802)	$12,338	$(1,106)

As of December 31, 2011, the Company held 1,364 individual fixed maturity and equity securities that were in an unrealized loss position, of which 352 individual securities were in a continuous unrealized loss position for twelve months or more.

The Company did not recognize in earnings the unrealized losses on these fixed maturity securities at December 31, 2011, because management neither intends to sell the securities nor does it believe that it is more likely than not that it will be required to sell these securities before recovery of their amortized cost basis. Furthermore, management expects to recover the entire amortized cost basis of these securities. In performing this evaluation, management considered the recovery periods for securities in previous periods of broad market declines. For fixed maturity securities with significant declines, management performed fundamental credit analysis on a security-by-security basis, which included consideration of credit enhancements, expected defaults on underlying collateral, review of relevant industry analyst reports and forecasts and other market available data.

The following table presents the amortized cost and fair value of fixed

maturity securities available for sale by contractual maturity as of December 31, 2011:

<TABLE>
<CAPTION>

<S>	Total Fixed Maturity Available for Sale Securities	
	Amortized Cost <C>	Fair Value <C>
	(In Millions)	
Due in one year or less	$ 1,132	$ 1,162
Due after one year through five years	6,674	7,117
Due after five years through ten years	17,547	18,781
Due after ten years	21,895	25,540
Mortgage-backed, asset-backed and collateralized securities.	14,667	15,202
Total fixed maturity securities available for sale	$61,915	$67,802

</TABLE>

Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties. In addition, corporate requirements and investment strategies may result in the sale of investments before maturity.

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At December 31, 2011, the Company's investments did not include any investment in a single entity that exceeded 10 percent of the Company's consolidated shareholder's equity. In 2010, there was one investment exceeding 10 percent, which was a short-term money market investment.

TRADING SECURITIES

ML II

On December 12, 2008, the Company and certain other wholly owned U.S. life insurance subsidiaries of AIG sold to ML II all of their undivided interests in a pool of $39.3 billion face amount of RMBS. In exchange for the RMBS, the life insurance companies received an initial purchase price of $19.8 billion plus the right to receive deferred contingent portions of the total purchase price of $1.0 billion plus participation in the residual cash flows, each of which is subordinated to the repayment of a loan from the New York Fed to ML II.

Neither AIG nor the Company have any control rights over ML II. The Company has determined that ML II is a VIE and the Company is not the primary beneficiary. The transfer of RMBS to ML II has been accounted for as a sale. The Company has elected to account for its economic interest in ML II (including the rights to the deferred contingent purchase price) at fair value. This interest is reported in fixed maturity securities, trading, with changes in fair value reported as a component of net investment income. See Note 3 herein for further discussion of the Company's fair value methodology and the valuation of ML II.

As the controlling member of ML II, the New York Fed has directed ML II to sell its RMBS assets through a series of auctions held since 2011. Proceeds from the sale of the RMBS assets are used to repay in full the New York Fed's loan to ML II and the Company's deferred purchase price, including any accrued interest due, in accordance with the terms of the definitive agreements governing the sale of the RMBS assets, with any residual interests shared between the New York Fed and the domestic securities lending program participants.

In addition to ML II, the Company has another small trading portfolio.

Net unrealized gains (losses) included in the consolidated statements of income (loss) from fixed maturity securities classified as trading securities in 2011, 2010 and 2009 were $6 million, $174 million, and $(22) million, respectively.

INVESTED ASSETS ON DEPOSIT AND PLEDGED AS COLLATERAL

The invested assets on deposit, and invested assets pledged as collateral are presented in the table below. The amounts presented in the table below are at estimated fair value for cash and cash equivalents, short-term investments, fixed maturity and other securities.

	December 31, 2011	December 31, 2010
	(In Millions)	
Invested assets on deposit:		
Regulatory agencies	$47	$46
Invested assets pledged as collateral:		
Advance agreements--Federal Home Loan Bank of Dallas.	20	--

MORTGAGE LOANS ON REAL ESTATE

At December 31, 2011, the Company had direct U.S. commercial mortgage loan exposure of $6.4 billion. At that date, substantially all of the U.S. loans were current. Foreign commercial mortgage loans of $18 million are secured predominantly by properties in Canada.

The U.S. commercial loan exposure by state and type of loan, at December 31, 2011, were as follows:

State	# of Loans	Amount *	Apartments	Offices	Retails	Industrials	Hotels	Others	% of Total
		($ In Millions)							
California	77	$1,203	$ 61	$ 441	$ 98	$276	$229	$ 98	18.9%
New York	50	1,041	127	708	107	20	55	24	16.4%
New Jersey	36	707	321	160	201	5	--	20	11.1%
Florida	50	495	23	155	145	81	21	70	7.8%
Texas	31	431	21	190	62	97	48	13	6.8%

Other states.	233	2,478	356	937	638	224	122	201	39.0%
Total........	477	$6,355	$909	$2,591	$1,251	$703	$475	$426	100.0%

</TABLE>

* Excludes portfolio valuation allowance

The following table presents the credit quality indicators for commercial mortgage loans:

<TABLE>
<CAPTION>

December 31, 2011	# of Loans	Class: Apartments	Offices	Retails	Industrials	Hotels	Others	Total	% of Total
	($ In Millions)								
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Credit Quality Indicator:									
In good standing..................	465	$861	$2,488	$1,251	$703	$475	$426	$6,204	97.6%
Restructured (a)..................	7	23	76	--	--	--	--	99	1.6%
90 days or less delinquent........	1	--	7	--	--	--	--	7	0.1%
>90 days delinquent or in process. of foreclosure....................	4	25	20	--	--	--	--	45	0.7%
Total (b).........................	477	$909	$2,591	$1,251	$703	$475	$426	$6,355	100.0%
Valuation allowance................		$ 13	$ 52	$ 15	$ 13	$ 4	$ 19	$ 116	1.8%

</TABLE>

(a) Loans that have been modified in troubled debt restructurings and are performing according to their restructured terms. See discussion of troubled debt restructurings below.

(b) Does not reflect valuation allowances.

Methodology used to estimate the allowance for credit losses

For commercial mortgage loans, impaired value is based on the fair value of underlying collateral, which is determined based on the expected net future cash flows of the collateral, less estimated costs to sell. An allowance is

typically established for the difference between the impaired value of the loan and its current carrying amount. Additional allowance amounts are established for incurred but not specifically identified impairments, based on the analysis of internal risk ratings and current loan values. Internal risk ratings are assigned based on the consideration of risk factors including debt service coverage, loan-to-value ratio or the ratio of the loan balance to the estimated value of the property, property occupancy, profile of the borrower and of the major property tenants, economic trends in the market where the property is located, and condition of the property. These factors and the resulting risk ratings also provide a basis for determining the level of monitoring performed at both the individual loan and the portfolio level. When all or a portion of a commercial mortgage loan is deemed uncollectible, the uncollectible portion of the carrying value of the loan is charged off against the allowance.

A significant majority of commercial mortgage loans in the portfolio are non-recourse loans and, accordingly, the only guarantees are for specific items that are exceptions to the non-recourse provisions. It is therefore extremely rare for the Company to have cause to enforce the provisions of a guarantee on a commercial real estate or mortgage loan.

<PAGE>

The Company's mortgage and other loan valuation allowance activity are as follows:

<TABLE>
<CAPTION>

<S>	2011 <C>	2010 <C>	2009 <C>
	(In Millions)		
Allowance, beginning of year	$190	$ 145	$ 6
Additions (reductions) to allowance for losses.	(31)	151	165
Charge-offs, net of recoveries	(33)	(106)	(26)
Allowance, end of year	$126	$ 190	$145

</TABLE>

The Company's impaired mortgage loans are as follows:

	2011	2010	2009
	(In Millions)		
Impaired loans with valuation allowances....	$119	$319	$245
Impaired loans without valuation allowances.	58	59	105
Total impaired loans.....................	177	378	350
Valuation allowances on impaired loans......	(27)	(71)	(84)
Impaired loans, net......................	$150	$307	$266

The Company recognized $9 million, $17 million and $20 million in interest income on the above impaired mortgage loans for the years ended December 31, 2011, 2010 and 2009, respectively.

Troubled Debt Restructurings

The Company modifies loans to optimize their returns and improve their collectability, among other things. When such a modification is undertaken with a borrower that is experiencing financial difficulty and the modification involves the Company granting a concession to the troubled debtor, the modification is deemed to be a TDR. The Company assesses whether a borrower is experiencing financial difficulty based on a variety of factors, including the borrower's current default on any of its outstanding debt, the probability of a default on any of its debt in the foreseeable future without the modification, the insufficiency of the borrower's forecasted cash flows to service any of its outstanding debt (including both principal and interest), and the borrower's inability to access alternative third-party financing at an interest rate that would be reflective of current market conditions for a non-troubled debtor. Concessions granted may include extended maturity dates, interest rate changes, principal forgiveness, payment deferrals and easing of loan covenants.

As of December 31, 2011, the Company held $99 million of commercial mortgage loans that had been modified in a TDR during 2011. The Company had no other loans that had been modified in a TDR during 2011. At December 31, 2011, those commercial mortgage loans that had been modified in a TDR during 2011 had related total allowances for credit losses of $20 million. The commercial mortgage loans modified in a TDR in 2011 are included among the restructured loans in the credit quality indicators table above, as they are all performing according to the restructured terms.

As the result of each loan's TDR, the Company assessed the adequacy of any additional allowance for credit losses with respect to such loans, and in all cases no additional allowance for credit losses, aside from the one that had already been provided for each loan prior to its 2011 restructuring, was deemed necessary. In certain cases, based on an assessment of amounts deemed uncollectible, a portion of a loan restructured in a TDR may be charged off against the allowance for credit losses.

PARTNERSHIPS

Investments in partnerships totaled $3.3 billion and $3.0 billion at December 31, 2011 and 2010, respectively, and were comprised of 227 partnerships and 242 partnerships, respectively. These partnerships consist primarily of hedge funds and are managed by independent money managers who invest in equity securities, fixed maturity securities and real estate. The risks generally associated with these partnerships include those related to their

<PAGE>

underlying investments (i.e. equity securities, debt securities and real estate), plus a level of illiquidity, which is mitigated, to some extent, by the existence of contractual termination /withdrawal provisions.

INVESTMENT INCOME

Investment income by type of investment was as follows for the years ended December 31:

	2011	2010	2009
	(In Millions)		
Investment income:			
Fixed maturities	$3,698	$3,922	$3,460
Equity securities	--	2	3
Mortgage and other loans	387	392	434
Policy loans	98	102	110
Investment real estate	33	24	30
Partnerships and other invested assets	172	198	(154)
Securities Lending	--	--	2
Other investment income	3	20	24
Gross investment income	4,391	4,660	3,909
Investment expenses	(112)	(71)	(68)
Net investment income	$4,279	$4,589	$3,841

The carrying value of investments that produced no investment income during 2011 was $235 million, which is less than 0.3 percent of total invested assets. The ultimate disposition of these investments is not expected to have a material effect on the Company's results of operations and financial position.

NET REALIZED INVESTMENT GAINS (LOSSES)

Net realized investment gains (losses) by type of investment were as follows for the years ended December 31:

	2011	2010	2009
	(In Millions)		
Sales of fixed maturity securities, available for sale	$ 617	$ 412	$ 223

Sales of equity securities, available for sale	20	37	9
Mortgage and other loans	33	(125)	(162)
Investment real estate	2	1	3
Partnerships and other invested assets	(73)	6	(8)
Derivatives	48	28	(97)
Securities lending collateral, including other-than- temporary impairments.	--	75	12
Other-than-temporary impairments	(251)	(604)	(1,238)
Net realized investment gains (losses) before taxes	$ 396	$(170)	$(1,258)

</TABLE>

<PAGE>

The following table presents the gross realized gains and gross realized losses from sales or redemptions of the Company's available for sale securities as follows for the years ended December 31:

<TABLE>
<CAPTION>

	2011		2010		2009	
	Gross Realized Gains	Gross Realized Losses	Gross Realized Gains	Gross Realized Losses	Gross Realized Gains	Gross Realized Losses
			(In Millions)			
Fixed maturity securities.	$641	$(24)	$444	$(32)	$716	$(493)
Equity securities	20	--	38	(1)	12	(3)
Total	$661	$(24)	$482	$(33)	$728	$(496)

</TABLE>

CREDIT IMPAIRMENTS

The following table presents a rollforward of the credit impairments recognized in earnings for available for sale fixed maturity securities held by the Company:

<TABLE>
<CAPTION>

	Twelve Months Ended December 31, 2011	Twelve Months Ended December 31, 2010	Nine Months Ended December 31, 2009
		(In Millions)	
<S>	<C>	<C>	<C>
Balance, beginning of year	$2,138	$1,753	$ --
Increases due to:			
Credit losses remaining in accumulated deficit related to adoption of new other-than-temporary impairment standard	--	--	1,495
Credit impairments on new securities subject to impairment losses	97	255	86
Additional credit impairments on previously impaired securities	132	362	430
Reductions due to:			
Credit impaired securities fully disposed for which there was no prior intent or requirement to sell	(77)	(140)	(193)
Credit impaired securities for which there is a current intent or anticipated requirement to sell	--	(4)	--
Accretion on securities previously impaired due to credit	(142)	(70)	(65)
Other	--	(18)	--
Balance, end of year	$2,148	$2,138	$1,753

</TABLE>

PURCHASED CREDIT IMPAIRED ("PCI") SECURITIES

Beginning in the second quarter of 2011, the Company purchased certain RMBS securities that had experienced deterioration in credit quality since their issuance. Management determined, based on its expectations as to the timing and amount of cash flows expected to be received, that it was probable at acquisition that the Company would not collect all contractually required payments, including both principal and interest and considering the effects of prepayments, for these PCI securities. At acquisition, the timing and amount of the undiscounted future cash flows expected to be received on each PCI security

was determined based on management's best estimate using key assumptions, such as interest rates, default rates and prepayment speeds. At acquisition, the difference between the undiscounted expected future cash flows of the PCI securities and the recorded investment in the securities represents the initial accretable yield, which is to be accreted into net investment income over their remaining lives on a level-yield basis. Additionally, the difference between the contractually required payments on the PCI securities and the undiscounted expected future cash flows represents the non-accretable difference at acquisition. Over time, based on actual payments received and changes in estimates of undiscounted expected future cash flows, the accretable yield and the non-accretable difference can change, as discussed further below.

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On a quarterly basis, the undiscounted expected future cash flows associated with PCI securities are re-evaluated based on updates to key assumptions. Changes to undiscounted expected future cash flows due solely to the changes in the contractual benchmark interest rates on variable rate PCI securities will change the accretable yield prospectively. Declines in undiscounted expected future cash flows due to further credit deterioration as well as changes in the expected timing of the cash flows can result in the recognition of an other-than-temporary impairment charge, as PCI securities are subject to the Company's policy for evaluating investments for other-than-temporary impairment. Significant increases in undiscounted expected future cash flows for reasons other than interest rate changes are recognized prospectively as an adjustment to the accretable yield.

The following tables present information on the Company's PCI securities, which are included in fixed maturity securities, available for sale:

<TABLE>
<CAPTION>

	At Date of Acquisition
	(In Millions)

Contractually required payments (principal and interest)	$4,178
Cash flows expected to be collected (a)	3,346
Recorded investment in acquired securities	2,118

(a) Represents undiscounted expected cash flows, including both principal and interest.

	December 31, 2011 (In Millions)
Outstanding principal balance	$2,770
Amortized cost	1,940
Fair value	1,808

The following table presents activity for the accretable yield on PCI securities for the year ended December 31:

	2011 (In Millions)
Balance, beginning of year	$ --
Newly purchased PCI securities	1,228
Accretion	(87)
Effect of changes in interest rate indices	(26)
Net reclassification from (to) non-accretable difference, including effects of prepayments	104
Balance, end of year	$1,219

5. DERIVATIVE FINANCIAL INSTRUMENTS

The Company maintains an overall risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate risk, foreign currency exchange risk, equity market risk and credit risk. See Notes 2 and 3 for further discussion on derivative financial instruments.

<PAGE>

The following table presents the notional amount and fair value of derivative financial instruments, by their underlying risk exposure, held at:

<TABLE>
<CAPTION>

	Derivative Assets		Derivative Liabilities	
	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
	(In Millions)			
December 31, 2011				
Derivatives not designated as hedging instruments:				
Interest rate contracts	$ 954	$ 35	$ 167	$ 2
Foreign exchange contracts	321	43	389	80
Equity contracts	3,258	44	--	--
Other contracts (c)	--	--	3,640	257
Total derivatives, gross	$4,533	122	$4,196	339
Counterparty netting (d)		(43)		(43)
Cash collateral (e)		(15)		--
Total derivatives, net		64		296

Less: Bifurcated embedded derivatives.............		--		257
Total derivatives on balance sheets...............		$ 64		$ 39

</TABLE>

<TABLE>
<CAPTION>

-	Derivative Assets		Derivative Liabilities	
	Notional Amount (a)	FAIR VALUE (B)	NOTIONAL AMOUNT (A)	FAIR VALUE (B)
	(In Millions)			
<S>	<C>	<C>	<C>	<C>
December 31, 2010.................................				
Derivatives not designated as hedging instruments:				
Interest rate contracts........................	$ 447	$ 36	$ 483	$ 12
Foreign exchange contracts.....................	311	44	482	124
Equity contracts...............................	2,419	46	108	6
Other contracts (c)............................	--	--	2,675	239
Total derivatives, gross..........................	$3,177	126	$3,748	381
Counterparty netting (d).......................		(48)		(48)
Cash collateral (e)............................		(23)		--
Total derivatives, net............................		55		333
Less: Bifurcated embedded derivatives (f)..........		--		239
Total derivatives on balance sheets...............		$ 55		$ 94

</TABLE>

(a) Notional amount represents a standard of measurement of the volume of derivatives. Notional amount is generally not a quantification of market risk or credit risk and is not recorded on the consolidated balance sheets. Notional amounts generally represent those amounts used to calculate contractual cash flows to be exchanged and are not paid or received, except for certain contracts such as currency swaps.

(b) See Note 3 for additional information regarding the Company's fair value measurement of derivative instruments.

(c) Included in Other contracts are bifurcated embedded derivatives, which are recorded in policyholder contract deposits.

(d) Represents netting of derivative exposures covered by a qualifying master netting agreement.

(e) Represents cash collateral posted and received.

(f) 2010 includes a change in valuation assumptions relating to embedded policy derivatives.

The Company's interest rate contracts include interest rate swaps and short futures options. The interest rate swap agreements convert specific investment securities from a floating to a fixed-rate basis and are used to mitigate the impact of changes in interest rates on certain investment securities. The Company buys and sells exchange traded short futures contracts on U.S. Treasury notes to hedge interest rate exposures on certain bonds purchased for the Company's trading portfolio. The short futures contracts have terms no longer than three months at the time of purchase and all such positions are closed out each quarter end.

<PAGE>

Foreign exchange contracts used by the Company include cross-currency interest rate swaps, which are used to reduce risks from changes in currency exchange rates with respect to investments denominated in foreign currencies that the Company holds.

The Company purchases equity contracts, such as futures, call and put options, to hedge certain guarantees of specific equity-indexed universal life and variable annuity products. The Company's exchange traded index and long bond futures contracts have no recorded value as they are net cash settled daily. Call options are contracts that grant the purchaser, for a premium payment, the

right, but not the obligation to purchase a financial instrument at a specified price within a specified period of time. Put options are contracts that provide the purchaser, for a premium payment, the right, but not the obligation to sell a financial instrument at a specified price within a specified period of time.

The Company issues or has issued certain equity-indexed universal life and variable annuity products which contain guaranteed provisions that are considered embedded derivatives. The fair value of these embedded derivatives is reflected in policyholder contract deposits in the consolidated balance sheets. The changes in fair value of the embedded derivatives are reported in net realized investment gains (losses) in the accompanying consolidated statements of income (loss).

The Company recorded the following change in value of its derivative financial instruments, including periodic net coupon settlements, change in value of its embedded derivatives and gains and losses on sales of derivatives in net realized investment gains (losses) in the consolidated statements of income (loss):

	2011	2010	2009
	(In Millions)		
Derivatives not designated as hedging instruments			
Interest rate contracts	$ 11	$ 20	$ (8)
Foreign exchange contracts	12	(55)	(111)
Equity contracts	86	31	(131)
Other contracts	(61)	32	153
Total	$ 48	$ 28	$ (97)

The Company is exposed to potential credit-related losses in the event of nonperformance by counterparties to financial instruments. At December 31, 2011 and 2010, the Company had $3 million of net derivative assets and $58 million of net derivative liabilities outstanding, respectively, with AIG Financial Products Corp., an affiliated company. The credit exposure of the Company's derivative financial instruments is limited to the fair value of contracts that are favorable to the Company at the reporting date.

6. VARIABLE INTEREST ENTITIES

A VIE is a legal entity that does not have sufficient equity at risk to finance its activities without additional subordinated financial support or is structured such that equity investors lack the ability to make significant decisions relating to the entity's operations through voting rights and do not substantively participate in the gains and losses of the entity. Consolidation of a VIE by its primary beneficiary is not based on majority voting interest, but rather is based on other criteria discussed below.

While the Company enters into various arrangements with VIEs in the normal course of business, the Company's involvement with VIEs is primarily as a passive investor in debt securities (rated and unrated) and equity interests issued by VIEs. In all instances, the Company consolidates the VIE when it determines that the Company is the primary beneficiary. This analysis includes a review of the VIE's capital structure, contractual relationships and terms, nature of the VIE's operations and purpose, nature of the VIE's interests issued, and the Company's involvement with the entity. In evaluating consolidation, the Company also evaluates the design of the VIE, and the related risks to which the entity was designed to expose the variable interest holders to.

<PAGE>

For VIEs with attributes consistent with that of an investment company or a money market fund, the primary beneficiary is the party or group of related parties that absorbs a majority of the expected losses of the VIE, receives the majority of the expected residual returns of the VIE, or both.

For all other VIEs, the primary beneficiary is the entity that has both (i) the power to direct the activities of the VIE that most significantly affect the entity's economic performance and (ii) the obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. While also considering these factors, the consolidation conclusion depends on the breadth of the Company's decision-making ability and its ability to

influence activities that significantly affect the economic performance of the VIE.

EXPOSURE TO LOSS

The Company's total off balance sheet exposure associated with VIEs, primarily consisting of commitments to real estate and investment funds, was $57 million and $43 million at December 31, 2011 and 2010, respectively.

The following table presents the Company's total assets, total liabilities and off-balance sheet exposure associated with its variable interests in consolidated VIEs:

<TABLE>
<CAPTION>

	At December 31,					
	VIE Assets		VIE Liabilities		Off-Balance Sheet Exposure	
	2011	2010	2011	2010	2011	2010
	(In Millions)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Castle 1 Trust.	$720	$871	$419	$486	$--	$--

</TABLE>

The Company calculates its maximum exposure to loss to be (i) the amount invested in the debt or equity of the VIE, (ii) the notional amount of VIE assets or liabilities where the Company has also provided credit protection to the VIE with the VIE as the referenced obligation, and (iii) other commitments and guarantees to the VIE.

The following table presents total assets of unconsolidated VIEs in which the Company holds a variable interest, as well as the Company's maximum exposure to loss associated with these VIEs:

<TABLE>
<CAPTION>

		Maximum Exposure to Loss	
	Total VIE	On-Balance	Off-Balance

	Assets	Sheet	Sheet	Total
	(In Millions)			
December 31, 2011				
Real estate and investment funds	$ 3,358	$ 394	$57	$ 451
Castle 2 Trust	730	145	--	145
Maiden Lane II	9,254	491	--	491
Total	$13,342	$1,030	$57	$1,087
December 31, 2010				
Real estate and investment funds	$13,172	$ 374	$43	$ 417
Castle 2 Trust	881	168	--	168
Maiden Lane II	16,455	476	--	476
Total	$30,508	$1,018	$43	$1,061

</TABLE>

<PAGE>

BALANCE SHEET CLASSIFICATION

The Company's interest in the assets and liabilities of consolidated and unconsolidated VIEs was classified on the Company's consolidated balance sheets as follows:

<TABLE>
<CAPTION>

At December 31,	
Consolidated	Unconsolidated

	VIEs		VIEs	
	2011	2010	2011	2010
	(In Millions)			
Assets:				
Cash and short-term investments	$106	$111	$ --	$ --
Restricted cash	44	46	--	--
Available for sale securities	--	--	20	24
Fixed maturity securities, trading	--	--	491	476
Aircraft	540	687	--	--
Other invested assets	24	21	519	518
Other asset accounts	6	6	--	--
Total assets	$720	$871	$1,030	$1,018
Liabilities:				
Amounts due to related parties	$260	$315	$ --	$ --
Other liability accounts	159	171	--	--
Total liabilities	$419	$486	$ --	$ --

</TABLE>

REAL ESTATE AND INVESTMENT FUNDS

The Company participates as a passive investor in the equity issued primarily by third-party-managed hedge and private equity funds, real estate funds and some funds managed by AIG Investments (an affiliate). The Company is typically not involved in the design or establishment of VIEs, nor does it actively participate in the management of VIEs. The Company's exposure to funds that are unconsolidated VIEs was not material to the Company's financial condition as of December 31, 2011 or 2010.

AIRCRAFT TRUSTS

AIG has created two VIEs, Castle 1 Trust and Castle 2 Trust, for the purpose of acquiring, owning, leasing, maintaining, operating and selling aircraft. Under a servicing agreement, International Lease Finance Corporation, an affiliate, acts as servicer for the aircraft owned by these entities. The Company and other AIG subsidiaries hold beneficial interests in these entities. These

beneficial interests include passive investments in non-voting preferred equity and in debt issued by these entities. The debt of these entities is not an obligation of, or guaranteed by, the Company or by AIG or any of AIG's subsidiaries. The Company bears the obligation to absorb economic losses or receive economic benefits that could possibly be significant to Castle 1 Trust. As a result, the Company has determined that it is the primary beneficiary of Castle 1 Trust and fully consolidates this entity. The Company has determined that it is not the primary beneficiary of Castle 2 Trust. See Note 14 herein for additional information on these entities.

ML II

On December 12, 2008, the Company and certain other domestic insurance subsidiaries of AIG sold all of their undivided interests in a pool of $39.3 billion face amount of RMBS to ML II, whose sole member is the New York Fed. The Company has a significant variable economic interest in ML II, which is a VIE. See Notes 4 and 16 herein for further discussion.

<PAGE>

RMBS, CMBS, OTHER ABS AND CDOS

The Company is a passive investor in RMBS, CMBS, other ABS and CDOs primarily issued by domestic special-purpose entities. The Company generally does not sponsor or transfer assets to, or act as the servicer to these asset-backed structures, and was not involved in the design of these entities.

The Company's maximum exposure in these types of structures is limited to its investment in securities issued by these entities. Based on the nature of the Company's investments and its passive involvement in these types of structures, the Company has determined that it is not the primary beneficiary of these entities. The fair values of the Company's investments in these structures are reported in Note 3 and Note 4 herein.

7. DEFERRED POLICY ACQUISITION COSTS, VALUE OF BUSINESS ACQUIRED AND DEFERRED SALES INDUCEMENTS

The following table summarizes the activity in DAC:

<TABLE>
<CAPTION>

<S>	2011	2010	2009
	(In Millions)		
Balance at January 1	$5,298	$5,985	$6,528
Deferrals	496	422	474
Accretion of interest/amortization	(480)	(536)	(552)
Effect of unlocking assumptions used in estimating future gross profits	(72)	(63)	(55)
Effect of realized (gains) losses on securities (a)	(57)	(10)	152
Effect of unrealized gains on securities (b)	(308)	(501)	(566)
Increase due to foreign exchange	3	1	4
Balance at December 31	$4,880	$5,298	$5,985

</TABLE>

(a)In 2009, a decrease of $439 million related to the cumulative effect of adopting a new other-than-temporary impairments accounting standard is not reflected as it is offset in (b) below with no net impact to the DAC balance.

(b)In 2009, an increase of $439 million related to the cumulative effect of adopting a new other-than-temporary impairments accounting standard is not reflected as it is offset in (a) above with no net impact to the DAC balance.

The following table summarizes the activity in value of business acquired:

<TABLE>
<CAPTION>

<S>	2011	2010	2009
	(In Millions)		
Balance at January 1	$289	$332	$451
Accretion of interest/amortization	1	(11)	(21)
Effect of realized gains on securities (a)	--	(22)	(41)
Effect of unrealized gains on securities (b)	(7)	(10)	(57)

Balance at December 31	$283	$289	$332

</TABLE>

(a) In 2009, a decrease of $44 million related to the cumulative effect of adopting a new other-than-temporary impairments accounting standard is not reflected as it is offset in (b) below with no net impact to the VOBA balance.

(b) In 2009, an increase of $44 million related to the cumulative effect of adopting a new other-than-temporary impairments accounting standard is not reflected as it is offset in (a) above with no net impact to the VOBA balance.

VOBA amortization, net of accretion of interest, expected to be recorded in each of the next five years is $14 million, $14 million, $13 million, $13 million and $11 million, respectively.

<PAGE>

The following table summarizes the activity in deferred sales inducements:

<TABLE>
<CAPTION>

<S>	2011 <C>	2010 <C>	2009 <C>
	(In Millions)		
Balance at January 1	$218	$216	$192
Deferrals	40	44	51
Accretion of interest/amortization	(16)	(20)	(15)
Effect of unlocking assumptions used in estimating future gross profits	(4)	--	(2)
Effect of realized (gains) losses on securities (a)	(3)	3	4
Effect of unrealized gains on securities (b)	(14)	(25)	(14)
Balance at December 31	$221	$218	$216

==== ==== ====

</TABLE>

(a) In 2009, a decrease of $11 million related to the cumulative effect of adopting a new other-than-temporary impairments accounting standard is not reflected as it is offset in (b) below with no net impact to the sales inducement balance.

(b) In 2009, an increase of $11 million related to the cumulative effect of adopting a new other-than-temporary impairments accounting standard is not reflected as it is offset in (a) above with no net impact to the sales inducement balance.

The Company performs a loss recognition review to determine whether future profitability of insurance-oriented products may be substantially lower than estimated, which can result in an impairment charge to DAC or the establishment of additional reserves. This review considers if additional DAC adjustments are required if unrealized gains included in other comprehensive income were assumed to be actually realized and the proceeds are reinvested at lower yields. As a result of this review, the Company reduced DAC by $82 million in 2011. No additional DAC adjustment was necessary in 2010.

In accordance with GAAP, the Company periodically unlocks assumptions as necessary. Depending on the product, DAC, URR and other required reserves may be affected. In 2011, unlocking increased due to a change in future spread assumptions. In 2010, unlocking increased amortization primarily due to unfavorable anticipated mortality for life insurance products, offset by improved surrender rates and higher than anticipated interest crediting spreads on deferred annuity products. Unlocking also reduced reserves on certain interest sensitive products. In 2009, the unlocking increased amortization, which was primarily a result of reductions in the long-term growth rate assumptions and deteriorating equity market conditions early in the year. The unlocking also increased amortization of the sales inducement asset on certain deferred annuities and reduced URR on certain interest sensitive life products. In addition to the unlocking, amortization increased in 2009 due in part to the higher deferrals in 2008 and increased voluntary policy terminations.

The Company continued to migrate certain blocks of reserves and DAC from various legacy valuation systems to a different valuation system. In 2011, approximately $2.8 billion of reserves were migrated. There was no DAC migrated in 2011. During 2010 and 2009, the corresponding amounts were approximately $6.5 billion and $3.5 billion of reserves and $1.3 billion and $51 million of

DAC, respectively, at the point of conversion.

The conversions resulted in GAAP reserves changes with 2011 reflecting an increase to reserves of $17 million, corresponding to a decrease of reserves of $22 million in 2010 and an increase in reserves of $6 million in 2009. There was no change to DAC in 2011, however; DAC decreased by $20 million and $2 million in 2010 and 2009, respectively.

<PAGE>

8. FUTURE POLICY BENEFITS AND POLICYHOLDER CONTRACT DEPOSITS

Future policy benefits and policyholder contract deposits liabilities were as follows at December 31:

<TABLE>
<CAPTION>

<S>	2011 <C>	2010 <C>
	(In Millions)	
Future policy benefits:		
Ordinary life..................	$ 6,926	$ 6,505
Group life.....................	49	49
Life contingent group annuities.	57	61
Life contingent annuities.......	9,119	7,950
Terminal funding................	353	359
Accident and health.............	222	215
Total...........................	$16,726	$15,139
Policyholder contract deposits:		
Annuities......................	$42,510	$40,231
Corporate-owned life insurance..	270	296
Universal life..................	7,204	7,103

Other contract deposits	269	291
Total	$50,253	$47,921

</TABLE>

For interest-sensitive life insurance and investment contracts, reserves equal the sum of the policy account balance and deferred revenue charges, and as applicable, other required reserves. Fixed-indexed business is reserved according to the guidance in derivative accounting standards. Reserves for other contracts are based on estimates of the cost of future policy benefits. Interest, mortality, and surrender assumptions vary by product and are generally based upon actual experience at the time of issue. Interest assumptions used to compute individual life reserves ranged from 1.0 percent to 8.8 percent.

The Company performs a loss recognition review to determine whether future profitability of insurance-oriented products may be substantially lower than estimated, which can result in an impairment charge to DAC or the establishment of additional reserves. This review considers if additional future policy benefit reserves are required if unrealized gains included in other comprehensive income were assumed to be actually realized and the proceeds are reinvested at lower yields. As a result of this review, the Company recognized a $911 million pre-tax decrease to accumulated other comprehensive income as a consequence of the recognition of additional policyholder benefit reserves in 2011. A $319 million deferred tax benefit was recorded related to this adjustment, resulting in a $592 million decrease to comprehensive income and total equity. No additional reserves were necessary in 2010.

The liability for future policy benefits has been established on the basis of the following assumptions:

- Interest rates (exclusive of immediate/terminal funding annuities), which vary by year of issuance and products, range from 1.0 percent to 8.8 percent. Interest rates on immediate/terminal funding annuities are at a maximum of 13.5 percent and grade to no less than 0.5 percent.

- Mortality and surrender rates are based upon actual experience modified to allow for variations in policy form. The weighted average lapse rate, including surrenders, for individual and group life was approximately 4.5 percent.

The liability for policyholder contract deposits has been established on the basis of the following assumptions:

.. Interest rates credited on deferred annuities, which vary by year of issuance, range from 1.0 percent to, including bonuses, 8.6 percent. This range is applicable to deferred annuity contracts where the crediting rates

<PAGE>

are not directly based on equity market returns. Current declared interest rates are generally guaranteed to remain in effect for a period of one year, though some are guaranteed for longer periods. Withdrawal charges generally range from zero percent to 20.0 percent grading to zero over a period of zero to 15 years.

.. Interest rates on corporate-owned life insurance are guaranteed at 3.0 or 4.0 percent, depending on policy form, and the weighted average rate credited in 2011 was 4.0 percent.

.. The universal life policies have credited interest rates of 1.0 percent to 6.0 percent and guarantees ranging from 1.0 percent to 5.3 percent depending on the year of issue. Additionally, universal life policies are subject to surrender charges that amount to 11.0 percent of the aggregate fund balance grading to zero over a period no longer than 20 years.

Participating life insurance accounted for approximately 1.1 percent of life insurance in force at December 31, 2011.

Dividends to be paid on participating life insurance contracts are determined annually based on estimates of the contracts' earnings. Policyholder dividends were $40 million, $43 million and $43 million in 2011, 2010 and 2009, respectively, and were included as part of policyholders' benefits in the consolidated statements of income (loss).

GMDB, GMIB and GMWB

Details concerning the Company's exposure to guaranteed benefits as of

December 31 were as follows:

<TABLE>
<CAPTION>

	2011		2010	
	Net Deposits Plus a Minimum Return	Highest Contract Value Attained	Net Deposits Plus a Minimum Return	Highest Contract Value Attained
	($ In Millions)			
<S>	<C>	<C>	<C>	<C>
In the event of death (GMDB)				
Account value......................	$ 46,476	$202	$ 45,948	$247
Net amount at risk (a)............	2,126	77	1,687	79
Average attained age of contract holders..........................	58	71	58	71
Range of guaranteed minimum return rates....................	0.00%-3.50%		0.00%-3.50%	
Annual withdrawals at specified date (GMWB)				
Account value......................	$ 3,271		$ 2,490	
Net amount at risk (b)............	459		308	
Weighted average period remaining until guaranteed payment.........	19.1 years		19.6 years	

</TABLE>

(a)Net amount at risk represents the guaranteed benefit exposure in excess of the current account value if all contract holders died at the same balance sheet date.

(b)Net amount at risk represents the guaranteed benefit exposure in excess of the current value if all contract holders exercise the maximum withdrawal benefits at the same balance sheet date.

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The following summarizes the reserve for guaranteed benefits on variable contracts, which is reflected in the general account and reported in future policy benefits (GMDB/GMIB) and policyholder contract deposits (GMWB) on the consolidated balance sheets:

	2011	2010
	(In Millions)	
Balance at January 1	$ 71	$ 94
Guaranteed benefits incurred	68	(14)
Guaranteed benefits paid	(9)	(9)
Balance at December 31	$130	$ 71

The following assumptions and methodology were used to determine the reserve for guaranteed benefits on variable contracts at December 31, 2011:

- Data used was 1,000 stochastically generated investment performance scenarios.
- Mean investment performance assumption was 10.0 percent.
- Volatility assumption was 16.0 percent.
- Mortality was assumed to be 70.0 percent to 87.5 percent of the 1975-80 SOA Ultimate, 1983a and Ult.M tables.
- Lapse rates vary by contract type and duration and range from 5.0 percent to 25.0 percent with an average range of 10.0 to 14.5 percent.
- The discount rate used ranged from 3.0 percent to 8.0 percent.

There is a guaranteed minimum withdrawal benefit rider that is available on certain equity-indexed annuities. The rider has a waiting period of one year

before charges are assessed and before the withdrawal option can be elected. To date, sales of this rider have been immaterial and no reserves are being held.

9. REINSURANCE

The Company generally limits its exposure to loss on any single insured to $10 million by ceding additional risks through reinsurance contracts with other insurers. On an exception basis, the Company can increase its exposure to loss on any single insured up to $15 million.

A receivable is recorded for reinsured benefits, both paid and pending, which are recoverable from the reinsurer. Reinsurance premiums are recognized over the life of the reinsured policies using assumptions consistent with those used to account for the underlying policies.

<PAGE>

Reinsurance transactions for the years ended December 31, 2011, 2010 and 2009 were as follows:

<TABLE>
<CAPTION>

<S>	Gross Amount <C>	Ceded to Other Companies <C>	Assumed From Other Companies <C>	Net Amount <C>	Percentage of Amount Assumed to Net <C>
		(In Millions)			
December 31, 2011					
Life insurance in force..........	$671,324	$102,184	$4,444	$573,584	0.77%
Premiums:					
Life insurance and annuities..	$ 1,696	$ 731	$ 22	$ 987	2.23%
Accident and health insurance.	45	--	--	45	0.00%

Total premiums..................	$ 1,741	$ 731	$ 22	$ 1,032	2.13%
December 31, 2010					
Life insurance in force..........	$671,338	$113,441	$4,169	$562,066	0.74%
Premiums:					
Life insurance and annuities..	$ 1,657	$ 683	$ 22	$ 996	2.21%
Accident and health insurance.	36	--	(3)	33	-9.09%
Total premiums..................	$ 1,693	$ 683	$ 19	$ 1,029	1.85%
December 31, 2009					
Life insurance in force..........	$680,109	$124,318	$4,171	$559,962	0.74%
Premiums:					
Life insurance and annuities..	$ 1,634	$ 643	$ 18	$ 1,009	1.78%
Accident and health insurance.	31	2	--	29	0.00%
Total premiums..................	$ 1,665	$ 645	$ 18	$ 1,038	1.73%

</TABLE>

The Company's reinsurance agreements do not relieve it from its direct obligations to its insureds. Thus, a credit exposure exists with respect to life reinsurance ceded to the extent that any reinsurer fails to meet the obligations assumed under any reinsurance agreement. To minimize its exposure to significant losses from reinsurance insolvencies, the Company evaluates the financial strength of its reinsurers and monitors concentration of credit risk arising from similar characteristics among the reinsurers.

Total reinsurance recoverables are included in reinsurance receivables on the consolidated balance sheets. Reinsurance recoverable on paid losses was approximately $30 million and $49 million at December 31, 2011 and 2010, respectively. Reinsurance recoverable on unpaid losses was approximately $132 million and $149 million at December 31, 2011 and 2010, respectively. Ceded claim and surrender recoveries under reinsurance agreements were $413 million, $391 million and $447 million for the years ended 2011, 2010 and 2009, respectively.

The Company identified an alternative internal funding solution for its XXX/AXXX reserves. This alternative solution involves fully recapturing the coinsurance/modified coinsurance agreement with AIG Life of Bermuda, Ltd.

("AIGB"), an affiliate, and simultaneously reinsuring this in-force, together with new business (term and universal life), to another affiliate, AGC Life, under a new coinsurance/modified coinsurance agreement. This new agreement does not meet the criteria for reinsurance accounting under GAAP; therefore, deposit accounting is applied. Management received approvals of the recapture and reinsurance transactions on behalf of AGL and AGC Life from the Texas and Missouri Departments of Insurance, respectively, in March 2011, with January 1, 2011 effective dates.

In December 2002, the Company entered into a coinsurance/modified coinsurance agreement with AIGB. The agreement has an effective date of March 1, 2002. Under the agreement, AIGB reinsures 100 percent quota share of the Company's liability on virtually all level term and universal life products issued by the Company with issue

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dates on or after March 1, 2002. The agreement is unlimited in duration but either party may terminate the agreement as to new business with thirty days written notice to the other party. This agreement does not meet the criteria for reinsurance accounting under GAAP; therefore, deposit accounting is applied. This agreement was amended to terminate for new business issued on and after August 1, 2009. This agreement was recaptured effective January 1, 2011, as discussed above.

The agreements, between AIGB and AGC Life, also provide for an experience refund of all profits, less a reinsurance risk charge. The main impact of the agreement on the Company's results of operations for the years ended December 31, 2011, 2010 and 2009 was a pre-tax expense of approximately $59 million, $59 million and $67 million, respectively, representing the risk charge associated with the reinsurance agreement.

During 2010, the Company fully terminated and recaptured the coinsurance treaty with Pioneer Security Life Insurance Company for an individual immediate annuity block of business. The recapture resulted in a pre-tax gain of $2 million.

Additionally, during 2010, the Company fully terminated and recaptured the coinsurance and modified coinsurance treaties with Merit Life Insurance Company for a group immediate annuity block of business. The recaptures resulted in a pre-tax gain of $20 thousand.

During 2009, the Company partially terminated the yearly renewable term reinsurance contracts with Swiss Re Life & Health America Inc. and Lincoln National Life Insurance Company for a specific block of primarily whole life business. Terminations are being processed monthly based upon each of the policies' anniversary dates. The partial termination has resulted in a loss of $2 million.

Additionally, during 2009, the Company fully terminated and recaptured all reinsurance contracts with Delaware American Life Insurance Company ("DelAm"), a then affiliate of the Company. The recaptures resulted in a loss of $245 thousand. DelAm was subsequently sold to MetLife, Inc. ("MetLife").

On December 1, 2006, with an effective date of October 1, 2006 ("Agreement 1") and on June 28, 2007, with an effective date of April 1, 2007 ("Agreement 2"), the Company entered into modified coinsurance and coinsurance reinsurance agreements with ALICO, pertaining to certain policies written via its branch in Japan. ALICO was a wholly owned, Delaware domiciled subsidiary of AIG, until its sale to MetLife, Inc. on November 1, 2010. The Company assumes liability for a quota share portion of contracts issued by ALICO that include a Guaranteed Minimum Income Benefit under Agreement 1 and a Guaranteed Minimum Withdrawal Benefit under Agreement 2. The contracts assumed also include a Guaranteed Minimum Death Benefit provision under both Agreements 1 and 2. The GMIB (prior to its utilization date), GMWB and the GMDB have a 100 percent quota share and are assumed under coinsurance agreements. The GMIB (after its utilization date) has a 100 percent quota share and is assumed under the modified coinsurance provisions of Agreement 1. The benefits provided by the reinsured contracts under Agreement 1 are assumed with a 50 percent quota share under a modified coinsurance agreement. The benefits provided by the reinsured contracts under Agreement 2 are assumed with a varied quota share under a modified coinsurance agreement. Both agreements are unlimited in duration but were terminated for new business. Pursuant to the coinsurance portions of both Agreements, the Company records reserve liabilities for the amount of the reserves calculated for the GMIB, GMWB and GMDB provisions of the reinsured contracts. The reserves for the GMIB, GMWB and GMDB were $39 million and $28 million for the years ended December 31, 2011 and 2010, respectively.

All monetary amounts of the Agreement and settlement transactions are expressed

in Japanese Yen. The foreign currency translation adjustment related to all provisions of the Agreement was not significant to the Company's consolidated results of operations or financial condition.

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10.DEBT

ADVANCES FROM THE FEDERAL HOME LOAN BANK OF DALLAS

In 2011, the Company became a member of the Federal Home Loan Bank ("FHLB") of Dallas. Membership with the FHLB provides the Company with collateralized borrowing opportunities, primarily as an additional source of contingent liquidity. At December 31, 2011, the carrying value of the Company's ownership in the FHLB of Dallas was $20 million, which was reported as partnership and other invested assets. When a cash advance is obtained, the Company is required to pledge certain mortgage-backed securities, government and agency securities, other qualifying assets and its ownership interest in the FHLB of Dallas to secure advances obtained from the FHLB. Upon any event of default by the Company, the FHLB of Dallas's recovery would generally be limited to the amount of the Company's liability under advances borrowed. The Company plans to obtain funding, in the form of cash advances, from the FHLB of Dallas in 2012. See Note 16.

11.COMMITMENTS AND CONTINGENT LIABILITIES

COMMITMENTS

LEASES

The Company has various long-term, noncancelable operating leases, primarily for office space and equipment, which expire at various dates through 2018. At December 31, 2011, the future minimum lease payments under the operating leases are as follows:

<TABLE>

<CAPTION>

	(In Millions)
2012.......	$10
2013.......	9
2014.......	7
2015.......	5
2016.......	3
Thereafter.	2
Total......	$36

</TABLE>

Rent expense was $12 million, $14 million and $13 million for the years ended December 31, 2011, 2010 and 2009 respectively.

The leasing operations of Castle 1 Trust consist of leasing aircraft under operating leases which expire on various dates through 2016. At December 31, 2011, future minimum lease payments, including an estimated U.S. dollar equivalent for lease payments denominated in Euros using an exchange rate in effect at December 31, 2011, to be received by Castle 1 Trust under operating leases for the years ended December 31 are as follows:

<TABLE>
<CAPTION>

	(In Millions)
2012..	$ 71
2013..	48
2014..	23
2015..	6
2016..	1
Total.	$149

</TABLE>

<PAGE>

COMMITMENTS TO FUND PARTNERSHIP INVESTMENTS

The Company had commitments to provide funding to various limited partnerships totaling $517 million and $688 million for the periods ended December 31, 2011 and 2010, respectively. The commitments to invest in limited partnerships and other funds are called at the discretion of each fund, as needed and subject to the provisions of such fund's governing documents, for funding new investments, follow-on investments and/or fees and other expenses of the fund. $499 million of the total commitments at December 31, 2011 are currently expected to expire by 2012, and the remaining by 2014 based on the expected life cycle of the related fund and the Company's historical funding trends for such commitments.

MORTGAGE LOAN COMMITMENTS

The Company had $74 million in commitments relating to mortgage loans at December 31, 2011.

CONTINGENT LIABILITIES

LEGAL AND REGULATORY MATTERS

The Company is party to various lawsuits and proceedings arising in the ordinary course of business. These lawsuits and proceedings include certain class action claims and claims filed by individuals who have excluded themselves from settlement of class action lawsuits relating to life insurance pricing and sales practices. In addition, many of these proceedings are pending in jurisdictions that permit damage awards disproportionate to the actual economic damages alleged to have been incurred. Based upon information presently available, the Company believes that the total amounts that will ultimately be paid, if any, arising from these lawsuits and proceedings will not have a material adverse effect on the Company's results of operations, cash flows and financial position. However, it should be noted that the frequency of large damage awards, including large punitive damage awards, that bear little or no relation to actual economic damages incurred by plaintiffs in some jurisdictions continues to create the potential for an unpredictable judgment in any given suit.

All fifty states and the District of Columbia have laws requiring solvent life

insurance companies, through participation in guaranty associations, to pay assessments to protect the interests of policyholders of insolvent life insurance companies. These state insurance guaranty associations generally levy assessments, up to prescribed limits, on member insurers in a particular state based on the proportionate share of the premiums written by member insurers in the lines of business in which the impaired, insolvent or failed insurer is engaged. Such assessments are used to pay certain contractual insurance benefits owed pursuant to insurance policies issued by impaired, insolvent or failed insurers. Some states permit member insurers to recover assessments paid through full or partial premium tax offsets. The Company accrues liabilities for guaranty fund assessments when an assessment is probable and can be reasonably estimated. The Company estimates the liability using the latest information available from the National Organization of Life and Health Insurance Guaranty Associations. While the Company cannot predict the amount and timing of any future guaranty fund assessments, the Company has established reserves it believes are adequate for assessments relating to insurance companies that are currently subject to insolvency proceedings. The Company accrued $9 million and $6 million for these guaranty fund assessments at December 31, 2011, and 2010, respectively, which is reported within other liabilities in the accompanying consolidated balance sheets.

Various federal, state and other regulatory agencies may from time to time review, examine or inquire into the operations, practices and procedures of the Company, such as through financial examinations, market conduct exams or regulatory inquiries. Based on the current status of pending regulatory examinations and inquiries involving the Company, the Company believes it is not likely that these regulatory examinations or inquiries will have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company.

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12. Total Equity

Capital contributions received by the Company were as follows:

	2011	2010	2009
	(In Millions)		
Cash from Parent	$--	$--	$1,280
All other non cash contributions	10	2	6
Total capital contributions	$10	$ 2	$1,286

The components of accumulated other comprehensive income are as follows:

	2011	2010	2009
	(In Millions)		
Fixed maturity and equity securities, available for sale:			
Gross unrealized gains	$ 6,943	$ 4,456	$ 3,285
Gross unrealized losses	(1,028)	(1,106)	(2,874)
Net unrealized gains on other invested assets	335	211	562
Adjustments to DAC, VOBA and deferred sales inducements	(674)	(345)	(300)
Insurance loss recognition	(911)	--	--
Foreign currency translation adjustments	(2)	5	8
Deferred federal and state income tax expense	(1,637)	(1,118)	(200)
Accumulated other comprehensive income (a)	$ 3,026	$ 2,103	$ 481

(a) Includes a decrease of $1.6 billion in 2009 related to the cumulative effect of adopting a new other-than-temporary impairment accounting standard. See Note 2 for additional disclosures on this standard.

Dividends that the Company may pay to the Parent in any year without prior approval of the Texas Department of Insurance ("TDI") are limited by statute. The maximum amount of dividends which can be paid to shareholders of insurance companies domiciled in the state of Texas without obtaining the prior approval

of the TDI is limited to the greater of either 10 percent of the preceding year's statutory surplus or the preceding year's statutory net gain from operations not in excess of unassigned surplus. The maximum dividend payout that may be made in 2012 without prior approval of the TDI is $1.1 billion.

In 2011, the Company paid dividends totaling $902 million to its Parent. Dividend payments in excess of positive retained earnings were classified and reported as a return of capital.

The Company is required to file financial statements prepared in accordance with statutory accounting practices prescribed or permitted by state insurance regulatory authorities. Statutory accounting principles differ from GAAP primarily by charging policy acquisition costs to expense as incurred, establishing future policy benefit liabilities using different actuarial assumptions, excluding certain assets from statutory admitted assets and valuing investments and establishing deferred taxes on a different basis.

The TDI has the right to permit specific practices that deviate from prescribed practices. In 2010, the Company received permission from the TDI to restate the statutory gross paid-in and contributed statutory surplus and the unassigned funds components of its statutory surplus, similar to the restatement of statutory surplus balances that occurs pursuant to the prescribed accounting guidance for a quasi-reorganization. The effective date was September 30, 2010. This statutory restatement resulted in an increase in statutory unassigned funds of $7.9 billion to offset the Company's losses incurred as a result of its participation in the Securities Lending Program, and a corresponding decrease in statutory gross paid-in and contributed statutory surplus of $7.9 billion. The permitted practice had no impact on either the Company's statutory basis net income or total statutory surplus or impact on these financial statements. In addition, there was no impact on the Company's risk-based capital results.

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Statutory net income (loss) and capital and surplus of AGL at December 31 were as follows:

	2011	2010	2009
	(In Millions)		
Statutory net income (loss)...	$1,055	$ 426	$ (101)
Statutory capital and surplus.	$7,394	$6,597	$5,914

13. FEDERAL INCOME TAXES

The components of the provision for income taxes on pretax income for the years ended December 31 were as follows:

	2011	2010	2009
	(In Millions)		
Current............................	$(196)	$ 153	$(14)
Deferred...........................	198	(561)	205
Total income tax expense (benefit).	$ 2	$(408)	$191

The US statutory income tax rate is 35 percent for 2011, 2010 and 2009. Actual tax expense on income differs from the statutory amount computed by applying the federal income tax rate for the years ended December 31 due to the following:

	2011	2010	2009
	(In Millions)		
US federal income tax (benefit) at statutory rate.	$ 608	$ 551	$ 4
Adjustments:			

Valuation allowance	(576)	(948)	202
Dividends received deduction	(31)	(17)	(30)
Audit corrections	1	4	(2)
Prior year corrections	(2)	(11)	1
Other credits, taxes and settlements	2	13	16
Total income tax expense (benefit)	$ 2	$(408)	$191

</TABLE>

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Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax reporting purposes. The significant components of deferred tax assets and liabilities at December 31 are as follows:

<TABLE>
<CAPTION>

	2011	2010
	(In Millions)	
Deferred tax assets:		
Excess capital losses and other tax carryovers	$ 2,364	$ 2,592
Basis differential of investments	810	1,182
Policy reserves	716	331
Other	62	9
Total deferred tax assets before valuation allowance	3,952	4,114
Valuation allowance	(2,343)	(2,918)
Total deferred tax assets	1,609	1,196
Deferred tax liabilities:		

Deferred policy acquisition costs	(2,065)	(1,761)
Net unrealized gains on debt and equity securities available for sale.	(1,947)	(1,123)
State deferred tax liabilities	(24)	(2)
Other	--	(6)
Total deferred tax liabilities	(4,036)	(2,892)
Net deferred tax liability	$(2,427)	$(1,696)

</TABLE>

The net deferred tax liability is included with current taxes in income taxes payable to Parent for 2011 and 2010 on the consolidated balance sheets.

At December 31, 2011, the Company had the following capital loss carryforwards:

<TABLE>
<CAPTION>

	Amount (In Millions)	Year expired
2008	$6,315	2013
2009	439	2014
Total.	$6,754	

</TABLE>

The Company is included in the consolidated federal income tax return of its ultimate parent, AIG. Under the tax sharing agreement with AIG, taxes are recognized and computed on a separate company basis. To the extent that benefits for net operating losses, foreign tax credits or net capital losses are utilized on a consolidated basis, the Company will recognize tax benefits based upon the amount of the deduction and credits utilized in the consolidated federal income tax return.

In general, realization of deferred tax assets depends on a company's ability to generate sufficient taxable income of the appropriate character within the carryforward periods in the jurisdictions in which the net operating losses and deductible temporary differences were incurred. The Company assessed its

ability to realize the deferred tax asset of $3.9 billion and concluded that a $2.3 billion valuation allowance was required to reduce the deferred tax asset at December 31, 2011 to an amount the Company believes is more likely than not to be realized.

When making its assessment, the Company considered all available evidence, including the impact of being included in the consolidated federal tax return of AIG, future reversals of existing taxable temporary differences, estimated future GAAP taxable income, and tax planning strategies the Company would implement, if necessary, to realize the net deferred tax asset.

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In assessing future GAAP taxable income, the Company considered its strong earnings history exclusive of the recent losses on the securities lending program, because the Company and AIG entered into transactions with the New York Fed to limit exposure to future losses. The Company also considered the taxable income from sales of businesses under the asset disposition plan of AIG, the continuing earnings strength of the businesses AIG intends to retain and AIG's announced debt and preferred stock transactions with the New York Fed and U.S. Department of the Treasury (the "Department of the Treasury"), respectively, together with other actions AIG is taking, when assessing the ability to generate sufficient future taxable income during the relevant carryforward periods to realize the deferred tax asset.

Estimates of future taxable income generated from specific transactions and tax planning strategies discussed above could change in the near term, perhaps materially, which may require the Company to adjust its valuation allowance. Such adjustment, either positive or negative, could be material to the Company's financial condition or it results of operations for an individual period.

In evaluating the realizability of the loss carryforwards, the Company considered the relief provided by Internal Revenue Service ("IRS") Notice 2008-84 which provides that the limitation on loss carryforwards that can arise as a result of one or more acquisitions of stock of a loss company will not

apply to such stock acquisitions for any period during which the United States becomes a direct or indirect owner of more than 50 percent interest in the loss company.

A reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits is as follows:

	December 31,	
	2011	2010
	(In Millions)	
Gross unrecognized tax benefits at beginning of period	$ 300	$165
Increases in tax positions for prior years	--	135
Decreases in tax positions for prior years	(275)	--
Gross unrecognized tax benefits at end of period	$ 25	$300

The Company continually evaluates proposed adjustments by taxing authorities. At December 31, 2011, such proposed adjustments would not result in a material change to the Company's financial condition. Although it is reasonably possible that a significant change in the balance of unrecognized tax benefits may occur within the next twelve months, at this time it is not possible to estimate the range of the change due to the uncertainty of the potential outcomes.

At December 31, 2011 and 2010, the Company's unrecognized tax benefits, excluding interest and penalties, were $25 million and $300 million, respectively. As of December 31, 2011 and 2010, the amounts of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate were $25 million and $299 million, respectively.

Interest and penalties related to unrecognized tax benefits are recognized in income tax expense. At December 31, 2011 and 2010, the Company had accrued $5

million each year, respectively, for the payment of interest (net of federal benefit) and penalties. For the years ended December 31, 2011, 2010 and 2009, the Company recognized an expense of $122 thousand, $1 million and $1 million, respectively, of interest (net of federal benefit) and penalties in the consolidated statements of income (loss).

The Company is currently under IRS examination for the taxable years 2003 to 2006. Although the final outcome of possible issues raised in any future examination is uncertain, the Company believes that the ultimate liability, including interest, will not materially exceed amounts recorded in the consolidated financial statements. The Company's taxable years 2001 to 2011 remain subject to examination by major tax jurisdictions.

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14. RELATED-PARTY TRANSACTIONS

EVENTS RELATED TO AIG

On January 14, 2011 (the "Closing"), AIG completed a series of integrated transactions to recapitalize AIG (the "Recapitalization") with the Department of the Treasury, and the New York Fed and the AIG Credit Facility Trust, a trust established for the sole benefit of the United States Treasury (the "Trust"), including the repayment of all amounts owed under the Credit Agreement, dated as of September 22, 2008. At the Closing, AIG repaid to the New York Fed approximately $21 billion in cash, representing complete repayment of all amounts owing under AIG's revolving credit facility with the New York Fed (the "New York Fed credit facility"), and the New York Fed credit facility was terminated. The funds for the repayment came from the net cash proceeds from AIG's sale of 67 percent of the ordinary shares of AIA Group Limited ("AIA") in its initial public offering and from AIG's sale of American Life Insurance Company ("ALICO") in 2010.

Additional information on AIG is publicly available in AIG's regulatory filings with the U.S. Securities and Exchange Commission ("SEC"), which can be found at www.sec.gov. Information regarding AIG as described herein is qualified by

regulatory filings AIG files from time to time with the SEC.

OPERATING AGREEMENTS

Pursuant to a cost allocation agreement, the Company purchases administrative, investment management, accounting, marketing and data processing services from AIG or its subsidiaries. The allocation of costs for investment management services is based on the level of assets under management. The allocation of costs for other services is based on estimated level of usage, transactions or time incurred in providing the respective services. The Company paid approximately $108 million, $55 million and $50 million for such services in 2011, 2010 and 2009, respectively. Accounts payable for such services at December 31, 2011 were $28 million and were not material at December 31, 2010. The Company rents facilities and provides services on an allocated cost basis to various affiliates. The Company also provides shared services, including technology, to a number of AIG's life insurance subsidiaries. The Company received approximately $187 million, $234 million and $265 million for such services and rent in 2011, 2010 and 2009, respectively. Accounts receivable for rent and services at December 31, 2011 were $27 million and were not material were at December 31, 2010.

NOTES OF AFFILIATES

On September 15, 2006, the Company invested $415 million in a 5.57 percent fixed rate Senior Promissory Note issued by SunAmerica Financial Group, Inc. ("SAFG, Inc."), which matured on September 15, 2011. The Company recognized interest income of $16 million, $23 million and $23 million on the Note during 2011, 2010 and 2009, respectively. Upon maturity, the Company reinvested $300 million in a 5.57 percent Senior Promissory Note due September 30, 2014, issued by SAFG, Inc. The Company recognized interest income of $5 million on the Note during 2011.

On December 15, 2005, the Company invested $116 million in a Senior Promissory Note issued by AGC Life, which matured on December 15, 2010. The Company recognized interest income on the Note of $6 million and $6 million during 2010 and 2009, respectively. Upon maturity, the Company reinvested the $116 million in a 6.10 percent Senior Promissory Note due December 15, 2020, issued by AGC Life. The Company recognized interest income of $7 million and $314 thousand on the Note during 2011 and 2010, respectively.

On December 7, 2005, the Company acquired 5.75 percent Senior Notes due December 14, 2015, issued by Transatlantic Holdings, Inc., an affiliate of the

Company, at a cost of $163 million. Other affiliates of the Company are holders of the same class of securities. On June 10, 2009, AIG closed a public offering of 29.9 million shares of Transatlantic Holdings, Inc. common stock owned by AIG. At the close of the public offering, AIG retained 13.9 percent of Transatlantic Holdings, Inc. outstanding common stock. As a result, AIG deconsolidated Transatlantic and the Company's investment in Transatlantic Holdings, Inc. was no longer considered affiliated. The Company recognized interest income of $4 million on the Notes while they were still considered an affiliate during 2009. On March 15, 2010, AIG closed a secondary public offering of 8.5 million shares of Transatlantic Holdings, Inc.

common stock owned by American Home Assurance Company, a subsidiary of AIG, further reducing AIG's investment in this former affiliate.

In 2004, the Company purchased 38.7 percent of the non-voting preferred equity issued by Castle 2 Trust for $117 million. The Company's investment in Castle 2 Trust preferred equity is reported within partnerships and other invested assets on the consolidated balance sheets. The remaining non-voting preferred equity and 100 percent of the voting equity of Castle 2 Trust, are held by affiliates of the Company. The purchase of the non-voting equity interest of Castle 2 Trust was funded by a capital contribution received from the Parent. In 2004, the Company purchased $65 million of fixed-rate asset backed notes issued by Castle 2 Trust. The notes mature on November 15, 2026 and are included in bonds on the consolidated balance sheets. Affiliates of the Company own the majority of the notes payable of Castle 2 Trust. Castle 2 Trust is a Delaware statutory trust established on November 21, 2003. The business of Castle 2 Trust and its wholly owned subsidiaries is limited to acquiring, owning, leasing, maintaining, operating and selling a portfolio of commercial jet aircraft.

On September 23, 2003, the Company purchased 68.0 percent of the non-voting preferred equity issued by Castle 1 Trust for $182 million. The remaining non-voting preferred equity and 100 percent of the voting equity of Castle 1 Trust are held by affiliates of the Company. On September 23, 2003, the Company purchased $465 million of fixed-rate asset backed notes and subordinated

deferred interest notes issued by Castle 1 Trust, which mature on May 15, 2027. Castle 1 Trust is a Delaware statutory trust established on July 31, 2003. The business of Castle 1 Trust and its wholly owned subsidiaries is limited to acquiring, owning, leasing, maintaining, operating and selling a portfolio of commercial jet aircraft. Castle 1 Trust is consolidated in the Company's financial statements.

During the year ended December 31, 2011, the Company recognized reductions in net investment income resulting from impairment losses of $33 million pertaining to its ownership interest in Castle 2 Trust. The impairments recognized by the investee were primarily related to salvage/residual values and future estimated lease payments on aircraft owned by Castle 2 Trust. The Company did not recognize any reductions in net investment income related to asset impairments recognized by this investee during the year ended December 31, 2010.

Castle 1 Trust, which is fully consolidated, recognized impairment losses of $86 million and $5 million for the years ended December 31, 2011 and 2010, respectively.

AMERICAN HOME GUARANTEE

American Home Assurance Company ("American Home"), an indirect wholly owned subsidiary of AIG, has terminated the General Guarantee Agreement dated March 3, 2003 ("the Guarantee") with respect to prospectively issued policies and contracts issued by the Company. The Guarantee terminated on December 29, 2006 ("Point of Termination"). Pursuant to its terms, the Guarantee does not apply to any group or individual policy, contract or certificate issued after the Point of Termination. The Guarantee will continue to cover the policies, contracts and certificates with a date of issue earlier than the Point of Termination until all insurance obligations under such policies, contracts and certificates are satisfied in full. American Home's audited statutory financial statements are filed with the SEC in the Company's registration statements for its variable products that were issued prior to the Point of Termination.

CAPITAL MAINTENANCE AGREEMENT

On March 30, 2011, AIG and the Company entered into an Unconditional Capital Maintenance Agreement ("CMA"). Among other things, the CMA provides that AIG would maintain the Company's total adjusted capital (as defined under applicable insurance laws) at or above a certain specified minimum percentage of the Company's projected company action level risk-based capital ("RBC") (as

defined under applicable insurance laws). The CMA also provides that if the Company's total adjusted capital is in excess of a certain specified minimum percentage of the Company's company action level RBC (as reflected in the Company's quarterly or annual statutory financial statement), subject to board and regulatory approval(s), the Company would declare and pay ordinary dividends to its equity holders in an amount in excess of that required to maintain the specified minimum percentage.

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OTHER

Effective August 1, 2003, the Company and AIGB entered into a Cut-through Agreement pursuant to which insurers, their beneficiaries and owners were granted a direct right of action against the Company in the event AIGB becomes insolvent or otherwise cannot or refuses to perform its obligations under certain life insurance policies issued by AIGB. The Cut-through Agreement was approved by the Texas Department of Insurance. The amount of the retained liability on AIGB's books related to this agreement totaled $445 thousand at December 31, 2011 and $455 thousand at December 31, 2010. The Company believes the probability of loss under this agreement is remote.

The Company engages in structured settlement transactions, certain of which transactions involve affiliated property and casualty insurance company members of the Chartis group of AIG. In a structured settlement arrangement, a property and casualty insurance policy claimant has agreed to settle a casualty insurance claim in exchange for fixed payments over either a fixed determinable period of time or a life contingent period. In such claim settlement arrangements, a casualty insurance claim payment provides the funding for the purchase of a single premium immediate annuity ("SPIA") issued by the Company for the ultimate benefit of the claimant. The portion of the Company's liabilities related to structured settlements involving life contingencies are reported in future policy benefits, while the portion not involving life contingencies are reported in policyholder contract deposits. In certain structured settlement arrangements the property and casualty insurance company remains contingently liable for the payments to the claimant. The Company

carried liabilities of $249 million and $228 million at December 31, 2011 and 2010, respectively, related to SPIAs issued by the Company in conjunction with structured settlement transactions involving Chartis members where those Chartis members remained contingently liable for the payments to the claimant. In addition, the Company carried liabilities for the structured settlement transactions where the Chartis members were no longer contingently liable for the payments to the claimant.

15. BENEFIT PLANS

Effective January 1, 2002, the Company's employees participate in various benefit plans sponsored by AIG, including a noncontributory qualified defined benefit retirement plan, various stock option and purchase plans, a 401(k) plan and a post retirement benefit program for medical care and life insurance (the "U.S. Plans"). AIG's U.S. Plans do not separately identify projected benefit obligations and plan assets attributable to employees of participating affiliates.

The Company is jointly and severally responsible with AIG and other participating companies for funding obligations for the U.S. Plans, Employee Retirement Income Security Act ("ERISA") qualified defined contribution plans and ERISA plans issued by other AIG subsidiaries (the "ERISA Plans"). If the ERISA Plans do not have adequate funds to pay obligations due participants, the Pension Benefit Guaranty Corporation or Department of Labor could seek payment of such amounts from the members of the AIG ERISA control group, including the Company. Accordingly, the Company is contingently liable for such obligations. The Company believes that the likelihood of payment under any of these plans is remote. Accordingly, the Company has not established any liability for such contingencies.

16. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the date the financial statements were issued.

ML II

Through a series of transactions that occurred during the three month period ending March 31, 2012, the New York Fed initiated the sales of the remaining securities held by ML II. These sales resulted in the Company receiving principal payments of $81 million on March 1, 2012 and additional cash receipts of $501 million on March 15, 2012 from ML II that consisted of $290 million,

$42 million, and $169 million in principal, contractual interest and residual cash flows, respectively, effectively monetizing the Company's ML II interests.

The total amount received by the Company from ML II, $582 million, was remitted as a return of capital to the Company's intermediate parent company and ultimately remitted to AIG.

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FHLB CASH ADVANCE

On February 7, 2012, the Company borrowed $21 million as a cash advance from the FHLB of Dallas. The fair value of collateral pledged to secure advances obtained from the FHLB of Dallas on February 7, 2012, was $25 million.

SECURITIES LENDING PROGRAM

The Company has adopted a new securities lending program intended to provide an additional source of liquidity for the Company, pursuant to which the Company is able to raise liquidity through secured borrowings backed by its existing securities portfolio. The targeted program was approved by the Company's board of directors in February 2012. No securities lending transactions have been entered into under the program.

INSURANCE COMPANY MERGER

On December 31, 2012, the Company intends to merge with several other SunAmerica Financial Group insurance companies, with AGL being the surviving company, to implement a more efficient legal entity structure, while continuing to market products and services under currently existing brands. The merging companies are also indirect, wholly owned subsidiaries of AIG. The merger transaction is subject to receipt of all required regulatory approvals, including the approvals of certain state insurance departments.

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AMERICAN HOME ASSURANCE COMPANY

NAIC CODE: 19380

STATUTORY BASIS FINANCIAL STATEMENTS

DECEMBER 31, 2011, 2010 AND 2009

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AMERICAN HOME ASSURANCE COMPANY

STATUTORY BASIS FINANCIAL STATEMENTS

DECEMBER 31, 2011, 2010 AND 2009

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of
American Home Assurance Company:

We have audited the accompanying statutory statements of admitted assets, liabilities, capital and surplus of American Home Assurance Company (the

Company) as of December 31, 2011 and 2010, and the related statutory statements of operations and changes in capital and surplus, and cash flow for each of the three years then ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the New York State Department of Financial Services, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2011 and 2010, or the results of its operations or its cash flows for each of the three years then ended December 31, 2011.

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, capital and surplus of the Company as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the three years then ended December 31, 2011, on the basis of accounting described in Note 1.

As described in Note 2 to the financial statements, during 2009, the Company adopted SSAP No. 10R, Income Taxes - Revised, A Temporary Replacement to SSAP No. 10, and has reflected the effect of this adoption within Changes in accounting principles on the Statements of Changes in Capital and Surplus.

/s/ PricewaterhouseCoopers LLP

April 25, 2012
New York, New York

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AMERICAN HOME ASSURANCE COMPANY

STATEMENTS OF ADMITTED ASSETS
STATUTORY BASIS
AS OF DECEMBER 31, 2011 AND 2010
(000'S OMITTED)

<TABLE>
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AS OF DECEMBER 31,	2011	2010
<S>	<C>	<C>
Cash and invested assets:		
Bonds, primarily at amortized cost (fair value: 2011 - $18,504,022; 2010 - $15,493,142)	$ 17,761,724	$ 15,148,888
Stocks:		
Common stocks, at fair value adjusted for non-admitted assets (cost: 2011 - $63,353; 2010 - $371,153)	84,263	397,460
Preferred stocks, primarily at fair value (cost: 2011 - $0; 2010 - $79,211)	-	90,886
Other invested assets (cost: 2011 - $1,196,504; 2010 - $1,361,568)	1,440,576	1,574,423
Derivatives	1,690	-
Short-term investments, at amortized cost (approximates fair value)	377,947	2,439,897
Cash and cash equivalents	68,584	181,013
Receivable for securities and other	491	1,146
TOTAL CASH AND INVESTED ASSETS	19,735,275	19,833,713

Investment income due and accrued	185,393	189,859
Agents' balances or uncollected premiums:		
Premiums in course of collection	461,753	425,340
Premiums and installments booked but deferred and not yet due	344,024	409,915
Accrued retrospective premiums	1,377,347	1,447,644
Amounts billed and receivable from high deductible policies	38,112	32,948
Reinsurance recoverable on loss payments	397,299	433,305
Funds held by or deposited with reinsurers	71,893	41,961
Net deferred tax assets	691,892	782,765
Equities in underwriting pools and associations	266,934	544,719
Receivables from parent, subsidiaries and affiliates	13,330	1,992,253
Other admitted assets	317,020	282,173
TOTAL ADMITTED ASSETS	$ 23,900,272	$ 26,416,595

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See Notes to Statutory Basis Financial Statements

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AMERICAN HOME ASSURANCE COMPANY

STATEMENTS OF LIABILITIES, CAPITAL AND SURPLUS
STATUTORY BASIS
AS OF DECEMBER 31, 2011 AND 2010
(000'S OMITTED EXCEPT SHARE INFORMATION)

<TABLE>
<CAPTION>

AS OF DECEMBER 31,	2011	2010
<S>	<C>	<C>

LIABILITIES

Reserves for losses and loss adjustment expenses	$ 12,466,514	$ 14,383,093
Unearned premium reserves	2,843,572	3,213,423
Commissions, premium taxes, and other expenses payable	314,840	237,988
Reinsurance payable on paid loss and loss adjustment expenses	83,233	155,082
Current federal taxes payable to parent	23,930	60,666
Funds held by company under reinsurance treaties	1,196,004	136,869
Provision for reinsurance	78,525	99,443
Ceded reinsurance premiums payable, net of ceding commissions	388,540	405,324
Deposit accounting liabilities	97,625	189,891
Deposit accounting liabilities - funds held	4,848	990
Collateral deposit liability	364,039	404,450
Payable to parent, subsidiaries and affiliates	46,427	204,326
Derivatives	-	4,250
Other liabilities	324,872	247,701
TOTAL LIABILITIES	18,232,969	19,743,496

CAPITAL AND SURPLUS

Common capital stock, par value: (2011 - $11.51; 2010 - $15.00), 1,758,158 shares authorized, 1,695,054 shares issued and outstanding	19,504	25,426
Capital in excess of par value	4,689,192	6,034,992
Unassigned surplus	507,717	351,265
Special surplus tax - SSAP 10R	450,661	260,922
Special surplus funds from retroactive reinsurance	229	494
TOTAL CAPITAL AND SURPLUS	5,667,303	6,673,099
TOTAL LIABILITIES, CAPITAL, AND SURPLUS	$ 23,900,272	$ 26,416,595

</TABLE>

See Notes to Statutory Basis Financial Statements

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AMERICAN HOME ASSURANCE COMPANY

STATEMENTS OF OPERATIONS AND CHANGES IN CAPITAL AND SURPLUS
STATUTORY BASIS
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(000'S OMITTED)

<TABLE>
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FOR THE YEARS ENDED DECEMBER 31,	2011	2010	2009
<S>	<C>	<C>	<C>
STATEMENTS OF OPERATIONS			
Underwriting income:			
Premiums earned	$ 5,682,158	$ 5,648,764	$ 6,354,545
Underwriting deductions:			
Losses incurred	3,932,805	5,066,245	4,699,991
Loss adjustment expenses incurred	611,264	912,853	768,136
Other underwriting expenses incurred	1,668,713	1,674,370	1,646,098
Total underwriting deductions	6,212,782	7,653,468	7,114,225
Net underwriting loss	(530,624)	(2,004,704)	(759,680)
Investment income:			
Net investment income earned	800,175	769,130	791,263
Net realized capital gains (net of capital gains taxes: 2011 - $90,032; 2010 - $169,323; 2009 - $57,389)	166,901	294,941	93,056
Net investment gains	967,076	1,064,071	884,319
Net loss from agents' or premium balances charged-off	(16,296)	(30,549)	(25,860)
Finance and service charges not included in premiums	-	-	4,596

Other (expense) income	(29,775)	52,746	24,110
NET INCOME (LOSS) AFTER CAPITAL GAINS TAXES AND BEFORE FEDERAL INCOME TAXES	390,381	(918,436)	127,485
Federal income tax benefit	(104,195)	(141,920)	(122,307)
NET INCOME (LOSS)	$ 494,576	$ (776,516)	$ 249,792

CHANGES IN CAPITAL AND SURPLUS

Capital and surplus, as of December 31, previous year	$ 6,673,099	$ 5,872,354	$ 5,413,173
Adjustment to beginning surplus	26,048	(28,355)	(32,602)
Capital and surplus, as of January 1,	6,699,147	5,843,999	5,380,571
Changes in accounting principles (refer to Note 2)			
Adoption of SSAP 10R	-	-	272,916
Adoption of SSAP 43R	-	-	(12,429)
Other changes in capital and surplus:			
Net income (loss)	494,576	(776,516)	249,792
Change in net unrealized capital gains (net of capital gains taxes: 2011 - $3,008; 2010 - $110,099; 2009 - $202,913)	44,397	(161,330)	(113,064)
Change in net deferred income tax	659,647	(396,374)	59,354
Change in non-admitted assets	(926,257)	513,237	(318,767)
Change in SSAP 10R	189,739	(11,994)	-
Change in provision for reinsurance	20,918	(10,819)	6,968
Capital contribution	67,381	1,947,275	343,286
Return of capital	(1,414,078)	-	-
Change in par value of common stock	(5,922)	-	-
Dividends to stockholder	(137,458)	(301,343)	-
Other surplus adjustments	(3,246)	1,494	(7,211)
Foreign exchange translation	(21,541)	25,470	10,938
Total changes in capital and surplus	(1,031,844)	829,100	231,296
CAPITAL AND SURPLUS, AS OF DECEMBER 31,	$ 5,667,303	$ 6,673,099	$ 5,872,354

</TABLE>

See Notes to Statutory Basis Financial Statements

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AMERICAN HOME ASSURANCE COMPANY

STATEMENTS OF CASH FLOW
STATUTORY BASIS
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(000'S OMITTED)

<TABLE>
<CAPTION>

FOR THE YEARS ENDED DECEMBER 31,	2011	2010	2009
<S>	<C>	<C>	<C>
CASH FROM OPERATIONS			
Premiums collected, net of reinsurance	$ 5,411,186	$ 5,414,448	$ 6,306,324
Net investment income	779,881	851,466	743,343
Miscellaneous (expense) income	(86,020)	16,466	(2,769)
SUB-TOTAL	6,105,047	6,282,380	7,046,898
Benefit and loss related payments	3,905,372	4,340,008	4,597,184
Payment to an affiliate under the asbestos loss portfolio transfer	783,818	-	-
Commission and other expense paid	2,363,249	2,416,351	2,520,462
Dividends paid to policyholders	-	-	233
Federal and foreign income taxes paid (recovered)	28,206	(370,410)	(296,845)
NET CASH (USED IN) PROVIDED FROM OPERATIONS	(975,598)	(103,569)	225,864
CASH FROM INVESTMENTS			
Proceeds from investments sold, matured, or repaid:			
Bonds	4,992,080	5,421,569	4,332,397
Stocks	545,819	1,385,481	1,731,884
Other	392,513	130,972	222,781
TOTAL PROCEEDS FROM INVESTMENTS SOLD, MATURED, OR REPAID	5,930,412	6,938,022	6,287,062

Cost of investments acquired:			
Bonds	7,448,761	4,509,137	6,666,144
Stocks	9,769	622,754	496,025
Other	250,178	240,465	107,966
TOTAL COST OF INVESTMENT ACQUIRED	7,708,708	5,372,356	7,270,135
NET CASH (USED IN) PROVIDED FROM INVESTING ACTIVITIES	(1,778,296)	1,565,666	(983,073)
CASH FROM FINANCING AND MISCELLANEOUS SOURCES			
Capital contribution	1,942,747	-	91,418
Return of capital	(1,414,078)	-	-
Change in par value of common stock	(5,922)	-	-
Dividends to stockholder	(110,000)	(301,343)	-
Intercompany receivable and payable, net	(116,100)	169,364	771,557
Net deposit on deposit-type contracts and other insurance	(1,723)	13,312	74,417
Equities in underwriting pools and association	356,715	6,643	125,605
Collateral deposit liability	(40,411)	(13,384)	31,448
Other	(31,713)	(103,508)	(26,266)
NET CASH PROVIDED FROM (USED IN) FINANCING AND MISCELLANEOUS ACTIVITIES	579,515	(228,916)	1,068,179
NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS	(2,174,379)	1,233,181	310,970
Cash and short-term investments:			
Beginning of year	2,620,910	1,387,729	1,076,759
END OF YEAR	$ 446,531	$ 2,620,910	$ 1,387,729

</TABLE>

See Notes to Statutory Basis Financial Statements

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AMERICAN HOME ASSURANCE COMPANY

NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS

DECEMBER 31, 2011, 2010 AND 2009

(000'S OMITTED)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT STATUTORY BASIS ACCOUNTING POLICIES

A. ORGANIZATION

American Home Assurance Company (the Company or American Home) is a direct wholly-owned subsidiary of Chartis U.S., Inc., a Delaware corporation, which is in turn owned by Chartis, Inc. (Chartis), a Delaware corporation. The Company's ultimate parent is American International Group, Inc. (the Ultimate Parent or AIG). See Note 5 for information about recent developments regarding AIG and Chartis, Inc.

Chartis conducts the general insurance operations of AIG. Chartis presents its financial information in two operating segments -- commercial insurance and consumer insurance - with the supporting claims, actuarial, and underwriting disciplines integrated into these two major business segments.

On January 17, 2012, Chartis announced that it had aligned its geographic structure to enhance execution of its commercial and consumer strategies and to add greater focus on its growth economies initiatives. Under this framework, Chartis is organized under three major geographic areas: the Americas, Asia and EMEA (Europe, Middle East and Africa). Previously, Chartis was organized in four geographic areas: the United States & Canada, Europe, the Far East, and Growth Economies (primarily consisting of Asia Pacific, the Middle East, and Latin America). This had no impact on the Company.

The Company writes substantially all lines of property and casualty insurance with an emphasis on U.S. commercial business. In addition to writing substantially all classes of business insurance, including large

commercial or industrial property insurance, excess liability, inland marine, environmental, workers' compensation and excess and umbrella coverages, the Company offers many specialized forms of insurance such as aviation, accident and health, warranty, equipment breakdown, directors and officers liability, difference in conditions, kidnap-ransom, export credit and political risk, and various types of errors and omissions coverages. Through AIG's risk management operation, the Company provides insurance and risk management programs to large corporate customers. In addition, through AIG's risk solution operation, the Company provides its customized structured products and through the Private Client Group the Company provides personal lines insurance to high-net-worth individuals.

The Company remains diversified both in terms of classes of business and geographic locations. For calendar year 2011, 21.9 percent of its net premiums written represented workers' compensation business. Relative to geographic location, 86.4 percent of the Company's direct premiums written were foreign sourced, the majority of which was Japan based. U.S. resident business accounted for 13.6 percent of the Company's direct writings. No state accounted for more than 5.0 percent of such premiums.

The Company is party to that certain Amended and Restated Inter-company Pooling Agreement, dated October 1, 2011 among the companies listed below (the Admitted Pooling Agreement), which nine companies are each a member of the Admitted Companies Pool (the Admitted Pool) governed by the Admitted Pooling Agreement. The changes to the Admitted Companies Pooling Agreement were not material and were intended to clarify certain provisions and to consolidate and modernize the 1978 agreement with 14 addenda into one document. The

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member companies, their National Association of Insurance Commissioners (NAIC) company codes, inter-company pooling percentages and states of domicile are as follows:

<TABLE>
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COMPANY	NAIC CO CODE	POOL PARTICIPATION PERCENTAGE	STATE OF DOMICILE
(1) National Union Fire Ins. Co. of Pittsburgh, Pa. (National Union)*	19445	38%	Pennsylvania
(2) American Home	19380	36%	New York
(3) Commerce and Industry Insurance Company (C&I)	19410	11%	New York
(4) Chartis Property Casualty Company (Chartis PC)	19402	5%	Pennsylvania
(5) New Hampshire Insurance Company (New Hampshire)	23841	5%	Pennsylvania
(6) The Insurance Company of the State of Pennsylvania (ISOP)	19429	5%	Pennsylvania
(7) Chartis Casualty Company	40258	0%	Pennsylvania
(8) Granite State Insurance Company	23809	0%	Pennsylvania
(9) Illinois National Insurance Co.	23817	0%	Illinois

* Lead Company
</TABLE>

The accompanying financial statements include the Company's U.S. operation and the operation of its Japan branch and its participation in the Chartis Overseas Association (the Association).

The Company accepts business mainly from insurance brokers, enabling selection of specialized markets and retention of underwriting control. Any licensed insurance broker is able to submit business to the Company, but such broker has no authority to commit the Company to accept risk. In addition, the Company utilizes certain managing general agents and third party administrators for policy issuance and administration, underwriting, and claims adjustment services.

The Company has significant transactions with AIG and affiliates and participates in the Admitted Pool. Refer to Note 5 for additional information.

B. SUMMARY OF SIGNIFICANT STATUTORY BASIS ACCOUNTING POLICIES

PRESCRIBED OR PERMITTED STATUTORY ACCOUNTING PRACTICES:

The accompanying financial statements of the Company have been prepared in conformity with accounting practices prescribed or permitted by the New York State Department of Financial Services (formerly the Insurance Department of the State of New York) (NY SAP).

NY SAP recognizes only statutory accounting practices prescribed or permitted by the State of New York for determining and reporting the financial position and results of operations of an insurance company and for the purpose of determining its solvency under the New York Insurance Law. The NAIC's Accounting Practices and Procedures Manual (NAIC SAP) has been adopted as a component of prescribed or permitted practices by the State of New York. The Superintendent of the New York State Department of Financial Services (the Superintendent) has the right to permit other specific practices that deviate from prescribed practices.

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NY SAP has adopted certain accounting practices that differ from those set forth in NAIC SAP; specifically the prescribed practices of (1) allowing the discounting of workers compensation known case loss reserves on a non-tabular basis; under NAIC SAP, non-tabular discounting of reserves is not permitted; and (2) NY SAP Regulation 20 (Regulation 20) allows certain offsets to the provision for reinsurance that are not permitted under NAIC SAP.

A reconciliation of the Company's net income and capital and surplus between NAIC SAP and practices prescribed or permitted by NY SAP is shown below:

<TABLE>
<CAPTION>

DECEMBER 31,	2011	2010	2009
<S>	<C>	<C>	<C>
Net income (loss) , NY SAP	$ 494,576	$ (776,516)	$ 249,792
State prescribed practices - addition (deduction):			
Non-tabular discounting	60,114	(27,631)	(89,222)
NET INCOME (LOSS), NAIC SAP	$ 554,690	$ (804,147)	$ 160,570
Statutory surplus, NY SAP	$ 5,667,303	$ 6,673,099	$ 5,872,354
State prescribed or permitted practices - (charge):			
Non-tabular discounting	(384,510)	(444,624)	(416,993)
Credits for reinsurance	(94,824)	(172,413)	(190,105)
STATUTORY SURPLUS, NAIC SAP	$ 5,187,969	$ 6,056,062	$ 5,265,256

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With the concurrence of the New York State Department of Financial Services (NY DFS), the Company has discounted certain of its asbestos reserves, specifically, those for which future payments have been identified as fixed and determinable.

The use of all the aforementioned prescribed practices has not adversely affected the Company's ability to comply with the NAIC's risk based capital and surplus requirements for the 2011, 2010 and 2009 reporting periods.

STATUTORY ACCOUNTING PRACTICES AND GENERALLY ACCEPTED ACCOUNTING PRINCIPLES:

NAIC SAP is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). NAIC SAP and NY SAP vary in certain respects from GAAP. A description of

certain of these accounting differences is set forth below:

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Under GAAP:

a. Costs that vary directly with acquiring business related to premiums written and costs allowed by assuming reinsurers related to premiums ceded are deferred and amortized over the periods covered by the underlying policies or reinsurance agreements;

b. Statutory basis adjustments, such as non-admitted assets and unauthorized reinsurance, are restored to surplus;

c. The equity in earnings of affiliates with ownership between 20.0 percent and 50.0 percent is included in net income, and investments in subsidiaries with greater than 50.0 percent ownership are consolidated;

d. The reserves for losses and loss adjustment expenses (LAE) and unearned premium reserves are presented gross of ceded reinsurance by establishing a reinsurance asset;

e. Debt and equity securities deemed to be available-for-sale and trading securities are reported at fair value. The difference between cost and fair value of securities available-for-sale is reflected net of related deferred income tax, as a separate component of accumulated other comprehensive income in shareholder's

equity. For trading and fair value option securities, the difference between cost and fair value is included in income, while securities held to maturity are valued at amortized cost;

f. Direct written premium contracts that do not have sufficient risk transfer are treated as deposit accounting liabilities;

g. Insurance and reinsurance contracts recorded as retroactive require the deferral and amortization of accounting gains over the settlement period of the ceded claim recoveries. Losses are recognized in the Statements of Operations;

h. Deferred federal income taxes are provided for temporary differences for the expected future tax consequences of events that have been recognized in the Company's financial statements. The provision for deferred income taxes is reported in the Statements of Operations;

i. For structured settlements in which the reporting entity has not been legally released from its obligation with the claimant (i.e. remains as the primary obligor), GAAP requires the deferral of any gain resulting from the purchase of a structured settlement annuity and to present an asset for the amounts to be recovered from such annuities;

j. Entities termed variable interest entities (VIEs) in which equity investors do not have the characteristics of controlling interest, or do not have sufficient equity at risk to finance its activities without additional subordinated financial support from other parties, are subject to consolidation by the entity that will absorb the majority of the VIE's expected losses or residual returns, if they occur;

k. Investments in limited partnerships, hedge funds and private equity interests over which the Company has influence are accounted for using the equity method with changes in interest included in net realized

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investment gains. Interest over which the Company does not have influence are reported, net of tax, as a component of accumulated other comprehensive income in shareholder's equity; and

l. The statement of cash flow defers in certain respects from the presentation required under NAIC, including the presentation of changes in cash and cash equivalents.

Under NAIC SAP:

a. Costs that vary directly with acquiring business related to premiums written and costs allowed by assuming reinsurers related to premiums ceded are immediately expensed;

b. Statutory basis adjustments, such as non-admitted assets and unauthorized reinsurance are charged directly to surplus;

c. Subsidiaries are not consolidated. The equity in earnings of affiliates is included in unrealized appreciation/(depreciation) of investments which is reported directly in surplus. Dividends are reported as investment income;

d. The reserve for losses and LAE and unearned premium reserves are presented net of ceded reinsurance;

e. NAIC investment grade debt securities are reported at amortized cost, while NAIC non-investment grade debt securities (NAIC rated 3 to 6) are reported at lower of cost or fair value;

f. Direct written premium contracts are reported as insurance as long as policies are issued in accordance with insurance requirements;

g. Insurance and reinsurance contracts recorded as retroactive receive special accounting treatment. Gains and losses are recognized in the Statements of Operations and surplus is segregated to the extent gains are recognized. Certain retroactive intercompany reinsurance contracts are accounted for as prospective reinsurance if there is no gain in surplus as a result of the transaction;

h. Deferred federal income taxes are provided for temporary differences for the expected future tax consequences of events that have been recognized in the Company's financial statements. Changes in deferred income taxes are charged directly to surplus and have no impact on statutory earnings. The admissibility of deferred tax assets is limited by statutory guidance;

i. For structured settlement annuities where the claimant is the payee, statutory accounting treats these settlements as completed transactions and considers the earnings process complete (thereby allowing for immediate gain recognition), regardless of whether or not the reporting entity is the owner of the annuity;

j. NAIC SAP does not require consolidation of VIEs;

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k. Investments in partnerships, hedge funds and private equity interests are carried at the underlying GAAP equity with results from operations reflected in unrealized gains and losses in the

Statements of Changes in Capital and Surplus; and

l. The statutory statement of cash flow defers in certain respects from the GAAP presentation, including the presentation of changes in cash and short term investments instead of cash equivalents and certain miscellaneous sources are excluded from operational cash flows.

The effects on the financial statements of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

SIGNIFICANT STATUTORY ACCOUNTING PRACTICES:

A summary of the Company's significant statutory accounting practices are as follows:

Use of Estimates: The preparation of financial statements in conformity with NY SAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. On an ongoing basis, the Company evaluates all of its estimates and assumptions. NY SAP also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from management's estimates. The significant estimates were used for loss and LAE, certain reinsurance balances, admissibility of deferred taxes, allowance for doubtful accounts and the carrying value of certain investments.

Invested Assets: The Company's invested assets are accounted for as follows:

o Cash, Cash Equivalents and Short-term Investments: The Company considers all highly liquid debt securities with maturities of greater than three months but less than twelve months from the date of purchase to be short-term investments. Short-term investments are carried at amortized cost which approximates fair value (as designated by the NAIC Capital Markets and Investment Analysis Office formerly known as NAIC Securities Valuation Office). Cash is in a negative position when outstanding checks exceed cash-on-hand in operating bank accounts. The Company maximizes its investment return by investing a significant amount of cash-on-hand in short

term investments. Short term investments are recorded separately from cash in the accompanying financial statements. The Company funds cash accounts daily using funds from short term investments. As required by the NAIC SAP, the negative cash balance is presented as an asset. Cash equivalents are short-term, highly liquid investments, with original maturities of three months or less, that are both (a) readily convertible to known amounts of cash, and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

- Bonds: Bonds with an NAIC designation of 1 and 2 are carried at amortized cost using the scientific method. Bonds with an NAIC designation of 3 to 6 are carried at the lower of amortized cost or fair value. Bonds that have not been filed with the NAIC Capital Markets and Investment Analysis Office within one year of purchase receive a "6*" rating and are carried at zero value, with a charge to unrealized investment loss.

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Bonds filed with the NAIC Capital Markets and Investment Analysis Office which receive a "6*" can carry a value greater than zero. If a bond is determined to have an other-than-temporary impairment (OTTI) in value the cost basis is written down to fair value as a new cost basis, with the corresponding charge to Net Realized Capital Gains (Losses) as a realized loss.

In periods subsequent to the recognition of an OTTI loss for bonds,

the Company generally accretes the difference between the new cost basis and the cash flows expected to be collected, if applicable, as interest income over the remaining life of the security based on the amount and timing of future estimated cash flows.

Loan-backed and structured securities are carried at amortized cost and generally are more likely to be prepaid than other fixed maturities. As of December 31, 2011 and 2010, the fair value of the Company's loan-backed and structured securities approximated $3,936,226 and $597,315, respectively. Loan-backed and structured securities include prepayment assumptions used at the purchase date and valuation changes caused by changes in estimated cash flow and are valued using the retrospective method. Prepayment assumptions for loan-backed and structured securities were obtained from independent third party services or internal estimates. These assumptions are consistent with the current interest rate and economic environment.

As described in Note 2 - Accounting Changes, the Company adopted a change in its OTTI accounting principle pertaining to loan-backed and structured securities in the third quarter of 2009 when it adopted SSAP No. 43R (Revised), Loan-backed and Structured Securities (SSAP 43R). Under SSAP 43R, credit-related OTTI for loan-backed and structured securities is based on projected discounted cash flows, whereas, credit-related OTTI for loan-backed and structured securities was previously based on projected undiscounted cash flows under SSAP 43.

- Common and Preferred Stocks: Unaffiliated common stocks are carried principally at fair value. Perpetual preferred stocks with an NAIC rating of P1 or P2 are carried at fair value. Redeemable preferred stocks with an NAIC rating of RP1 or RP2 that are subject to a 100 percent mandatory sinking fund or paid in-kind are carried at amortized cost. All below investment grade, NAIC 3 to 6 preferred stocks, are carried at the lower of amortized cost or fair value.

  Investments in non-publicly traded affiliates are recorded based on the underlying audited equity of the respective entity's financial statements. The Company's share of undistributed earnings and losses of the affiliates are reported in the Unassigned Surplus as unrealized gains and losses.

- Other Invested Assets: Other invested assets include primarily partnerships and joint ventures. Fair values are based on the net asset value of the respective entity's financial statements. Joint ventures and partnership investments are accounted for under the equity method, based on the most recent financial statements of the entity. Changes in carrying value are recorded as unrealized gains or losses. For investments in joint ventures and partnerships that are determined to have an OTTI in value, the cost basis is written down to fair value as a new cost basis, with the corresponding charge to Net Realized Capital Gains/(Losses) as a realized loss. Investments in collateral loans are carried at their outstanding principal balance plus related accrued interest, less impairments, if any, and are admitted assets to the extent the fair value of the underlying collateral value equals or exceeds 100 percent of the recorded loan balance.

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- Derivatives: The fair values of derivatives are determined using quoted prices in active markets and other market-evidence whenever possible, including market-based inputs to model, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. The Company's cross-currency swaps are accounted for under SSAP No. 86, entitled "Accounting for Derivative Instruments and Hedging Transactions" (SSAP 86). None of the cross-currency swaps meet the hedging requirements under SSAP 86, and therefore the change in fair value of such derivatives are recorded as unrealized gains or losses in Unassigned Surplus in the

Statements of Operations and Changes in Capital and Surplus. When the contract expires, realized gains and losses are recorded in investment income.

- Net Investment Gains: Net investment gains consist of net investment income earned and realized gains or losses from the disposition or impairment of investments. Net investment income earned includes accrued interest, accrued dividends and distributions from partnerships and joint ventures. Investment income is recorded as earned. Realized gains or losses on the disposition of investments are determined on the basis of the specific identification.

  Investment income due and accrued is assessed for collectability. The Company writes off investment income due and accrued when it is probable that the amount is uncollectible by recording a charge against investment income in the period such determination is made. Any amounts over 90 days past due which have not been written-off are non-admitted by the Company. As of December 31, 2011 and 2010, no material amount of investment income due and accrued was determined to be uncollectible or non-admitted.

- Unrealized Gains (Losses): Unrealized gains (losses) on all stocks, bonds carried at fair value, joint ventures, partnerships, derivatives and foreign currency translation are credited or charged to Unassigned Surplus.

Other Than Temporary Impairment:

The Company regularly evaluates its investments for OTTI in value. The determination that a security has incurred an OTTI in value and the amount of any loss recognition requires the judgment of the Company's management and a continual review of their investment portfolio.

The Company's policy for determining OTTI has been established in accordance with the prescribed NAIC SAP guidance, including SSAP 43R, SSAP No. 26 - Bonds, Excluding Loan Backed and Structured Securities, SSAP No 30 - Investments in Common Stock (excluding investments in common stock of subsidiary, controlled, or affiliated entities), SSAP No 48 -- Joint Ventures, Partnerships and Limited Liability Companies, and INT 06-07 Definition of Phrase "Other Than Temporary".

For bonds, other than loan-backed and structured securities, an OTTI shall

be considered to have occurred if it is probable that the Company will not be able to collect all amounts due under the contractual terms in effect at the acquisition date of the debt security. For loan-backed and structured securities, when a credit-related OTTI is present, the amount of OTTI recognized as a realized loss is equal to the difference between the investment's amortized cost basis and the present value of cash flows expected to be collected. If a bond is determined to have OTTI in value the cost basis is written down to fair value as a new cost basis, with the corresponding charge to Net Realized Capital Losses. In general, a security is considered a candidate for OTTI if it meets any of the following criteria:

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- Trading at a significant (25 percent or more) discount to par, amortized cost (if lower) or cost for an extended period of time (nine consecutive months or longer); or

- The occurrence of a discrete credit event resulting in (i) the issuer defaulting on a material outstanding obligation, (ii) the issuer seeking protection from creditors under the bankruptcy law as or any similar laws intended for court supervised reorganization of insolvent enterprises; or (iii) the issuer proposing a voluntary reorganization pursuant to which creditors are asked to exchange their claims for cash or securities having a fair value substantially lower than par value of their claims; or

- The Company may not realize a full recovery on their investment, irrespective of the occurrence of one of the foregoing events.

Common and preferred stock investments whose fair value is less than their book value for a period greater than twelve months are considered a candidate for OTTI. Once a candidate for impairment has been identified, the investment must be analyzed to determine if any impairment would be considered other than temporary. Factors include:

- The Company may not realize a full recovery on their investment;

- Fundamental credit issues of the issuer;

- An intent to sell the investment prior to the recovery of cost of the investment; or

- Any other qualitative/quantitative factors that would indicate that an OTTI has occurred.

Limited partnership investments whose fair value is less than its book value for a period greater than twelve months with a significant unrealized loss are considered a candidate for OTTI. Once a candidate for impairment has been identified, the investment must be analyzed to determine if any impairment would be considered other than temporary. Factors to consider include:

- An order of liquidation or other fundamental credit issues with the partnership;

- Evaluation of the cash flow activity between the Company and the partnership or fund during the year;

- Evaluation of the current stage of the life cycle of the investment;

- An intent to sell the investment prior to the recovery of cost of the investment; or

- Any other qualitative/quantitative factors that would indicate that an OTTI has occurred.

Revenue Recognition: Direct written premiums are primarily earned on a pro-rata basis over the terms of the policies to which they relate. For policies with exposure periods greater than thirteen months, premiums are earned in accordance with the methods prescribed in SSAP No. 65, Property and Casualty Contracts (SSAP 65). Accordingly, unearned premiums represent the portion of premiums written which are applicable to the unexpired

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terms of policies in force. Ceded premiums are amortized into income over the contract period in proportion to the protection received.

Premium estimates for retrospectively rated policies are recognized within the periods in which the related losses are incurred. In accordance with SSAP No. 66, Retrospectively Rated Contracts (SSAP 66), the Company estimates accrued retrospectively rated premium adjustments using the application of historical ratios of retrospectively rated premium development. The Company records accrued retrospectively rated premiums as an adjustment to written and earned premiums. The Company establishes non-admitted assets for 100 percent of amounts recoverable where any agent's balance or uncollected premium has been classified as non-admitted and thereafter for 10 percent of any amounts recoverable not offset by retrospectively return premiums or collateral. At December 31, 2011 and 2010, accrued premiums related to the Company's retrospectively rated return contracts amounted to $1,377,347 and $1,447,644, respectively, net of non-admitted premium balances of $58,213 and $55,910, respectively.

Net written premiums that were subject to retrospective rating features were as follows:

For the years ended December 31,	2011	2010	2009
Net written premiums subject to retrospectively rated premiums	$ 350,717	$ 522,917	$ 526,445
Percentage of total net written premiums	6.6%	10.1%	8.7%

Adjustments to premiums for changes in the level of exposure to insurance risk are generally determined based upon audits conducted after the policy expiration date. In accordance with SSAP No. 53, Property and Casualty Contracts -- Premiums (SSAP 53), the Company records the audit premium estimates as an adjustment to written premium, and earns these premiums immediately. For premium estimates that result in a return of premium to the policyholder, the Company immediately reduces earned premiums. When the premium exceeds the amount of collateral held, a non-admitted asset (equivalent to 10.0 percent of this excess amount) is recorded.

In accordance with SSAP 53, the Company reviews its ultimate losses with respect to its unearned premium reserves. A premium deficiency liability is established if the premium reserves are not sufficient to cover the ultimate loss projection and associated acquisition expenses. Investment income is not considered in the calculation.

For certain lines of business for which an insurance policy is issued on a claims-made basis, the Company offers to its insureds the option to purchase an extended reporting endorsement which permits the extended reporting of insured events after the termination of the claims-made contract. Extended reporting endorsements modify the discovery period of the underlying contract and can be for a defined period (e.g., six months, one year, five years) or an indefinite period. For defined reporting periods, premiums are earned over the term of the fixed period. For indefinite reporting periods, premiums are fully earned as written and loss and LAE liabilities associated with the unreported claims are

recognized immediately.

For warranty insurance, the Company will generally offer reimbursement coverage on service contracts issued by an authorized administrator and sold through a particular retail channel. Premiums are recognized over the life of the reimbursement policy in proportion to the expected loss emergence. The expected loss emergence can vary

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substantially by policy due to the characteristics of products sold by the retailer, the terms and conditions of service contracts sold as well as the duration of an original warranty provided by the equipment manufacturer. The Company reviews all such factors to produce earnings curves which approximate the expected loss emergence for a particular contract in order to recognize the revenue earned.

Reinsurance: Ceded premiums, commissions, expense reimbursements and reserves related to ceded business are accounted for on a basis consistent with that used in accounting for the original contracts issued and the terms of the reinsurance contract. Ceded premiums are reported as a reduction of premium earned. Amounts applicable to ceded reinsurance for unearned premium reserves, and reserves for losses and LAE have been reported as a reduction of these items, and expense allowances received in connection with ceded reinsurance are accounted for as a reduction of the related acquisition cost.

Retroactive Reinsurance: Retroactive reinsurance reserves are reported

separately in the balance sheet. Gains or losses are recognized in the Statements of Operations and Changes in Capital and Surplus as part of Other Income. Surplus gains are reported as segregated unassigned surplus until the actual retroactive reinsurance recovered exceeds the consideration paid.

Deposit Accounting: Assumed and ceded reinsurance contracts which based on internal analysis, do not transfer a sufficient amount of insurance risk are recorded as deposit accounting transactions. In accordance with SSAP 62R, the Company records the net consideration paid or received as a deposit asset or liability, respectively. The deposit asset is reported as admitted if i) the assuming company is licensed, accredited or qualified by NY DFS; or ii) the collateral (i.e.: funds withheld, letters of credit or trusts provided by the reinsurer) meets all the requirements of NY SAP. The deposit asset or liability is adjusted by calculating the effective yield on the deposit to reflect the actual payments made or received to date and the expected future payments with a corresponding credit or charge to other gain in the Statements of Operations and Changes in Capital and Surplus.

High Deductible Policies: In accordance with SSAP 65, the Company establishes loss reserves for high deductible policies net of deductibles (or reserve credits). As of December 31, 2011 and 2010, the amount of reserve credits recorded for high deductibles on unpaid claims amounted to $3,698,960 and $3,637,096, respectively.

The Company establishes a non-admitted asset for 10 percent of paid loss recoverables, on high deductible policies, in excess of collateral held on an individual insured basis, or for 100 percent of paid loss recoverables where no collateral is held. As of December 31, 2011 and 2010, the net amount billed and recoverable on paid claims was $63,117 and $66,818, respectively, of which $25,005 and $33,870, respectively, were non-admitted. Additionally, the Company establishes an allowance for doubtful accounts for such paid loss recoverables in excess of collateral and after non-admitted assets, and does not recognize reserve credits where paid loss credits are deemed by the Company to be uncollectible.

Foreign Property Casualty Business: As agreed with the NY DFS, the Company accounts for its participation in the business of the Association by (a) recording its net (after pooling) participation of such business as direct writings in its statutory financial statements; (b) recording in the Statements of Operations and Changes in Capital and Surplus its

participation in the results of underwriting and investment income; and, (c) recording in the statements of admitted assets and liabilities, capital and surplus, its participation in the significant insurance and reinsurance balances; its net participation in all other assets (such as the invested assets) and liabilities has been recorded in Equities in Underwriting Pools and Associations.

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Commissions and Underwriting Expenses: Commissions, premium taxes, and certain underwriting expenses related to premiums written are charged to income at the time the premiums are written and are included in Other Underwriting Expenses Incurred. In accordance with SSAP 62R, the Company records a liability, equal to the difference between the acquisition cost and the reinsurance commissions received, on those instances where ceding commissions paid exceed the acquisition cost of the business ceded. The liability is amortized pro rata over the effective period of the reinsurance agreement in proportion to the amount of coverage provided under the reinsurance contract.

Reserves for Losses and LAE: The reserves for losses and LAE, including IBNR losses, are determined on the basis of actuarial specialists' evaluations and other estimates, including historical loss experience. The methods of making such estimates and for establishing the resulting reserves are continually reviewed and updated as needed, and any resulting adjustments are recorded in the current period. Accordingly, losses and LAE are charged to income as incurred. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated

with the reinsured policy.

The Company discounts its loss reserves on workers' compensation claims as follows:

The calculation of the Company's workers' compensation tabular discount is based upon the 1979-81 Decennial Mortality Table, and applying a 3.5 percent interest rate. As of December 31, 2011 and 2010, the Company's tabular discount amounted to $202,786 and $284,288, respectively, all of which were applied against the Company's case reserves.

The calculation of the Company's workers' compensation non-tabular discount is based upon the Company's own payout pattern and a 5.0 percent interest rate as prescribed by NY SAP. As of December 31, 2011 and 2010, the Company's non-tabular discount amounted to $384,510 and $444,624, respectively, all of which were applied against the Company's case reserves. As of December 31, 2011 and 2010, the discounted reserves for losses (net of reinsurance) were $1,704,799 and $1,770,687, respectively.

Foreign Exchange: Assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect at the close of the reporting period. Revenues, expenses, gains, losses and surplus adjustments are translated using weighted average exchange rates. Unrealized gains and losses from translating balances from foreign currency into United States currency are recorded as adjustments to surplus. Realized gains and losses resulting from foreign currency transactions are included in Other Income in the Statements of Operations and Changes in Capital and Surplus.

Statutory Basis Reserves: Certain required statutory basis reserves, principally the provision for reinsurance, are charged to surplus and reflected as a liability of the Company.

Policyholders' Dividends: Dividends to policyholders are charged to income as declared.

Capital and Surplus: Common capital stock and capital in excess of par value represent amounts received by the Company in exchange for shares issued. The common capital stock represents the number of shares issued multiplied by par value per share. Capital in excess of par value represents the value received by the Company in excess of the par value per share and subsequent capital contributions in cash or in kind from its

shareholder.

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Non-Admitted Assets: Certain assets, principally electronic data processing (EDP) equipment, software, leasehold improvements, certain overdue agents' balances, accrued retrospective premiums, certain deposit accounting assets that do not meet all of the NY DFS requirements for admissibility, prepaid expenses, certain deferred taxes that exceed statutory guidance and unsupported current taxes are designated as non-admitted assets and are directly charged to Unassigned Surplus. EDP equipment primarily consists of non-operating software and is depreciated over its useful life, generally not exceeding 5 years. Leasehold improvements are amortized over the lesser of the remaining lease term or the estimated useful life of the leasehold improvement. For the years ended December 31, 2011 and 2010, depreciation and amortization expense amounted to $14,394 and $18,468, and accumulated depreciation as of December 31, 2011 and 2010 amounted to $153,908 and $139,515, respectively.

Reclassifications: Certain balances contained in the 2010 and 2009 financial statements have been reclassified to conform to the current year's presentation.

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NOTE 2 - ACCOUNTING ADJUSTMENTS TO STATUTORY BASIS FINANCIAL STATEMENTS

A. CHANGE IN ACCOUNTING PRINCIPLES:

In 2011, the Company adopted the following change in accounting principles:

SSAP 35R

The Company adopted SSAP 35 -- Revised - Guaranty Fund and Other Assessments (SSAP 35R) effective for the reporting period beginning January 1, 2011. Under the new guidance, entities subject to assessments would recognize liabilities only when all of the following conditions would be met:

1. An assessment has been imposed or information available prior to the issuance of the statutory financial statements indicates that it is probable that an assessment will be imposed;

2. The event obligating an entity to pay an imposed or probable assessment has occurred on or before the date of the statutory financial statements; and

3. The amount of the assessment can be reasonably estimated.

For premium based assessments, the amount to be accrued would be based only on current year premiums written and not estimated future premiums written.

Under SSAP 35R, accounting for guaranty fund assessments would be determined in accordance with the type of guaranty fund assessment imposed. Additionally, SSAP 35R allows the anticipated recoverables from policy surcharges and premium tax offsets from accrued liability assessments to be an admitted asset.

The adoption of SSAP 35R did not impact the Company's surplus as the accrual was consistent with the new guidelines.

In 2010, the Company adopted the following change in accounting principles:

SSAP 100

The Company adopted SSAP No. 100, Fair Value Measurements (SSAP 100), effective for reporting periods ending December 31, 2010 and thereafter. SSAP 100 defines fair value, establishes a framework for measuring fair value and expands disclosure requirements regarding fair value measurements but does not change existing guidance about whether an asset or liability is carried at fair value. There were no changes in surplus as a result of this adoption.

In 2009, the Company adopted the following changes in accounting principles:

SSAP 43R

In the third quarter of 2009, the Company adopted SSAP 43R. Pursuant to SSAP 43R, if the fair value of a loan-backed or structured security is less than its amortized cost basis at the balance sheet date, an entity shall assess whether the

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impairment is other-than temporary. When an impairment is present, SSAP 43R requires the recognition of credit-related OTTI for loan-backed and structured

securities when the projected discounted cash flows for a particular security are less than the security's amortized cost. When a credit-related OTTI is present, the amount of OTTI recognized as a realized loss shall be equal to the difference between the investment's amortized cost basis and the present value of cash flows expected to be collected. Under the prescribed OTTI guidance for loan-backed and structured securities in the SSAP 43 that was in effect prior to the third quarter of 2009, OTTI was recognized when the amortized cost basis of a security exceeded undiscounted cash flows and such securities were written down to the amount of the undiscounted cash flows.

SSAP 43R required application to existing and new investments held by a reporting entity on or after September 30, 2009. The guidance in SSAP 43R that was effective in the third quarter of 2009 required the identification of all the loan-backed and structured securities for which an OTTI had been previously recognized and may result in OTTI being recognized on certain securities that previously were not considered impaired under SSAP 43. For this population of securities, if a reporting entity did not intend to sell the security, and had the intent and ability to retain the investment in the security for a period of time sufficient to recover the amortized cost basis, the reporting entity should have recognized the cumulative effect of initially applying SSAP 43R as an adjustment to the opening balance of unassigned funds with a corresponding adjustment to applicable financial statement elements.

As a result of the adoption of SSAP 43R, the Company recognized the following cumulative effect adjustment (CEA) in its 2009 statutory-basis financial statements, net of the related tax effect:

<TABLE>
<CAPTION>

	Direct (Charge) or Credit to Unassigned Surplus
<S>	<C>
Gross cumulative effect adjustment (CEA) - Net increase in the amortized cost of loan-backed and structured securities at adoption	$ (19,122)
Deferred tax on gross CEA	6,693

Net cumulative effect of Change in Accounting Principle included in the Statement of Capital and Surplus	$ (12,429)

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SSAP 10R

On December 7, 2009, the NAIC voted to approve SSAP No. 10R, Income Taxes -- Revised, A Temporary Replacement of SSAP No. 10 (SSAP 10R). The new standard is effective December 31, 2009 for 2009 and 2010 interim and annual periods. The Company adopted SSAP 10R to account for its income taxes in its 2009 annual filing. Income tax expense and deferred tax are recorded, and deferred tax assets are admitted in accordance with SSAP 10R. In addition to the admissibility test on deferred tax assets, SSAP 10R requires assessing the need for a valuation allowance on deferred tax assets. In accordance with the additional requirements, the Company assesses its ability to realize deferred tax assets primarily based on the earnings history, the future earnings potential, the reversal of taxable temporary differences, and the tax planning strategies available to the Company when recognizing deferred tax assets.

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In its 2009 annual filing, the Company admitted additional deferred tax assets of $272,916 as a result of the adoption of SSAP 10R.

B. OTHER ADJUSTMENTS TO SURPLUS:

The Company has dedicated significant effort to the resolution of ongoing weaknesses in internal controls. As a result of these remediation efforts, management concluded that adjustments should be made to the Assets, Liabilities, and Capital and Surplus as reported in the Company's 2010, 2009 and 2008 annual statutory basis financial statements. While these adjustments were noteworthy, after evaluating the quantitative and qualitative aspects of these corrections, the Company concluded that its prior period financial statements were not materially misstated and, therefore, no restatement was required. These adjustments resulted in after tax statutory (charges) credits that in accordance with SSAP No. 3 Accounting Changes and Correction of Errors, have been reported as an adjustment to Unassigned Surplus as of January 1, 2011, 2010 and 2009. The impact of these adjustments on policyholder surplus as of January 1, 2011, 2010 and 2009 is as follows:

<TABLE>
<CAPTION>

	POLICYHOLDERS SURPLUS	TOTAL ADMITTED ASSETS	TOTAL LIABILITIES
<S>	<C>	<C>	<C>
BALANCE AT DECEMBER 31, 2010	$ 6,673,099	$ 26,416,595	$ 19,743,496
Adjustments to beginning Capital and Surplus:			
Asset realization (includes $897 of deemed capital contribution)	47,679	47,679	-
Liability correction	(23,911)	-	23,911
Income taxes	2,280	2,280	-
TOTAL ADJUSTMENTS TO BEGINNING CAPITAL AND SURPLUS	26,048	49,959	23,911
BALANCE AT JANUARY 1, 2011, AS ADJUSTED	$ 6,699,147	$ 26,466,554	$ 19,767,407

</TABLE>

An explanation for each of the adjustments for prior period's corrections is described below:

Asset realization - The increase in net admitted assets is primarily the result of: (a) a pooling correction in equities and deposits in pools and associations; (b) an adjustment of an intangible asset; and (c) miscellaneous reserve adjustments; partially offset by (d) a miscellaneous non-admitted asset

adjustment; (e) a correction of non-admitted assets related to retro premium and high deductible recoverable; and (f) other small miscellaneous adjustments.

Liability correction - The increase in total liabilities is primarily the result of: (a) an increase in IBNR as a result of the reversal of asbestos reserves related to coverage in place agreements; and (b) adjustment of paid losses and loss reserves; partially offset by (c) miscellaneous reserve adjustments; and (d) other small miscellaneous adjustments.

Income taxes - The increase in taxes is primarily the result of: (a) adjustments to the current tax assets and tax liabilities, and (b) the tax effect of the corresponding change in asset realization and liability corrections.

<PAGE>

<TABLE>
<CAPTION>

<S>	POLICYHOLDERS SURPLUS <C>	TOTAL ADMITTED ASSETS <C>	TOTAL LIABILITIES <C>
BALANCE AT DECEMBER 31, 2009	$ 5,872,354	$ 25,002,928	$ 19,130,574
Adjustments to beginning Capital and Surplus:			
Asset realization	2,147	2,147	-
Liability correction	(23,800)	-	23,800
Income taxes	(6,702)	(6,702)	-

TOTAL ADJUSTMENTS TO BEGINNING CAPITAL AND SURPLUS	(28,355)	(4,555)	23,800
BALANCE AT JANUARY 1, 2010, AS ADJUSTED	$ 5,843,999	$ 24,998,373	$ 19,154,374

</TABLE>

An explanation for each of the adjustments for prior period's corrections is described below:

Asset realization - The increase in net admitted assets is primarily the result of (a) an increase in equities and deposits in pools and associations resulting from miscellaneous 2009 audit adjustments identified at the Association after the filing of the Company's 2009 financial statements; partially offset by (b) a decrease in miscellaneous accounts receivable that should have been recorded in prior periods; and (c) other small miscellaneous adjustments.

Liability correction - The increase in total liabilities is primarily the result of (a) an increase in loss reserves to correct prior year calculations related to insolvent reinsurers and commuted reinsurance agreements; (b) an increase in IBNR; (c) a correction of deposit liability balances; and (d) other small miscellaneous adjustments.

Income taxes - The (increase)/decrease in taxes is primarily the result of (a) adjustments to the deferred tax inventory, and (b) the tax effect of the corresponding change in asset realization and liability corrections.

<TABLE>
<CAPTION>

<S>	POLICYHOLDERS SURPLUS <C>	TOTAL ADMITTED ASSETS <C>	TOTAL LIABILITIES <C>
BALANCE AT DECEMBER 31, 2008	$ 5,413,173	$ 25,417,968	$ 20,004,795
Adjustments to beginning Capital and Surplus:			
Asset realization	30,679	30,679	-
Liability correction	(97,307)	-	97,307
Federal income taxes (includes $5,044 of deemed capital contribution)	34,026	34,026	-
TOTAL ADJUSTMENTS TO BEGINNING CAPITAL AND SURPLUS	(32,602)	64,705	97,307

BALANCE AT JANUARY 1, 2009, AS ADJUSTED	$ 5,380,571	$ 25,482,673	$ 20,102,102

</TABLE>

An explanation for each of the adjustments for prior period's corrections is described below:

Asset realization - The increase in admitted assets is primarily the result of: (a) adjustments reported by the Association as of December 31, 2009 (carrying value of affiliates, foreign exchange, and reinsurance balances); (b) the reversal of a duplicate reinsurance payable balance (which had been netted against reinsurance recoverables); and (c) increases to the carrying values of certain affiliates.

<PAGE>

Liability correction - The increase in liabilities is primarily the result of: (a) adjustments to historical carried case and unearned premium reserves; (b) an adjustment to the revenue recognition policy for a specific insurance contract, resulting in the re-establishment of unearned premium reserves; (c) the accrual of an unrecorded liability for claim handling expenses; and (d) several remediation-related reinsurance accounting adjustments (including reconciliation adjustments and insolvency/commutation write-offs).

Income taxes - The decrease in federal income taxes is primarily the result of: (a) non-admitted prior year income tax receivables that were not settled at year end; (b) adjustment to tax discounting on loss reserves for workers'

compensation; (c) deferred tax asset reconciliation to book unrealized gains and unrealized foreign exchange gains, offset by corresponding changes in non-admitted tax assets; (d) removal of duplicated tax deduction for affiliate dividends; and (e) tax deduction for nontaxable book gain.

<PAGE>

NOTE 3 - INVESTMENTS

STATUTORY FAIR VALUE OF FINANCIAL INSTRUMENTS:

The following table presents the carrying values and statutory fair values of the Company's financial instruments as of December 31, 2011 and 2010.

<TABLE>
<CAPTION>

	2011		2010	
	CARRYING VALUE	STATUTORY FAIR VALUE	CARRYING VALUE	STATUTORY FAIR VALUE
<S>	<C>	<C>	<C>	<C>
Assets:				
Bonds	$ 17,761,724	$ 18,504,022	$ 15,148,888	$ 15,493,142
Common stocks	84,263	84,263	397,460	397,460
Preferred stocks	-	-	90,886	90,886
Other invested assets	1,440,576	1,440,576	1,574,423	1,574,423

Derivative asset	1,690	1,690	-	-
Cash, cash equivalents and short-term investments	446,531	446,531	2,620,910	2,620,910
Receivable for securities and other	491	491	1,146	1,146
Equities in underwriting pools and associations	266,934	266,934	544,719	544,719
Liabilities:				
Derivative liability	$ -	$ -	$ 4,250	$ 4,250
Collateral deposit liability	364,039	364,039	404,450	404,450

</TABLE>

The methods and assumptions used in estimating the statutory fair values of financial instruments are as follows:

- o The fair values of bonds, unaffiliated common stocks and preferred stocks are based on fair values that reflect the price at which a security would sell in an arm's length transaction between a willing buyer and seller. As such, sources of valuation include third party pricing sources, stock exchange, broker or custodian or the NAIC Capital Markets and Investment Analysis Office, formerly known as NAIC Securities Valuation Office.

- o The statutory fair values of affiliated common stocks are based on the underlying equity of the respective entity's financial statements.

- o Other invested assets include primarily partnerships and joint ventures. Fair values are based on the net asset value of the respective entity's financial statements.

- o The fair values of derivatives are valued using quoted prices in active markets and other market-evidence whenever possible, including market-based inputs to model, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency.

- o The carrying value of all other financial instruments approximates fair value.

<PAGE>

AMERICAN HOME ASSURANCE COMPANY

NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS

DECEMBER 31, 2011, 2010 AND 2009

(000'S OMITTED)

The carrying values and fair values of the Company's bond investments as of December 31, 2011 and 2010 are outlined in the table below:

<TABLE>
<CAPTION>

	CARRYING VALUE *	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
<S>	<C>	<C>	<C>	<C>
AS OF DECEMBER 31, 2011				
U.S. governments	$ 1,202,854	$ 51,880	$ 30	$ 1,254,704
All other governments	866,122	34,145	3,898	896,369
States, territories and possessions	1,773,975	155,847	-	1,929,822
Political subdivisions of states, territories and possessions	2,172,432	156,627	352	2,328,707
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities and their political subdivisions	5,430,054	343,906	10,153	5,763,807
Industrial and miscellaneous	6,316,287	169,838	155,512	6,330,613
TOTAL BONDS, AS OF DECEMBER 31, 2011	$ 17,761,724	$ 912,243	$ 169,945	$ 18,504,022

</TABLE>

<TABLE>
<CAPTION>

	CARRYING VALUE *	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
AS OF DECEMBER 31, 2010				
U.S. governments	$ 1,305,760	$ 15,665	$ 8,631	$ 1,312,794
All other governments	567,033	17,293	1,187	583,139
States, territories and possessions	2,097,245	106,740	4,276	2,199,709
Political subdivisions of states, territories and possessions	2,808,873	95,840	13,723	2,890,990
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities and their political subdivisions	6,238,798	198,038	59,040	6,377,796
Industrial and miscellaneous	2,131,179	58,156	60,621	2,128,714
TOTAL BONDS, AS OF DECEMBER 31, 2010	$ 15,148,888	$ 491,732	$ 147,478	$ 15,493,142

At December 31, 2011 the Company held hybrid securities with a fair value of $53,235 and carrying value of $52,281. At December 31, 2010 the fair value was $74,956 and the carrying value was $66,182. These securities are included in Industrial and miscellaneous.

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* Includes bonds with NAIC designation of 3 to 6 that are reported at the lower of amortized cost or fair value. As of December 31, 2011 and 2010, the carrying value of those bonds amounted to $318,273 and $136,966, respectively.

(000'S OMITTED)

The carrying values and fair values of bonds at December 31, 2011, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay certain obligations with or without call or prepayment penalties.

	CARRYING VALUE*	FAIR VALUE
Due in one year or less	$ 470,555	$ 472,304
Due after one year through five years	8,273,233	8,731,654
Due after five years through ten years	3,340,837	3,562,914
Due after ten years	1,691,587	1,800,924
Structured securities	3,985,512	3,936,226
TOTAL BONDS	$ 17,761,724	$ 18,504,022

Proceeds from sales and gross realized gains and gross realized losses were as follows:

FOR THE YEARS ENDED DECEMBER 31,	2011		2010		2009	
	BONDS	EQUITY SECURITIES	BONDS	EQUITY SECURITIES	BONDS	EQUITY SECURITIES

Proceeds from sales	$ 3,979,210	$ 104,040	$ 4,652,824	$ 1,078,800	$ 3,921,920	$ 1,636,318
Gross realized gains	168,725	14,425	99,350	536,459	36,760	628,427
Gross realized losses	(9,904)	(363)	(28,656)	(15,017)	(46,196)	(225,886)

</TABLE>

<PAGE>

The cost, fair value and carrying value of the Company's common and preferred stocks as of December 31, 2011 and 2010 are set forth in the table below:

<TABLE>
<CAPTION>

DECEMBER 31, 2011

<S>	COST OR AMORTIZED COST <C>	GROSS UNREALIZED GAINS <C>	GROSS UNREALIZED LOSSES <C>	FAIR VALUE <C>	CARRYING VALUE <C>
Common stocks:					
Affiliated	$ 40,792	$ 21,832	$ 5,602	$ 57,022	$ 57,022
Non-affiliated	22,561	6,312	1,632	27,241	27,241
TOTAL	$ 63,353	$ 28,144	$ 7,234	$ 84,263	$ 84,263

Preferred stocks:

Non-affiliated	$ -	$ -	$ -	$ -	$ -
TOTAL	$ -	$ -	$ -	$ -	$ -

</TABLE>

<TABLE>
<CAPTION>

DECEMBER 31, 2010

<S>	COST OR AMORTIZED COST <C>	GROSS UNREALIZED GAINS <C>	GROSS UNREALIZED LOSSES <C>	FAIR VALUE <C>	CARRYING VALUE <C>
Common stocks:					
Affiliated	$ 339,955	$ 33,987	$ 16,219	$ 357,723	$ 357,723
Non-affiliated	31,198	8,867	328	39,737	39,737
TOTAL	$ 371,153	$ 42,854	$ 16,547	$ 397,460	$ 397,460
Preferred stocks:					
Non-affiliated	$ 79,211	$ 11,675	$ -	$ 90,886	$ 90,886
TOTAL	$ 79,211	$ 11,675	$ -	$ 90,886	$ 90,886

</TABLE>

<PAGE>

The fair value together with the aging of the gross pre-tax unrealized losses with respect to the Company's bonds and stocks as of December 31, 2011 and 2010 is set forth in the table below:

<TABLE>
<CAPTION>

DESCRIPTION OF SECURITIES	LESS THAN 12 MONTHS FAIR VALUE	LESS THAN 12 MONTHS UNREALIZED LOSSES	12 MONTHS OR LONGER FAIR VALUE	12 MONTHS OR LONGER UNREALIZED LOSSES	TOTAL FAIR VALUE	TOTAL UNREALIZED LOSSES
<S>	<C>	<C>	<C>	<C>	<C>	<C>
As of December 31, 2011:						
U. S. governments	$ 101,528	$ 30	$ -	$ -	$ 101,528	$ 30
All other governments	125,873	2,625	16,280	1,273	142,153	3,898
Political subdivisions of states, territories and possessions	25,592	352	-	-	25,592	352
Special revenue	295,154	427	53,323	9,726	348,477	10,153
Industrial and miscellaneous	2,107,765	120,975	274,131	34,537	2,381,896	155,512
TOTAL BONDS	2,655,912	124,409	343,734	45,536	2,999,646	169,945
Affiliated	-	-	20,584	5,602	20,584	5,602
Non-affiliated	4,075	1,328	-	304	4,075	1,632
Common stock	4,075	1,328	20,584	5,906	24,659	7,234
TOTAL STOCKS	4,075	1,328	20,584	5,906	24,659	7,234
TOTAL BONDS AND STOCKS	$ 2,659,987	$ 125,737	$ 364,318	$ 51,442	$ 3,024,305	$ 177,179

</TABLE>

<PAGE>

DESCRIPTION OF SECURITIES	LESS THAN 12 MONTHS FAIR VALUE	LESS THAN 12 MONTHS UNREALIZED LOSSES	12 MONTHS OR LONGER FAIR VALUE	12 MONTHS OR LONGER UNREALIZED LOSSES	TOTAL FAIR VALUE	TOTAL UNREALIZED LOSSES
As of December 31, 2010:						
U. S. governments	$ 349,766	$ 8,631	$ -	$ -	$ 349,766	$ 8,631
All other governments	117,994	1,187	-	-	117,994	1,187
States, territories and possessions	255,356	4,276	-	-	255,356	4,276
Political subdivisions of states, territories and possessions	661,980	13,723	-	-	661,980	13,723
Special revenue	1,542,522	44,779	80,600	14,261	1,623,122	59,040
Industrial and miscellaneous	672,482	59,489	6,933	1,132	679,415	60,621
TOTAL BONDS	3,600,100	132,085	87,533	15,393	3,687,633	147,478
Affiliated	289,975	10,694	12,200	5,525	302,175	16,219
Non-affiliated	338	39	-	289	338	328
Common stock	290,313	10,733	12,200	5,814	302,513	16,547
TOTAL STOCKS	290,313	10,733	12,200	5,814	302,513	16,547
TOTAL BONDS AND STOCKS	$ 3,890,413	$ 142,818	$ 99,733	$ 21,207	$ 3,990,146	$ 164,025

</TABLE>

The Company reported write-downs on its bond investments due to OTTI in fair value of $61,446, $49,894 and $38,733 in 2011, 2010 and 2009, respectively and reported write-downs on its common and preferred stock investments due to OTTI in fair value of $0, $33,261 and $38,827 during 2011, 2010 and 2009, respectively.

<PAGE>

During 2011, 2010 and 2009, the Company reported the following write-downs on its joint venture and partnership investments due to an OTTI in fair value:

<TABLE>
<CAPTION>

FOR THE YEARS ENDED DECEMBER 31,	2011	2010	2009
General Atlantic Partners 82, L.P.	$ 4,427	$ -	$ -
General Atlantic Partners 80, L.P.	4,306	-	-
TH Lee Putnam Ventures, L.P.	4,079	-	-
Sprout IX LP	1,988	-	-
Advanced Technology Ventures VI, L.P.	1,894	-	-
General Atlantic Partners 74, L.P.	-	14,793	-
NEF Kamchia Co-Investment Fund, L.P.	-	12,803	-
General Atlantic Partners 70, L.P.	-	11,535	-
Prides Capital Fund I LP	-	10,778	-

RH Fund 1, L.P.	-	6,940	-
General Atlantic Partners 77, L.P.	-	6,326	-
AIG Black Sea Holding, L.P. (BTC Investment)	-	-	57,728
J.C. Flowers Fund II, L.P.	-	-	20,286
Electra European Fund II	-	-	17,266
Capvest Equity Partners, L.P.	-	-	13,372
Valueact Capital Partners III	-	-	8,811
Arrowpath Fund II, L.P.	-	-	4,973
AZ Auto Hldgs LLC	-	-	4,102
Brencourt Multi-Strategy, L.P.	-	-	3,899
AIG Private Equity Portfolio, L.P.	-	-	3,542
Blackstone Kalix Fund L.P.	-	-	3,179
Meritage Private Equity Fund, L.P.	-	-	1,239
Items less than $1.0 million	750	-	2,255
TOTAL	$ 17,444	$ 63,175	$ 140,652

</TABLE>

Securities carried at book adjusted carrying value of $1,316,565 and $1,363,230 were deposited with regulatory authorities as required by law as of December 31, 2011 and 2010, respectively.

During 2011, 2010 and 2009, included in Net Investment Income Earned were investment expenses of $27,606, $17,034 and $11,116, respectively and interest expense of $4, $348 and $9,737, respectively.

The degree of judgment used in measuring the fair value of financial instruments generally correlates with the level of pricing observability. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgment is used in measuring fair value. Conversely, financial instruments traded in other-than-active markets or that do not have quoted prices have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment. An active market is one in which transactions for the asset or liability being valued occur with sufficient frequency and volume to provide pricing information on an ongoing basis. An other-than-active market is one in which there are few transactions, the prices are not current, price

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quotations vary substantially either over time or among market makers, or in which little information is released publicly for the asset or liability being valued. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction and general market conditions.

The standard defines three "levels" based on observability of inputs available in the marketplace used to measure fair value. Such levels are:

- Level 1: Fair value measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

- Level 2: Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable at commonly quoted intervals.

- Level 3: Fair value measurements based on valuation techniques that use significant inputs that are unobservable. These measurements include circumstances in which there is little, if any, market activity for the asset or liability.

Bonds, Common Stocks, Preferred Stocks and Derivatives:

The Company maximizes the use of observable inputs and minimizes the use of

unobservable inputs when measuring fair value. Whenever available, the Company uses fair values for bonds, common stocks, preferred stocks and derivatives with NAIC ratings of 3 or below where fair value is less than amortized cost. When fair values are not available, fair values are obtained from third party pricing sources.

The following table presents information about financial instruments carried at fair value on a recurring basis and indicates the level of the fair value measurement per SSAP 100 as of December 31, 2011 and 2010:

DECEMBER 31, 2011				
	Level 1	Level 2	Level 3	Total
Bonds	$ -	$ 80,765	$ 81,990	$ 162,755
Common stocks	27,241	-	-	27,241
Preferred stocks	-	-	-	-
Derivative asset	-	1,690	-	1,690
Total	$ 27,241	$ 82,455	$ 81,990	$ 191,686

DECEMBER 31, 2010				
	Level 1	Level 2	Level 3	Total
Bonds	$ -	$ 3,612	$ 2,904	$ 6,516
Common stocks	36,311	3,426	-	39,737
Preferred stocks	-	90,886	-	90,886
Derivative liability	-	(4,250)	-	(4,250)
Total	$ 36,311	$ 93,674	$ 2,904	$ 132,889

</TABLE>

<PAGE>

The following table presents changes during 2011 and 2010 in Level 3 financial instruments measured at fair value on a recurring basis, and the realized and unrealized gains (losses) recorded in income during 2011 and 2010 related to the Level 3 financial instruments that remained in the balance sheet at December 31, 2011 and 2010.

<TABLE>
<CAPTION>

	Balance Beginning of Year	Transfers In	Transfers Out	Net Realized and Unrealized Gains (Losses) Included in Net Investment Income and Realized Capital Gains (Losses)	Unrealized Gains (Losses) Included in Surplus	Purchases, Sales, Issuances, Settlements, Net	Balance at December 31, 2011
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Bonds	$ 2,904	$ 72,866	$ (3,014)	$ 3,686	$ (5,172)	$ 10,720	$ 81,990
Common stocks	-	-	-	-	-	-	-
Preferred stocks	-	-	-	-	-	-	-
Total	$ 2,904	$ 72,866	$ (3,014)	$ 3,686	$ (5,172)	$ 10,720	$ 81,990

</TABLE>

<TABLE>
<CAPTION>

	Balance Beginning of Year	Transfers In	Transfers Out	Net Realized and Unrealized Gains (Losses) Included in Net Investment Income and Realized Capital Gains (Losses)	Unrealized Gains (Losses) Included in Surplus	Purchases, Sales, Issuances, Settlements, Net	Balance at December 31, 2010
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Bonds	$ 37,738	$ 2,904	$ (32,212)	$ (8,652)	$ 10,049	$ (6,923)	$ 2,904
Common stocks	-	-	-	-	-	-	-
Preferred stocks	2,905	-	(520)	-	438	(2,823)	-
Total	$ 40,643	$ 2,904	$ (32,732)	$ (8,652)	$ 10,487	$ (9,746)	$ 2,904

</TABLE>

Other Invested Assets:

The Company initially estimates the fair value of investments in joint ventures and limited partnerships (predominately private limited partnerships and certain hedge funds) by reference to transaction price. Subsequently, the Company obtains the fair value of these investments generally from net asset value information provided by the general partner or manager of the investments, the financial statements of which are audited annually. The Company considers observable market data and performs due diligence procedures in validating the appropriateness of using the net asset value as a fair value measurement.

The Company also measures the fair value of certain assets such as joint ventures and limited partnerships included in other invested assets on a non-recurring basis when events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. The Company did not have other invested assets measured at fair value on a non-recurring basis as of December 31, 2011 and 2010.

Loan-Backed and Structured Securities:

There was no OTTI recorded during the year for loan-backed and structured

securities due to the Company's intent to sell or its inability or lack of intent to retain such securities.

<PAGE>

At December 31, 2011, the Company held loan-backed and structured securities for which it had recognized credit-related OTTI based on the fact that the present value of projected cash flows expected to be collected was less than the amortized cost of the securities.

<TABLE>
<CAPTION>

BOOK/ADJUSTED CARRYING VALUE AMORTIZED COST BEFORE CURRENT PERIOD OTTI	PRESENT VALUE OF PROJECTED CASH FLOWS	RECOGNIZED OTTI	AMORTIZED COST AFTER OTTI	FAIR VALUE
<C>	<C>	<C>	<C>	<C>
$ 1,564,984	$ 1,516,679	$ 48,305	$ 1,516,679	$ 1,440,301

</TABLE>

At December 31, 2011 and 2010, the Company held securities with unrealized losses (fair value is less than carrying value) for which OTTI had not been recognized in earnings as a realized loss. Such unrealized losses include

securities with a recognized OTTI for non interest (i.e. credit) related declines that were recognized in earnings, but for which an associated interest related decline has not been recognized in earnings as a realized loss. The aggregate amount of unrealized losses and fair values for such securities, segregated between those securities that have been in a continuous unrealized loss position for less than 12 months and greater than 12 months, respectively, were as follows:

DECEMBER 31, 2011	Less than 12 Months		12 Months or Longer		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Loan-backed and structured securities	$ 1,805,059	$ 100,010	$ 270,280	$ 33,244	$ 2,075,339	$ 133,254
Total temporarily impaired securities	$ 1,805,059	$ 100,010	$ 270,280	$ 33,244	$ 2,075,339	$ 133,254

DECEMBER 31, 2010	Less than 12 Months		12 Months or Longer		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Loan-backed and structured securities	$ 572,376	$ 58,253	$ 6,298	$ 1,130	$ 578,674	$ 59,383
Total temporarily impaired securities	$ 572,376	$ 58,253	$ 6,298	$ 1,130	$ 578,674	$ 59,383

==
</TABLE>

In its OTTI assessment, the Company considers all information relevant to the collectability of the security, including past history, current conditions and reasonable forecasts when developing an estimate of future cash flows. Relevant analyst reports and forecasts for the asset class also receive appropriate consideration. The Company also considers how credit enhancements affect the expected performance of the security. In addition, the Company also considers its cash and working capital requirements and generally considers expected cash flows in relation to its business plans and how such forecasts affect the intent and ability to hold such securities to recovery of their amortized cost.

<PAGE>

During 2010, the Company and certain of its affiliated insurance companies purchased various series of Class A Notes from Metropolis II, LLC (Metropolis). Each series of notes issued by Metropolis are collateralized by a single asset backed security (or in one series, four asset backed securities), primarily, collateralized loan obligations.

The Class A Notes were created as part of securitization transactions during 2010, in which the collateral was transferred to Metropolis by AIG Financial Products Corp. (AIG-FP), an affiliate of the Company, through one of AIG-FP's wholly-owned subsidiaries. In exchange for the underlying collateral, AIG-FP and its wholly-owned subsidiary received cash equal in amount to the purchase price of the Class A Notes, and Class B Notes issued by Metropolis as part of the

series.

The Company's and its affiliated insurance companies' participation in the purchase of Class A Notes during 2010 is as follows (par and purchase price each converted to US dollars as of the acquisition date):

COMPANY	PAR PURCHASED	PURCHASE PRICE
National Union	$ 852,455	$ 808,335
American Home	423,421	402,213
C&I	275,223	261,438
Lexington Insurance Company	423,421	402,213
Chartis Select Insurance Company	275,223	261,438
Total	$ 2,249,743	$ 2,135,637

Of the thirteen Class A Notes issued by Metropolis and purchased by the Company and its affiliates, eight series are denominated in euros, the same currency as the collateral underlying that series. The Company and each of the affiliated insurance companies participating in the transactions entered into cross-currency swaps with AIG Markets, Inc. to hedge the foreign currency risk associated with the euro-denominated Class A Notes.

Pursuant to the Company's cross-currency swaps, the Company will periodically make payments in euros in exchange for a receipt of a payment in US dollars on fixed dates and fixed exchange rates. The Company is therefore exposed under this type of contract to fluctuations in value of the swaps due to changes in exchange rates. This exposure in the value of euro payments offsets the Company's exposure to changes in the value of euro receipts on the Metropolis Class A Notes discussed above.

Credit Risk: The current credit exposure of the Company's derivative contracts is limited to the fair value of such contracts that are favorable to the Company at the reporting date. Credit risk is managed by entering into transactions with creditworthy counterparties and obtaining collateral.

Cash Requirements: The Company is not subject to collateral requirements on the cross-currency swaps. On swap payment dates, the Company is required to make a

payment in euros equal to the amount of euros physically received on the Metropolis Class A Notes.

The Company has determined that the cross-currency swaps do not qualify for hedge accounting under the criteria set forth in SSAP No. 86, entitled Accounting for Derivative Instruments and Hedging Transactions. As a result, the Company's swap agreements are accounted for at fair value and the changes in fair value are recorded as unrealized gains or unrealized losses in the Statements of Operations and Changes in Capital and Surplus.

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The initial notional amount of each swap matched the par amounts of Class A Notes purchased. The notional amount on these swaps reduces over time, to match reductions in the par amounts of the related Class A Notes owned by the Company and its affiliates (e.g., resulting from principal repayments or sales). The aggregate outstanding notional amount of the swaps as of December 31, 2011 and 2010 was EUR 1,080,300 and EUR 1,252,015, respectively.

The following table summarizes the realized and unrealized capital gains or losses, the notional amount and the fair value of the cross-currency swaps held by the Company and its affiliates as of and for the years ended December 31, 2011 and 2010:

<TABLE>
<CAPTION>

	AS OF DECEMBER 31, 2011	YEAR ENDED DECEMBER 31, 2011

	OUTSTANDING NOTIONAL AMOUNT	ESTIMATED FAIR VALUE	REALIZED CAPITAL GAINS / (LOSSES)	UNREALIZED CAPITAL GAINS / (LOSSES)
<S>	<C>	<C>	<C>	<C>
COMPANY				
National Union	EUR 434,192	$ 2,509	$ (7,961)	$ 2,509
American Home	195,790	1,690	(4,985)	1,690
C&I	127,264	1,148	(2,789)	1,148
Lexington Insurance Company	195,790	1,690	(4,291)	1,690
Chartis Select Insurance Company	127,264	1,148	(2,789)	1,148
Total	EUR 1,080,300	$ 8,185	$ (22,815)	$ 8,185

</TABLE>

<TABLE>
<CAPTION>

	AS OF DECEMBER 31, 2010		YEAR ENDED DECEMBER 31, 2010	
	OUTSTANDING NOTIONAL AMOUNT	ESTIMATED FAIR VALUE	REALIZED CAPITAL GAINS / (LOSSES)	UNREALIZED CAPITAL GAINS / (LOSSES)
<S>	<C>	<C>	<C>	<C>
COMPANY				
National Union	EUR 493,005	$ (11,263)	$ 2,580	$ (11,263)
American Home	230,003	(4,250)	913	(4,250)
C&I	149,502	(2,762)	593	(2,762)
Lexington Insurance Company	230,003	(4,250)	913	(4,250)
Chartis Select Insurance Company	149,502	(2,762)	593	(2,762)
Total	EUR 1,252,015	$ (25,287)	$ 5,592	$ (25,287)

</TABLE>

Securities Lending

During the third quarter of 2011, the Company entered into financing transactions using municipal bonds to support statutory capital by generating

taxable income. In these transactions, certain available for sale high grade municipal bonds were loaned to counterparties, primarily commercial banks and brokerage firms, who receive the tax-exempt income from the bonds. No foreign securities are loaned. In return, the counterparties are required to pay the Company an income stream equal to the bond coupon of the loaned securities, plus a fee. To secure their borrowing of

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the securities, counterparties are required to post liquid collateral (such as high quality fixed maturity securities and cash) equal to at least 102 percent of the fair value of the loaned securities to third-party custodians for the Company's benefit in the event of default by the counterparties. The collateral is maintained in a third-party custody account and is trued-up daily based on daily fair value measurements from a third-party pricing source. If at any time the fair value of the collateral, inclusive of accrued interest thereon, falls below 102 percent of the fair value of the securities loaned, the Company can demand that the counterparty deliver additional collateral to restore the initial 102 percent collateral requirement. The Company is contractually prohibited from reinvesting any of the collateral it received, including cash collateral, for its securities lending activity. Accordingly, the securities lending collateral is not reported on the Company's balance sheet in accordance with SSAP No. 91R, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SSAP 91R). The Company has not pledged any of its assets as collateral. Consequently, the collateral is considered "off balance sheet". The aggregate amount of collateral received as of December 31, 2011, inclusive of accrued interest, is $953,661. The aggregate fair value of securities on loan is $919,879.

NOTE 4 - RESERVES FOR LOSSES AND LAE

A reconciliation of the Company's reserves for losses and LAE as of December 31, 2011, 2010 and 2009 is set forth in the table below:

<TABLE>
<CAPTION>

	2011	2010	2009
RESERVES FOR LOSSES AND LAE, END OF PRIOR YEAR	$ 14,383,093	$ 13,482,501	$ 13,268,600
Incurred losses and LAE related to:			
Current accident year	4,293,428	4,074,495	4,528,746
Prior accident years	250,641	1,904,603	939,381
TOTAL INCURRED LOSSES AND LAE	4,544,069	5,979,098	5,468,127
Paid losses and LAE related to:			
Current accident year	(1,368,553)	(1,206,965)	(1,426,132)
Prior accident years	(5,092,095)	(3,871,541)	(3,828,094)
TOTAL PAID LOSSES AND LAE	(6,460,648)	(5,078,506)	(5,254,226)
RESERVES FOR LOSSES AND LAE, AS OF DECEMBER 31,	$ 12,466,514	$ 14,383,093	$ 13,482,501

</TABLE>

During 2011, the Company ceded $1,876,693 of its net asbestos and Excess Workers

Compensation reserves to Eaglestone Reinsurance Company (Eaglestone) resulting in a decrease to net reserves. For 2011, the Company reported adverse loss and LAE reserve development of $250,641, including accretion of loss reserve discount, of $37,629. The adverse development was mostly attributable to Primary Casualty, Specialty Workers Compensation, and the Environmental classes of business partially offset by favorable development of Financial Lines and Excess Casualty classes of business. Catastrophe losses of $168,280 were also included in the Company's incurred losses and LAE. As

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discussed in Note 5, the restructure of the foreign branch operations resulted in a decrease of $44,666 of the reserves during 2011.

Following completion of its 2010 annual comprehensive loss reserve review, the Company recorded a $1,506,600 reserve charge for the fourth quarter of 2010 to strengthen loss reserves, reflecting adverse development on prior accident years in classes of business with long reporting tails. Four classes -- Asbestos, Excess Casualty, Excess Workers' Compensation, and primary Workers' Compensation -- comprise approximately 80 percent of the total charge. The majority of the reserve strengthening relates to development in accident years 2005 and prior. These adjustments reflected management's current best estimate of the ultimate value of the underlying claims. These liabilities are necessarily subject to the impact of future changes in claim severity and frequency, as well as numerous other factors. Although the Company believes that these estimated liabilities are reasonable, because of the extended period of time over which such claims are reported and settled, the subsequent development of these liabilities in future periods may not conform to the assumptions inherent in their

determination and, accordingly, may vary materially from the amounts previously recorded. To the extent actual emerging loss experience varies from the current assumptions used to determine these liabilities, they will be adjusted to reflect actual experience. Such adjustments, to the extent they occur, will be reported in the period recognized. AIG continues to monitor these liabilities and will take active steps to mitigate future adverse development. Additionally, during 2010, National Union commuted its quota share and stop loss reinsurance agreements with Chartis Specialty Insurance Company (Chartis Specialty) resulting in a net decrease in reserves of $1,180,170, offset by an increase of $794,667 from its commutation of a multi-year reinsurance agreement with American International Reinsurance Company, Ltd. (AIRCO). Refer to Note 6.

For 2009, the Company experienced significant adverse loss and LAE reserve development, including accretion of loss reserve discount. The adverse development was almost entirely attributable to the Excess Casualty and Excess Workers' Compensation classes of business. The Company modified its loss development assumptions for each of these classes of business in 2009 in response to the higher than expected loss emergence. For 2008, the development was slightly favorable prior to accretion of the workers compensation discount, and slightly adverse after recognition of accretion of the discount. Favorable development in Directors & Officers liability and other classes of business offset adverse development in the Company's Excess Casualty business. The adverse development in Excess Casualty was primarily related to accident years 2003 and prior.

The Company and some of its affiliates have continued their strategy that started in 2010 to improve the allocation of their reinsurance between traditional reinsurance markets and capital markets. As part of this strategy, they have secured $1.45 billion in protection for U.S. hurricanes and earthquakes through three separate catastrophe bond transactions. In 2011, they secured $575 million in a bond transaction and in 2010, $875 million through two separate bond transactions. These bond transactions in 2011 and 2010 reduced net premiums written by approximately $72,420 and $74,788, respectively.

As of December 31, 2011, 2010 and 2009, the Company's reserves for losses and LAE have been reduced by anticipated salvage and subrogation of $176,259, $169,676 and $166,812, respectively. In addition, as of December 31, 2011 and 2010, the Company recorded $0 and $50,400, respectively, of salvage from a related party, as a direct reduction of outstanding reserves.

As of December 31, 2011, 2010 and 2009, the Company's reserves for losses and LAE have been reduced by credits for reinsurance recoverable of $5,970,806,

$4,364,556 and $5,336,235, respectively (exclusive of inter-company pooling).

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ASBESTOS AND ENVIRONMENTAL RESERVES

The Company continues to receive indemnity claims asserting injuries from toxic waste, hazardous substances, asbestos and other environmental pollutants and alleged damages to cover the clean-up costs of hazardous waste dump sites (environmental claims). Estimation of environmental claims loss reserves is a difficult process, as these claims, which emanate from policies written in 1984 and prior years, cannot be estimated by conventional reserving techniques. Environmental claims development is affected by factors such as inconsistent court resolutions, the broadening of the intent of policies and scope of coverage and increasing number of new claims. The Company and other industry members have and will continue to litigate the broadening judicial interpretation of policy coverage and the liability issues. If the courts continue in the future to expand the intent of the policies and the scope of the coverage, as they have in the past, additional liabilities would emerge for amounts in excess of reserves held. This emergence cannot now be reasonably estimated, but could have a material impact on the Company's future operating results or financial position.

The Company's environmental exposure arises from the sale of general liability, product liability or commercial multi peril liability insurance, or by assumption of reinsurance within these lines of business.

The Company estimates the full impact of the asbestos and environmental exposure by establishing case basis reserves on all known losses and establishes bulk reserves for IBNR losses and LAE based on management's judgment after reviewing all the available loss, exposure, and other information.

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The Company's asbestos and environmental related loss and LAE reserves (including case & IBNR reserves) for the year ended December 31, 2011, 2010 and 2009, gross and net of reinsurance credits, are as follows:

<TABLE>
<CAPTION>

	ASBESTOS LOSSES			ENVIRONMENTAL LOSSES		
	2011	2010	2009	2011	2010	2009
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Direct :						
Loss and LAE reserves, beginning of year	$ 1,536,426	$ 890,649	$ 905,283	$ 67,916	$ 88,550	$ 105,450
Incurred losses and LAE	(56,328)	818,692	175,575	8,700	5,138	(3,738)
Calendar year paid losses and LAE	(129,292)	(172,915)	(190,209)	(20,768)	(25,772)	(13,162)

LOSS AND LAE RESERVES, END OF YEAR	$ 1,350,806	$ 1,536,426	$ 890,649	$ 55,848	$ 67,916	$ 88,550
Assumed:						
Loss and LAE reserves, beginning of year	$ 154,386	$ 85,957	$ 86,374	$ 5,476	$ 5,744	$ 5,077
Incurred losses and LAE	26,780	87,026	(1,517)	1,379	1,066	856
Calendar year paid losses and LAE	(19,442)	(18,597)	1,100	(1,227)	(1,334)	(189)
LOSS AND LAE RESERVES, END OF YEAR	$ 161,724	$ 154,386	$ 85,957	$ 5,628	$ 5,476	$ 5,744
Net of reinsurance:						
Loss and LAE reserves, beginning of year	$ 733,373	$ 393,257	$ 414,790	$ 41,696	$ 48,761	$ 57,647
Incurred losses and LAE	46,614	422,050	54,172	8,388	6,963	1,800
Calendar year paid losses and LAE	(779,987)	(81,934)	(75,705)	(11,497)	(14,028)	(10,686)
LOSS AND LAE RESERVES, END OF YEAR	$ -	$ 733,373	$ 393,257	$ 38,587	$ 41,696	$ 48,761

</TABLE>

The amount of ending reserves for Bulk and IBNR included in the table above for Asbestos and Environmental losses is as follows:

<TABLE>
<CAPTION>

	ASBESTOS LOSSES			ENVIRONMENTAL LOSSES		
	2011	2010	2009	2011	2010	2009
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Direct basis	$ 860,891	$ 1,127,844	$ 503,724	$ 8,937	$ 17,850	$ 29,091
Assumed reinsurance basis	101,277	118,402	41,926	410	394	520

Net of ceded reinsurance basis	-	552,119	221,716	4,491	8,548	14,070

</TABLE>

The amount of ending reserves for LAE included in the table above for Asbestos and Environmental losses is as follows:

<TABLE>
<CAPTION>

	ASBESTOS LOSSES			ENVIRONMENTAL LOSSES		
	2011	2010	2009	2011	2010	2009
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Direct basis	$ 98,454	$ 125,316	$ 55,969	$ 3,830	$ 7,650	$ 12,468
Assumed reinsurance basis	9,322	7,659	7,009	91	87	164
Net of ceded reinsurance basis	-	55,849	26,985	3,588	3,582	5,971

</TABLE>

Management believes that the reserves carried for the asbestos and environmental claims at December 31, 2011 are

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adequate as they are based on known facts and current law. The Company continues to receive claims asserting injuries from toxic waste, hazardous substances, and

other environmental pollutants and alleged damages to cover the cleanup costs of hazardous waste dump sites (hereinafter collectively referred to as environmental claims) and indemnity claims asserting injuries from asbestos. Estimation of asbestos and environmental claims loss reserves is a difficult process, as these claims, which emanate from policies written in 1984 and prior years, cannot be estimated by conventional reserving techniques.

Asbestos Loss Portfolio Transfer

On March 31, 2011, the Company and certain other Chartis affiliated insurers (collectively, the Chartis Reinsureds) entered into a loss portfolio transfer reinsurance agreement (Asbestos Reinsurance LPT), with an inception date of January 1, 2011, with Eaglestone. Under the Asbestos Reinsurance LPT, the Chartis Reinsureds transferred all of their net (net of discount and net of external reinsurance) U.S. asbestos liabilities to Eaglestone. The Chartis Reinsureds made a payment of $2,790,351 to Eaglestone (representing the net carrying value of their asbestos reserves) and Eaglestone agreed to provide coverage up to an aggregate limit of $5,000,000 on the assumed asbestos portfolio. The share of the net reserves (and payment) assumed by Eaglestone from each of Chartis Reinsureds is presented below.

Eaglestone and the Chartis Reinsureds received the required regulatory approvals to enter into the Asbestos Reinsurance LPT. The transaction closed and settled on May 13, 2011. Eaglestone and the Chartis Reinsureds recorded the transaction as prospective reinsurance in accordance with SSAP 62R.

On June 17, 2011, Eaglestone and the Chartis Reinsureds completed a transaction, effective as of January 1, 2011, with National Indemnity Company (NICO), a subsidiary of Berkshire Hathaway Inc., under which the bulk of the Chartis Reinsureds' U.S. asbestos liabilities that were assumed by Eaglestone under the Asbestos Reinsurance LPT were transferred through a reinsurance agreement by Eaglestone to NICO. The transaction with NICO covers potentially volatile U.S.-related asbestos exposures. The NICO transaction does not cover asbestos accounts that the Chartis reinsureds believe have already been reserved to their limit of liability or certain other ancillary asbestos exposures of Chartis affiliates.

In addition to its assumption of the subject asbestos liabilities and as included as part of its liability under the reinsurance agreement with Eaglestone, NICO assumed the collection risk on the Chartis Reinsureds' third party reinsurance recoverables with respect to the asbestos reserves NICO

assumed. With the concurrence of the NY DFS, the Company's provision for reinsurance recoverable both paid and unpaid has been reduced by $82,034 to reflect the transfer to an authorized reinsurer of the collection risk on certain of the Chartis companies' asbestos related third party reinsurance recoverables. This credit is reflected in the "Other allowed offset items" column of the Schedule of Reinsurance of the Company's 2011 Annual Statement.

Excess Workers' Compensation Loss Portfolio Transfer

On March 31, 2011, the Admitted Pool members entered into a loss portfolio transfer agreement (Excess Workers' Compensation Reinsurance LPT), with an inception date of January 1, 2011, with Eaglestone to transfer $2,720,102 of net excess workers' compensation liabilities to Eaglestone on a funds withheld basis. Eaglestone established an initial funds withheld asset in the aggregate of $2,720,102 and agreed to provide coverage up to an aggregate limit of $5,500,000 on the assumed exposures. Eaglestone will earn interest of 4.25 percent per annum on the funds withheld balance. The Company's funds held balance including accrued interest was $1,071,268 at December 31, 2011. This

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was considered a non cash transaction in the statement of cash flow.

The share of the net reserves assumed by Eaglestone from each of the Chartis Reinsureds is presented below.

<TABLE>

<CAPTION>

COMPANY	ASBESTOS LOSS TRANSFER	EXCESS WORKERS' COMPENSATION	TOTAL
<S>	<C>	<C>	<C>
ADMITTED POOL COMPANIES:			
National Union	$ 827,363	$ 927,266	$ 1,754,629
American Home	783,818	1,092,875	1,876,693
C&I	239,500	333,934	573,434
Chartis PC	108,863	122,009	230,872
New Hampshire	108,863	122,009	230,872
ISOP	108,863	122,009	230,872
TOTAL ADMITTED POOL COMPANIES	$ 2,177,270	$ 2,720,102	$ 4,897,372
SURPLUS LINES POOL COMPANIES:			
Lexington Insurance Company	$ 261,997	$ -	$ 261,997
Chartis Select Insurance Company	67,370	-	67,370
Chartis Specialty Insurance Company	37,428	-	37,428
Landmark Insurance Company	7,486	-	7,486
TOTAL SURPLUS LINES POOL COMPANIES	$ 374,281	$ -	$ 374,281
CHARTIS INTERNATIONAL			
Chartis Overseas Ltd.	$ 212,400	$ -	$ 212,400
Other	26,400	-	26,400
TOTAL CHARTIS INTERNATIONAL	$ 238,800	$ -	$ 238,800
GRAND TOTAL	$ 2,790,351	$ 2,720,102	$ 5,510,453

</TABLE>

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NOTE 5 - RELATED PARTY TRANSACTIONS

A. ADMITTED POOLING AGREEMENT

The Company, as well as certain other insurance affiliates, is a party to an inter-company reinsurance pooling agreement. In accordance with the terms and conditions of this agreement, the member companies cede all direct and assumed business (except that of the Japan branch of the Company) to National Union (the lead pooling participant). In turn, each pooling participant receives from National Union their percentage share of the pooled business.

The Company's share of the pool is 36.0 percent. Accordingly, premiums earned, losses and LAE incurred, and other underwriting expenses, as well as related assets and liabilities, in the accompanying financial statements emanate from the Company's percentage participation in the pool.

A list of all pooling participants and their respective participation percentages is set forth in Note 1.

B. CHARTIS OVERSEAS ASSOCIATION POOLING ARRANGEMENT

AIG formed the Association; a Bermuda unincorporated association, in 1976, as the pooling mechanism for AIG's international general insurance operations. In exchange for membership in the Association at the assigned participation, the members contributed capital in the form of cash and other assets, including rights to future business written by international operations owned by the members. The legal ownership and insurance

licenses of these international branches remain in the name of New Hampshire, National Union, and the Company. On annual basis the Association files audited financial statements with the NY DFS that have been prepared in accordance with NY SAP.

At the time of forming the Association, the member companies entered into an open-ended reinsurance agreement, cancelable with six months written notice by any member. The reinsurance agreement governs the insurance business pooled in the Association. The initial participation established was subsequently amended for profits and losses for each year derived from reinsurance of risks situated in Japan (excluding certain Japanese situs risks and business underwritten by the Company's Japan branch which is not subject to the Admitted Pooling Agreement nor the Association). The participation for Japanese and non-Japanese business underwritten via the Association is set forth in the table below:

<TABLE>
<CAPTION>

MEMBER COMPANY	NAIC CO. CODE	INITIAL PARTICIPATION PERCENT	PARTICIPATION PERCENT SPECIFIC TO JAPAN RISK
<S>	<C>	<C>	<C>
Chartis Overseas Limited	-	67.0%	85.0%
Admitted Pool member companies, as follows:	-	33.0%	15.0%
New Hampshire	23841	12.0%	10.0%
National Union	19445	11.0%	5.0%
The Company	19380	10.0%	0.0%

</TABLE>

<PAGE>

DECEMBER 31, 2011, 2010 AND 2009

(000'S OMITTED)

In accordance with the Admitted Pooling Agreement, the Admitted Pool member companies' participation in the Association is pooled among all Admitted Pool members proportional to their participation in the Admitted Pool. The Company's participation in the Association after the application of its participation in the Admitted Pooling Agreement has been presented in the accompanying financial statements as follows:

<TABLE>
<CAPTION>

AS OF DECEMBER 31,	2011	2010
Assumed reinsurance premiums receivable	$ 119,334	$ 75,852
Funds held by ceding reinsurers	41,702	12,478
Reinsurance recoverable	34,065	42,074
Equities in underwriting pools and associations	266,934	544,719
TOTAL ASSETS	$ 462,035	$ 675,123
Loss and LAE reserves	$ 524,705	$ 564,889
Unearned premium reserves	206,983	233,080
Funds held	10,157	13,038
Ceded balances payable	48,337	61,292
Assumed reinsurance payable	53,519	44,085
TOTAL LIABILITIES	$ 843,701	$ 916,384
TOTAL SURPLUS	$ (381,666)	$ (241,261)

</TABLE>

As of December 31, 2011, the Association reported an asset of $2,401,126 representing the value of subsidiaries and affiliated entities (SCAs). As of December 31, 2011, Chartis Europe S.A. represented $1,748,890 and Chartis UK Holdings represented $542,447, respectively of this total SCA asset.

The Company's reporting of its interest in the Association's SCA entities is consistent with the reporting of its interest in the Association and the Admitted Pooling Agreement. At December 31, 2011, the Company's interest in the Association's SCA entities was $285,254 and has been reported as a component of Equities in Underwriting Pools and Associations.

As part of its efforts to simplify the legal entity structure, enhance transparency and streamline financial visibility, Chartis continued to restructure the foreign branch operations of the Admitted Pool members. Generally, the results of these foreign branch operations, with the exception of the Company's Japan and former Canadian branches, have historically been reported as part of the operations of the Association by its member companies consistent with the accounting for the Admitted Pooling Agreement, the Admitted Pool. The U.S. member companies of the Association pooled their 33 percent participation with the remaining members of the Admitted Pool.

On January 1, 2011, the Company transferred the existing business of its Singapore Branch to Chartis Singapore Insurance PTE Ltd. (Chartis Singapore) an indirect wholly owned subsidiary of Chartis International, LLC. The Company also transferred the in force business of its Australia and New Zealand branches to new legal entities

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formed in those jurisdictions, effective March 1, 2011 and December 1, 2011 respectively. With an effective date of December 1, 2011, the Company also transferred the in force business of its Cyprus and Malta branches to newly formed branches of Chartis Insurance UK Limited (Chartis UK). New Hampshire transferred its in force business of its Philippines branch to Chartis Philippines Insurance Inc., a subsidiary of Chartis Singapore, effective December 1, 2011.

On December 1, 2011, Chartis Insurance Ireland Limited (CIIL) merged into Chartis UK (n/k/a Chartis Europe Limited). Upon merger, business previously written by CIIL will be written by a newly registered Irish branch of Chartis UK. In connection with this restructuring, certain inter-company reinsurance agreements between CIIL and the Association members were novated to Chartis UK Ireland Branch and repaneled. On that same date, Chartis UK Ireland Branch entered into a quota share and a combined working and catastrophe excess of loss reinsurance agreement directly with the Association members.

During 2011, the largest restructuring were completed at Chartis Singapore, the Australia branch and the Hong Kong branches. These branches had total assets of $2,315,692 and liabilities of $1,322,618.

Effective December 1, 2010, the in force business of the Hong Kong branches of National Union, the Company and New Hampshire was transferred to Chartis Insurance Hong Kong Limited, a subsidiary of Chartis Overseas Limited, under Section 25D of the Hong Kong Insurance Companies Ordinance. Consistent with the 2011 transactions, this transaction was recorded by the Admitted Pool members in calendar year 2011 with the approval of the New York and Pennsylvania Insurance Departments.

The Association's fiscal year end is November 30th. Although the fiscal year end for the members of the Admitted Pool is December 31, their financial statements have historically and consistently reported the results of their participation in the Association as of the Association's fiscal year end. In order to achieve consistency in their financial reporting, the Admitted Pool members have received approval from the NY

DFS and Pennsylvania Insurance Department to record the above referenced December 1, 2011 restructuring activities, including the reinsurance transactions associated with the restructuring of Chartis Ireland operations, in their 2012 statutory financial statements. These transactions are not expected to have a material impact on the Company's financial statements.

C. GUARANTEE ARRANGEMENTS

The Company issued guarantees whereby it unconditionally and irrevocably guaranteed all present and future obligations and liabilities of any kind arising from the policies of insurance issued by certain insurers who, as of the guarantee issue date, were members of the AIG holding company group. The guarantees were provided in order to secure or maintain the guaranteed companies' rating status issued by certain rating agencies, as disclosed in Note 11.

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D. INVESTMENTS IN AFFILIATES

As of December 31, 2011 and 2010, the Company's common stock investments with its affiliates together with the related change in unrealized appreciation were as follows:

<TABLE>
<CAPTION>

AFFILIATED COMMON STOCK INVESTMENTS	AFFILIATE OWNERSHIP PERCENT	ACTUAL COST 2011	CARRYING VALUE AT DECEMBER 31, 2011	CHANGE IN CARRYING VALUE 2011
<S>	<C>	<C>	<C>	<C>
AIU Brasil Affiliate	100.0%	$ 408	$ 476	$ (1,771)
Chartis Non Life Holding Company (Japan), Inc.	0.0%	-	-	(289,975)
AIG Mexico Industrial, L.L.C. (a)	0.0%	-	-	(10,954)
American International Realty Corporation	31.5%	14,198	35,962	(6,385)
Pine Street Real Estate Holdings Corporation	31.5%	5,209	2,362	227
Eastgreen, Inc.	13.8%	20,977	18,222	8,157
TOTAL COMMON STOCKS - AFFILIATES		$ 40,792	$ 57,022	$ (300,701)

</TABLE>

(a) The Company's interest was sold on July 29, 2011.

<TABLE>
<CAPTION>

AFFILIATED COMMON STOCK INVESTMENTS	AFFILIATE OWNERSHIP PERCENT	ACTUAL COST 2010	CARRYING VALUE AT DECEMBER 31, 2010	CHANGE IN CARRYING VALUE 2010
<S>	<C>	<C>	<C>	<C>
Chartis Non Life Holding Company (Japan), Inc.(c)	100.0%	$ 300,384	$ 289,975	$ 210,017
AIU Brasil Affiliate	100.0%	408	2,247	155
AIG Mexico Industrial, L.L.C.	49.0%	6,981	10,954	567
American International Realty Corporation	31.5%	14,169	42,347	21,723
Pine Street Real Estate Holdings Corporation	31.5%	5,209	2,135	(58)
Eastgreen, Inc.	13.4%	12,804	10,065	138
Fuji Fire and Marine Insurance Company (c)	2.8%	-	-	(12,180)
TOTAL COMMON STOCKS - AFFILIATES		$ 339,955	$ 357,723	$ 220,362

</TABLE>

(c) The Company's ownership of Fuji Fire and Marine Insurance Company was consolidated with its ownership of Chartis Non Life Holding Company (Japan), Inc.

On August 4, 2011, the Company closed a transaction in which it sold its interest in Chartis Non-Life Holding Company (Japan), Inc., an intermediate holding company whose primary asset consisted of approximately 38.6 percent of the common stock of Fuji Japan, to Chartis Pacific Rim Holdings, L.L.C, also a subsidiary of Chartis International, LLC, for approximately $433,600. The Company realized a capital gain of $133,220 and incurred a tax expense of $46,627 on this transaction. The tax liability was relieved through a deemed capital contribution.

In 2010, the Company's ownership of Fuji Fire and Marine Insurance Company was consolidated with its ownership of Chartis Non Life Holding Company (Japan) Inc.

Investments in affiliates are included in common stocks based on the net worth of the entity except for publicly

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traded affiliates which are based on quoted fair values, less a discount as prescribed by NAIC SAP (see Note 1).

The Company has ownership interests in certain affiliated real estate holding companies. From time to time, the Company may own investments in partnerships across various other AIG affiliated entities with a combined percentage greater than 10.0 percent. As of December 31, 2011 and 2010, the Company's total investments in partnerships with affiliated entities where AIG's interest was greater than 10.0 percent amounted to $566,665

and $802,931, respectively.

E. RESTRUCTURING

DOMESTIC OPERATIONS

As discussed in Note 6, effective January 1, 2010 and April 1, 2010, National Union commuted its quota share and stop loss reinsurance agreements with Chartis Specialty and a multi-year reinsurance agreement with AIRCO, respectively. The Company recorded its share of these transactions based upon its stated pool percentage.

Effective October 7, 2010, National Union Fire Insurance Company of Louisiana (NULA), Audubon Insurance Company (Audubon Insurance) and Audubon Indemnity Company (Audubon Indemnity) were merged with and into National Union. National Union is the surviving company and has assumed all of the existing obligations of the merged companies. The mergers were recorded as of October 1, 2010 with the approval of the Pennsylvania Insurance Department. As a result of the merger, National Union's total assets increased by $55,529; total liabilities increased by $4,901; gross paid in and contributed capital increased by $7,130; and unassigned surplus increased by $43,498. The increase to National Union's post-merger surplus is net of eliminations of $1,541 that is primarily related to the provision for reinsurance $1,308. This item is presented as Other Surplus Adjustments in National Union's Statement of Operations and Changes in Capital and Surplus. The other members of the Admitted Pool settled with National Union and recorded their proportionate share in accordance with the pooling agreement. With the approval of National Union's domiciliary regulator, none of the prior years' results or historical schedules have been restated for the merger. The transaction was accounted for as a statutory merger. National Union did not issue any new shares of stock as a result of the merger.

On June 10, 2009, the Company sold 12,826 shares of Transatlantic Holdings, Inc. (TRH) for $470,341 and recorded a realized gain of $450,511. As of December 31, 2009, the Company continued to own 9,193 common shares of TRH, representing approximately 13.9 percent of TRH's common shares issued, which were sold in March 2010. The Company had previously owned 33.2 percent of TRH. In addition, the Company recorded a capital contribution of $75,923 pursuant to the terms of a make whole agreement between the Company and AIG, whereby AIG agreed to contribute

capital to the Company in an amount equal to the difference between the statutory carrying value of TRH and the consideration received by the Company for the sale of its shares. The Company also received a deemed contribution of approximately $157,679 pursuant to the Tax Sharing Agreement (Agreement) in connection with this sale. The Agreement provides that AIG will reimburse the Company for any current tax liabilities arising from the sale of an operating subsidiary during the term of the Credit Facility, except amounts required to be remitted as Net Cash Proceeds, as defined in the Credit Facility. The Department issued a determination of non-control ruling relative to the Company's ownership of TRH. Accordingly, the Company's investment in TRH common stock has been reported as an unaffiliated investment in this financial statement and

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has been reported at fair value in accordance with SSAP No. 30, Investments in Common Stock. During 2010, the Company sold all but one hundred of the remaining shares of TRH and realized a profit of $463,417.

Effective July 1, 2009, the 21st Century Personal Auto Group (PAG) was sold to Farmers Group, Inc. (FGI), a subsidiary of Zurich Financial Services Group for $1.9 billion. Of the $1.9 billion proceeds received by AIG member companies from the sale of the PAG entities to FGI, $0.2 billion was retained by Chartis U.S., Inc. as consideration for the PAG entities it owned and $1.7 billion was provided to the Chartis U.S. insurance entities. American International Insurance Company (AIIC) was the lead company in the Personal Lines Pool which was the mechanism for sharing the PAG and the Private Client Group (PCG)

business underwritten among the Personal Lines Pool members. PCG business was underwritten directly by member companies of the Personal Lines Pool as well as the insurance entities of Chartis U.S., Inc. not subject to this sale ("Chartis U.S., Inc. companies"). The PCG business written by Chartis U.S., Inc. companies was ceded 100 percent to AIIC as the pool lead. The total of the PCG business assumed by AIIC, the PCG business underwritten directly by Personal Lines Pool members, as well as the PAG business retained by AIIC ("net business of the Personal Lines Pool") was then subject to a 50 percent quota share to National Union. The Admitted Pool members participated in this business assumed by National Union at their stated pool percentages.

In connection with this sale, various reinsurance agreements between the PAG companies and the Chartis U.S., Inc. companies (including the Company) were partially or fully commuted as of June 30, 2009. The major transactions are summarized below:

1. The quota share reinsurance agreement between National Union and AIIC under which AIIC ceded 50 percent of the net business of the Personal Lines Pool to National Union was commuted as of June 30, 2009.

2. All liabilities relating to existing PCG business that was written on a direct basis by members of the Personal Lines Pool were transferred to National Union under the terms of the PCG Business Reinsurance and Administration Agreement, effective June 30, 2009.

3. All obligations and liabilities relating to the PCG business that was directly written and ceded by Chartis U.S., Inc. companies to AIIC under various quota share reinsurance agreements were commuted as of June 30, 2009.

Following these transactions the Chartis U.S., Inc. companies settled all amounts due to AIIC in securities and cash totaling $871.9 million. The Company's share of this settlement was $293.3 million.

The Chartis U.S., Inc. companies which owned 21st Century Insurance Group (a member company of PAG), recorded dividend income and a resulting intangible asset of approximately $527.5 million for the fair value of the PCG business, which was not subject to the PAG sale and was retained by the Chartis U.S., Inc. companies going forward. Additionally, capital

contributions were received by the owners of 21st Century Insurance Group of $184.6 million from Chartis U.S. as part of the tax sharing agreement. The Company's share of these transactions was dividend income of $79.7 million and a capital contribution of $27.9 million.

Following the sale of the PAG entities, which included the Company's ownership in 21st Century Insurance Group and AIG Hawaii Insurance Company, Inc., the Company received $182.6 million of the $1.7 billion of proceeds

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received by the Chartis U.S., Inc. companies. As a result of these transactions involving the sale of these PAG entities, the Company recorded a pre-tax loss of $14.5 million.

FOREIGN OPERATIONS

Pursuant to a tender offer that expired on March 24, 2011, Chartis Japan Capital Company, LLC (CJCC), a newly formed subsidiary of National Union, acquired 43.59 percent of the outstanding shares of Fuji Fire and Marine Insurance Company, Limited (Fuji Japan). As a result of this transaction, as of March 31, 2011, Chartis owned 98.4 percent of Fuji Japan's outstanding voting shares. In a transaction that closed on August 4, 2011, National Union sold its interest in CJCC to Chartis Japan Holdings, LLC, a subsidiary of Chartis International, LLC, for approximately $586,800. Additionally, on the same date, the Company closed a transaction in which it sold its interest in Chartis Non-Life Holding Company (Japan), Inc., an intermediate holding company whose primary asset consisted of

approximately 38.6 percent of the common stock of Fuji Japan, to Chartis Pacific Rim Holdings, L.L.C, also a subsidiary of Chartis International, LLC, for approximately $433,600. Chartis' total ownership of Fuji Japan has not changed as a result of these transactions.

F. OTHER RELATED PARTY TRANSACTIONS

The following table summarizes transactions (excluding reinsurance and cost allocation transactions) that occurred during 2011 and 2010 between the Company and any affiliated companies that exceeded one-half of one percent of the Company's admitted assets as of December 31, 2011 and 2010 and all capital contributions and dividends.

<TABLE>
<CAPTION>

			ASSETS RECEIVED BY THE COMPANY		ASSETS TRANSFERRED BY THE COMPANY	
DATE OF TRANSACTION	EXPLANATION OF TRANSACTION	NAME OF AFFILIATE	STATEMENT VALUE	DESCRIPTION	STATEMENT VALUE	DESCRIPTION
<S>	<C>	<C>	<C>	<C>	<C>	<C>
03/28/11	Purchase of securities	AIG Inc. Matched Investment Program	$ 587,841	Securities	$ 587,841	Cash
08/18/11	Purchase of securities	Chartis Select	179,406	Securities	179,406	Cash
08/18/11	Purchase of securities	Lexington	747,122	Securities	747,122	Cash
08/18/11	Sale of securities	Chartis Select	210,304	Cash	200,294	Securities
08/18/11	Sale of securities	Lexington	854,193	Cash	814,422	Securities
03/01/11	Dividend	Chartis U.S., Inc.	-	-	11,448	In kind
06/29/11	Dividend	Chartis U.S., Inc.	-	-	110,000	Cash
11/01/11	Dividend	Chartis U.S., Inc.	-	-	16,010	In kind
03/31/11	Return of capital (a)	Chartis U.S., Inc.	-	-	1,020,000	Cash

09/19/11	Return of capital	Chartis U.S., Inc.	-	-	400,000	Cash
06/30/11	Capital contributions	Chartis U.S., Inc.	5,623	Cash	-	-
Various	Capital contributions (b)	Chartis U.S., Inc.	57,153	In kind	-	-
Various	Capital contribution	Chartis U.S., Inc.	4,605	In kind	-	-

(a) Refer immediately below this table for Eaglestone Reinsurance Company capitalization

(b) Capital contributions in lieu of Tax Sharing Agreement

Chartis Select: Chartis Select Insurance Company

Lexington: Lexington Insurance Company

</TABLE>

Funding of Eaglestone Capitalization

On March 31, 2011, National Union, the Company, and New Hampshire (Funding Participants), with the approval of the NY DFS and the Pennsylvania Insurance Department (PA DOI), returned $1,700,000 of capital to their immediate parent (Chartis U.S., Inc.) as part of a plan to capitalize Eaglestone with each of the companies contributing $510,000,

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$1,020,000 and $170,000, respectively. Eaglestone was significantly overcapitalized relative to its risk based capital target after the loss portfolio transfer was executed with NICO. Accordingly, on July 26, 2011,

Eaglestone received approval from PA DOI to return $1,030,000 in cash from its gross paid-in and contributed surplus to Chartis U.S., Inc. The distribution was made to Chartis U.S., Inc. on July 27, 2011. On that same date, Chartis U.S., Inc. contributed $620,000 to National Union, $130,000 to New Hampshire, and $100,000 to Chartis PC.

<TABLE>
<CAPTION>

			ASSETS RECEIVED BY THE COMPANY		ASSETS TRANSFERRED BY THE COMPANY	
DATE OF TRANSACTION	EXPLANATION OF TRANSACTION	NAME OF AFFILIATE	STATEMENT VALUE	DESCRIPTION	STATEMENT VALUE	DESCRIPTION
<S>	<C>	<C>	<C>	<C>	<C>	<C>
02/12/10	Dividend	Chartis U.S., Inc.	$ -	-	$ 300,000	Cash
04/08/10	Dividend	Chartis U.S., Inc.	-	-	1,343	Cash
Various	Capital contribution (a)	Chartis U.S., Inc.	5,322	In kind	-	-
03/31/10	Capital contribution	Chartis U.S., Inc.	4,829	In kind	-	-
12/31/10	Capital contribution(b)	Chartis U.S., Inc.	1,937,124	Receivable	-	-
06/24/10	Sale of securities	National Union	708,005	Cash	708,005	Securities

</TABLE>

(a) Capital contributions in lieu of Tax Sharing agreement

(b) Capital contribution was received on February 25, 2011

In the ordinary course of business, the Company utilizes its affiliates for data center systems, investment services, salvage and subrogation, and claims management. The following table summarizes transactions (excluding reinsurance and cost allocation transactions) that occurred during 2011, 2010 and 2009 between the Company and affiliated companies that exceeded one-half of one percent of the Company's admitted assets as of December 31, 2011, 2010 and 2009:

<TABLE>
<CAPTION>

FOR THE YEARS ENDED DECEMBER 31,	2011	2010	2009
Chartis Global Claims Services, Inc.	$ 250,065	$ 245,427	$ 255,941
Chartis Global Services, Inc.	272,803	-	-
TOTAL	$ 522,868	$ 245,427	$ 255,941

Effective January 1, 2011, Chartis Global Services, Inc. is the shared services organization for Chartis U.S., Inc. and Chartis International, LLC. In 2010 and 2009, the expenses were paid by other members of the Admitted Pool and allocated to the Company in accordance with the Pooling Agreement.

As of December 31, 2011 and 2010, short-term investments included amounts invested in the AIG Managed Money Market Fund of $376,438 and $1,881,287, respectively.

Federal and foreign income taxes payable to the Ultimate Parent as of December 31, 2011 and 2010 amounted to $23,930 and $60,666, respectively.

At December 31, 2011 and 2010, the amount due from/(to) National Union, as the lead company of the intercompany

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pool, was $3,447 and $(121,756), respectively.

As of December 31, 2011 and 2010, the Company had the following balances receivable/payable from/to its affiliates (excluding reinsurance transactions):

AS OF DECEMBER 31,	2011	2010
Balances with admitted pool companies	$ 6,325	$ 31,954
Balances less than 0.5% of admitted assets	7,005	23,175
Capital contributions receivable from Chartis U.S. Inc.	-	1,937,124
RECEIVABLE FROM PARENT, SUBSIDIARIES AND AFFILIATES	$ 13,330	$ 1,992,253
Balances with admitted pool companies	$ 145	$ 122,198
Balances less than 0.5% of admitted assets	46,282	82,128
PAYABLE TO PARENT, SUBSIDIARIES AND AFFILIATES	$ 46,427	$ 204,326

On February 23, 2011, NY SAP approved the Company's request to receive a capital contribution of $1,937,124 in cash from its parent Chartis U.S., Inc. and to reflect such contribution in its December 31, 2010 annual statement. The capital contribution was received by the Company on February 25, 2011 and reported as Receivable from Affiliate at December 31, 2010.

On March 31, 2005 the Company and certain of its affiliates entered into a settlement agreement with an insured to release all the asbestos claims and other products coverage potentially available under the applicable insurance policies by making specified payments to the insured on a quarterly basis from March 2005 to December 2016. Between March 31, 2006 and March 25, 2008 the insured entered into a series of receivable sale agreements with AICC whereby AICC purchased the insured's March 2006 to December 2016 receivables of $365,000 for $278,930. The Company did not reduce its loss reserves for the agreements

between the insured and AICC.

On October 27, 2009 AIG Funding, Inc. (AIGF) entered into an assignment and assumption agreement with AICC whereby AIGF assumed the remaining outstanding receivables from AICC, at net book value, as a partial payment against outstanding intercompany loan principal balances owed to AIGF by AICC. The amount, at net book value, was $225,962.

Refer to Notes 3, 4, 6, 7, 8, 9, 10 and 13 for other disclosures on transactions with related parties.

G. EVENTS OCCURRING AT THE AIG LEVEL

In September 2008, liquidity issues resulted in AIG seeking and receiving governmental support through a credit facility from the Federal Reserve Bank of New York (the FRBNY, and such credit facility, the FRBNY Credit Facility) and funding from the United States Department of the Treasury (Department of the Treasury) through the Troubled

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Asset Relief Program (TARP).

On January 14, 2011, AIG was recapitalized (the Recapitalization) and the FRBNY Credit Facility was repaid and terminated through a series of transactions that resulted in the Department of the Treasury becoming AIG's majority shareholder with ownership of approximately 92 percent of outstanding AIG Common Stock at that time. AIG understands that, subject to market conditions, the Department of

the Treasury intends to dispose of its ownership interest over time, and AIG has granted certain registration rights to the Department of the Treasury to facilitate such sales.

On May 27, 2011, AIG and the Department of the Treasury, as the selling shareholder, completed a registered public offering of AIG Common Stock. AIG issued and sold 100 million shares of AIG Common Stock for aggregate net proceeds of approximately $2.9 billion and the Department of the Treasury sold 200 million shares of AIG Common Stock. AIG did not receive any of the proceeds from the sale of the shares of AIG Common Stock by the Department of the Treasury. As a result of the sale of AIG Common Stock in this offering, the Series G Cumulative Mandatory Convertible Preferred Stock, par value $5.00 per share (the Series G Preferred Stock) was cancelled and the ownership of the outstanding AIG Common Stock by the Department of the Treasury was reduced from approximately 92 percent to approximately 77 percent after the completion of the offering.

NOTE 6 - REINSURANCE

In the ordinary course of business, the Company reinsures certain risks with affiliates and other companies. Such arrangements serve to limit the Company's maximum loss on catastrophes, large and unusually hazardous risks. To the extent that any reinsuring company might be unable to meet its obligations, the Company would be liable for its respective participation in such defaulted amounts. The Company purchased catastrophe excess of loss reinsurance covers protecting its net exposures from an excessive loss arising from property insurance losses and excessive losses in the event of a catastrophe under workers' compensation contracts issued without limit of loss.

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During 2011, 2010 and 2009, the Company's net premiums written and net premiums earned were comprised of the following:

<TABLE>
<CAPTION>

FOR THE YEARS ENDED DECEMBER 31,	2011		2010		2009	
	WRITTEN	EARNED	WRITTEN	EARNED	WRITTEN	EARNED
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Direct premiums	$ 1,327,507	$ 1,425,212	$ 1,471,932	$ 1,494,653	$ 2,181,231	$ 2,429,839
Reinsurance premiums assumed:						
Affiliates	6,868,230	7,283,623	6,775,226	7,113,494	7,553,633	8,250,685
Non-affiliates	102,880	74,710	64,497	37,427	51,887	46,888
GROSS PREMIUMS	8,298,617	8,783,545	8,311,655	8,645,574	9,786,751	10,727,412
Reinsurance premiums ceded:						
Affiliates	1,403,977	1,497,360	1,574,099	1,537,046	2,624,677	3,172,378
Non-affiliates	1,585,708	1,604,027	1,542,184	1,459,764	1,099,681	1,200,489
NET PREMIUMS	$ 5,308,932	$ 5,682,158	$ 5,195,372	$ 5,648,764	$ 6,062,393	$ 6,354,545

</TABLE>

The maximum amount of return commissions which would have been due reinsurers if all of the Company's reinsurance had been cancelled as of December 31, 2011 and 2010 with the return of the unearned premium reserve is as follows:

<TABLE>
<CAPTION>

	ASSUMED REINSURANCE	CEDED REINSURANCE	NET

	UNEARNED PREMIUM RESERVES	COMMISSION EQUITY	UNEARNED PREMIUM RESERVES	COMMISSION EQUITY	UNEARNED PREMIUM RESERVES	COMMISSION EQUITY
DECEMBER 31, 2011						
Affiliates	$ 3,342,813	$ 394,470	$ 830,856	$ 138,051	$ 2,511,957	$ 256,419
Non-affiliates	65,890	7,775	444,215	73,807	(378,325)	(66,032)
TOTAL	$ 3,408,703	$ 402,245	$ 1,275,071	$ 211,858	$ 2,133,632	$ 190,387
DECEMBER 31, 2010						
Affiliates	$ 3,758,923	$ 421,024	$ 924,159	$ 129,587	$ 2,834,764	$ 291,437
Non-affiliates	37,720	4,225	462,613	64,868	(424,893)	(60,643)
TOTAL	$ 3,796,643	$ 425,249	$ 1,386,772	$ 194,455	$ 2,409,871	$ 230,794

</TABLE>

<PAGE>

As of December 31, 2011 and 2010 and for the years then ended, the Company's unearned premium reserves, paid losses and LAE, and reserves for losses and LAE (including IBNR), have been reduced for reinsurance ceded as follows:

<TABLE>
<CAPTION>

	UNEARNED PREMIUM RESERVES	PAID LOSSES AND LAE	RESERVES FOR LOSSES AND LAE
December 31, 2011			
Affiliates	$ 830,856	$ 124,663	$ 10,409,887
Non-affiliates	444,215	272,636	2,977,082
TOTAL	$ 1,275,071	$ 397,299	$ 13,386,969
December 31, 2010			
Affiliates	$ 924,159	$ 131,717	$ 10,701,691
Non-affiliates	462,613	301,588	3,194,427
TOTAL	$ 1,386,772	$ 433,305	$ 13,896,118

</TABLE>

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The Company's unsecured reinsurance recoverables as of December 31, 2011 in excess of 3.0 percent of its capital and surplus is set forth in the table

below:

<TABLE>
<CAPTION>

REINSURER	NAIC CO. CODE	2011
Affiliates:		
Chartis U.S., Inc. Admitted Pool	-	$ 8,527,665
Eaglestone Reinsurance Company	10651	722,458
Chartis Overseas Ltd.	-	548,081
AIU Insurance Company	19399	142,755
American International Reinsurance Co. Ltd	-	53,151
Lexington Insurance Company	19437	28,535
United Guaranty Insurance Company	11715	23,187
Chartis Europe S.A.	-	6,375
Chartis Insurance UK Ltd	-	5,725
Chartis Specialty Insurance Company	26883	4,901
Landmark Insurance Company	35637	2,696
US Life Ins Co of NY (F/ Amer Int Life Ass NY)	70106	2,434
Chartis Insurance Company Of Canada	-	1,750
Chartis Select Insurance Company	10932	1,718
Other affiliates below $1.0 million	-	4,469
TOTAL AFFILIATES		10,075,900
Non-Affiliates:		
Swiss Re Group	-	232,415
Lloyds Syndicates	-	223,289
Transatlantic Group	-	216,955
Munich Re Group	-	174,362
TOTAL NON-AFFILIATES		847,021
Total affiliates and non-affiliates		$ 10,922,921

</TABLE>

During 2011, 2010 and 2009, the Company reported in its Statements of Operations

statutory losses of $2,152, $135,317 and $10,863, respectively, as a result of commutations with the following reinsurers. The 2011 loss was comprised of losses incurred of $2,146 and premiums earned of $(6); the 2010 loss was comprised of losses incurred of $135,412, commissions incurred of $(98) and premiums earned of $(3); the 2009 losses were from losses incurred.

<PAGE>

<TABLE>
<CAPTION>

COMPANY	2011	2010	2009
<S>	<C>	<C>	<C>
Argonaut Midwest Insurance Company	$ 1,882	$ -	$ -
American International Reinsurance Company, Ltd. (a)	-	131,629	10,284
Continental Casualty Company	-	1,270	-
Reliastar Life Insurance Company	-	1,296	-
Other reinsurers below $1 million	270	1,122	579
TOTAL	$ 2,152	$ 135,317	$ 10,863

</TABLE>

(a) Effective April 1, 2010, National Union commuted a multi-year reinsurance agreement with AIRCO. The commutation resulted in the members of the Admitted Pool recapturing loss and LAE reserves of $2,576,715 in exchange

for consideration of $2,211,079, resulting in a loss of $365,636, which was pooled in accordance with the Admitted Pooling Agreement. The commutation was approved by the NY DFS and Pennsylvania Insurance Department. The Company recorded its share of these transactions based upon its stated pool percentage as follows:

<TABLE>
<CAPTION>

	TOTAL	COMPANY'S POOLED ALLOCATION
Liabilities:		
Outstanding losses	$ 2,576,715	$ 927,617
P&L:		
Paid losses	365,636	131,629
Net cash	$ 2,211,079	$ 795,988

</TABLE>

As of December 31, 2011 and 2010, the Company had reinsurance recoverables on paid losses in dispute of $102,721 and $115,859, respectively.

During 2011, 2010 and 2009, the Company recovered/(wrote off) reinsurance recoverable balances of $14,092, $(1,224) and $8,952, respectively.

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As described in Note 5, the Company is party to an inter-company pooling agreement. In the ordinary course of business, the Company also assumes business, primarily from affiliated entities. As of December 31, 2011 and 2010, the Company's premium receivable and losses payable on assumed business are as follows:

2011	AFFILIATE	NON-AFFILIATE	TOTAL
Premiums in course of collection	$ 165,233	$ 36,933	$ 202,166
Reinsurance payable on paid loss and loss adjustment expenses	71,426	11,807	83,233

2010	AFFILIATE	NON-AFFILIATE	TOTAL
Premiums in course of collection	$ 146,906	$ 11,982	$ 158,888
Reinsurance payable on paid loss and loss adjustment expenses	150,327	4,755	155,082

The primary components of the affiliated assumed reinsurance balances summarized above, and excluding members of the Admitted Pool, relate to reinsurance agreements with the following:

	2011	2010

	PREMIUMS IN COURSE OF COLLECTION	REINSURANCE PAYABLE ON PAID LOSS AND LOSS ADJUSTMENT EXPENSES	PREMIUMS IN IN COURSE COLLECTION	REINSURANCE PAYABLE ON PAID LOSS AND LOSS ADJUSTMENT EXPENSES
Chartis Overseas Ltd.	$ 42,610	$ 13,061	$ 14,735	$ 20,053
Chartis Excess Ltd.	8,210	36	-	-
Lexington Insurance Co.	7,986	10,262	16,421	17,730
Chartis Europe SA	7,984	9,237	7,544	11,977
Chartis Insurance Company of Canada	7,179	6,348	-	-
Chartis Insurance UK Ltd.	6,947	6,679	11,225	4,051
CA De Seguros American Intl	5,270	1,337	-	-
La Meridional Compania Argentina de Seguros S.A.	3,757	1,210	-	-
Chartis Specialty Insurance. Co.	3,195	1,321	388	597
National Union Ins. Co. of Vermont	2,225	9,024	47	15,310
Chartis Insurance Company - Puerto Rico	1,473	1,269	10,632	310
United Guaranty Residential Ins. Co.	461	(50,400)	245	20,558
Chartis Australia Insurance Ltd.	-	4,945	-	-
AIU Insurance Co.	(2,539)	(3,624)	(8,361)	(8,316)

Effective January 1, 2010, Chartis Specialty Insurance Company (Chartis Specialty) commuted its quota share and stop loss reinsurance agreements with National Union. In accordance with the commutation agreement, National Union transferred cash and securities totaling $4,041,671 to Chartis Specialty. This amount was net of a ceding commission

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of $220,094. The Company recorded its share of these transactions based upon its stated pool percentage and reported the net impact on its financial statements from these transactions as follows:

	TOTAL	COMPANY'S POOLED ALLOCATION
Liabilities:		
Outstanding losses	$ 3,278,251	$ 1,180,170
Unearned premium reserves	933,787	336,163
Other	49,727	17,902
	4,261,765	1,534,235
P&L:		
Ceding commission	220,094	79,234
	$ 4,041,671	$ 1,455,001

NOTE 7 - DEPOSIT ACCOUNTING ASSETS AND LIABILITIES

Certain of the products offered by the Company include funding components or have been structured in a manner such that little or no insurance risk is transferred. Funds received in connection with these arrangements are recorded as deposit liabilities, rather than premiums and incurred losses. In addition, the Company has entered into several ceded reinsurance arrangements, both treaty and facultative, which were determined to be deposit agreements. Conversely, funds paid in connection with these arrangements are recorded as deposit assets, rather than as ceded premiums and ceded incurred losses.

As of December 31, 2011 and 2010, the Company's deposit assets and liabilities were comprised of the following:

<TABLE>
<CAPTION>

	Deposit Assets	Deposit Liabilities	Funds Held Assets	Funds Held Liabilities
<S>	<C>	<C>	<C>	<C>
December 31, 2011:				
Direct	$ -	$ 97,581	$ -	$ -
Assumed	-	44	-	-
Ceded	3	-	-	4,848
TOTAL	$ 3	$ 97,625	$ -	$ 4,848

</TABLE>

<PAGE>

<TABLE>
<CAPTION>

	DEPOSIT ASSETS	DEPOSIT LIABILITIES	FUNDS HELD ASSETS	FUNDS HELD LIABILITIES
<S>	<C>	<C>	<C>	<C>
December 31, 2010:				

Direct	$ -	$ 100,648	$ -	$ -
Assumed	-	89,243	88,515	-
Ceded	686	-	-	990
TOTAL	$ 686	$ 189,891	$ 88,515	$ 990

</TABLE>

A reconciliation of the Company's deposit asset and deposit liabilities as of December 31, 2011 and 2010 is set forth in the table below:

<TABLE>
<CAPTION>

	2011		2010	
	DEPOSIT ASSETS	DEPOSIT LIABILITIES	DEPOSIT ASSETS	DEPOSIT LIABILITIES
<S>	<C>	<C>	<C>	<C>
Balance at January 1	$ 686	$ 189,891	$ 1,595	$ 178,479
Deposit activity, including loss recoveries	(683)	(90,764)	(1,622)	8,358
Interest income or expense, net of amortization of margin	-	(1,502)	713	3,054
Non-admitted asset portion	-	-	-	-
BALANCE AS OF DECEMBER 31	$ 3	$ 97,625	$ 686	$ 189,891

</TABLE>

<TABLE>
<CAPTION>

	2011		2010	
	FUNDS HELD ASSETS	FUNDS HELD LIABILITIES	FUNDS HELD ASSETS	FUNDS HELD LIABILITIES
<S>	<C>	<C>	<C>	<C>
Balance at January 1	$ 88,515	$ 990	$ 88,515	$ -
Contributions	-	4,753	-	990
Withdrawals	(88,515)	(895)	-	-
Interest	-	-	-	-

BALANCE AS OF DECEMBER 31	$ -	$ 4,848	$ 88,515	$ 990

</TABLE>

In 2011, the Company determined, based on settlement of related litigation, that an assumed reinsurance deposit transaction had terminated, and the Company eliminated assumed deposit liabilities of $90,000 and related funds held assets of $88,200.

<PAGE>

NOTE 8 - FEDERAL INCOME TAXES

The Company files a consolidated U.S. federal income tax return with the Ultimate Parent, AIG. AIG's domestic subsidiaries can be found on Schedule Y of the Company's annual statement.

The Company is allocated U.S. federal income taxes based upon an accounting policy that was amended, effective January 1, 2010. This accounting policy provides that the Company shall reflect in its financial statements the tax liability that would have been paid by the Company if it had filed a separate federal income tax return except that Chartis, Inc. assumes the current liability (and future risks and rewards of the tax position taken) associated with the Company's unrecognized tax benefits by means of a deemed capital contribution transaction. Unrecognized tax benefits is defined as any liability recorded in accordance with Financial Accounting Standards Board Interpretation No. 48 -- Accounting for Uncertainty in Income Taxes (FIN 48) which would include any tax liability recorded as the result of an agreed upon adjustment

with the tax authorities, except ones arising as a result of errors or omissions.

While the accounting policy described above governs the current and deferred tax recorded to the income tax provision, the amount of cash that will be paid or received for U.S. federal income taxes is governed by an intercompany tax settlement arrangement entered into with Chartis, Inc. The terms of this intercompany cash settlement arrangement are based on principles consistent with the accounting policy for allocating income tax expense or benefit to the Company above, except that:

- Any tax realized by the Company from the creation of a deferred inter-company gain (as determined under Treasury Regulation Section 1.1502-13) in which no consideration was received will be paid by the Subgroup Parent.

- To the extent that (1) tax attributes are created outside of the normal course of business, (2) that cash benefit is received by Chartis, Inc. under its separate tax allocation agreement with Parent in advance of when the attributes are actually utilized in the AIG consolidated U.S. federal tax return, and (3) these identified tax attributes expire unused in the AIG consolidated tax return, Chartis, Inc. shall reimburse Parent for this amount and apportion such amount to the Company to the appropriate extent. The Company shall make any required reimbursements within 30 days after Chartis, Inc. receives notice from Parent. Consistent SSAP 10R principles and the Company's tax accounting policy for allocating taxes, any payment made under this provision would be accounted for as a distribution. At December 31, 2011, the Company has not generated any attributes outside of the normal course of business that could cause this provision of the agreement to become applicable.

- In accordance with N.Y. Department of Insurance Circular Letter 1979-33, Subgroup Parent or Parent shall establish and maintain an escrow account for amounts where the Company's separate return liability exceeds the consolidated tax liability of the Parent group.

The Company had a prior tax sharing agreement in place during the 2008 and 2009 years with Chartis, Inc. The key differences between the 2008/2009 tax sharing agreement and the 2010 tax sharing agreement are: (i) the Company had to pay its separate federal income tax liability without taking into account tax credits, whereas they may take into account tax credits under the 2010 tax sharing

agreement; (ii) the Company did not have to pay for any tax arising from

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gains from Qualifying Transactions (which were defined as deferred intercompany gains as defined in Treas. Reg. Section 1502-13 from the sale of stock or substantially all the assets of an operating subsidiary), whereas the 2010 agreement only exempts for deferred intercompany transactions for which no consideration was received; (iii) the Company did not have to pay any tax arising from Asset Sales (which were defined in the FRBNY credit facility between AIG and the Federal Reserve), so long as the net proceeds were remitted to AIG, whereas the 2010 agreement deletes references to Asset Sales since AIG repaid its obligations to FRBNY under the credit facility and (iv) the Company was paid for the use by the Subgroup of the Company's excess attributes that were utilized by the Subgroup, but under the 2010 agreement, the Company must be able to utilize the asset on its own separate company liability basis.

The federal income tax recoverable/payable in the accompanying statement of admitted assets, liabilities, capital and surplus are due to/from Chartis, Inc. The statutory U.S. federal income tax rate is 35 percent at December 31, 2011.

The components of the Company's net deferred tax assets/liabilities ("DTA"/"DTL") as of December 31, 2011 and 2010 are as follows:

<TABLE>
<CAPTION>

	DECEMBER 31, 2011	DECEMBER 31, 2010

DESCRIPTION	ORDINARY	CAPITAL	TOTAL	ORDINARY	CAPITAL	TOTAL
Gross deferred tax assets	$ 1,632,616	$ 122,640	$ 1,755,256	$ 1,501,814	$ 265,330	$ 1,767,144
Less statutory valuation allowance	-	-	-	633,968	131,367	765,335
Adjusted gross deferred tax assets	1,632,616	122,640	1,755,256	867,846	133,963	1,001,809
Gross deferred tax liabilities	(58,661)	(176,253)	(234,914)	(67,312)	(133,963)	(201,275)
Net deferred tax asset/(liabilities)	1,573,955	(53,613)	1,520,342	800,534	-	800,534
Deferred tax assets non-admitted	(828,450)	-	(828,450)	(17,769)	-	(17,769)
Net admitted deferred tax assets	$ 745,505	$ (53,613)	$ 691,892	$ 782,765	$ -	$ 782,765

<CAPTION>

DESCRIPTION	CHANGE		
	ORDINARY	CAPITAL	TOTAL
Gross deferred tax assets	$ 130,802	$ (142,690)	$ (11,888)
Less statutory valuation allowance	(633,968)	(131,367)	(765,335)
Adjusted gross deferred tax assets	764,770	(11,323)	753,447
Gross deferred tax liabilities	8,651	(42,290)	(33,639)
Net deferred tax asset/(liabilities)	773,421	(53,613)	719,808
Deferred tax assets non-admitted	(810,681)	-	(810,681)
Net admitted deferred tax assets	$ (37,260)	$ (53,613)	$ (90,873)

</TABLE>

The Company has elected to admit DTAs pursuant to paragraph 10.e. It recorded an increase in admitted DTAs as the result of its election to employ the provision of Paragraph 10.e. as follows:

<TABLE>
<CAPTION>

DESCRIPTION	DECEMBER 31, 2011 ORDINARY	DECEMBER 31, 2011 CAPITAL	DECEMBER 31, 2011 TOTAL	DECEMBER 31, 2010 ORDINARY	DECEMBER 31, 2010 CAPITAL	DECEMBER 31, 2010 TOTAL
Increase in DTA from carried back losses that reverse in subsequent three calendar years that are carried back to recoup taxes	$ -	$ -	$ -	$ -	$ -	$ -
Increase in DTA from the lesser of adjusted gross DTAs realizable within 36 months or 15% of statutory surplus	450,661	-	450,661	260,922	-	260,922
Increase in DTA from adjusted gross DTAs that can be offset against DTLs	-	-	-	-	-	-
Total Increase in DTA admitted pursuant to Paragraph 10.e	$ 450,661	$ -	$ 450,661	$ 260,922	$ -	$ 260,922

DESCRIPTION	CHANGE ORDINARY	CHANGE CAPITAL	CHANGE TOTAL
Increase in DTA from carried back losses that reverse in subsequent three calendar years that are carried back to recoup taxes	$ -	$ -	$ -
Increase in DTA from the lesser of adjusted gross DTAs realizable within 36 months or 15% of statutory surplus	189,739	-	189,739
Increase in DTA from adjusted gross DTAs that can be offset against DTLs	-	-	-
Total Increase in DTA admitted pursuant to Paragraph 10.e	$ 189,739	$ -	$ 189,739

(000'S OMITTED)

The amount of admitted deferred tax assets, admitted assets, statutory surplus and total adjusted capital in the risk-based capital calculation resulting from the use of paragraph 10.a., 10.b., 10.c., 10.e. are as follows:

<TABLE>
<CAPTION>

DESCRIPTION	DECEMBER 31, 2011 ORDINARY	DECEMBER 31, 2011 CAPITAL	DECEMBER 31, 2011 TOTAL	DECEMBER 31, 2010 ORDINARY	DECEMBER 31, 2010 CAPITAL	DECEMBER 31, 2010 TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Carried back losses that reverse in subsequent calendar year	$ -	$ -	$ -	$ -	$ -	$ -
The lesser of adjusted gross DTAs realizable within 12 months or 10% of statutory surplus	241,231	-	241,231	521,844	-	521,844
Adjusted gross DTAs that can be offset against DTLs	112,273	122,641	234,914	67,312	133,963	201,275
Total DTA admitted pursuant to Paragraphs 10.a, 10.b and 10.c	353,504	122,641	476,145	589,156	133,963	723,119
Admission Calculation Components SSAP 10R, Paragraph 10.e						
Carried back losses that reverse in subsequent three calendar years	-	-	-	-	-	-
The lesser of adjusted gross DTAs realizable within 36 months or 15% of statutory surplus	450,661	-	450,661	260,922	-	260,922
Adjusted gross DTAs that can be offset against DTLs	-	-	-	-	-	-
Additional DTA admitted pursuant to Paragraph 10.e	450,661	-	450,661	260,922	-	260,922

Total DTA Admitted Under SSAP 10R	804,165	122,641	926,806	850,077	133,963	984,040
Total DTL	(58,661)	(176,253)	(234,914)	(67,312)	(133,963)	(201,275)
Net Admitted DTA	$ 745,504	$ (53,612)	$ 691,892	$ 782,765	$ -	$ 782,765
Used in SSAP 10R, Par. 10 d						
Total adjusted capital	-	-	5,282,793	-	-	6,376,918
Authorized control level	-	-	1,237,484	-	-	1,524,545

<CAPTION>

	CHANGE		
DESCRIPTION	ORDINARY	CAPITAL	TOTAL
<S>	<C>	<C>	<C>
Carried back losses that reverse in subsequent calendar year	$ -	$ -	$ -
The lesser of adjusted gross DTAs realizable within 12 months or 10% of statutory surplus	(280,613)	-	(280,613)
Adjusted gross DTAs that can be offset against DTLs	44,961	(11,322)	33,639
Total DTA admitted pursuant to Paragraphs 10.a, 10.b and 10.c	(235,652)	(11,322)	(246,974)
Admission Calculation Components SSAP 10R, Paragraph 10.e			
Carried back losses that reverse in subsequent three calendar years	-	-	-
The lesser of adjusted gross DTAs realizable within 36 months or 15% of statutory surplus	189,739	-	189,739
Adjusted gross DTAs that can be offset against DTLs	-	-	-

Additional DTA admitted pursuant to Paragraph 10.e	189,739	-	189,739
Total DTA Admitted Under SSAP 10R	(45,912)	(11,322)	(57,234)
Total DTL	8,651	(42,290)	(33,639)
Net Admitted DTA	$ (37,261)	$ (53,612)	$ (90,873)
Used in SSAP 10R, Par. 10 d			
Total adjusted capital	-	-	(1,094,125)
Authorized control level	-	-	(287,061)

</TABLE>

The following table provides the Company's assets, capital and surplus, and Risk Based Capital information with the DTA calculated under SSAP 10R paragraphs 10.a. to 10.c. and the additional DTA determined under SSAP 10R paragraph 10.e.:

<TABLE>
<CAPTION>

	DECEMBER 31, 2011			DECEMBER 31, 2010		
DESCRIPTION	ORDINARY	CAPITAL	TOTAL	ORDINARY	CAPITAL	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>
SSAP 10R, Paragraphs 10.a, 10.b, and 10.c						
Admitted deferred tax assets	$ 294,843	$ (53,612)	$ 241,231	$ 521,844	$ -	$ 521,844
Admitted assets	-	-	23,449,611	-	-	26,155,673
Adjusted statutory surplus	-	-	5,216,642	-	-	6,412,177
Total adjusted capital from DTA	-	-	5,216,642	-	-	6,412,177
Increased amounts due to SSAP 10R, Paragraph 10.e						
Admitted deferred tax assets	745,504	(53,612)	691,892	782,765	-	782,765
Admitted assets	-	-	23,900,272	-	-	26,416,595
Statutory surplus	-	-	$ 5,667,303	-	-	$ 6,673,099

<CAPTION>

DESCRIPTION	CHANGE ORDINARY	CAPITAL	TOTAL
SSAP 10R, Paragraphs 10.a, 10.b, and 10.c			
Admitted deferred tax assets	$(227,001)	$ (53,612)	$ (280,613)
Admitted assets	-	-	(2,706,062)
Adjusted statutory surplus	-	-	(1,195,535)
Total adjusted capital from DTA	-	-	(1,195,535)
Increased amounts due to SSAP 10R, Paragraph 10.e			
Admitted deferred tax assets	(37,261)	(53,612)	(90,873)
Admitted assets	-	-	(2,516,323)
Statutory surplus	-	-	$ (1,005,796)

</TABLE>

The Company has employed tax planning strategies in determining the amount of adjusted gross and net admitted deferred tax assets. Tax planning strategies increased ordinary adjusted gross DTAs by $1,312,815 and net admitted DTAs by $64,523. Tax planning strategies had no impact upon capital adjusted gross DTAs and net admitted capital DTAs, all of which were non-admitted.

<PAGE>

During 2011, 2010 and 2009, the Company's current income tax expense/(benefit) was comprised of the following:

<TABLE>
<CAPTION>

For the years ended December 31,	2011	2010	2009
Federal income tax	$ (95,734)	$ (142,812)	$ (215,953)
Foreign income tax	(8,461)	(5,462)	37,836
Subtotal	(104,195)	(148,274)	(178,117)
Federal income tax on net capital gains	90,032	169,323	57,389
Other - including return to provision	-	6,354	55,810
Federal and foreign income taxes incurred	$ (14,163)	$ 27,403	$ (64,918)

</TABLE>

<PAGE>

The composition of the Company's net deferred tax assets as of December 31, 2011 and 2010, along with the changes in deferred income taxes for 2011, is set forth in the table below:

Deferred tax assets:

<TABLE>

<CAPTION>

Ordinary	2011	2010	CHANGE
<S>	<C>	<C>	<C>
Loss reserve discount	$ 416,180	$ 488,039	$ (71,859)
Non-admitted assets	126,696	146,586	(19,890)
Unearned premium reserve	200,003	224,940	(24,937)
Goodwill & deferred revenue	29,941	29,941	-
Bad debt expense	74,123	88,502	(14,379)
Net operating loss carryforward	461,242	376,835	84,407
Foreign tax credits	69,946	99,895	(29,949)
Deferred tax of foreign entities	43,675	38,621	5,054
Investments	118,681	-	118,681
Deferred loss on branch conversion	9,555	-	9,555
Intangibles	22,280	-	22,280
Other temporary difference	60,293	8,455	51,838
Subtotal	1,632,615	1,501,814	130,801
Statutory valuation allowance adjustment	-	(633,968)	633,968
Non-admitted	(828,450)	(17,769)	(810,681)
Admitted ordinary deferred tax assets	804,165	850,077	(45,912)
Capital			
Investments writedown	110,936	149,630	(38,694)
Unrealized capital losses	11,335	87,003	(75,668)
Deferred intercompany loss	-	28,697	(28,697)
Other temporary difference	370	-	370
Subtotal	122,641	265,330	(142,689)
Statutory valuation allowance adjustment	-	(131,367)	131,367
Non-admitted	-	-	-
Admitted capital deferred tax assets	122,641	133,963	(11,322)

TOTAL ADMITTED DEFERRED TAX ASSETS	$ 926,806	$ 984,040	$ (57,234)

</TABLE>

<PAGE>

Deferred tax liabilities:

<TABLE>
<CAPTION>

Ordinary	2011	2010	CHANGE
<S>	<C>	<C>	<C>
Investments	$ (46,868)	$ (17,160)	$ (29,708)
Other (including items <5% of total ordinary tax liabilities)	(11,793)	(50,152)	38,359
Subtotal	(58,661)	(67,312)	8,651
Capital			
Investments	(19,064)	-	(19,064)
Unrealized capital gains	(157,189)	(133,963)	(23,226)
Subtotal	(176,253)	(133,963)	(42,290)

TOTAL DEFERRED TAX LIABILITIES	$ (234,914)	$ (201,275)	$ (33,639)
NET ADMITTED DEFERRED TAX ASSETS/(LIABILITIES):	$ 691,892	$ 782,765	$ (90,873)

</TABLE>

The change in net deferred tax assets is comprised of the following: (this analysis is exclusive of non-admitted assets as the Change in Non-Admitted Assets is reported separately from the Change in Net Deferred Income Taxes in the surplus section of the Annual Statement):

<PAGE>

<TABLE>
<CAPTION>

Description	2011	2010	CHANGE
<S>	<C>	<C>	<C>
Adjusted gross deferred tax assets	$ 1,755,256	$ 1,001,809	$ 753,447
Total deferred tax liabilities	(234,914)	(201,275)	(33,639)
Net deferred tax assets	1,520,342	800,534	719,808
Deferred tax assets/(liabilities) - SSAP 3			-
Deferred tax assets/(liabilities) - unrealized			3,008
Deferred tax - noncash settlement through paid-in-capital			57,153

Total change in deferred tax	659,647
Change in deferred tax - current year	643,845
Change in deferred tax - current year - other surplus items	15,802
Change in deferred tax - current year - total	659,647

</TABLE>

<TABLE>
<CAPTION>

	CURRENT	DEFERRED	TOTAL
SSAP 3 impact:			
SSAP 3 - general items	(20,102)	90,565	70,463
SSAP 3 - unrealized gain/loss	-	(101,902)	(101,902)
Total SSAP 3	(20,102)	(11,337)	(31,439)
SSAP 3 - statutory valuation allowance	-	11,337	11,337
SSAP 3 - adjusted tax assets and liabilities	(20,102)	-	(20,102)
SSAP 3 - non-admitted impact	22,382	-	22,382
Total SSAP 3 impact	$ 2,280	-	$ 2,280

</TABLE>

STATUTORY VALUATION ALLOWANCE

Under SSAP 10R, statutory gross deferred tax assets must be reduced to the extent it is determined that valuation allowance would be required under U.S. GAAP valuation allowance principles pursuant to Accounting Standard Codification (ASC) 740, Income Taxes. Significant judgment is required in determining the provision for income taxes and, in particular, in the assessment of whether and in what magnitude a valuation allowance should be recorded. At December 31, 2011, the Company recorded gross deferred tax assets before valuation allowance of tax assets of $1,755,256. Management believes that it is more likely than not that these assets will be realized in the forseeable future therefore the

Company has not recorded a valuation allowance against its deferred tax asset. This assessment is based on the Company's expectation based on a "more likely than not" standard in measuring its ability to realize its gross deferred tax assets reported on the Company's statement of admitted assets at December 31, 2011.

When making its assessment about the realization of its deferred tax assets at December 31, 2011, the Company considered all available evidence, as required by income tax accounting guidance, including:

- the nature, frequency, and severity of current and cumulative financial reporting losses;

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- transactions completed and transactions expected to be completed in the near future;

- the carryforward periods for the net operating and capital loss and foreign tax credit carryforward;

- the application of the amended tax sharing agreement between the tax Sub Group and the Ultimate Parent; and

- tax planning strategies that would be implemented, if necessary, to protect against the loss of the deferred tax assets.

Despite the existence of cumulative losses in recent years, including losses related to adverse development in 2009, 2010 and 2011, the Company has been able

to implement tax planning strategies to protect against the loss of deferred tax assets, and the Company has concluded that it is more likely than not that its net deferred tax assets will be realized at December 31, 2011.

In concluding that a portion of the statutory gross deferred tax assets are realizable under the U.S. GAAP valuation allowance model, the Company considered both the positive and negative evidence regarding its ability to generate sufficient taxable income to realize the reported adjusted deferred tax assets.

Negative evidence included (i) the existence of cumulative losses in recent years, including losses related to adverse development in 2009 and 2010 of $1,006,000 and $1,506,600, respectively; (ii) the risk that the Company will not be able to execute upon on all of its strategies and actions in the anticipated timeframe; (iii) that Chartis is unable to continue generating profits from the foreign insurance business which the Company has asserted that it can reinsure into the Company; and (iv) that the Company is unable to identify securities earning the investment yields contemplated in the projections and strategies which represented yields ranging from 3.75 percent to 10.8 percent.

Positive evidence included the availability of prudent and feasible tax planning strategies and AIG's, Chartis' and the Company's ability to execute on tax planning strategies and/or actions, if required, that would allow the Company to generate taxable income in order to realize the statutory gross deferred tax assets. These tax planning strategies included: (i) converting tax-exempt investment income to taxable investment income through both the municipal bond borrowing program or through the sale of additional tax-exempt securities to third parties and affiliates and reinvestment of the proceeds in taxable securities; and (ii) investing available resources into higher yielding assets.

It is important to note, estimates of future taxable income generated from specific transactions and tax planning strategies could change in the near term, perhaps materially, which may require the Company to adjust its assessment of the need for a valuation allowance. Such adjustments could be material to the Company's financial condition or its results of operations for an individual reporting period.

STATUTORY ADMISSIBILITY

Once the $1,755,256 of adjusted gross deferred tax asset was quantified, this value was assessed for statutory admissibility using SSAP 10R's three part test. The first test allows for the admissibility of adjusted gross deferred tax assets that are expected to reverse in the next three years and could be used to

recover taxes paid in prior years. Based upon the Company's tax sharing agreements discussed at Note 8, no carryback potential exists and thus no adjusted gross deferred tax asset can be admitted under this first test. The second test allows for an adjusted gross deferred tax asset to be admitted based upon the lesser of 15 percent of adjusted statutory surplus of the most recently filed

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statement and the adjusted gross deferred tax assets expected to reverse within the next three years and that it is expected to be realized (i.e., provide incremental cash tax savings). Under this test, the Company is required to project future taxable income. If operating results differ from those expected in the Company's projections, the amount of the adjusted gross deferred tax asset admitted could materially change. The Company's projections used in determining the admissibility of adjusted gross deferred tax assets included the consideration of the tax planning actions and strategies discussed above and carry similar risks, including the possibility of continuing adverse development in the prior year loss reserves. Finally, the adjusted gross deferred tax assets not admitted under the first two tests can be admitted to the extent there are existing deferred tax liabilities allowable under the relevant tax law. As a result of these tests for statutory admissibility, $691,892 of adjusted gross deferred tax assets were admitted as of December 31, 2011.

The Company does not have any unrecorded deferred tax liabilities.

The Company's income tax incurred and change in deferred income tax differs from the amount obtained by applying the federal statutory rate of 35 percent to

income before income taxes as follows:

<TABLE>
<CAPTION>

Description	2011 AMOUNT	2011 TAX EFFECT	2010 AMOUNT	2010 TAX EFFECT	2009 AMOUNT	2009 TAX EFFECT
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net income before federal income taxes and capital gains taxes	$ 480,413	$ 168,145	$ (749,113)	$ (262,190)	$ 184,874	$ 64,706
Book to tax adjustments:						
Tax exempt income	(304,201)	(106,470)	(420,450)	(147,157)	(456,093)	(159,633)
Intercompany dividends	(6,294)	(2,203)	-	-	(94,815)	(33,185)
Dividend received deduction	(451)	(158)	(8,767)	(3,069)	(18,128)	(6,345)
Subpart F income, gross-up & foreign tax credits	14,771	(3,291)	(36,387)	(13,104)	-	-
Meals and entertainment	-	-	567	199	862	302
Stock options and other compensation	27,409	9,593	4,644	1,625	-	-
Non-deductible penalties	1,442	505	-	-	-	-
Change in non-admitted assets	84,424	29,549	162,087	56,731	(102,726)	(35,954)
Change in tax position	-	(5,702)	-	11,310	-	59,878
Statutory valuation allowance	(753,998)	(753,998)	765,335	765,335	-	-
Sale of divested entities	-	-	-	-	(70,576)	(24,702)
Return to provision	-	(5,690)	-	19,394	-	11,457
Branch incorporation & conversion (Hong Kong/Singapore/Australia)	(536)	(188)	-	-	-	-
Non-deductible expenses	34,253	11,989	-	-	-	1,399
Other	(252)	(89)	-	(5,297)	(4,392)	(2,195)
Total book to tax adjustments	(903,433)	(826,153)	467,029	685,967	(745,868)	(188,978)
Total federal taxable income and tax	$(423,020)	$(658,008)	$ (282,084)	$ 423,777	$ (560,994)	$(124,272)
Federal income tax incurred		(104,195)		(141,920)		(122,307)
Federal income tax on realized capital gains		90,032		169,323		57,389
Change in deferred tax		(659,647)		396,374		(59,354)
Less: Change in deferred tax - other surplus items		15,802		-		-
Total tax		$(658,008)		$ 423,777		$ (124,272)

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</TABLE>

As of December 31, 2011, the Company had $69,946 foreign tax credits carry forwards expiring through the year 2021, and $1,317,835 of net operating loss carry forwards expiring through the year 2031 that are available to offset against future taxable income. The Company has no capital loss carry forwards remaining as of December 31, 2011 and no other unused tax credits available to offset against future taxable income as of December 31, 2011 and 2010.

The Company has an enforceable right to recoup federal income taxes in the event of future net losses which it may

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incur or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes. Currently, there is no federal income tax incurred available for recoupment in the event of future net operating losses for tax purposes.

As of December 31, 2011, the Company had no deposits under IRC Section 6603.

In 2009, tax liabilities relating to uncertain tax positions and tax return errors and omissions relating to the Company were held by Chartis, Inc., the Subgroup Parent. Pursuant to the amended tax sharing agreement that was effective January 1, 2010, Chartis, Inc. continues to assume the liabilities for uncertain tax positions of the Company; however any change in liability relating to tax return errors and omissions are now reflected as liabilities of the Company at December 31, 2011. As of December 31, 2011, the Company recorded

gross liabilities related to tax return errors and omissions in the amount of $17,411.

Listed below are the tax years that remain subject to examination by major tax jurisdictions:

At December 31, 2011

MAJOR TAX JURISDICTIONS	OPEN TAX YEARS
UNITED STATES	2000 - 2010

NOTE 9 - PENSION PLANS AND DEFERRED COMPENSATION ARRANGEMENTS

A. PENSION PLAN

Employees of AIG, its subsidiaries and certain affiliated companies, including employees in foreign countries, are generally covered under various funded and insured pension plans. Eligibility for participation in the various plans is based on either completion of a specified period of continuous service or date of hire, subject to age limitation.

The AIG Retirement Plan (the AIG U.S. Plan) is a qualified, non-contributory defined benefit retirement plan which is subject to the provisions of the Employee Retirement Income Security Act (ERISA) of 1974. All employees of AIG and most of its subsidiaries and affiliates who are regularly employed in the United States, including certain U.S. citizens employed abroad on a U.S. dollar payroll, and who have attained age 21 and completed twelve months of continuous service are eligible to participate in this plan. An employee with 5 or more years of service is entitled to pension benefits beginning at normal retirement at age 65. Benefits are based upon a percentage of average final compensation multiplied by years of credited service limited to 44 years of credited service. The average final compensation is subject to certain limitations. The employees may elect certain options with respect to their receipt of their pension benefits including a joint and survivor annuity. An employee with 10 or

more years of service may retire early from age 55 to 64. An early retirement factor is applied resulting in a reduced benefit. If an employee terminates with less than 5 years of service, such employee forfeits his or her right to receive any accumulated pension benefits.

The Company is jointly and severally responsible with AIG and other participating companies for funding

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obligations for the AIG U.S. Plan, ERISA qualified defined contribution plans and ERISA plans issued by other AIG subsidiaries (the ERISA Plans). If the ERISA Plans do not have adequate funds to pay obligations due participants, the Pension Benefit Guaranty Corporation or Department of Labor could seek payment of such amounts from the members of the AIG ERISA control group, including the Company. Accordingly, the Company is contingently liable for such obligations. The Company believes that the likelihood of payment under any of these plans is remote. Accordingly, the Company has not established any liability for such contingencies.

Annual funding requirements are determined based on the "traditional unit credit" cost method. The objective under this method is to fund each participant's benefit under the plan as it accrues. Thus, the total pension to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service.

Effective April 1, 2012, the AIG U.S. Plan and AIG Excess plans will be

converted from final average pay to cash balance formulas comprised of pay credits based on 6 percent of a plan participant's annual compensation (subject to IRS limitations for the qualified plan) and annual interest credits. However, employees satisfying certain age and service requirements remain covered under the final average pay formula in the respective plans.

The following table sets forth the funded status of the AIG U.S. Plan, valued in accordance with SSAP No. 89, Accounting for Pensions (SSAP 89).

AS OF DECEMBER 31,	2011	2010
Fair value of plan assets	$ 3,432,515	$ 3,424,553
Less projected benefit obligation	4,219,931	3,574,840
Funded status	$ (787,416)	$ (150,287)

The weighted average assumptions that were used to determine its pension benefit obligations as of December 31, 2011, 2010 and 2009 are set forth in the table below:

AS OF DECEMBER 31,	2011	2010	2009
Discount rate	4.62%	5.50%	6.00%
Rate of compensation increase (average)	4.00%	4.00%	4.00%
Measurement date	December 31, 2011	December 31, 2010	December 31, 2009
Medical cost trend rate	N/A	N/A	N/A

In 2011 and 2010, AIG allocated defined benefit expenses to the Company and its affiliates. The Company's allocated share of net expense for the AIG U.S. Plan was approximately $7,922 and $11,968 for 2011 and 2010, respectively.

AIG also sponsors several unfunded nonqualified defined benefit plans for certain employees, including key executives, designed to supplement pension benefits provided by AIG's other retirement plans. These include the AIG Excess Retirement Income Plan, which provides a benefit equal to the reduction in benefits payable to certain employees under the AIG U.S. Plan as a result of federal tax limitations on compensation and benefits payable, and the Supplemental Executive Retirement Plan (SERP), which provides additional retirement benefits to designated executives. The results in this footnote do not include the nonqualified plans.

B. POSTRETIREMENT BENEFIT PLANS

AIG's U.S. postretirement medical and life insurance benefits are based upon the employee electing immediate retirement and having a minimum of 10 years of service. Retirees and their dependents that were 65 years old by May 1, 1989 participate in the medical plan at no cost. Employees who retired after May 1, 1989 or prior to January 1, 1993 pay the active employee premium if under age 65 and 50 percent of the active employee premium if over age 65. Retiree contributions are subject to adjustment annually. Other cost sharing features of the medical plan include deductibles, coinsurance and Medicare coordination. The maximum life insurance benefit prior to age 70 is $33, with a maximum $25 thereafter.

Effective January 1, 1993 both plans' provisions were amended: employees who retire after January 1, 1993 are required to pay the actual cost of the medical insurance benefit premium reduced by a credit which is based upon years of service at retirement. The life insurance benefit varies by age at retirement from $5 for retirement at ages 55 through 59 and $10 for retirement at ages 60 through 64 and $15 from retirement at ages 65 and over.

AIG's U.S. postretirement medical and life insurance benefits obligations, valued in accordance with SSAP No. 14, Postretirement Benefits Other Than Pensions (SSAP 14), as of December 31, 2011 and 2010 were $201,960 and $202,418, respectively. These obligations are not currently funded. The Company's allocated share of other postretirement benefit plan expenses were $589 and $112 for the years ended December 31, 2011 and 2010, respectively.

Effective April 1, 2012, the Company subsidy for the retiree medical plan will only be provided to employees whose combination of age and credited service is equal to or greater than 65 points, who are at least age 55, and have at least 5 years of credited service as of March 31, 2012. The retiree plan will only provide access to coverage for all other retirees, but the Company subsidy will no longer be available to them.

As sponsor of the AIG U.S. Plan and other benefit plans, AIG is ultimately responsible for the maintenance of these plans in compliance with law. The Company is not directly liable for obligations under the plan; its direct obligations result from AIG's allocation of its share of expenses from the plans. Such allocation is based on the Company's payroll.

C. STOCK OPTION AND DEFERRED COMPENSATION PLANS

Some of the Company's officers and key employees receive share-based compensation pursuant to awards granted under the AIG 2010 Stock Incentive Plan including share-based cash settled awards such as the Stock Salary and TARP RSU Awards and several other legacy AIG-sponsored employee compensation plans, which are linked to AIG common stock. Share-based cash settled awards are recorded as liabilities until the final payout is made or

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the award is replaced with a stock-settled award. Unlike stock-settled awards, which have a fixed grant-date fair value (unless the award is subsequently modified), the fair value of unsettled or unvested liability awards are remeasured at the end of each reporting period based on the change in fair value of one share of AIG common stock. Legacy plans for which awards were still outstanding at December 31, 2011 include the AIG 1999 Stock Option Plan, as amended, AIG 2002 Stock Incentive Plan, as amended under which AIG has issued time-vested restricted stock units and performance restricted stock units and the AIG 2007 Stock Incentive Plan, as amended. During 2011 and 2010, AIG allocated to the Company compensation expense totaling $4,034 and $14,408, respectively, related to stock options and restricted stock units granted under these plans.

In December 2009, AIG established the Long Term Incentive Plan under which management employees were offered the opportunity to receive additional compensation in the form of cash and stock appreciation rights (SARs) if certain performance metrics are met. During 2011 and 2010, AIG allocated to the Company $4,986 and $9,861, respectively, for expenses incurred under this plan.

In addition to several small defined contribution plans, AIG sponsors a voluntary savings plan for U.S. employees, (the AIG Incentive Savings Plan), which provides for salary reduction contributions by employees and matching U.S. contributions by AIG of up to 7 percent of annual salary depending on the employees' years of service and subject to certain compensation limits. The Company's allocated pre-tax expense associated with this plan was, $4,957 and $7,156 in 2011 and 2010, respectively. Effective January 1, 2012, the AIG Incentive Savings Plan was amended to

change the company matching contribution to 100 percent of the first 6 percent of participant contributions and to allow all employees to contribute up the annual IRS contribution maximum of $17.

D. POST-EMPLOYMENT BENEFITS AND COMPENSATED ABSENCES

AIG provides certain benefits to inactive employees who are not retirees. Certain of these benefits are insured and expensed currently; other expenses are provided for currently. Such expenses include long-term disability benefits, medical and life insurance continuation and Consolidated Omnibus Budget Reconciliation Act (COBRA) medical subsidies. The costs of these plans are borne by AIG and its participating subsidiaries.

E. IMPACT OF MEDICARE MODERNIZATION ACT ON POST RETIREMENT BENEFITS

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 was signed into law. The postretirement medical plan benefits provided by the plan are actuarially equivalent to Medicare Part D under the 2003 Medicare Act and eligible for the federal subsidy. Effective January 1, 2007, this subsidy is passed on to the participants through reduced contributions. The expected amount of subsidy that AIG will receive for 2011 is $3,100.

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NOTE 10 - CAPITAL AND SURPLUS AND DIVIDEND RESTRICTIONS

A. CAPITAL AND SURPLUS

The Company returned $1,420,000 in capital to its immediate parent as a result of reducing the par value of its common capital stock from $0.015 per share to $0.0115065 per share. The return of capital was accomplished by two separate transactions. On March 31, 2011, the Company reduced the par value of its common stock from $0.015 per share to $0.0124578 per share. On September 30, 2011, the Company further reduced the par value of its common stock to $0.0115065 per share. As a result of these transactions, the Company's common capital stock was reduced by $5,922 and its gross paid in and contributed surplus was reduced by $1,414,078. Both transactions were approved by the Company's board of directors and NY DFS.

The portion of unassigned surplus as of December 31, 2011 and 2010 represented by each item below is as follows:

	2011	2010
Unrealized gains	$ 198,889	$ 220,760
Non-admitted asset values	(1,224,794)	(458,968)
Provision for reinsurance	(78,525)	(99,443)

In calculating the provision for reinsurance as of December 31, 2011, management utilized collateral including letters of credit provided by its Ultimate Parent of $381,134. In calculating the provision for reinsurance as of December 31, 2010, management utilized collateral including letters of credit and assets in trust provided by its Ultimate Parent of $314,752 and $26,752, respectively. The use of these assets was approved by the domiciliary regulator.

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AMERICAN HOME ASSURANCE COMPANY

NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS

DECEMBER 31, 2011, 2010 AND 2009

(000'S OMITTED)

The changes in unrealized gains and non-admitted assets reported in the Statements of Operations and Changes in Capital and Surplus were derived as follows:

<TABLE>
<CAPTION>

Change in net unrealized gains	2011	2010	2009
<S>	<C>	<C>	<C>
Unrealized gains, current year	$ 198,889	$ 220,760	$ 441,772
Unrealized gains, previous year	220,760	441,772	739,654
Change in unrealized gains	(21,871)	(221,012)	(297,882)
Change in tax on unrealized gains	3,008	110,099	202,913
Change in accounting principles SSAP 43R	-	-	(6,693)
Adjustments to beginning surplus	2,913	(40,963)	(8,900)
Derivatives - change in foreign exchange	5,940	(4,250)	-
Amortization of goodwill	(7,967)	(5,204)	(2,502)
Other - Japan UTA	62,374	-	-
Change in unrealized, net of taxes	$ 44,397	$ (161,330)	$ (113,064)

</TABLE>

(a) The 2009 balance includes $3,395 of adjustments to the income tax effect of capital gains.

<TABLE>
<CAPTION>

Change in non-admitted asset values	2011	2010
<S>	<C>	<C>
Non-admitted asset values, current year	$ (1,224,794)	$ (458,968)
Non-admitted asset values, previous year	(458,968)	(1,087,959)
Change in non-admitted assets	(765,826)	628,991
Change in SSAP 10R	(189,739)	11,994
Adjustments to beginning surplus	29,308	(128,361)
Other surplus adjustments	-	613
Change in non-admitted assets	$ (926,257)	$ 513,237

</TABLE>

B. RISK-BASED CAPITAL REQUIREMENTS

The NAIC has adopted a Risk-Based Capital (RBC) formula to be applied to all property and casualty insurance companies. RBC is a method of establishing the minimum amount of capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. A company's RBC is calculated by applying different factors to various asset classes, net premiums written and loss and LAE reserves. A company's result from the RBC formula is then compared to certain established minimum capital benchmarks. To the extent a company's RBC result does not either reach or exceed these established benchmarks, certain regulatory actions may be taken in order for the insurer to meet the statutorily-imposed minimum capital and surplus requirements.

In connection therewith, the Company has satisfied the capital and surplus requirements of RBC for the 2011

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reporting period.

C. DIVIDEND RESTRICTIONS

Under New York law, the Company may pay cash dividends only from earned surplus determined on a statutory basis. Further, the Company is restricted (on the basis of the lower of 10.0 percent of the Company's statutory earned surplus as of December 31, 2011, or 100.0 percent of the Company's adjusted net investment income for the preceding 36 month period ending December 31, 2011) as to the amount of dividends it may declare or pay in any twelve-month period without the prior approval of NY DFS. As of December 31, 2011, the maximum dividend payment, which may be made without prior approval during 2012, is approximately $308,827.

Within the limitations noted above, no dividends may be paid out of segregated surplus. There are no restrictions placed on the portion of Company profits that may be paid as ordinary dividends to stockholders. There were no restrictions placed on the Company's surplus including for whom the surplus is being held. There is no stock held by the Company for any special purpose.

As of December 31, 2011 and 2010, the Company paid dividends to Chartis U.S., Inc. of $137,458 and $301,343, respectively, which included $0 of extraordinary dividends.

NOTE 11 - CONTINGENCIES

A. LEGAL PROCEEDINGS

The Company is involved in various legal proceedings incident to the operation of its business. Such proceedings include claims litigation in the normal course of business involving disputed interpretations of policy coverage. Other proceedings in the normal course of business include allegations of underwriting errors or omissions, bad faith in the handling of insurance claims, employment claims, regulatory activity, and disputes relating to the Company's business ventures and investments.

Other legal proceedings include the following:

The National Association of Insurance Commissioners Market Analysis Working Group, led by the states of Ohio and Iowa, is conducting a multi-state examination of certain accident and health products, including travel products, issued by National Union Fire Insurance Company of Pittsburgh, Pa. ("National Union"). The examination formally commenced in September 2010 after National Union, based on the identification of certain regulatory issues related to the conduct of its accident and health insurance business, including rate and form issues, producer licensing and appointment, and vendor management, requested that state regulators collectively conduct an examination of the regulatory issues in its accident and health business. In addition to Ohio and Iowa, the lead states in the multi-state examination are Minnesota, New Jersey and Pennsylvania, and currently a total of 38 states have agreed to participate in the multi-state examination. As part of the multi-state examination, an Interim Consent Order was entered into with Ohio on (A) January 7, 2011, in which National Union agreed, on a nationwide basis, to cease marketing directly to individual bank customers accident/sickness policy forms that had

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been approved to be sold only as policies providing blanket coverage, and to certain related remediation and audit procedures and (B) on February 14, 2012, in which National Union agreed, on a nationwide basis, to limit outbound telemarketing to certain forms and rates. A Consent Order was entered into with Minnesota on February 10, 2012, in which National Union and Travel Guard Group Inc. agreed to (i) cease automatically enrolling Minnesota residents in certain insurance relating to air travel, (ii) pay a civil penalty to Minnesota of $250 and (iii) refund premium to Minnesota residents who were automatically enrolled in certain insurance relating to air travel. In early 2012, Chartis U.S., Inc., on behalf of itself, National Union, and certain of Chartis U.S., Inc.'s insurance companies (collectively, "Chartis U.S.") and the lead regulators agreed in principle upon certain terms to resolve the multi-state examination. The terms include Chartis U.S.'s (i) payment of a civil penalty of up to $51,000, (ii) agreement to enter into a corrective action plan describing agreed-upon specific steps and standards for evaluating Chartis U.S.'s ongoing compliance with laws and regulations governing the regulatory issues identified in the examination, and (iii) agreement to pay a contingent fine in the event that Chartis U.S. fails to substantially comply with the steps and standards agreed to in the corrective action plan. AIG has established a reserve equal to the amount of the civil penalty under the proposed agreement. As the terms outlined above are subject to agreement by the lead and participating states and appropriate agreements or orders, the Company (i) can give no assurance that these terms will not change prior to a final resolution of the multi-state examination that is binding on all parties and (ii) cannot predict what other regulatory action, if any, will result from resolving the multi-state examination. There can be no assurance that any regulatory action resulting from the issues identified will not have a material adverse effect on Chartis's consolidated results of operations for an individual reporting period, the ongoing operations of the business being examined, or on similar business written by other AIG carriers. National Union and other Chartis companies are also currently subject to civil litigation relating to the conduct of their accident and health business, and may be subject to

additional litigation relating to the conduct of such business from time to time in the ordinary course.

AIG, National Union Fire Insurance Company of Pittsburgh, Pa. (National Union), and Chartis Specialty Insurance Company (f/k/a American International Specialty Lines Insurance Company) have been named defendants (the AIG Defendants) in two putative class actions in state court in Alabama that arise out of the 1999 settlement of class and derivative litigation involving Caremark Rx, Inc. (Caremark). The plaintiffs in the second-filed action have intervened in the first-filed action, and the second-filed action has been dismissed. An excess policy issued by a subsidiary of AIG with respect to the 1999 litigation was expressly stated to be without limit of liability. In the current action, plaintiffs allege that the judge approving the 1999 settlement was misled as to the extent of available insurance coverage and would not have approved the settlement had he known of the existence and/or unlimited nature of the excess policy. They further allege that the AIG Defendants and Caremark are liable for fraud and suppression for misrepresenting and/or concealing the nature and extent of coverage. In their complaint, plaintiffs request compensatory damages for the 1999 class in the amount of $3,200,000, plus punitive damages. The AIG Defendants deny the allegations of fraud and suppression and have asserted, inter alia, that information concerning the excess policy was publicly disclosed months prior to the approval of the settlement. The AIG Defendants further assert that the current claims are barred by the statute of limitations and that plaintiffs' assertions that the statute was tolled cannot stand against the public disclosure of the excess coverage. Plaintiffs, in turn, have asserted that the disclosure was insufficient to inform them of the nature of the coverage and did not start the running of the statute of limitations.

The intervening plaintiffs had requested a stay of all trial court proceedings pending their appeal of an order

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dismissing certain lawyers and law firms who represented parties in the underlying class and derivative actions. After the Alabama Supreme Court affirmed the trial court's dismissal in September 2008, the intervening plaintiffs filed an Amended Complaint in Intervention on December 1, 2008, which named Caremark, AIG and certain subsidiaries, including National Union and Chartis Specialty Insurance Company, as defendants, and purported to bring claims against all defendants for deceit and conspiracy to deceive, and to bring a claim against AIG and its subsidiaries for aiding and abetting Caremark's alleged deception.

After the defendants moved to dismiss the Amended Complaint in Intervention and, in the alternative, for a more definite statement, and the plaintiffs reached an agreement to withdraw additional motions seeking to disqualify certain plaintiffs' counsel, on March 2, 2009, the court granted the intervening plaintiffs' motion to withdraw the Amended Complaint in Intervention. On April 14, 2009, the court established a schedule for class action discovery. The parties are presently engaged in class discovery, and plaintiffs' motion for class certification is scheduled for a hearing starting on May 30, 2012.

As of April 18, 2012, the parties have not commenced general discovery, and the court has not determined if a class action is appropriate or the size or scope of any class. The Company is unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

On September 2, 2005, certain AIG companies including American Home Assurance Company, AIU Insurance Company and New Hampshire Insurance Company (collectively, the AIG Parties) sued (i) The Robert Plan Corporation (RPC), an agency that formerly serviced assigned risk automobile insurance business for the AIG Parties; (ii) certain affiliates of RPC; and (iii) two of RPC's senior executives. This suit was brought in New York Supreme Court and alleges the misappropriation of funds and other violations of contractual arrangements. On September 26, 2005, RPC countersued the AIG Parties and AIG itself for, among other things, $370,000 in disgorged profits and $500,000 of punitive damages under a

claim of fraud. On March 10, 2006, RPC moved to dismiss its fraud claim without prejudice for the purposes of bringing that claim in New Jersey. On that date, RPC also amended its counterclaim, setting forth a number of causes of action for breach of contract. The parties filed cross motions to dismiss various counts of the complaint and counterclaims. These motions were granted in part and denied in part by the court. RPC appealed certain aspects of the court's ruling. That appeal remains pending. On August 25, 2008, RPC, one of its affiliates, and one of the defendant RPC executives filed voluntary petitions for relief under chapter 11 of title 11 of the United States Code (the Bankruptcy Code). On October 7, 2008, the Court entered an Order staying this action in light of those bankruptcy proceedings. On January 15, 2009, RPC filed a notice of removal to the United States District Court for the Southern District of New York. The action was subsequently transferred to the Eastern District of New York and then referred to the United States Bankruptcy Court for that District. The AIG Parties moved to remand the case, and the Court granted that motion on April 12, 2010.

In July 2007, RPC (along with Eagle Insurance Company (Eagle) and Newark Insurance Corporation (Newark), two of RPC's subsidiary insurance companies) filed a separate complaint in New Jersey alleging claims for fraud and negligent misrepresentation against AIG and the AIG Parties in connection with certain 2002 contracts. That complaint seeks damages of at least $100,000, unspecified punitive damages, declaratory relief, and imposition of a constructive trust.

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Because Eagle and Newark are in liquidation with the Commissioner of the New Jersey Department of Banking and Insurance as liquidator, the AIG Parties believe that only the Commissioner -- and not RPC -- has the authority to direct Eagle and Newark to bring the claims asserted in this action. On December 7, 2007, this action was stayed pending judicial determination of this issue in the Eagle/Newark rehabilitation/liquidation proceeding. In October 2008, the Court dismissed the action without prejudice for failure to prosecute.

Nevertheless, on January 14, 2009, RPC filed a notice of removal of the New Jersey action to the United States District Court for the District of New Jersey and, on February 2, 2009, moved to transfer the New Jersey action to the Eastern District of New York, where RPC's bankruptcy proceeding is pending. The AIG Parties filed a motion to dismiss the case for lack of subject matter jurisdiction because the purportedly removed action had been dismissed three months before RPC filed its purported notice of removal, and consideration of RPC's transfer motion was stayed until the Court ruled on the AIG Parties' motion to dismiss. On August 10, 2009, the Court granted the AIG Parties' motion to dismiss and denied RPC's transfer motion as moot. To the AIG Parties' knowledge, since that time, RPC has not sought to have the New Jersey state court action reinstated. The settlement discussed below contains a release from RPC to the AIG Parties that covers the claims RPC asserted against the AIG Parties in the New Jersey Action.

On December 28, 2010, the Bankruptcy Court granted motions to approve settlements entered into in September 2010 between the AIG parties and the RPC Defendants (other than two of RPC's affiliates whose corporate privileges have been suspended by their respective states of incorporation and are therefore unable to enter into contracts) resolving all claims and counterclaims between the AIG parties and the RPC Defendants, and on March 16, 2011 the Court entered an Order dismissing the case with prejudice. The settlements will not have a material adverse effect on the AIG parties' financial position.

On March 23, 2011, certain AIG entities were served with a Summons with Notice of a suit filed in New York Supreme Court (Nassau County) by William Wallach, The William Wallach Irrevocable Trust, Lawrence Wallach, and Richard Wallach. Prior to his death in 2010, William Wallach was the majority shareholder in RPC. The Summons with Notice indicates that the suit purports to seek damages of $375,000 for breach of contract, misrepresentation, breach of fiduciary duty, fraud, deceit, tortious interference with contractual relations and prima facie tort.

Following motion practice in the District Court, the matter was referred to the Bankruptcy Court as related to the settlement that was approved on March 16, 2011. The AIG Defendants requested leave to move for sanctions because they assert the complaint is frivolous, and the plaintiffs indicated their intent to file an amended complaint. On October 5, 2011, the Bankruptcy Court set a 60-day deadline for plaintiffs to amend, if so advised, and to determine whether they wish to proceed notwithstanding AIG Defendants' assertion that the claim is frivolous. The plaintiffs neither withdrew nor amended their complaint within the 60-day deadline set by the Bankruptcy Court. On December 7, 2011, the Bankruptcy Court indicated that the AIG Defendants should file their motions to dismiss and for sanctions against the plaintiffs' existing complaint, returnable January 18, 2012. The AIG Defendants filed their motions to dismiss and for sanctions on December 19, 2011. On February 1, 2012, the bankruptcy court dismissed the complaint without prejudice and set a March 5, 2012 hearing date for the AIG Defendants' sanctions motion. At that hearing, the Court granted the AIG Defendants' sanctions motion.

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Effective February 9, 2006, AIG reached a resolution of claims and matters under investigation with the United States Department of Justice (the DOJ), the United States Securities and Exchange Commission (the SEC), the Office of the Attorney General of the State of New York (the NYAG) and the New York Insurance Department (the NYDOI). The settlements resolve outstanding litigation and allegations by such agencies against AIG in connection with the accounting, financial reporting and insurance brokerage practices of

AIG and its subsidiaries, as well as claims relating to the underpayment of certain workers compensation premium taxes and other assessments. As a result of these settlements, AIG recorded an after-tax-charge of $1,150,000 in the fourth quarter of 2005, and made payments or placed in escrow approximately $1,640,000 including (i) $375,000 into a fund under the supervision of the NYAG and NYDOI to be available principally to pay certain AIG insurance company subsidiary policyholders who purchased excess casualty policies through Marsh & McLennan Companies, Inc. and Marsh Inc. (the Excess Casualty Fund) and (ii) $343,000 into a fund under the supervision of the NYAG and the NYDOI to be used to compensate various states in connection with the underpayment of certain workers compensation premium taxes and other assessments. As of February 29, 2008, eligible policyholders entitled to receive approximately $358,700 (or 95 percent) of the Excess Casualty Fund had opted to receive settlement payments in exchange for releasing AIG and its subsidiaries from liability relating to certain insurance brokerage practices. In accordance with the settlement agreements, all amounts remaining in the Excess Casualty Fund were used by AIG to settle claims from other policyholders relating to such practices.

Various state regulatory agencies have reviewed certain other transactions and practices of AIG and its subsidiaries, including the Company, in connection with certain industry-wide and other inquiries including, but not limited to, insurance brokerage practices relating to contingent commissions and the liability of certain AIG subsidiaries, including the Company, for taxes, assessments and surcharges relating to the underreporting or misreporting of workers compensation premium. On January 29, 2008 AIG reached settlements in connection with these state reviews, subject to court approval, with the Attorneys General of the States of Florida, Hawaii, Maryland, Michigan, Oregon, Texas and West Virginia, the Commonwealths of Massachusetts and Pennsylvania, and the District of Columbia; the Florida Department of Financial Services; and the Florida Office of Insurance Regulation. The settlement agreements call for AIG to pay a total of $12,500 to be allocated among the ten jurisdictions and also require AIG to continue to maintain certain producer compensation disclosure and ongoing compliance initiatives. On March 13, 2008, AIG also reached a settlement with the Pennsylvania Insurance Department, which calls for AIG to provide annual reinsurance reports and maintain certain producer compensation disclosure and ongoing compliance initiatives, and to pay a total of $13,500, $4,400 of which was previously paid to Pennsylvania in connection with prior settlement agreements.

On May 24, 2007, the National Workers Compensation Reinsurance Pool

(NWCRP), on behalf of its participant members, filed a lawsuit against AIG and certain of its subsidiaries, including the Company (collectively, the AIG parties), with respect to the underpayment of residual market assessments for workers compensation insurance. The complaint alleges claims for violations of the Racketeer Influenced and Corrupt Organizations Act (RICO), breach of contract, fraud and related state law claims arising out of AIG's alleged underpayment of these assessments between 1970 and the present and seeks damages purportedly in excess of $1,000,000. On August 6, 2007, the court denied the AIG parties' motion seeking to dismiss or stay the complaints or in the alternative, to transfer to the Southern District of New York. On December 26, 2007, the court denied the AIG parties' motion to dismiss the complaint. On March 17, 2008, the AIG parties filed an amended answer, counterclaims and third-party claims against the National Council on Compensation Insurance (in its capacity as attorney-in-fact for the

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NWCRP), the NWCRP, its board members, and certain of the other insurance companies that are members of the NWCRP alleging violations of RICO, as well as claims for conspiracy, fraud, and breach of fiduciary duty. The counterclaim-and third-party defendants filed motions to dismiss on June 9, 2008.

On January 26, 2009, the AIG parties filed a motion to dismiss all claims in the complaint for lack of subject-matter jurisdiction. On February 23, 2009, the Court issued an order denying the motion to dismiss the AIG parties' counterclaims; granting the portion of the third-party defendants'

motion to dismiss as to the AIG parties' third-party claims for RICO violations and conspiracy; and denying the portion of the third-party defendants' motion to dismiss as to the AIG parties' third-party claims for fraud, breach of fiduciary duty and unjust enrichment. On April 13, 2009, one of the third-party defendants filed third-party counterclaims against AIG, certain of its subsidiaries and certain former executives. On August 20, 2009, the court granted the AIG parties' motion to dismiss the NWCRP's claims for lack of subject matter jurisdiction. On September 25, 2009, the AIG parties, now in the position of plaintiff, filed an amended complaint that repleads their RICO and conspiracy claims -- previously counterclaims that were dismissed without prejudice -- against several competitors, as well as repleads the AIG parties' already sustained claims for fraud, breach of fiduciary duty and unjust enrichment against those parties, the NWCRP and the NCCI. On October 8, 2009, one competitor filed amended counterclaims against the AIG parties. The amended counterclaim is substantially similar to the complaint initially filed by the NWCRP, but also seeks damages related to non-NWCRP states and guaranty funds, in addition to asserting claims for other violations of state law.

On October 30, 2009, all of the parties now in the position of defendant -- the AIG parties' competitors, the NWCRP and NCCI -- filed motions to dismiss many of the AIG parties' amended claims, and the AIG parties filed a motion to dismiss many of their competitor's counterclaims. On July 1, 2010 the Court denied the pending motions to dismiss as to all claims, except that it dismissed the AIG parties' claim for unjust enrichment. On July 30, 2010, the NWCRP filed a motion for reconsideration of the Court's decision denying its motion to dismiss the accounting claim asserted against it by the AIG parties, and that motion was denied on August 16, 2010.

On April 1, 2009, a purported class action was filed in Illinois federal court against AIG and certain of its subsidiaries on behalf of a putative class of NWCRP participant members with respect to the underpayment of residual market assessments for workers compensation insurance. The complaint was styled as an "alternative complaint," should the court grant the AIG parties' motion to dismiss all claims against the defendants in the NWCRP lawsuit for lack of subject matter jurisdiction. The allegations in the class action complaint are substantially similar to those filed by the NWCRP, but the complaint adds certain former AIG executives as defendants and a RICO claim against those individuals. On August 28, 2009, the class action plaintiffs filed an amended complaint, removing the AIG executives as defendants. On October 30, 2009, the AIG parties filed a motion to

dismiss many of the claims asserted in the class action complaint. On July 1, 2010, the Court denied the pending motion to dismiss as to all claims, except that it dismissed the plaintiffs' claim for promissory estoppel against the AIG subsidiary defendants (the promissory estoppel claim against AIG survives). Class discovery has been completed, and on July 16, 2010, the plaintiffs filed a motion for class certification. The AIG parties filed their opposition to this motion on October 8, 2010.

On January 5, 2011, the AIG parties executed a term sheet with a group of intervening plaintiffs, made up of seven participating members of the NWCRP that filed a motion to intervene in the class action for the purpose of settling

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the claims at issue on behalf of a settlement class. The proposed class-action settlement would require AIG to pay $450,000 to satisfy all liabilities to the class members arising out of the workers compensation premium reporting issues, a portion of which would be funded out of the remaining amount held in a fund established as part of AIG's settlement with the NYAG and NYDOI in 2006 (the "Workers Compensation Fund"), as addressed above, less any amounts previously withdrawn to satisfy AIG's regulatory settlement obligations, as addressed below. On January 13, 2011, their motion to intervene was granted. On January 19, 2011, the intervening class plaintiffs filed their Complaint in Intervention. On January 28, 2011, the AIG parties and the intervening class plaintiffs entered into a settlement agreement embodying the terms set forth in the January 5, 2011 term sheet and filed a joint motion for certification of the settlement

class and preliminary approval of the settlement. If Court approval becomes final, the settlement agreement will resolve and dismiss with prejudice all claims that have been made or that could have been made in the consolidated litigations pending in the Northern District of Illinois arising out of workers compensation premium reporting, including the class action, other than claims that are brought by or against any class member that opts out of the settlement. On April 29, 2011, Liberty Mutual Group filed papers in opposition to preliminary approval of the proposed settlement and in opposition to certification of a settlement class, in which it alleged that AIG's actual exposure should the class action continue through judgment to be in excess of $3,000,000. The AIG parties dispute this allegation.

On August 1, 2011, the Court issued an opinion and order granting the pending motion for settlement class certification and preliminarily approving the proposed class action settlement, subject to certain minor modifications to the settlement agreement that the Court noted the parties already had agreed to make. The opinion and order stated that it would become effective upon entry of a separate Findings and Order Preliminarily Certifying a Settlement Class and Preliminarily Approving Proposed Settlement, which was then entered on August 5, 2011. Liberty Mutual sought leave from the United States Court of Appeals for the Seventh Circuit to appeal the August 5, 2011 class certification decision, which was denied on August 19, 2011. Notice of the settlement was issued to the class members on August 19, 2011 advising that any class member wishing to opt out of or object to the class action-settlement was required to do so by October 3, 2011. RLI Insurance Company and its affiliates, which were to receive less than one thousand dollars under the proposed settlement, sent the only purported opt-out notice. Liberty Mutual, including its subsidiaries Safeco and Ohio Casualty, and the Kemper group of insurance companies, through their affiliate Lumbermens Mutual Casualty, were the only two objectors. The AIG parties and the settling class plaintiffs filed responses to the objectors' submissions on October 28, 2011. The Court conducted a final fairness hearing on November 29, 2011. Immediately prior to the hearing, Lumbermens Mutual Casualty withdrew its objection to the settlement. On December 21, 2011, the Court issued an Order granting final approval of the settlement, but staying that ruling pending a forthcoming opinion. On February 28, 2012, the Court entered a final order and judgment approving the class action settlement. Liberty Mutual, Safeco and Ohio Casualty filed notices of their intent to appeal the Court's final order and judgment. The Court of Appeals for the Seventh Circuit has consolidated the appeals. Liberty Mutual, Safeco and Ohio Casualty are to submit their opening briefs on or before May 29, 2012.

The $450,000 settlement amount, which is currently held in escrow pending final resolution of the class action settlement, was funded in part from the approximately $191,500 remaining in the Workers' Compensation Fund, after the transfer of the $146,500 in fines, penalties, and premium taxes discussed in the NAIC Examination of Workers' Compensation Premium Reporting matter below. In the event that the appeal of the class action

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settlement is successful, the litigation could resume. AIG has an accrued liability equal to the amounts payable under the settlement.

A purported class action was filed in South Carolina federal court on January 25, 2008 against AIG and certain of its subsidiaries on behalf of a class of employers that obtained workers compensation insurance from AIG companies and allegedly paid inflated premiums as a result of AIG's alleged underreporting of workers compensation premiums. An amended complaint was filed on March 24, 2008, and the AIG parties filed a motion to dismiss the amended complaint on April 21, 2008. On July 8, 2008, the court granted the AIG parties' motion to dismiss all claims without prejudice and granted plaintiff leave to refile subject to certain conditions. Plaintiffs filed their second amended complaint on July 22, 2008. On March 27, 2009, the court granted the AIG parties' motion to dismiss all claims in the second amended complaint related to pre-2001 policies and all claims against certain AIG subsidiaries, denied the motion to dismiss as to claims against AIG and the remaining subsidiaries, and granted the AIG parties' motion to strike certain allegations from the complaint. On July 19, 2010, the South

Carolina Supreme Court held that the filed-rate doctrine did not bar plaintiffs' claims. On December 21, 2011, plaintiffs filed a motion for class certification, which the AIG parties opposed on January 23, 2012. On February 29, 2012, the parties agreed in principle to settle the case for a payment by defendants of $4,000. If that settlement is approved by the court and the settlement becomes final, the case will be concluded.

In April 2007, the National Association of Insurance Commissioners (the NAIC) formed a Settlement Review Working Group, directed by the State of Indiana, to review the Workers Compensation Residual Market Assessment portion of the settlement between AIG, the NYAG, and the NYDOI. In late 2007, the Settlement Review Working Group, under the direction of Indiana, Minnesota and Rhode Island, recommended that a multi-state targeted market conduct examination focusing on workers compensation insurance be commenced under the direction of the NAIC's Market Analysis Working Group. AIG was informed of the multi-state targeted market conduct examination in January 2008. The lead states in the multi-state examination are Delaware, Florida, Indiana, Massachusetts, Minnesota, New York, Pennsylvania and Rhode Island. All other states (and the District of Columbia) agreed to participate in the multi-state examination. The examination focused on legacy issues related to AIG's writing and reporting of workers compensation insurance between 1985 and 1996.

On December 17, 2010, AIG and the lead states reached an agreement to settle all regulatory liabilities arising out of the subjects of the multistate examination. The regulatory settlement agreement includes, among other terms, (i) AIG's payment of $100,000 in regulatory fines and penalties; (ii) AIG's payment of $46,500 in outstanding premium taxes; (iii) AIG's agreement to enter into a compliance plan describing agreed-upon specific steps and standards for evaluating AIG's ongoing compliance with state regulators governing the setting of workers compensation insurance premium rates and the reporting of workers compensation premiums; and (iv) AIG's agreement to pay up to $150,000 in contingent fines in the event that AIG fails to comply substantially with the compliance plan requirements. The $146,500 in fines, penalties and premium taxes can be funded out of the $338,000 held in the Workers Compensation Fund, discussed above, to the extent that such monies have not already been used to fund the class action settlement discussed above. The regulatory settlement originally was contingent upon, among other events: (i) a final, court-approved settlement being reached in all the lawsuits currently pending in Illinois arising out of workers compensation premium reporting issues, discussed above, including the putative class action,

except that such settlement need not resolve claims between AIG and the Liberty Mutual Group and (ii) a settlement being reached and consummated between AIG and certain state

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insurance guaranty funds that may assert claims against AIG for underpayment of guaranty-fund assessments. AIG and the other parties to the regulatory settlement agreement subsequently agreed to waive the settlement contingency of a final settlement in the lawsuits, provided that such waiver will not become effective until AIG consummates a settlement with the state insurance guaranty associations.

AIG and certain subsidiaries have established a reserve equal to the amounts payable under the proposed settlement.

After the NYAG filed its complaint against insurance broker Marsh, policyholders brought multiple federal antitrust and Racketeer Influenced and Corrupt Organizations Act (RICO) class actions in jurisdictions across the nation against insurers and brokers, including AIG and a number of its subsidiaries, alleging that the insurers and brokers engaged in a broad conspiracy to allocate customers, steer business, and rig bids. These actions, including 24 complaints filed in different federal courts naming AIG or an AIG subsidiary as a defendant, were consolidated by the judicial panel on multi-district litigation and transferred to the United States District Court for the District of New Jersey for coordinated pretrial proceedings.

The consolidated actions have proceeded in that court in two parallel actions, In re insurance Brokerage Antitrust Litigation (the Commercial Complaint) and In re Employee Benefit Insurance Brokerage Antitrust Litigation (the Employee Benefits Complaint, and, together with the Commercial Complaint, the multi-district litigation).

The plaintiffs in the Commercial Complaint are a group of corporations, individuals and public entities that contracted with the broker defendants for the provision of insurance brokerage services for a variety of insurance needs. The broker defendants were alleged to have placed insurance coverage on the plaintiffs' behalf with a number of insurance companies named as defendants, including certain AIG subsidiaries, including American Home Assurance Company (American Home), AIU Insurance Company, National Union Fire Insurance Company of Pittsburgh, Pa., Chartis Specialty Insurance Company (f/k/a American International Specialty Lines Insurance Company), Chartis Property Casualty Company (f/k/a both Birmingham Fire Insurance Company of Pennsylvania and AIG Casualty Company), Commerce and Industry Insurance Company, Lexington Insurance Company, National Union Fire Insurance Company of Louisiana, New Hampshire Insurance Company, and The Insurance Company of the State of Pennsylvania. The Commercial Complaint also named various brokers and other insurers as defendants (three of which have since settled). The Commercial Complaint alleges that defendants engaged in a widespread conspiracy to allocate customers through "bid-rigging" and "steering" practices. The Commercial Complaint also alleges that the insurer defendants permitted brokers to place business with AIG subsidiaries through wholesale intermediaries affiliated with or owned by those same brokers rather than placing the business with AIG subsidiaries directly. Finally, the Commercial Complaint alleges that the insurer defendants entered into agreements with broker defendants that tied insurance placements to reinsurance placements in order to provide additional compensation to each broker. Plaintiffs assert that the defendants violated the Sherman Antitrust Act, RICO, the antirust laws of 48 states and the District of Columbia, and were liable under common law breach of fiduciary duty and unjust enrichment theories. Plaintiffs seek treble damages plus interest and attorneys' fees as a result of the alleged RICO and the Sherman Antitrust Act violations.

The plaintiffs in the Employee Benefits Complaint are a group of individual employees and corporate and municipal employees alleging claims on behalf of two separate nationwide purported classes: an employee class

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and an employer class that acquired insurance products from the defendants from January 1, 1998 to December 31, 2004. The Employee Benefits Complaint names AIG, and certain of its subsidiaries, including American Home, as well as various other brokers and insurers, as defendants. The activities alleged in the Employee Benefits Complaint, with certain exceptions, tracked the allegations of contingent commissions, bid-rigging and tying made in the Commercial Complaint.

The court in connection with the Commercial Complaint granted (without leave to amend) defendants' motions to dismiss the federal antitrust and RICO claims on August 31, 2007 and September 28, 2007, respectively. The court declined to exercise supplemental jurisdiction over the state law claims in the Commercial Complaint and therefore dismissed it in its entirety. On January 14, 2008, the court granted defendants' motion for summary judgment on the ERISA claims in the Employee Benefits Complaint and subsequently dismissed the remaining state law claims without prejudice, thereby dismissing the Employee Benefits Complaint in its entirety. On February 12, 2008 plaintiffs filed a notice of appeal to the United States Court of Appeals for the Third Circuit with respect to the dismissal of the Employee Benefits Complaint. Plaintiffs previously appealed the dismissal of the Commercial Complaint to the United States Court of Appeals for the Third Circuit on October 10, 2007.

On August 16, 2010, the Third Circuit affirmed the dismissal of the Employee Benefits Complaint in its entirety, affirmed in part and vacated in part the District Court's dismissal of the Commercial Complaint, and remanded the case for further proceedings consistent with the opinion. The

Third Circuit also affirmed in part and vacated in part the District Court's dismissal of the Commercial Complaint, and remanded the case for further proceedings consistent with the opinion. With respect to the antitrust claims in the Commercial Complaint, the Third Circuit affirmed the dismissal of all of plaintiffs' claims, except reversed the District Court's dismissal of an alleged "Marsh-centered" conspiracy to protect incumbent insurers that is based on allegations of bid-rigging involving excess casualty insurance. The Court remanded this claim to the District Court, instructing it to consider whether plaintiffs must satisfy the heightened pleading standard for fraud, and if so, whether this remaining claim meets that standard. With respect to the RICO claims in the Commercial Complaint, the Third Circuit affirmed the dismissal of all of plaintiffs' claims, except reversed the District Court's dismissal of an alleged "Marsh-centered" enterprise based on allegations of bid-rigging involving excess casualty insurance. The Court remanded this claim to the District Court for consideration as to whether plaintiffs had adequately pled the remaining RICO elements not previously considered by the District Court dismissing the Commercial Complaint. Because the Third Circuit vacated in part the judgment dismissing the federal claims in the Commercial Complaint, the Third Circuit also vacated the District Court's dismissal of the state-law claims in the Commercial Complaint. On October 1, 2010, defendants in the Commercial Complaint filed motions to dismiss the remaining remanded claims in the District Court of New Jersey.

On March 18, 2011, AIG, certain subsidiaries and certain other insurer and broker defendants agreed in principle to settle the multi-district litigation with a class consisting of all purchasers of commercial insurance policies from 1998 through 2004 that were issued by any of the defendants named in the Commercial Complaint and brokered through any of the insurance brokers named as defendants in the Commercial Complaint. Once the settlement is finalized approved by the Court and any appeals of Court approval or exhausted, the AIG defendants will pay a total of $6,750 towards a total group settlement payment of $36,750. A portion of the total settlement fund, which includes plaintiffs' attorneys' fees and class notice and administration fees, would be distributed to purchasers of excess casualty policies from any of the settling defendants and brokered through Marsh, with the remainder being

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used to fund a settlement that would be paid to a charitable or educational organization to be agreed to by the settling parties. On June 20, 2011, the Court "administratively terminated" without prejudice the various Defendants' pending motions to dismiss the proposed class plaintiffs' operative pleading indicating that those motions may be re-filed after adjudication of all issues related to the proposed class settlement and subject to the approval of the Magistrate Judge. On June 27, 2011, the Court preliminarily approved the class settlement. On June 30, 2011, AIG and certain subsidiaries placed their portion of the total settlement payment into escrow. If the settlement does not receive final court approval, those funds will revert to those parties. A final fairness hearing took place on September 14, 2011. On March 30, 2012, the Court granted final approval of the class settlement. The deadline for objectors to initiate appeals, if any, from the order granting final approval of the settlement is April 30, 2012.

A number of complaints making allegations similar to those in the multi-district litigation have been filed against AIG, certain AIG subsidiaries and other defendants in state and federal courts around the country. The defendants have thus far been successful in having the federal actions transferred to the District of New Jersey and consolidated into the multi-district litigation. These additional consolidated actions are still pending in the District of New Jersey. The AIG defendants have sought to have state court actions making similar allegations stayed pending resolution of the multi-district litigation. These efforts have generally been successful, although four cases have proceeded (one each in Florida and New Jersey state courts that have settled, and one each in Texas and Kansas state courts that are proceeding). In the Texas case, a hearing was held on November 11, 2009 on defendants' Special Exceptions. In the Kansas case, defendants are appealing the trial court's April 2010 denial of

defendants' motion to dismiss to the Kansas Supreme Court.

On October 17, 2011, the Court conducted a conference in connection with the tag-along actions that have been consolidated with the Multi-District Litigation, and subsequently ordered that discovery and motion practice may proceed in those cases. The parties subsequently submitted proposed scheduling orders for discovery and any additional motion practice to the Court, and a scheduling conference has been scheduled before the magistrate judge for April 30, 2012.

AIG is also subject to various legal proceedings which have been disclosed in AIG's periodic filings under the Securities Exchange Act of 1934, as amended, in which the Company is not named as a party, but whose outcome may nonetheless adversely affect the Company's financial position or results of operation.

Except as may have been otherwise noted above with respect to specific matters, the Company cannot predict the outcome of the matters described above, reasonably estimate the potential costs related to these matters, or determine whether other AIG subsidiaries, including the Company, would have exposure to proceedings in which they are not named parties by virtue of their participation in an intercompany pooling arrangement. In the opinion of management, except as may have been otherwise noted above with respect to specific matters, the Company's ultimate liability for the matters referred to above is not likely to have a material adverse effect on the Company's financial position, although it is possible that the effect would be material to the Company's results of operations for an individual reporting period.

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B. LEASES

As of December 31, 2009, all leases were transferred from the Company to National Union. Lease expenses are allocated to each affiliate based upon the percentage of space occupied. The Company's share of these transactions is based on its allocation as a member of the Admitted Pool, based upon its stated pool percentage.

C. OTHER CONTINGENCIES

In the ordinary course of business, the Company enters into structured settlements to settle certain claims. Structured settlements involve the purchase of an annuity to fund future claim obligations. In the event the life insurers providing the annuity, on certain structured settlements, are not able to meet their obligations, the Company would be liable for the payments of benefits. As of December 31, 2011, the Company has not incurred a loss and there has been no default by any of the life insurers included in the transactions. Management believes that based on the financial strength of the life insurers involved in these structured settlements the likelihood of a loss is remote.

The estimated loss reserves eliminated by such structured settlement annuities and the present value of annuities due from all life insurers (mostly affiliates) which the Company remains contingently liable amounted to $1,542,389 as of December 31, 2011. Also, as of December 31, 2011, the Company had the following amounts of annuities in excess of 1 percent of its policyholders' surplus due from the following life insurers:

Name of life insurer	Location	Balances	Licensed in New York
American General Life Insurance Company	Texas	$ 82,441	No
The United States Life Insurance Company in the City of New York	New York	879,607	Yes
American General Life Insurance Company of Delaware	Delaware	311,845	No

BMO Life Assurance Company	Canada	206,164	No

</TABLE>

As part of its private equity portfolio investment, as of December 31, 2011 the Company may be called upon for an additional capital investment of up to $263,490. The Company expects only a small portion of this portfolio will be called during 2012.

The Company has issued guarantees whereby it unconditionally and irrevocably guaranteed all present and future obligations and liabilities arising from the policies of insurance issued by certain insurers who, as of the guarantee issue date, were members of the AIG holding company group. All guarantees were provided in order to secure or maintain the guaranteed companies' rating status issued by certain rating agencies. The Company would be required to perform under the guarantee in the event that guaranteed entities failed to make payments under the policies of insurance issued during the period of the guarantee. For guarantees that have been terminated, the Company remains contingently liable for all policyholder obligations associated with insurance policies issued by the guaranteed entities during the period in which the guarantee was in force.

The Company has not been required to perform under any of the guarantees that it had issued.

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The Company is party to an agreement with AIG whereby AIG has agreed to make any payments due under the guarantees in the Company's place and stead. Additionally, each guaranteed entity has reported total assets in excess of its liabilities and the majority have invested assets in excess of their direct (prior to reinsurance) policyholder liabilities. Furthermore, for any former affiliate that has been sold, the purchaser has provided the Company with a hold harmless agreement relative to the guarantee. Accordingly, management believes that the likelihood of payment under any of the guarantees is remote.

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The following schedule sets forth the effective and termination dates of each guarantee, the amount of direct policyholder obligations guaranteed, the invested assets, estimated loss to the Company and policyholder surplus for each guaranteed entity as of December 31, 2011:

<TABLE>
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GUARANTEED COMPANY	DATE ISSUED	DATE TERMINATED	POLICYHOLDER OBLIGATIONS @ 12/31/2011	INVESTED ASSETS @ 12/31/2011	ESTIMATED LOSS @ 12/31/2011	POLICYHOLDERS' SURPLUS @ 12/31/2011
<S>	<C>	<C>	<C>	<C>	<C>	<C>
21st Century Advantage Insurance						

Company (f/k/a AIG Advantage Insurance Company)	*	12/15/97	8/31/09	$ 5,645	$ 28,397	$ -	$ 26,124
AIG Edison Life Insurance Company (formerly GE Edison Life Insurance Company)	**	8/29/03	3/31/11	26,660,158	26,944,023	-	2,123,663
Farmers Insurance Hawaii (f/k/a AIG Hawaii Insurance Company, Inc.)	*	11/5/97	8/31/09	16,983	84,066	-	76,624
Chartis Seguros Mexico SA (f/k/a AIG Mexico Seguros Interamericana, S.A. de C.V.)		12/15/97	-	166,073	100,369	-	81,157
American General Life and Accident Insurance Company		3/3/03	9/30/10	8,440,946	9,262,389	-	629,299
American General Life Insurance Company		3/3/03	12/29/06	31,095,613	41,395,196	-	7,393,647
American International Assurance Company (Australia) Limited		11/1/02	10/31/10	380,000	1,308,000	-	404,000
21st Century North America Insurance Company (f/k/a American International Insurance Company)	*	11/5/97	8/31/09	37,488	587,979	-	489,328
21st Century Superior Insurance Company (f/k/a American International Insurance Company of California, Inc.)	*	12/15/97	8/31/09	1,910	29,818	-	27,209
21st Century Pinnacle Insurance Company (f/k/a American International Insurance Company of New Jersey)	*	12/15/97	8/31/09	13,789	42,910	-	38,272
Chartis Europe, S.A. (formerly AIG Europe, S.A.)		9/15/98	-	6,527,141	6,654,194	-	3,390,807

Chartis UK (f/k/a Landmark Insurance Company, Limited (UK))	3/2/98	11/30/07	188,322	5,379,752	-	1,949,112
Lloyd's Syndicate 1414 (Ascot Corporate Name)	1/20/05	10/31/07	139,593	663,562	-	151,865
SunAmerica Annuity and Life Assurance Company (Anchor National Life Insurance Company)	1/4/99	12/29/06	14,680,609	25,906,187	-	814,143
SunAmerica Life Insurance Company	1/4/99	12/29/06	9,474,897	13,652,491	-	2,907,242
The United States Life Insurance Company in the City of New York	3/3/03	4/30/10	9,667,411	22,548,377	-	1,842,268
The Variable Annuity Life Insurance Company	3/3/03	12/29/06	45,334,090	64,692,369	-	4,238,814
TOTAL GUARANTEES			$ 152,830,668	$ 219,280,079	$ -	$ 26,583,574

</TABLE>

* The guaranteed company was formerly part of AIG's Personal Auto Group and was sold on July 1, 2009 to Farmers Group, Inc., a subsidiary of Zurich Financial Services Group (ZFSG). As part of the sale, ZFSG issued a hold harmless agreement to the Company with respect to its obligations under this guarantee.

** AIG Edison Life Insurance Company was sold by AIG to Prudential Financial, Inc (PFI) on February 1, 2011. As part of the sale, PFI provided the Company with a hold harmless agreement with respect to its obligations under this guarantee. Amounts disclosed are based on the Edison's fiscal year end of 3/31/2011.

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AMERICAN HOME ASSURANCE COMPANY

NOTE 12 - OTHER SIGNIFICANT MATTERS

The Company underwrites a significant concentration of its direct business with brokers.

As of December 31, 2011 and 2010, other admitted assets as reported in the accompanying Statements of Admitted Assets were comprised of the following balances:

<TABLE>
<CAPTION>

OTHER ADMITTED ASSETS	2011	2010
Allowance provision	$ (103,402)	$ (245,740)
Deposit accounting assets	3	686
Deposit accounting assets - funds held	-	88,515
Guaranty funds receivable and on deposit	10,011	12,199
Intangible asset - Canada	(63,660)	(107,372)
Loss funds on deposit	51,722	40,858
Note receivable - reinsurance commutation	-	37,044
Paid loss clearing	346,118	318,312
Other assets	76,228	137,671
TOTAL OTHER ADMITTED ASSETS	$ 317,020	$ 282,173

</TABLE>

Guaranty funds receivable represent payments to various state insolvency funds

which are recoupable against future premium tax payments in the respective states. Various states allow insurance companies to recoup assessments over a period of five to ten years.

As of December 31, 2011 and 2010, the Company has a liability for insolvency assessments, workers' compensation second injury and miscellaneous other assessments in the amounts of $138,076 and $40,428, respectively, with related assets for premium tax credits of $10,011 and $12,183, respectively. Of the amount accrued, the Company expects to pay approximately $73,994 for insolvency assessments, workers' compensation second injury and miscellaneous assessments during the next year and $54,071 in future periods. In addition, the Company anticipates it will realize $6,311 of premium tax offset credits and the associated liability in years two through five. The remaining $3,700 will be realized between years six and ten. A reconciliation of assets recognized from paid and accrued premium tax offsets as of December 31, 2011 is set forth below:

<TABLE>

<S>	<C>
a. Assets recognized from paid and accrued premium tax offsets and policy surcharges prior year-end	$ 12,183
b. Decreases current year:	
Guarantuy fund refunds	403
Premium tax offset applied	2,639
c. Increases current year:	
Premium tax offset paid	870
d. Assets recognized from paid and accrued premium tax offsets and policy surcharges current year-end	$ 10,011

</TABLE>

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The Company routinely assesses the collectability of its receivable balances for potentially uncollectible premiums receivable due from agents and reinsurance recoverable balances. In connection therewith, as of December 31, 2011 and 2010, the Company had established an allowance for doubtful accounts of $103,402 and $245,740, respectively, which was reported as a contra asset within Other Admitted Assets in the accompanying Statements of Admitted Assets.

During 2011, 2010 and 2009, the Company recorded $16,296, $30,549 and $25,860, respectively, for allowance for doubtful accounts to Net Loss from Agents' Balances Charged-off in the accompanying Statements of Operations.

As of December 31, 2011 and 2010, other liabilities as reported in the accompanying Statements of Liabilities, Capital and Surplus were comprised of the following balances:

<TABLE>
<CAPTION>

OTHER LIABILITIES	2011	2010
<S>	<C>	<C>
Accounts payable	$ 42,160	$ 29,894
Accrued retrospective premiums	64,385	64,651
Advance premiums	9,915	11,102
Amounts withheld or retained by company for account of others	4,467	12,459
Deferred commission earnings	4,161	4,357
Liability for pension and severance pay	20,276	16,448
Loss clearing	-	1,777
Policyholder funds on deposit	9,831	9,057
Remittances and items not allocated	24,870	28,426
Retroactive reinsurance payable	352	1,258
Retroactive reinsurance reserves - assumed	-	4,174
Retroactive reinsurance reserves - ceded	(899)	(2,077)
Servicing carrier liability	6,929	5,597
Escrow funds (NICO)	25,693	-
Other legal contingencies	52,613	-
Other liabilities, includes suspense accounts, expense account balances and certain accruals	60,119	60,578

TOTAL OTHER LIABILITIES	$ 324,872	$ 247,701

</TABLE>

On March 28, 2012, the balances reported as other legal contingencies were transferred to the parent company and recorded a deemed capital contribution in accordance with SSAP No. 72, Surplus and Quasi-reorganizations (SSAP 72).

NICO funds third party reinsurance recoverable on behalf of Chartis Reinsureds. Chartis reports the balances collected and due to NICO as Escrow funds.

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NOTE 13 - SUBSEQUENT EVENTS

Type I - Recognized Subsequent Events:

Subsequent events have been considered through April 25, 2012 for the statutory statement issued on April 27, 2012.

None

Type II - Nonrecognized Subsequent Events:

Subsequent events have been considered through April 25, 2012 for the statutory statement issued on April 27, 2012.

Effective February 17, 2012, the Company, together with the members of the Admitted Pool, the Chartis U.S. Surplus Lines Pool and AIU Insurance Company (collectively, the "Fleet") entered into a Capital Maintenance Agreement (CMA) with AIG and Chartis, Inc. (AIG CMA). The AIG CMA provides that in the event that the Fleet's Total Adjusted Capital (TAC) falls below the specified minimum percentage of 350 percent of the Fleet's Authorized Control Level (ACL) Risk Based Capital (RBC), as estimated by Chartis, Inc. on a semi-annual basis subject to any adjustments or modifications required by the Company's domiciliary regulator or its independent auditors (the "SMP"), AIG will, within a specified time period prior to the close of the following fiscal quarter, contribute cash, cash equivalents, securities or other acceptable instruments that qualify as admitted assets to the Fleet so that the Fleet's TAC is projected to be equal to or greater than the SMP of the upcoming year-end. Additionally, each of Chartis and each Fleet member agreed, subject to approval by its board of directors and, if necessary, its domestic regulator, as applicable, to pay dividends that will be paid to AIG up to an amount equal to the lesser of (i) the amount necessary to reduce the Fleets ACL RBC to an amount not materially greater than the SMP or (ii) the maximum dividends permitted by any applicable domiciliary regulator.

Effective February 17, 2012, the Fleet entered into a CMA (Chartis CMA) with Chartis, Inc., Chartis U.S., Inc. and Chartis International, LLC (the Chartis entities). The Chartis CMA provides that in the event that the Fleet's TAC exceeds the SMP (as determined pursuant to the terms of the AIG CMA) while at the same time any Fleet member, as an individual legal entity, has a Total Adjusted Capital below 300 percent of such Company's Authorized Control Level RBC (the "Individual Entity Minimum Percentage") (as determined by Chartis pursuant to the methodology set forth in the AIG CMA that is used to determine the SMP), the Chartis Entities and each Fleet member agree to make contributions, pay dividends or cause other transactions to occur that would result in each Fleet member's TAC being above the Individual Entity Minimum Percentage. No Fleet member is required to pay any dividend which would trigger the extraordinary dividend provisions of its domiciliary state or that is otherwise prohibited by such state.

The Company received the approval from the NY DFS to pay dividends of $50,000 to its immediate parent. The dividend was made up of municipal securities and cash of $48,411 and $1,589, respectively, was paid on March 27, 2012.

On April 4, 2012 and effective March 31, 2012, the Company received permission from the NY DFS to effect a quasi-reorganization as set forth in the Statement of Statutory Accounting Principles No. 72. On March 31, 2012, the Company

reallocated $1,000,000 from its Gross Paid in and Contributed Surplus to Unassigned Funds. The permitted practice had no impact on the Company's surplus to policyholders or its net income. In addition, there was no impact

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on the Company's risk based capital results as a result of this permitted practice.

On March 28, 2012, the balances reported as other legal contingencies were transferred to the parent company and recorded a deemed capital contribution in accordance with SSAP 72.

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PART C: OTHER INFORMATION

Item 26. Exhibits

(a) Board of Directors Resolution.

(1) Certified resolutions regarding organization of Separate Account VUL-2. (1)

(b) Custodian Agreements. Inapplicable.

(c) Underwriting Contracts.

(1) Distribution Agreement between American General Life Insurance Company and American General Equity Services Corporation, effective October 1, 2002. (10)

(2) Form of Selling Group Agreement. (2)

(3) Schedule of Commissions (Incorporated by reference from the text included under the heading "Distribution of the Policies" in the Statement of Additional Information that is filed as part of this amended Registration Statement).

(d) Contracts.

(1) Specimen form of EquiBuilder II Flexible Premium Life Insurance Policy (Policy Form No. T1735) (1)

(2) Specimen form of Accidental Death Benefit Rider. (1)

(3) Specimen form of Term Insurance Rider. (1)

(4) Specimen form of Children's Term Insurance Rider. (1)

(5) Specimen form of Disability Rider--Waiver of Monthly Deductions. (1)

(6) Specimen form of Endorsement to EquiBuilder II Flexible Premium Life Insurance Policy when issued to a Policy Owner in the State of Texas. (1)

(7) Assumption Certificate. (2)

(e) Applications.

(1) Specimen form of Application for EquiBuilder II Policy. (3)

(2) Specimen form of Supplemental Application. (4)

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(3) Form of Telephone Authorization Form, Form No. AGLC 100255 Rev0103. (2)

(4) Form of amended Life Insurance Application - Part A, Form No. AGLC 100565-2003. (18)

(5) Form of amended Life Insurance Application - Part B, Form No. AGLC 100566-2003. (13)

(6) Form of Request for Investment Division/Series Transfer Form, Form No. AGLC 100553. (2)

(7) Form of Cash Disbursement Request Form, Form No. AGLC0109 Rev0904. (17)

(8) Form of Assignment Form, Form No. AGLC0205 Rev0904. (17)

(9) Form of Electronic Funds Authorization Form, Form No. AGLC0220 Rev0904. (17)

(10) Form of Name and Address Change Form, Form No. AGLC0222 Rev0904. (17)

(11) Form of Change of Ownership Form, Form No. AGLC0013 Rev0705. (17)

(12) Form of Cash Surrender Request Form, Form No. AGLC0112 Rev0403. (17)

(13) Form of Change of Beneficiary Form, Form No. AGLC0108 Rev0904. (17)

(14) Specimen form of Limited Temporary Life Insurance Application, Form No. AGLC101431-2005. (18)

(15) Form of Reinstatement or Reduction of Premium Rate Application for Life Insurance Form, Form No. AGLC 100440-2002. (17)

(16) Form of In-Force Change Application Form, Form No. AGLC 100386-2002. (17)

(17) Form of Service Request Form, Form No. AGLC0107 0904. (17)

(f) Depositor's Certificate of Incorporation and By-Laws.

(1) Amended and Restated Articles of Incorporation of American General Life Insurance Company, effective December 31, 1991. (5)

(2) Amendment to the Amended and Restated Articles of Incorporation of American General Life Insurance Company, effective July 13, 1995. (6)

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(3) By-Laws of American General Life Insurance Company, restated as of June 8, 2005. (15)

(g) Reinsurance Contracts.

(1) Form of Reinsurance Agreement between American General Life Insurance Company and General & Cologne Life Re of America. (21)

(2) Form of Reinsurance Agreement between American General Life Insurance Company and Munich American Reassurance Company. (21)

(3) Form of Reinsurance Agreement between American General Life Insurance Company and RGA Reinsurance Company. (21)

(4) Form of Reinsurance Agreement between American General Life Insurance Company and Swiss Re Life & Health America, Inc. (21)

(h) Participation Agreements.

(1)(a) Form of Amended and Restated Participation Agreement among Variable Insurance Products Funds, Fidelity Distributors Corporation and American General Life Insurance Company. (22)

(2)(a) Form of Participation Agreement among MFS Variable Insurance Trust, American General Life Insurance Company and Massachusetts Financial Services Company. (8)

(2)(b) Form of Amendment No. 5 to Participation Agreement by and among MFS Variable Insurance Trust, American General Life Insurance Company and Massachusetts Financial Services Company. (7)

(2)(c) Form of Amendment No. 8 to Participation Agreement by and among MFS Variable Insurance Trust, American General Life Insurance Company and Massachusetts Financial Services Company. (2)

(2)(d) Form of Letter Agreement between Massachusetts Financial Services, MFS Variable Insurance Trust and American General Life Insurance Company, dated December 19, 2005. (21)

(3)(a) Form of Amended and Restated Service Contract by and between Fidelity Distributors Corporation and American General Equity Services Corporation, effective May 1, 2006. (20)

(4)(a) Form of Service Agreement by and between Fidelity Investment Institutional Operations Company, Inc. and American General Life Insurance Company. (7)

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(4)(b) Form of First Amendment to Service Agreement by and between Fidelity Investments Institutional Operations Company, Inc. and American General Life Insurance Company. (20)

(5)(a) Form of SEC Rule 22c-2 Information Sharing Agreement between Fidelity and American General Life Insurance Company. (21)

(6)(a) Form of SEC Rule 22c-2 Information Sharing Agreement between MFS and American General Life Insurance Company. (21)

(i) Administrative Contracts.

(1)(a) Form of Service and Expense Agreement dated February 1, 1974, between American International Group, Inc. and various affiliate subsidiaries, including American General Life Insurance Company. (12)

(1)(b) Form of Addendum No. 1 to Service and Expense Agreement dated February 1, 1974, between American International Group, Inc. and various affiliate subsidiaries, including American General Life Insurance Company, dated May 21, 1975. (12)

(1)(c) Form of Addendum No. 2 to Service and Expense Agreement dated February 1, 1974, between American International Group, Inc. and various affiliate subsidiaries, including American General Life Insurance Company, dated September 23, 1975. (12)

(1)(d) Form of Addendum No. 24 to Service and Expense Agreement dated February 1, 1974, between American International Group, Inc. and various affiliate subsidiaries, including American General Life Insurance Company, dated December 30, 1998. (12)

(1)(e) Form of Addendum No. 28 to Service and Expense Agreement dated February 1, 1974, among American International Group, Inc. and various affiliate subsidiaries, including American General Life Insurance Company and American General Life Companies, effective January 1, 2002. (12)

(1)(f) Form of Addendum No. 30 to Service and Expense Agreement dated February 1, 1974, among American International Group, Inc. and various affiliate subsidiaries, including American General Life Insurance Company and American General Life Companies, LLC, effective January 1, 2002. (12)

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(1)(g) Form of Addendum No. 32 to Service and Expense Agreement dated February 1, 1974, among American International Group, Inc. and various affiliate subsidiaries, including American General Life Insurance Company, American General Life Companies, LLC and American General Equity Services Corporation, effective May 1, 2004. (14)

(j) Other Material Contracts.

(1) General Guarantee Agreement from American Home Assurance Company on behalf of American General Life Insurance Company. (15)

(2) Notice of Termination of Guarantee as Published in the Wall Street Journal on November 24, 2006. (19)

(3) Unconditional Form of Capital Maintenance Agreement between American International Group, Inc. and American General Life Insurance Company. (23)

(k) Legal Opinions.

(1) Opinion and Consent of Lauren W. Jones, Esq., Deputy General Counsel of American General Life Companies, LLC. (11)

(2) Opinion and Consent of Sullivan & Cromwell LLP, Counsel to American Home Assurance Company. (16)

(l) Actuarial Opinions.

(1) Opinion of Robert M. Beuerlein, Senior Vice President - Actuarial/Financial. (9)

(2) Opinion and Consent of American General Life Insurance Company's actuary. (11)

(m) Calculation. None

(n) Other Opinions.

(1) Consent of Independent Registered Public Accounting Firm, PricewaterhouseCoopers LLP. (Filed herewith)

(2) Consent of Certified Public Accountants, PricewaterhouseCoopers, Hong Kong. (Filed herewith)

(o) Omitted Financial Statements. None

(p) Initial Capital Agreements. None

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(q) Redeemability Exemption.

(1) Description of American General Life Insurance Company's Issuance, Transfer and Redemption Procedures for EquiBuilder II and III Policies Pursuant to Rule 6e-3(T)(b)(12)(iii) under the Investment Company Act of 1940 as of May 2, 2011. (25)

(r) Powers of Attorney.

(1) Power of Attorney with respect to Registration Statements and Amendments thereto signed by the directors and, where applicable, officers of American Home Assurance Company. (24)

(2) Power of Attorney with respect to Registration Statements and Amendments thereto adding Sean T. Leonard, Director, of American Home Assurance Company. (26)

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(1) Incorporated by reference of Post-Effective Amendment No. 12 to Form S-6 Registration Statement (File No. 033-41838) of The American Franklin Life Insurance Company Separate Account VUL-2 filed April 30, 1999.

(2) Incorporated by reference to initial filing of Form N-6 Registration Statement (File No. 333-102299) of American General Life Insurance Company Separate Account VUL-2 filed on December 31, 2002.

(3) Incorporated by reference to Post-Effective Amendment No. 9 to Form S-6 Registration Statement (File No. 033-41838) of The American Franklin Life Insurance Company Separate Account VUL-2 filed on February 27, 1998.

(4) Incorporated by reference to Post-Effective Amendment No. 15 to Form S-6 Registration Statement (File No. 033-41838) of The American Franklin Life Insurance Company Separate Account VUL-2 filed on April 18, 2002.

(5) Incorporated by reference to initial filing of Form N-4 Registration Statement (File No. 033-43390) of American General Life Insurance Company Separate Account D filed on October 16, 1991.

(6) Incorporated by reference to Pre-Effective Amendment No. 3 to Form S-6 Registration Statement (File No. 333-53909) of American General Life Insurance Company Separate Account VL-R filed on August 19, 1998.

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(7) Incorporated by reference to Post-Effective Amendment No. 2 to Form S-6 Registration Statement (File No. 333-80191) of American General Life Insurance Company Separate Account VL-R filed on September 20, 2000.

(8) Incorporated by reference to Pre-Effective Amendment No. 1 to Form S-6 Registration Statement (File No. 333-42567) of American General Life Insurance Company Separate Account VL-R filed on March 23, 1998.

(9) Incorporated by reference to Post-Effective Amendment No. 9 to Form S-6 Registration Statement (File No. 033-77470) of The American Franklin Life Insurance Company Separate Account VUL-2 filed on April 28, 2000.

(10) Incorporated by reference to Post-Effective Amendment No. 7 to Form N-4 Registration Statement (File No. 333-40637) of American General Life Insurance Company Separate Account D filed on November 8, 2002.

(11) Incorporated by reference to initial filing of Form N-6 Registration Statement (File No. 333-102300) of American General Life Insurance Company Separate Account VUL-2 filed on December 31, 2002.

(12) Incorporated by reference to Post-Effective Amendment No. 8 to Form N-6 Registration Statement (File No. 333-43264) of American General Life Insurance Company Separate Account VL-R filed on May 3, 2004.

(13) Incorporated by reference to initial filing of Form N-6 Registration Statement (File No. 333-109613) of American General Life Insurance Company Separate Account VL-R filed on October 10, 2003.

(14) Incorporated by reference to Post-Effective Amendment No. 1 to Form N-6

Registration Statement (File No. 333-118318) of American General Life Insurance Company Separate Account VL-R filed on May 2, 2005.

(15) Incorporated by reference to Post-Effective Amendment No. 11 to Form N-6 Registration Statement (File No. 333-43264) of American General Life Insurance Company Separate Account VL-R filed on August 12, 2005.

(16) Incorporated by reference to Post-Effective Amendment No. 5 to Form N-6 Registration Statement (File No. 333-102300) of American General Life Insurance Company Separate Account VUL-2 filed on October 24, 2005.

(17) Incorporated by reference to Pre-Effective Amendment No. 1 to Form N-6 Registration Statement (File No. 333-129552) of American General Life Insurance Company Separate Account VL-R filed on March 30, 2006.

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(18) Incorporated by reference to initial filing of Form N-6 Registration Statement (File No. 333-129552) of American General Life Insurance Company Separate Account VL-R filed on November 8, 2005.

(19) Incorporated by reference to Post-Effective Amendment No. 6 to Form N-6 Registration Statement (File No. 333-118318) of American General Life Insurance Company Separate Account VL-R filed on December 12, 2006.

(20) Incorporated by reference to Pre-Effective Amendment No. 1 to Form N-6 Registration Statement (File No. 333-137817) of American General Life Insurance Company Separate Account VL-R filed on December 14, 2006.

(21) Incorporated by reference to Post-Effective Amendment No. 7 to Form N-6 Registration Statement (File No. 333-118318) of American General Life Insurance Company Separate Account VL-R filed on May 1, 2007.

(22) Incorporated by reference to Pre-Effective Amendment No. 1 to Form N-6 Registration Statement (File No. 333-144594) of American General Life Insurance Company Separate Account VL-R filed on October 2, 2007.

(23) Incorporated by reference to Post-Effective Amendment No. 3 to Form N-6 Registration Statement (File No. 333-151576) of American General Life Insurance Company Separate Account VL-R filed on May 2, 2011.

(24) Incorporated by reference to Post-Effective Amendment No. 7 to Form N-6 Registration Statement (File No. 333-129552) of American General Life Insurance Company Separate Account VL-R filed on May 2, 2011.

(25) Incorporated by reference to Post-Effective Amendment No. 12 to Form N-6 Registration Statement (File No. 333-102300) of American General Life Insurance Company Separate Account VL-R filed on May 2, 2011.

(26) Incorporated by reference to Post-Effective Amendment No. 8 to Form N-6 Registration Statement (File No. 333-129552) of American General Life Insurance Company Separate Account VL-R filed on April 30, 2012.

Item 27. Directors and Officers of the Depositor

<TABLE>
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Name and Principal Business Address	Positions and Offices with Depositor American General Life Insurance Company
<C>	<S>
Mary Jane B. Fortin 2929 Allen Parkway Houston, TX 77019	Director, Chairman, President and Chief Executive Officer

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Name and Principal Business Address	Positions and Offices with Depositor American General Life Insurance Company
<C>	<S>
Robert M. Beuerlein 2727-A Allen Parkway Houston, TX 77019	Director, Senior Vice President and Chief and Appointed Actuary

Name and Address	Position
Jeffrey H. Carlson 2727-A Allen Parkway Houston, TX 77019	Director, Executive Vice President, Chief Service and Information Officer
Don W. Cummings 2929 Allen Parkway Houston, TX 77019	Director, Senior Vice President and Chief Financial Officer
Kyle L. Jennings 2919 Allen Parkway Houston, TX 77019	Director, Executive Vice President, General Counsel and Secretary
Curtis W. Olson 3600 Route 66 Neptune, NJ 07753	President-Benefit Solutions
Steven D. Anderson 2929 Allen Parkway Houston, TX 77019	Senior Vice President
Erik A. Baden 2929 Allen Parkway Houston, TX 77019	Senior Vice President, Chief Marketing Officer
Wayne A. Barnard 2929 Allen Parkway Houston, TX 77019	Senior Vice President and Illustration Actuary
David W. Butterfield 3600 Route 66 Neptune, NJ 07753	Senior Vice President
Brad J. Gabel 1200 N. Mayfair Road Milwaukee, WI 53226	Senior Vice President, Chief Underwriter
John Gatesman 2929 Allen Parkway Houston, TX 77019	Senior Vice President

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Name and Principal Business Address	Positions and Offices with Depositor American General Life Insurance Company
<C>	<S>
William Patrick Hayes 2919 Allen Parkway Houston, TX 777019	Chief Compliance Officer
Robert F. Herbert, Jr. 2727-A Allen Parkway Houston, TX 77019	Senior Vice President, Treasurer and Controller
David S. Jorgensen 2929 Allen Parkway Houston, TX 77019	Senior Vice President
Glen D. Keller 2727-A Allen Parkway Houston, TX 77019	Senior Vice President
Stephen Kennedy 2727-A Allen Parkway Houston, TX 77017	Senior Vice President
Frank A. Kophamel 2727-A Allen Parkway Houston, TX 77019	Senior Vice President
Simon J. Leech 2727-A Allen Parkway Houston, TX 77019	Senior Vice President
Edmund D. McClure 2727-A Allen Parkway Houston, TX 77019	Senior Vice President

Name and Principal Business Address	Positions and Offices with Depositor American General Life Insurance Company
Richard D. McFarland 2727-A Allen Parkway Houston, TX 77019	Senior Vice President
Laura W. Milazzo 2727-A Allen Parkway Houston, TX 77019	Senior Vice President
Larry Nisenson 2929 Allen Parkway Houston, TX 77019	Senior Vice President

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Name and Principal Business Address	Positions and Offices with Depositor American General Life Insurance Company
<C>	<S>
John W. Penko Walnut Glen Tower 8144 Walnut Hill Lane Dallas, TX 75231	Senior Vice President
Rodney E. Rishel 2929 Allen Parkway Houston, TX 77019	Senior Vice President
Dale W. Sachtleben 3051 Hollis Drive Springfield, IL 62704	Senior Vice President
Durr Sexton 2929 Allen Parkway Houston, TX 77019	Senior Vice President
Carol B. Whaley	Senior Vice President

3600 Route 66 Neptune, NJ 07753	
Chris N. Aiken 2727-A Allen Parkway Houston, TX 77019	Vice President
Chris Ayers 2727-A Allen Parkway Houston, TX 77019	Vice President
Edward F. Bacon 2727-A Allen Parkway Houston, TX 77019	Vice President
Joan M. Bartel 2929 Allen Parkway Houston, TX 77019	Vice President
Robert Beauchamp 2929 Allen Parkway Houston, TX 77019	Vice President

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Name and Principal Business Address	Positions and Offices with Depositor American General Life Insurance Company
<C>	<S>
Michael B. Boesen 2929 Allen Parkway Houston, TX 77019	Vice President
Laura J. Borowski 1200 N. Mayfair Road Milwaukee, WI 53226	Vice President

David R. Brady 200 Liberty Street New York, NY 10281	Vice President
Dan Chamberlain 2727-A Allen Parkway Houston, TX 77019	Vice President
Mark E. Childs 2727-A Allen Parkway Houston, TX 77019	Vice President
Robert M. Cicchi 2727-A Allen Parkway Houston, TX 77019	Vice President
Lawrence C. Cox 2929 Allen Parkway Houston, TX 77019	Vice President
Timothy M. Donovan 2929 Allen Parkway Houston, TX 77019	Vice President
Jay Drucker 2929 Allen Parkway Houston, TX 77019	Vice President
Farideh N. Farrokhi 2727-A Allen Parkway Houston, TX 77019	Vice President and Assistant Secretary
Royce Fithen 205 E. 10th Avenue Amarillo, TX 79101	Vice President

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Name and Principal Business Address	Positions and Offices with Depositor American General Life Insurance Company
<C>	<S>
Frederick J. Garland, Jr. 2929 Allen Parkway Houston, TX 77019	Vice President
Liza Glass 2727-A Allen Parkway Houston, TX 77019	Vice President
Leo W. Grace 2929 Allen Parkway Houston, TX 77019	Vice President and Assistant Secretary
Richard L. Gravette 2727-A Allen Parkway Houston, TX 77019	Vice President and Assistant Treasurer
Lori S. Guadagno 599 Lexington Avenue New York, NY 10022	Vice President
Daniel J. Gutenberger 2727-A Allen Parkway Houston, TX 77019	Vice President and Medical Director
Joel H. Hammer 32 Old Slip New York, NY 10005	Vice President
D. Leigh Harrington 2727-A Allen Parkway Houston, TX 77019	Vice President
Michael S. Harrison 2929 Allen Parkway Houston, TX 77019	Vice President

Tim Heslin 2929 Allen Parkway Houston, TX 77019	Vice President

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Name and Principal Business Address	Positions and Offices with Depositor American General Life Insurance Company
<C>	<S>
Keith C. Honig 1 SunAmerica Center 1999 Avenue of the Stars Los Angeles, CA 90067	Vice President
Stephen D. Howard 81411 Walnut Hill Lane Dallas, TX 75231	Vice President
S. Caitlin Irby 2727-A Allen Parkway Houston, TX 77019	Vice President
Walter P. Irby 2929 Allen Parkway Houston, TX 77019	Vice President
Sharla A. Jackson 205 E. 10th Avenue Amarillo, TX 79101	Vice President
Wesley E. Jarvis 3600 Route 66 Neptune, NJ 07753	Vice President

Debra H. Kile 2727-A Allen Parkway Houston, TX 77019	Vice President and Medical Director
Michael J. Krugel 1200 N. Mayfair Road Milwaukee, WI 53226	Vice President
Melvin C. McFall 2727-A Allen Parkway Houston, TX 77019	Vice President
Lochlan O. McNew 2929 Allen Parkway Houston, TX 77019	Vice President and Investment Officer

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Name and Principal Business Address	Positions and Offices with Depositor American General Life Insurance Company
<C>	<S>
Gwendolyn J. Mallett 2727-A Allen Parkway Houston, TX 77019	Vice President
W. Larry Mask 2929 Allen Parkway Houston, TX 77019	Vice President, Real Estate Investment Officer and Assistant Secretary
Beverly A. Meyer 1200 N. Mayfair Road Milwaukee, WI 53226	Vice President
Candace A. Michael 2727-A Allen Parkway	Vice President

Houston, TX 77019	
Michael R. Murphy 1200 N. Mayfair Road Milwaukee, WI 53226	Vice President
David W. Napoli 2929 Allen Parkway Houston, TX 77019	Vice President
Deanna D. Osmonson 3600 Route 66 Neptune, NJ 07753	Vice President
Rembert R. Owen, Jr. 2929 Allen Parkway Houston, TX 77019	Vice President, Real Estate Investment Officer and Assistant Secretary
Cathy A. Percival 2727-A Allen Parkway Houston, TX 77019	Vice President and Medical Director
Carin M. Phelan 2929 Allen Parkway Houston, TX 77019	Vice President
Glenn H. Plotkin 1200 N. Mayfair Road Milwaukee, WI 53226	Vice President

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Name and Principal Business Address	Positions and Offices with Depositor American General Life Insurance Company
<C>	<S>

John R. Rafferty 2929 Allen Parkway Houston, TX 77019	Vice President
Debbie Runge 2929 Allen Parkway Houston, TX 77019	Vice President, Human Resources
Carly Sanchez 2727-A Allen Parkway Houston, TX 77019	Vice President and Chief Diversity Officer
Michael C. Sibley Walnut Glen Tower 8144 Walnut Hill Lane Dallas, TX 75231	Vice President
T. Clay Spires 2727-A Allen Parkway Houston, TX 77019	Vice President and Tax Officer
Gregory R. Thornton 3051 Hollis Drive Springfield, IL 62704	Vice President
Veronica Torralba 2727-A Allen Parkway Houston, TX 77019	Vice President
Cynthia P. Wieties 2929 Allen Parkway Houston, TX 77019	Vice President
Jeffrey L. Winkelmann 1200 N. Mayfair Road Milwaukee, WI 53226	Vice President
Lauren W. Jones 2919 Allen Parkway Houston, TX 77019	Chief Counsel - Business Lines and Assistant Secretary

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Item 28. Persons Controlled by or Under Common Control with the Depositor or the Registrant

The Depositor is an indirect wholly-owned subsidiary of American International Group, Inc. An organizational chart for American International Group, Inc. can be found as Exhibit 21 in American International Group, Inc.'s Form 10-K, SEC file Number 001-08787, accession number 0001047469-12-001369, filed February 23, 2012. Exhibit 21 is incorporated herein by reference.

The Registrant is a separate account of American General Life Insurance Company (Depositor).

Item 29. Indemnification

Insofar as indemnification for liability arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

American General Life Insurance Company

Except as otherwise required by applicable law:

(a) The company shall have the power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative

or investigative (other than an action by or on behalf of the company) by reason of the fact that he is or was director, officer, or employee or agent of the company, or is or was serving at the request of the company as director, officer, employee or agent of another company or enterprise, against expenses (including attorney's fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding; provided that he (1) acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the company; and, (2) with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, by itself, create a presumption that the person did not act in good faith and in a manner he reasonably believed to be in or not opposed to the best interest of the company, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was lawful.

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(b) The company shall have the power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding by or on behalf of the company to procure a judgement in the company's favor, by reason of the fact that he is or was a director, officer, employee or agent of the company, or is or was serving at the request of the company as a director, officer, employee or agent of another company or enterprise, against expenses (including attorney's fees), judgments and amounts paid in settlement actually and reasonably incurred by him in connection with the defense or settlement of such action, suit or proceeding; provided that he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the company, except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for negligence or misconduct in the performance of his duty to the company unless and only to the extent that the court in which such action, suit or proceeding was brought or any other court of competent jurisdiction shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity.

(c) To the extent that a director, officer, or employee or agent of the company

has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in paragraphs (a) and (b) above, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorney's fees) actually and reasonably incurred by him in connection therewith.

(d) Any indemnification under paragraphs (a) and (b) above (unless ordered by a court or made pursuant to a determination by a court as hereinafter provided) shall be made by the company upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances and he has met the applicable standard of conduct set forth in paragraphs (a) and (b). Such determination shall be made (1) by the Board by a majority of a quorum consisting of directors who were not parties to such action, suit or proceeding (disinterested), or (2) by a committee of disinterested directors designated by majority vote of disinterested directors, even though less than a quorum, or (3) by independent legal counsel in a written opinion, and such legal counsel was selected by a majority vote of a quorum of the disinterested directors, or (4) by the stockholders. In the absence of a determination that indemnification is proper, the director, officer or employee may apply to the court conducting the proceeding or another court of competent jurisdiction which shall determine whether the director, officer, employee or agent has met the applicable standard of conduct set forth in paragraphs (a) and (b). If the court shall so determine, indemnification shall be made under paragraph (a) or (b) as the case may be.

(e) Expenses incurred in defending a civil or criminal action, suit or proceeding may be paid by the company in advance of the final disposition of such action, suit or proceeding as authorized by the Board in the manner provided in paragraph (d) upon receipt of a written instrument acceptable to the Board by or on behalf of the director, officer, employee or agent to repay such amount unless it shall ultimately be determined that he is entitled to be indemnified by the company as authorized in this section.

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(f) The indemnification provided by these By-Laws shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any agreement, or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or

agent and shall inure to the benefit or the heirs, executors and administrators of such a person.

(g) The company shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the company, or is or was serving at the request of the company as a director, officer, employee or agent of another company, or enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the company would have the power to indemnify him against such liability under the provisions of these By-Laws.

Item 30. Principal Underwriters

(a) Other Activity. Registrant's principal underwriter, American General Equity Services Corporation, also acts as principal underwriter for the following investment companies:

American General Life Insurance Company
Separate Account A
Separate Account D
Separate Account VA-1
Separate Account VA-2
Separate Account VL-R
Separate Account VUL

American General Life Insurance Company of Delaware
Variable Account I
Variable Account II

The United States Life Insurance Company in the City of New York
Separate Account USL VA-R
Separate Account USL VL-R
Separate Account USL A
Separate Account USL B

(b) Management.

<TABLE>
<CAPTION>
Name and Principal   Positions and Offices with Underwriter

Business Address	American General Equity Services Corporation
Mary Jane B. Fortin 2929 Allen Parkway Houston, TX 77019	Director and Chairman of the Board of Directors

Name and Principal Business Address	Positions and Offices with Underwriter American General Equity Services Corporation
Erik A. Baden 2929 Allen Parkway Houston, TX 77019	Director
John Gatesman 2929 Allen Parkway Houston, TX 77019	Director, President and Chief Executive Officer
Kyle L. Jennings 2919 Allen Parkway Houston, TX 77019	Executive Vice President, General Counsel and Secretary
Larry Blews 2727-A Allen Parkway Houston, TX 77019	Vice President and Chief Compliance Officer
Robert F. Herbert, Jr. 2727-A Allen Parkway Houston, TX 77019	Vice President
T. Clay Spires 2727-A Allen Parkway	Vice President and Tax Officer

Houston, TX 77019

Lauren W. Jones 2919 Allen Parkway Houston, TX 77019	Assistant Secretary
Rhonda Washington 2727-A Allen Parkway Houston, TX 77019	Treasurer, Controller
Barbara J. Moore 2727-A Allen Parkway Houston, TX 77019	Assistant Tax Officer
Becky Strom 2727-A Allen Parkway Houston, TX 77019	Vice President, Chief Privacy Officer & Anti-Money Laundering Officer

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(c) Compensation From the Registrant.

<TABLE>
<CAPTION>

Name of Principal Underwriter	Net Underwriting Discounts and Commissions	Compensation on Events Occasioning the Deduction of a Deferred Sales Load	Brokerage Commissions	Other Compensation
<S>	<C>	<C>	<C>	<C>
American General Equity Services Corporation	0	0	0	0

</TABLE>

Item 31. Location of Accounts and Records

All records referenced under Section 31(a) of the 1940 Act, and Rules 31a-1

through 31a-3 thereunder, are maintained and in the custody of American General Life Insurance Company at its principal executive office located at 2727-A Allen Parkway, Houston, Texas 77019-2191 or at American General Life Insurance Company's Administrative Office located at 3051 Hollis Drive, Springfield, Illinois 62704.

Item 32. Management Services Not applicable.

Item 33. Fee Representation

American General Life Insurance Company hereby represents that the fees and charges deducted under the Policy, in the aggregate, are reasonable in relation to the services rendered, the expenses expected to be incurred, and risks assumed by American General Life Insurance Company.

Undertakings of the Depositor

During any time there are insurance obligations outstanding and covered by the guarantee issued by American Home Assurance Company ("American Home Guarantee Period"), filed as an exhibit to this Registration Statement (the "American Home Guarantee"), the Depositor hereby undertakes to provide notice to policy owners covered by the American Home Guarantee promptly after the happening of significant events related to the American Home Guarantee.

These significant events include: (i) termination of the American Home Guarantee that has a material adverse effect on the policy owner's rights under the American Home Guarantee; (ii) a default under the American Home Guarantee that has a material adverse effect on the policy owner's rights under the American Home Guarantee; or (iii) the insolvency of American Home Assurance Company ("American Home").

Depositor hereby undertakes during the American Home Guarantee Period to cause Registrant to file post-effective amendments to this Registration Statement as frequently as is necessary to ensure that the current annual audited statutory financial statements of American Home in the Registration Statement are updated to be as of a date not more than 16 months prior to the

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effective date of this Registration Statement, and to cause Registrant to

include as an exhibit to this Registration Statement the consent of the independent registered public accounting firm of American Home regarding such financial statements.

During the American Home Guarantee Period, the Depositor hereby undertakes to include in the prospectus to policy owners, an offer to supply the Statement of Additional Information which shall contain the annual audited statutory financial statements of American Home, free of charge upon a policy owner's request.

As of December 29, 2006 at 4:00 p.m. Eastern time (the "Point of Termination"), the American Home Guarantee was terminated for prospectively issued Policies. The American Home Guarantee will not cover any Policies with a date of issue later than the Point of Termination. The American Home Guarantee will continue to cover Policies with a date of issue earlier than the Point of Termination until all insurance obligations under such Policies are satisfied in full.

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POWERS OF ATTORNEY

Each person whose signature appears below hereby appoints Edward F. Bacon, Don W. Cummings and Kyle L. Jennings and each of them, any one of whom may act without the joinder of the others, as his/her attorney-in-fact to sign on his/her behalf and in the capacity stated below and to file all amendments to this Registration Statement, which amendment or amendments may make such changes and additions to this Registration Statement as such attorney-in-fact may deem necessary or appropriate.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933 and the Investment Company Act of 1940, the Registrant, American General Life Insurance Company Separate Account VUL-2, certifies that it meets all of the requirements for effectiveness of this amended Registration Statement under Rule 485(b) under the Securities Act of 1933 and has duly caused this amended Registration Statement to be signed on its behalf, by the undersigned, duly authorized, in

the City of Houston, and State of Texas on the 27th day of April, 2012.

AMERICAN GENERAL LIFE INSURANCE COMPANY
SEPARATE ACCOUNT VUL-2
(Registrant)

BY: AMERICAN GENERAL LIFE INSURANCE COMPANY
(On behalf of the Registrant and itself)

BY: DON W. CUMMINGS

DON W. CUMMINGS
SENIOR VICE PRESIDENT
AND CHIEF FINANCIAL OFFICER

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Pursuant to the requirements of the Securities Act of 1933, this amended Registration Statement has been signed below by the following persons, on behalf of the Depositor and Registrant, in the capacities and on the dates indicated.

Signature	Title	Date
MARY JANE B. FORTIN -------------------- MARY JANE B. FORTIN	Director, Chairman, President and Chief Executive Officer	April 27, 2012
DON W. CUMMINGS -------------------- DON W. CUMMINGS	Director, Senior Vice President and Chief Financial Officer	April 27, 2012
ROBERT M. BEUERLEIN -------------------- ROBERT M. BEUERLEIN	Director	April 27, 2012
JEFFREY H. CARLSON --------------------	Director	April 27, 2012

JEFFREY H. CARLSON

KYLE L. JENNINGS Director April 27, 2012

KYLE L. JENNINGS

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SIGNATURES

American Home Assurance Company has caused this amended Registration Statement to be signed on its behalf by the undersigned, duly authorized, in the City of New York, and State of New York on the 27th day of April, 2012.

AMERICAN HOME ASSURANCE COMPANY

BY: SEAN T. LEONARD

SEAN T. LEONARD
CHIEF FINANCIAL OFFICER AND
SENIOR VICE PRESIDENT

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This amended Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
*PETER D. HANCOCK ----------------------- PETER D. HANCOCK	Chairman and Director	April 27, 2012

Signature	Title	Date
*PETER J. EASTWOOD ------------------------ PETER J. EASTWOOD	Director, President and Chief Executive Officer	April 27, 2012
SEAN T. LEONARD ------------------------ SEAN T. LEONARD	Director, Chief Financial Officer and Senior Vice President	April 27, 2012
*JAMES BRACKEN ------------------------ JAMES BRACKEN	Director	April 27, 2012
*JOHN Q. DOYLE ------------------------ JOHN Q. DOYLE	Director	April 27, 2012
*DAVID NEIL FIELDS ------------------------ DAVID NEIL FIELDS	Director	April 27, 2012
*DAVID L. HERZOG ------------------------ DAVID L. HERZOG	Director	April 27, 2012
*MONIKA MARIA MACHON ------------------------ MONIKA MARIA MACHON	Director	April 27, 2012
*RALPH W. MUCERINO ------------------------ RALPH W. MUCERINO	Director	April 27, 2012
*SID SANKARAN ------------------------ SID SANKARAN	Director	April 27, 2012
*CHRISTOPHER L. SPARRO ------------------------ CHRISTOPHER L. SPARRO	Director	April 27, 2012
*MARK TIMOTHY WILLIS ------------------------	Director	April 27, 2012

MARK TIMOTHY WILLIS

* BY: SEAN T. LEONARD

SEAN T. LEONARD
ATTORNEY-IN-FACT
(Exhibit (r) to the Registration Statement)

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EXHIBIT INDEX

Item 26. Exhibits

(n)(1) Consent of Independent Registered Public Accounting Firm, PricewaterhouseCoopers LLP.

(n)(2) Consent of Certified Public Accountants, PricewaterhouseCoopers, Hong Kong.