FORM 485BPOS

Post-effective amendments [Rule 485(b)]

Filing Date: **2012-04-30**
SEC Accession No. 0000950123-12-007307

FILER

VARIABLE ANNUITY ACCOUNT SEVEN

CIK:**1070231**| IRS No.: **860198983** | State of Incorp.:**AZ** | Fiscal Year End: **0430**
Type: **485BPOS** | Act: **33** | File No.: **333-63511** | Film No.: **12794242**

Mailing Address
1 SUNAMERICA CENTER
FLOOR 37
LOS ANGELES CA
90067-6022

Business Address
1 SUNAMERICA CENTER
FLOOR 37
LOS ANGELES CA
90067-6022
3107726000

VARIABLE ANNUITY ACCOUNT SEVEN

CIK:**1070231**| IRS No.: **860198983** | State of Incorp.:**AZ** | Fiscal Year End: **0430**
Type: **485BPOS** | Act: **40** | File No.: **811-09003** | Film No.: **12794243**

Mailing Address
1 SUNAMERICA CENTER
FLOOR 37
LOS ANGELES CA
90067-6022

Business Address
1 SUNAMERICA CENTER
FLOOR 37
LOS ANGELES CA
90067-6022
3107726000

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the use in this Registration Statement on Form N-4 of the Polaris Plus Variable Annuity for Variable Annuity Account Seven of SunAmerica Annuity and Life Assurance Company of our report dated April 25, 2012, relating to the consolidated financial statements of SunAmerica Annuity and Life Assurance Company at December 31, 2011 and 2010, and for each of the three years in the period ended December 31, 2011. We also consent to the use in such Registration Statement of our report dated April 25, 2012, relating to the statements of assets and liabilities, including the schedules of portfolio investments, of Variable Annuity Account Seven at December 31, 2011, the related statements of operations for the year then ended, and the related statements of changes in net assets for the year ended December 31, 2011, for the periods indicated in the eight months ended December 31, 2010 and for the year ended April 30, 2010. We also consent to the use in such Registration Statement of our report dated April 25, 2012, relating to the statutory statements of admitted assets and liabilities, capital and surplus of American Home Assurance Company as of December 31, 2011 and 2010, and the related statutory statements of income and changes in capital and surplus, and of cash flow for the three years in the period ended December 31, 2011. 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 report appears in the Annual Report on Form 10-K dated February 23, 2012 of American International Group, Inc. We also consent to the reference to us under the heading "Financial Statements" in such Registration Statement.

/s/ PricewaterhouseCoopers LLP
Los Angeles, California
April 25, 2012

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in this Registration Statement on Form N-4 of the Polaris Plus Variable Annuity for Variable Annuity Account Seven of the SunAmerica Annuity and Life Assurance Company 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.

/s/ PricewaterhouseCoopers
Hong Kong
25 April 2012

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AS FILED WITH SECURITIES AND EXCHANGE COMMISSION ON APRIL 30, 2012.

FILE NOS. 333-63511
811-09003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM N-4
REGISTRATION STATEMENT
UNDER

THE SECURITIES ACT OF 1933 [ ]

<Table>
<S> <C> <C>

	Pre-Effective Amendment No.	[ ]
	Post-Effective Amendment No. 29	[X]

</Table>

and/or

REGISTRATION STATEMENT
UNDER

THE INVESTMENT COMPANY ACT OF 1940 [ ]

<Table>
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Amendment No. 30 [X]
</Table>

(Check Appropriate Box or Boxes)

VARIABLE ANNUITY ACCOUNT SEVEN
(Exact Name of Registrant)

SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY
(Name of Depositor)

1 SUNAMERICA CENTER

LOS ANGELES, CALIFORNIA 90067-6121

(Address of Depositor's Principal Offices) (Zip Code)

Depositor's Telephone Number, including Area Code: (800) 871-2000

AMERICAN HOME ASSURANCE COMPANY
(Name of Guarantor)

175 WATER STREET
NEW YORK, NY 10038
(Address of Guarantor's Principal Offices) (Zip Code)

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

MALLARY L. REZNIK, ESQ.
SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY
1 SUNAMERICA CENTER

LOS ANGELES, CALIFORNIA 90067-6121

(Name and Address of Agent for Service for Depositor, Registrant and Guarantor)

Approximate Date of Proposed Public Offering: Continuous

It is proposed that this filing will become effective:

[ ] immediately upon filing pursuant to paragraph (b) of Rule 485

[X] on April 30, 2012 pursuant to paragraph (b) of Rule 485

[ ] 60 days after filing pursuant to paragraph (a)(1) of Rule 485

[ ] 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.

Title of Securities Being Registered: (i) Units of interest in Variable Annuity Account Seven of SunAmerica Annuity and Life Assurance Company under variable annuity contracts and (ii) guarantee related to insurance obligations under the variable annuity contracts.

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VARIABLE ANNUITY ACCOUNT SEVEN

CROSS REFERENCE SHEET

PART A -- PROSPECTUS

<Table>
<Caption>

ITEM NUMBER IN FORM N-4		CAPTION
<S>	<C>	<C>
1.	Cover Page..............................	Cover Page

2.	Definitions..............................	Glossary
3.	Synopsis.................................	Highlights; Fee Tables; Portfolio Expenses; Examples
4.	Condensed Financial Information.........	Appendix - Condensed Financial Information
5.	General Description of Registrant, Depositor and Portfolio Companies.......	The Polaris Plus Variable Annuity; Other Information
6.	Deductions...............................	Expenses
7.	General Description of Variable Annuity Contracts................................	The Polaris Plus Variable Annuity; Purchasing a Polaris Plus Variable Annuity; Investment Options
8.	Annuity Period..........................	Annuity Income Options
9.	Death Benefit...........................	Death Benefits
10.	Purchases and Contract Value............	Purchasing a Variable Annuity Contract
11.	Redemptions..............................	Access To Your Money
12.	Taxes....................................	Taxes
13.	Legal Proceedings.......................	Legal Proceedings
14.	Table of Contents of Statement of Additional Information.................	Table of Contents of Statement of Additional Information

</Table>

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PART B -- STATEMENT OF ADDITIONAL INFORMATION

Certain information required in Part B of the Registration Statement has been included within the Prospectus forming part of this Registration Statement; the following cross-references suffixed with a "P" are made by reference to the captions in the Prospectus.

<Table>
<Caption>

ITEM NUMBER IN FORM N-4		CAPTION
<S>	<C>	<C>
15.	Cover Page..............................	Cover Page
16.	Table of Contents.......................	Table of Contents

17.	General Information and History.........	The Polaris Plus Variable Annuity (P); Separate Account; General Account (P); Investment Options (P); Other Information (P)
18.	Services................................	Other Information (P)
19.	Purchase of Securities Being Offered....	Purchasing a Polaris Plus Variable Annuity (P)
20.	Underwriters............................	Distribution of Contracts
21.	Calculation of Performance Data.........	Performance Data
22.	Annuity Payments........................	Annuity Income Options (P); Income Payments; Annuity Unit Values
23.	Financial Statements....................	Depositor: Other Information (P); Financial Statements; Registrant: Financial Statements

</Table>

PART C

Information required to be included in Part C is set forth under the appropriate item, so numbered, in Part C of this Registration Statement.

<PAGE>

[THE POLARIS PLUS LOGO]
VARIABLE ANNUITY
PROSPECTUS
APRIL 30, 2012

FLEXIBLE PREMIUM DEFERRED VARIABLE ANNUITY CONTRACT
issued by Depositor
SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY
in connection with
VARIABLE ANNUITY ACCOUNT SEVEN

This variable annuity has several investment choices -- Variable Portfolios (which are subaccounts of the separate account) and available Fixed Account options. Each Variable Portfolio invests exclusively in shares of one of the Underlying Funds listed below. The Underlying Funds are part of the Anchor

Series Trust ("AST") and SunAmerica Series Trust ("SAST").

UNDERLYING FUNDS:	MANAGED BY:
Aggressive Growth	Wells Capital Management Incorporated
Alliance Growth	AllianceBernstein L.P.
Asset Allocation	Edge Asset Management, Inc.
Balanced	J.P. Morgan Investment Management Inc.
Capital Appreciation	Wellington Management Company, LLP
Cash Management	BofA Advisors, LLC
Corporate Bond	Federated Investment Management Company
Davis Venture Value	Davis Selected Advisers, L.P.
"Dogs" of Wall Street(1)	SunAmerica Asset Management Corp.
Emerging Markets	Putnam Investment Management, LLC
Equity Index	SunAmerica Asset Management Corp.
Equity Opportunities	OppenheimerFunds, Inc.
Fundamental Growth	Wells Capital Management Incorporated
Global Bond	Goldman Sachs Asset Management International
Global Equities	J.P. Morgan Investment Management Inc.
Government and Quality Bond	Wellington Management Company, LLP
Growth	Wellington Management Company, LLP
Growth-Income	J.P. Morgan Investment Management Inc.
High-Yield Bond	PineBridge Investments LLC
International Diversified Equities	Morgan Stanley Investment Management Inc.
International Growth & Income	Putnam Investment Management, LLC
Real Estate	Davis Selected Advisers, L.P.
Small Company Value	Franklin Advisory Services, LLC
Telecom Utility	Massachusetts Financial Services Company
Total Return Bond	Pacific Investment Management Company LLC

(1) "Dogs" of Wall Street is an equity fund seeking total return including capital appreciation and current income.

This contract is no longer available for new sales.

Please read this prospectus carefully before investing and keep it for future reference. It contains important information about the variable annuity.

To learn more about the annuity offered in this prospectus, you can obtain a copy of the Statement of Additional Information ("SAI") dated April 30, 2012. The SAI has been filed with the United States Securities and Exchange Commission ("SEC") and is incorporated by reference into this prospectus. The Table of Contents of the SAI appears at the end of this prospectus. For a free copy of the SAI, call us at (800) 445-7862 or write to us at our Annuity Service Center, P.O. Box 54299, Los Angeles, California 90054-0299.

In addition, the SEC maintains a website (http://www.sec.gov) that contains the SAI, materials incorporated by reference and other information filed electronically with the SEC by the Company.

VARIABLE ANNUITIES INVOLVE RISKS, INCLUDING POSSIBLE LOSS OF PRINCIPAL, AND ARE NOT A DEPOSIT OR OBLIGATION OF, OR GUARANTEED OR ENDORSED BY, ANY BANK. THEY ARE NOT FEDERALLY INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION, THE FEDERAL RESERVE BOARD OR ANY OTHER AGENCY. THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SEC, NOR ANY STATE SECURITIES COMMISSION, NOR HAS THE SEC PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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GLOSSARY

We have capitalized some of the technical terms used in this prospectus. To help you understand these terms, we have defined them in this glossary.

ACCUMULATION PHASE - The period during which you invest money in your Contract.

ACCUMULATION UNITS - A measurement we use to calculate the value of the variable portion of your Contract during the Accumulation Phase.

ANNUITANT(S) - The person(s) on whose life (lives) we base annuity payments. For a Contract issued pursuant to IRC Section 403(b), the Participant must be the Annuitant. Under an IRA the owner is always the Annuitant.

ANNUITY DATE - The date on which annuity income payments are to begin, as selected by you.

ANNUITY UNITS - A measurement we use to calculate the amount of annuity income payments you receive from the variable portion of your Contract during the Income Phase.

BENEFICIARY (IES) - The person(s) you designate to receive any benefits under the Contract if you or in the case of a non-natural Owner, the Annuitant dies. If your contract is jointly owned, you and the joint Owner are each other's Primary Beneficiary.

COMPANY - Refers to SunAmerica Annuity and Life Assurance Company ("SunAmerica Annuity"), the insurer that issues this Contract. The term "we," "us" and "our" are also used to identify the issuing Company.

CONTRACT - The variable annuity contract issued by SunAmerica Annuity and Life Assurance Company ("SunAmerica Annuity"). This includes any applicable group master contract, certificate and endorsement.

CONTRACTHOLDER - The party named as the Contractholder on the annuity Contract issued by SunAmerica Annuity. The Contractholder may be an Employer, a retirement plan trust, an association or any other entity allowed under the law.

EMPLOYER - The organization specified in the Contract which offers the Plan to its employees.

ERISA - Employee Retirement Income Security Act of 1974 (as amended).

FIXED ACCOUNT - An account, if available, in which you may invest money and earn a fixed rate of return. Fixed Accounts are obligations of the General Account.

GOOD ORDER - Fully and accurately completed forms, including any necessary supplementary documentation, applicable to any given transaction or request received by us.

INCOME PHASE - The period during which we make annuity income payments to you.

INSURABLE INTEREST - Evidence that the Owner(s), Annuitant(s) or Beneficiary(ies) will suffer a financial loss at the death of the life that triggers the death benefit. Generally, we consider an interest insurable if a familial relationship and/or an economic interest exists. A familial relationship generally includes those persons related by blood or by law. An economic interest exists when a person has a lawful and substantial economic interest in having the life, health or bodily safety of the insured life preserved.

IRA - An Individual Retirement Annuity qualified under and issued in accordance with the provisions of Section 408(b) of the IRC.

IRC - The Internal Revenue Code of 1986, as amended, and all regulations thereto.

IRS - The Internal Revenue Service.

MARKET CLOSE - The close of the New York Stock Exchange, usually at 1:00 p.m. Pacific Time.

NON-QUALIFIED (CONTRACT) - A contract purchased with after-tax dollars. In general, these contracts are not under any pension plan, specially sponsored program or individual retirement account ("IRA").

NYSE - New York Stock Exchange

OWNER - The person or entity (if a non-natural owner) with an interest or title to this contract. The term "you" or "your" are also used to identify the Owner.

PARTICIPANT - An employee or other person affiliated with the Contractholder on whose behalf an account is maintained under the terms of the Contract.

PLAN - A retirement program offered by an Employer to its employees for which a Contract is used to accumulate funds which may or may not be regulated by ERISA.

PURCHASE PAYMENTS - The money you give us to buy the Contract, as well as any additional money you give us to invest in the Contract after you own it.

QUALIFIED (CONTRACT) - A Contract purchased with pretax dollars. These Contracts are generally purchased under a pension plan, specially sponsored program or IRA.

SEPARATE ACCOUNT - A segregated asset account maintained separately from the Company's regular portfolio of investment and general accounts. The Separate Account is established by the Company to purchase and hold the Variable Portfolios.

TRUSTS - Refers to the Anchor Series Trust and the SunAmerica Series Trust.

TSA - A tax sheltered annuity qualified under and issued in accordance with the provisions of Section 403(b) of the IRC.

UNDERLYING FUND - The underlying investment portfolios of the Trusts in which the Variable Portfolios invest.

VARIABLE PORTFOLIO(S) - The variable investment options available under the Contract. Each Variable Portfolio has its own investment objective and is invested in the Underlying Funds of the Trusts.

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HIGHLIGHTS

The Polaris Plus Variable Annuity is a Contract between you and SunAmerica Annuity. It is designed primarily for IRC 403(b) and IRA Contract investments to help you meet long-term financial goals. There are minimum Purchase Payment amounts required to purchase a Contract. Purchase Payments may be invested in a variety of Variable Portfolios and Fixed Accounts. Like all deferred annuities, the Contract has an Accumulation Phase and an Income Phase. During the Accumulation Phase, you invest money in your Contract. The Income Phase begins when you start receiving income payments from your annuity to provide for your retirement.

FREE LOOK: You may cancel your contract within 10 days after receiving it (or whatever longer period is required in your state), and not be charged a withdrawal charge. You will receive whatever your contract is worth on the day that we receive your request. The amount refunded may be more or less than your original Purchase Payments. We will return your original Purchase Payments if required by law. PLEASE SEE FREE LOOK IN THE PROSPECTUS.

EXPENSES: There are fees and charges associated with the Contract. Each year we deduct separate account charges, which equal a maximum of 1.25% annually of the average daily net asset value of your Contract allocated to the Variable Portfolios. There are investment charges on amounts invested in the Variable Portfolios. If you elect optional features available under the Contract we may charge additional fees for these features. A separate withdrawal charge schedule applies to each Purchase Payment, depending on your employment status at the time the Contract is issued. The maximum amount of the withdrawal charge declines over time. After a Purchase Payment has been in the Contract for six complete years, or five complete years if you were separated from service at the time the Contract was issued, withdrawal charges no longer apply to that

Purchase Payment. PLEASE SEE FEE TABLE, PURCHASING A POLARIS PLUS VARIABLE ANNUITY AND EXPENSES IN THE PROSPECTUS.

ACCESS TO YOUR MONEY: You may withdraw money from your contract during the Accumulation Phase. If you make a withdrawal, earnings are deemed to be withdrawn first. You will pay income taxes on earnings and untaxed contributions when you withdraw them. Annuity income payments received during the Income Phase are considered partly a return of your original investment. A federal tax penalty may apply if you make withdrawals before age 59 1/2. PLEASE SEE ACCESS TO YOUR MONEY AND TAXES IN THE PROSPECTUS.

DEATH BENEFIT: A death benefit feature is available under the contract which is payable to your Beneficiaries in the event of your death during the Accumulation Phase. PLEASE SEE DEATH BENEFITS IN THE PROSPECTUS.

ANNUITY INCOME OPTIONS: When you switch to the Income Phase, you can choose to receive annuity income payments on a variable basis, fixed basis or a combination of both. You may also choose from five different annuity income options, including an option for annuity income that you cannot outlive. PLEASE SEE ANNUITY INCOME OPTIONS IN THE PROSPECTUS.

INQUIRIES: If you have questions about your contract, call your financial representative or contact us at Annuity Service Center, P.O. Box 54299, Los Angeles, California 90054-0299. Telephone Number: (800) 445-7862. PLEASE SEE ALLOCATION OF PURCHASE PAYMENTS IN THE PROSPECTUS FOR THE ADDRESS TO WHICH YOU MUST SEND PURCHASE PAYMENTS.

PLEASE SEE THE STATE CONTRACT AVAILABILITY AND/OR VARIABILITY APPENDIX BELOW FOR STATE SPECIFIC INFORMATION.

THE COMPANY OFFERS SEVERAL DIFFERENT VARIABLE ANNUITY CONTRACTS TO MEET THE DIVERSE NEEDS OF OUR INVESTORS. OUR CONTRACTS MAY PROVIDE DIFFERENT FEATURES, BENEFITS, PROGRAMS AND INVESTMENT OPTIONS OFFERED AT DIFFERENT FEES AND EXPENSES. WHEN WORKING WITH YOUR FINANCIAL REPRESENTATIVE TO DETERMINE THE BEST PRODUCT TO MEET YOUR NEEDS, YOU SHOULD CONSIDER AMONG OTHER THINGS, WHETHER THE FEATURES OF THIS CONTRACT AND THE RELATED FEES PROVIDE THE MOST APPROPRIATE PACKAGE TO HELP YOU MEET YOUR RETIREMENT SAVINGS GOALS.

IF YOU WOULD LIKE INFORMATION REGARDING HOW MONEY IS SHARED AMONG OUR BUSINESS PARTNERS, INCLUDING BROKER-DEALERS THROUGH WHICH YOU MAY PURCHASE A VARIABLE ANNUITY AND FROM CERTAIN INVESTMENT ADVISERS OF THE UNDERLYING FUNDS, PLEASE SEE PAYMENTS IN CONNECTION WITH DISTRIBUTION OF THE CONTRACT BELOW.

PLEASE READ THE PROSPECTUS CAREFULLY FOR MORE DETAILED INFORMATION REGARDING THESE AND OTHER FEATURES AND BENEFITS OF THE CONTRACT, AS WELL AS THE RISKS OF INVESTING.

<PAGE>

FEE TABLE

THE FOLLOWING DESCRIBES THE FEES AND EXPENSES THAT ARE APPLICABLE TO THE CONTRACT AND WHEN YOU TRANSFER CONTRACT VALUE BETWEEN INVESTMENT OPTIONS OR SURRENDER THE CONTRACT. IF APPLICABLE, YOU MAY ALSO BE SUBJECT TO STATE PREMIUM TAXES.(1)

MAXIMUM OWNER TRANSACTION EXPENSES

<Table>

<S>	<C>
MAXIMUM WITHDRAWAL CHARGES (AS A PERCENTAGE OF EACH PURCHASE PAYMENT)(2)................	6%

</Table>

<Table>

<S>	<C>
TRANSFER FEE...............................	None(3)

</Table>

THE FOLLOWING DESCRIBES THE FEES AND EXPENSES THAT YOU MAY PAY PERIODICALLY DURING THE TIME THAT YOU OWN THE CONTRACT, NOT INCLUDING UNDERLYING FUND EXPENSES WHICH ARE OUTLINED IN THE NEXT SECTION.

CONTRACT MAINTENANCE FEE... None

SEPARATE ACCOUNT ANNUAL EXPENSES
(deducted from the average daily ending net asset value allocated to the Variable Portfolios)

Mortality and Expense Risk Fee...........	1.10%
Distribution Expense Fee.................	0.15%
TOTAL SEPARATE ACCOUNT ANNUAL EXPENSES...	1.25%

ADDITIONAL OPTIONAL FEATURE FEE

The Income Protector is an optional guaranteed minimum income benefit. You may elect either Income Protector option described below.

OPTIONAL INCOME PROTECTOR FEE
(Calculated as a percentage of your Contract value on the date of your effective enrollment in the program and then each subsequent Contract anniversary, plus Purchase Payments made since the prior Contract anniversary, less proportional withdrawals, and fees and charges applicable to those withdrawals)

OPTION	ANNUAL FEE(4)
Income Protector Plus.................	0.15%
Income Protector Max..................	0.30%

UNDERLYING FUND EXPENSES
(AS OF JANUARY 31, 2012)

THE FOLLOWING SHOWS THE MINIMUM AND MAXIMUM TOTAL OPERATING EXPENSES CHARGED BY THE UNDERLYING FUNDS OF THE TRUSTS, BEFORE ANY WAIVERS OR REIMBURSEMENTS THAT YOU MAY PAY PERIODICALLY DURING THE TIME THAT YOU OWN THE CONTRACT. MORE DETAIL CONCERNING THE UNDERLYING FUNDS' EXPENSES IS CONTAINED IN THE PROSPECTUS FOR EACH OF THE TRUSTS. PLEASE READ THEM CAREFULLY BEFORE INVESTING.

TOTAL ANNUAL UNDERLYING FUND EXPENSES	MINIMUM	MAXIMUM
(expenses that are deducted from Trust assets, including management fees, other expenses and 12b-1 fees, if applicable)..............	0.51%	1.33%

FOOTNOTES TO THE FEE TABLE:

(1) State premium taxes of up to 3.5% of your Purchase Payments may be deducted when you make a Purchase Payment or when you fully surrender your contract or begin the Income Phase. PLEASE SEE PREMIUM TAX AND STATE CONTRACT AVAILABILITY AND/OR VARIABILITY APPENDIX BELOW.

(2) Withdrawal Charge Schedule (as a percentage of each Purchase Payment withdrawn) declines as follows:

YEARS SINCE RECEIPT OF PURCHASE PAYMENT:..................	1	2	3	4	5	6	7+
Schedule A*...	6%	6%	5%	5%	4%	0%	0%

Schedule B**...	6%	6%	5%	5%	4%	4%	0%

</Table>

* This Withdrawal Charge Schedule applies to participants who are separated from service at the time of Contract issue. Please see EXPENSES below.

** This Withdrawal Charge Schedule applies to all other participants.

(3) We reserve the right to charge $25 per transfer after the first 15 transfers in any contract year in the future.

(4) The fee is deducted from your Contract value annually.

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MAXIMUM AND MINIMUM EXPENSE EXAMPLES

These examples are intended to help you compare the cost of investing in the contract with the cost of investing in other variable annuity contracts. These costs include owner transaction expenses, the contract maintenance fee if any, separate account annual expenses, available optional feature fees and Underlying Fund expenses.

The examples assume that you invest $10,000 in the contract for the time periods indicated; that your investment has a 5% return each year; and you incur the maximum or minimum fees and expenses of the Underlying Fund as indicated in the examples. Although your actual costs may be higher or lower, based on these assumptions, your costs at the end of the stated period would be:

MAXIMUM EXPENSE EXAMPLES
(assuming maximum separate account annual expense of 1.25%, election of the optional Income Protector Max (0.30%), and investment in the Underlying Fund with total expenses of 1.33%)

(1) If you surrender your contract at the end of the applicable time period:

<Table>
<Caption>

1 YEAR	3 YEARS	5 YEARS	10 YEARS
<S>	<C>	<C>	<C>
$891	$1,392	$1,918	$3,204

</Table>

(2) If you do not surrender or annuitize your contract at the end of the applicable time period:

<Table>
<Caption>

1 YEAR	3 YEARS	5 YEARS	10 YEARS
<S>	<C>	<C>	<C>
$291	$892	$1,518	$3,204

</Table>

MINIMUM EXPENSE EXAMPLES

(assuming minimum separate account annual expense of 1.25%, no optional features are elected and investment in the Underlying Fund with total expenses of 0.51%)

(1) If you surrender your contract at the end of the applicable time period:

<Table>
<Caption>

1 YEAR	3 YEARS	5 YEARS	10 YEARS
<S>	<C>	<C>	<C>
$779	$1,054	$1,354	$2,073

</Table>

(2) If you do not surrender or annuitize your contract at the end of the applicable time period:

<Table>
<Caption>

1 YEAR	3 YEARS	5 YEARS	10 YEARS
<S>	<C>	<C>	<C>
$179	$554	$954	$2,073

</Table>

EXPLANATION OF EXPENSE EXAMPLES

1. The purpose of the Expense Examples is to show you the various expenses you would incur directly and indirectly by investing in the variable annuity contract. The Expense Examples represent both fees of the separate account as well as the maximum and minimum total annual Underlying Fund operating expenses. Additional information on the Underlying Fund fees can be found in the Trust prospectuses.

2. In addition to the stated assumptions, the Expense Examples also assume that no transfer fees were imposed. Although premium taxes may apply in certain states, they are not reflected in the Expense Examples.

3. Examples reflecting application of optional features and benefits use the highest fees and charges at which those features are being offered. The fee for the Income Protector feature is not calculated as a percentage of your daily net asset value but on other calculations more fully described in the prospectus.

4. If you elected optional features, you do not pay fees for optional features once you begin the Income Phase (annuitize your contract); therefore, your expenses will be lower than those shown here. PLEASE SEE ANNUITY INCOME

OPTIONS BELOW.

THESE EXAMPLES SHOULD NOT BE CONSIDERED A REPRESENTATION OF PAST OR FUTURE EXPENSES. ACTUAL EXPENSES MAY BE GREATER OR LESS THAN THOSE SHOWN.

CONDENSED FINANCIAL INFORMATION APPEARS IN THE CONDENSED FINANCIAL INFORMATION APPENDIX OF THIS PROSPECTUS.

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THE POLARIS PLUS VARIABLE ANNUITY

We issue the Polaris Plus variable annuity to certain groups and/or individuals which qualify to purchase Contracts to fund their Tax Sheltered Annuity ("TSA") pursuant to Section 403(b) of the Internal Revenue Code ("IRC") or IRA retirement savings investments pursuant to Section 408(b) of the IRC. For TSA Contracts, the Contract may be issued to a group Contractholder (usually your employer or plan trustee) for the benefit of the Participants in the group (you and other employees in the group).

As a Participant under a group Contract you will receive a certificate which explains your rights under the Contract. In certain situations an individual Contract will be issued directly to you.

A TSA Polaris Plus participant may choose to convert their 403(b) to an IRA if they separate from service. Generally, all of the same features, charges and benefits will apply to a Contract converted to an IRA, as was applicable to a participant's TSA, so long as no conflict arises with the appropriate provisions of the IRC. We will only specifically address IRAs in this Prospectus to the extent that applicable IRC provisions and/or any other state or federal laws, require different treatment.

Generally, an annuity is a Contract between you and an insurance company. For

Plans governed by Employee Retirement Income Security Act of 1974 ("ERISA"), the Contract may be owned by Plan Sponsor, Trustee or some other employee association. Your retirement plan allows you to invest money on which you have not already paid taxes and your earnings grow tax deferred. In addition, funding that Plan with a variable annuity provides certain benefits. You should decide whether the benefits are right for you. Among other features the Contract offers:

- Investment Options: Various investment options available in one Contract, including both variable and fixed-rate investing.

- Death Benefit: If you die during the Accumulation Phase, the Company pays a death benefit to your Beneficiary.

- Guaranteed Income: Once you begin the Income Phase, you receive a stream of annuity income payments for your lifetime if elected, or another available period you select.

We developed this variable annuity to help you contribute to your retirement savings. Your contributions may come from payroll deductions arranged through your employer for TSAs. Contracts may also be funded by direct transfers or direct rollovers from other retirement savings plans. Existing Polaris Plus 403(b) Contracts may be converted to an IRA upon a separation from service. Additionally, those IRA Contract holders may make on-going contributions subject to restrictions set forth in the IRC.

This Contract has two stages, the Accumulation Phase and the Income Phase. Your Contract is in the Accumulation Phase when you make payments into the Contract. During the Accumulation Phase, generally you have the advantage of making Purchase Payments before paying taxes on the contributions. In addition, as a function of IRC provisions, taxes on your earnings are deferred until withdrawal. The Income Phase begins when you request that we start making annuity income payments to you out of the money accumulated in your Contract.

The Contract is called a "variable" annuity because it allows you to invest in Variable Portfolios which, like mutual funds, have different investment objectives and performance. You can gain or lose money if you invest in these Variable Portfolios. The amount of money you accumulate in your Contract depends on the performance of the Variable Portfolios in which you invest.

Fixed Accounts, if available, earn interest at a rate set and guaranteed by the Company. If you allocate money to a Fixed Account, the amount of money that accumulates in the Contract depends on the total interest credited to the particular Fixed Account in which you invest.

For more information on investment options available under this contract, PLEASE SEE INVESTMENT OPTIONS BELOW.

As a function of the Internal Revenue Code ("IRC"), you may be assessed a 10% federal tax penalty on any withdrawal made prior to your reaching age 59 1/2. PLEASE SEE TAXES BELOW. Additionally, you will be charged a withdrawal charge on each Purchase Payment withdrawn prior to the end of the applicable withdrawal charge period, PLEASE SEE FEE TABLE ABOVE. Because of these potential penalties, you should fully discuss all of the benefits and risks of this contract with your financial representative prior to purchase.

PURCHASING A POLARIS PLUS VARIABLE ANNUITY

A Purchase Payment is the money you give us to buy a Contract. Any additional money you give us to invest in your Contract after purchase is a subsequent Purchase Payment. You make payments into your Contract in two ways:

- salary reduction contributions, arranged through your employer; and/or

- direct transfer or direct rollover from an existing retirement plan.

If you enter into a salary reduction agreement with your employer to make Purchase Payments, there is no minimum initial payment. If you do not establish such a salary reduction agreement, and only contribute through direct transfer or direct rollover, the minimum initial Purchase Payment is $2,000.

We reserve the right to refuse any Purchase Payment. Furthermore, we reserve the right to require Company approval prior to accepting Purchase Payments greater than $1,500,000. For contracts owned by a non-natural owner, we reserve the right to require prior Company approval to accept Purchase Payments greater than $250,000. We reserve the right to change the amount at which pre-approval is required at any time. Purchase Payments that would cause total Purchase Payments in all contracts issued by the Company or its affiliate, The United States Life Insurance Company in the City of New York, to the same owner and/or Annuitant to exceed these limits may also be subject to Company pre-approval. For any contracts that meet or exceed these dollar amount limitations, we further reserve the right to limit the death benefit amount payable in excess of contract value at the time we receive all required paperwork and satisfactory proof of death. Any limit on the maximum death benefit payable would be mutually agreed upon in writing by you and the Company prior to purchasing the contract.

NON-NATURAL OWNERSHIP

A trust, corporation or other non-natural entity may only purchase this contract if such entity has sufficiently demonstrated an Insurable Interest in the Annuitant selected. FOR MORE INFORMATION ON NON-NATURAL OWNERSHIP, PLEASE SEE TAXES BELOW.

MAXIMUM ISSUE AGE

In general, we will not issue a TSA or IRA contract to anyone who is age 70 1/2 or older, unless it is shown that the minimum distribution required by the IRS is being made. Upon proof satisfactory to us that minimum distribution requirements are being satisfied or are not yet required, we may issue a contract to anyone under age 81. If we learn of a misstatement of age, we reserve the right to fully pursue our remedies including termination of the contract and/or revocation of any age-driven benefits.

TERMINATION FOR FRAUD

The Company reserves the right to terminate the contract at any time if it discovers a misstatement or fraudulent representation of any information provided in connection with the issuance of the contract.

JOINT OWNERSHIP

We allow this contract to be jointly owned. We require that the joint Owners be spouses except in states that allow non-spouses to be joint Owners. The age of the older Owner is used to determine the availability of most age driven benefits. The addition of a joint Owner after the contract has been issued is contingent upon prior review and approval by the Company.

Certain states require that the benefits and features of the contract be made available to domestic or civil union partners ("Domestic Partners") who qualify for treatment as, or are equal to, spouses under state law. Other states allow same-sex partners to marry ("Same-Sex Spouses"). There are also states that require us to issue the contract to non-spousal joint Owners. However, Domestic Partners, Same-Sex Spouses and non-spousal joint Owners who jointly own or are Beneficiaries of a contract should consult with their tax adviser and/or financial representative as they are not eligible for spousal continuation under the contract as allowed by the IRC. Therefore, the ability of Domestic Partners, Same-Sex Spouses and non-spousal joint Owners to fully benefit from certain benefits and features of the contract, such as optional living benefit(s), if applicable, that guarantee withdrawals over two lifetimes may be limited by the conflict between certain state and federal laws.

ASSIGNMENT OF THE CONTRACT/CHANGE OF OWNERSHIP

You may assign this contract before beginning the Income Phase by sending a written request to us at the Annuity Service Center for an assignment. Your rights and those of any other person with rights under this contract will be subject to the assignment. We will not be bound by any assignment until written notice is processed by us at our Annuity Service Center and you have received confirmation. We are not responsible for the validity, tax or other legal consequences of any assignment. An assignment will not affect any payments we may make or actions we may take before we receive notice of the assignment.

We reserve the right not to recognize any assignment if it changes the risk profile of the owner of the contract, as determined in our sole discretion, if no Insurable Interest exists or if not permitted by the Internal Revenue Code. PLEASE SEE THE STATEMENT OF ADDITIONAL INFORMATION FOR DETAILS ON THE TAX CONSEQUENCES OF AN ASSIGNMENT. You should consult a qualified tax adviser before assigning the contract.

ALLOCATION OF PURCHASE PAYMENTS

In order to issue your contract, we must receive your initial Purchase Payment and all required paperwork in Good Order, including Purchase Payment allocation instructions at our Annuity Service Center. We will accept initial and subsequent Purchase Payments by electronic transmission from certain broker-dealer firms. In connection with arrangements we have to transact business electronically, we may have agreements in place whereby your broker-dealer may be deemed our agent for receipt of your Purchase Payments. Thus, if we have an agreement with a broker-dealer deeming them our agent, Purchase Payments received by the broker-dealer will be priced as of the time they are received by the broker-dealer. However, if we do not have an agreement with a broker-dealer deeming them our agent, Purchase Payments received by the broker-dealer will not be priced until they are received by us. You assume any risk in market fluctuations if you submit your Purchase Payment directly to a broker-dealer that is not deemed our agent, should there be a delay in that broker-dealer delivering your Purchase Payment to us. Please check with your financial representative to determine if his/her broker-dealer has an agreement with the Company that deems the broker-dealer an agent of the Company.

An initial Purchase Payment will be priced within two business days after it is received by us in Good Order if the

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Purchase Payment is received before Market Close. If the initial Purchase Payment is received in Good Order after Market Close, the initial Purchase Payment will be priced within two NYSE business days after the next NYSE business day. We allocate your initial Purchase Payment as of the date such Purchase Payment is priced. If we do not have complete information necessary to issue your contract, we will contact you. If we do not have the information necessary to issue your contract within five NYSE business days, we will send your money back to you, or obtain your permission to keep your money until we get the information necessary to issue the contract.

Any subsequent Purchase Payment will be priced as of the day it is received by us in Good Order if the request is received before Market Close. If the subsequent Purchase Payment is received in Good Order after Market Close, it will be priced as of the next NYSE business day. We invest your subsequent Purchase Payments in the Variable Portfolios and available Fixed Accounts according to any allocation instructions that accompany the subsequent Purchase Payment. If we receive a Purchase Payment without allocation instructions, we will invest the Purchase Payment according to your allocation instructions on file. PLEASE SEE INVESTMENT OPTIONS BELOW.

Purchase Payments submitted by check can only be accepted by the Company at the Payment Center at the following address:

SunAmerica Annuity
P.O. Box 100330
Pasadena, CA 91189-0330

Purchase Payments sent to the Annuity Service Center will be forwarded and priced when received at the Payment Center.

Overnight deliveries of Purchase Payments can only be accepted at the following address:

SunAmerica Annuity
Building #6, Suite 120
2710 Media Center Drive
Los Angeles, CA 90065-0330

Delivery of Purchase Payments to any other address will result in a delay in crediting your contract until the Purchase Payment is received at the Payment Center.

ACCUMULATION UNITS

When you allocate a Purchase Payment to the Variable Portfolios, we credit your contract with Accumulation Units of the Separate Account. We base the number of Accumulation Units you receive on the unit value of the Variable Portfolio as of the day we process your Purchase Payment, as described under ALLOCATION OF PURCHASE PAYMENTS above, if before that day's Market Close, or on the next business day's unit value if we process your Purchase Payment after that day's Market Close. The value of an Accumulation Unit goes up and down based on the performance of the Variable Portfolios.

We calculate the value of an Accumulation Unit each day that the NYSE is open as follows:

1. We determine the total value of money invested in a particular Variable Portfolio;

2. We subtract from that amount all applicable daily asset based charges; and

3. We divide this amount by the number of outstanding Accumulation Units.

We determine the number of Accumulation Units credited to your contract by dividing the Purchase Payment by the Accumulation Unit value for the specific Variable Portfolio.

EXAMPLE:

We receive a $25,000 Purchase Payment from you on Wednesday. You allocate the money to Variable Portfolio A. We determine that the value of an Accumulation Unit for Variable Portfolio A is $11.10 at Market Close on Wednesday. We then divide $25,000 by $11.10 and credit your contract on Wednesday night with 2,252.2523 Accumulation Units for Variable Portfolio A.

Performance of the Variable Portfolios and the insurance charges under your contract affect Accumulation Unit values. These factors cause the value of your contract to go up and down.

RIGHT TO EXAMINE

You may cancel your contract within ten days after receiving it. We call this a "free look." Your state may require a longer free look period. Please check your contract or with your financial representative. To cancel, you must mail the contract along with your written free look request to our Annuity Service Center at P.O. Box 54299, Los Angeles, California 90054-0299.

If you decide to cancel your contract during the free look period, generally we will refund to you the value of your contract on the day we receive your request in Good Order at the Annuity Service Center. Certain states require us to return your Purchase Payments upon a free look request. Additionally, all contracts issued as an IRA require the full return of Purchase Payments upon a free look.

If your contract was issued either in a state requiring return of Purchase Payments or as an IRA, and you cancel your contract during the free look period, we return the greater of (1) your Purchase Payments; or (2) the value of your contract on the day we receive your request in Good Order at the Annuity Service Center. With respect to these contracts, we reserve the right to invest your money in the Cash Management Variable Portfolio during the free look period. If we place your money in the Cash Management Variable Portfolio during the free look period, we will allocate your money according to your instructions at the end of the applicable free look period. PLEASE SEE THE STATE

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CONTRACT AVAILABILITY AND/OR VARIABILITY APPENDIX BELOW FOR INFORMATION ABOUT THE FREE LOOK PERIOD IN YOUR STATE.

EXCHANGE OFFERS

From time to time, we allow you to exchange an older variable annuity issued by the Company or one of its affiliates, for a newer product with different features and benefits issued by the Company or one of its affiliates. Such an exchange offer will be made in accordance with applicable federal securities laws and state insurance rules and regulations. We will provide the specific terms and conditions of any such exchange offer at the time the offer is made.

IMPORTANT INFORMATION FOR MILITARY SERVICEMEMBERS

If you are an active duty full-time servicemember, and are considering the purchase of this contract, please read the following important information before investing. Subsidized life insurance is available to members of the Armed Forces from the Federal Government under the Servicemembers' Group Life Insurance program (also referred to as "SGLI"). More details may be obtained on-line at the following website: www.insurance.va.gov. This contract is not offered or provided by the Federal Government and the Federal Government has in no way sanctioned, recommended, or encouraged the sale of this contract. No entity has received any referral fee or incentive compensation in connection with the offer or sale of this contract, unless that entity has a selling agreement with the Company.

INVESTMENT OPTIONS

VARIABLE PORTFOLIOS

The Variable Portfolios invest in the Underlying Funds of the Trusts. Additional Variable Portfolios may be available in the future. The Variable Portfolios are only available through the purchase of certain insurance contracts.

The Trusts serve as the underlying investment vehicles for other variable annuity contracts issued by the Company and other affiliated and unaffiliated insurance companies. Neither the Company nor the Trusts believe that offering shares of the Trusts in this manner disadvantages you. The Trusts are monitored for potential conflicts. The Trusts may have other Underlying Funds, in addition to those listed here, that are not available for investment under this contract.

The Variable Portfolios offered through this contract are selected by us and we may consider various factors in the selection process, including but not limited to: asset class coverage, the strength of the investment adviser's or subadviser's reputation and tenure, brand recognition, performance and the capability and qualification of each investment firm. Another factor we may consider is whether the Underlying Fund or its service providers (i.e., the investment adviser and/or subadviser(s)) or their affiliates will make payments to us or our affiliates in connection with certain administrative, marketing and support services, or whether the Underlying Fund's service providers have affiliates that can provide marketing and distribution support for sales of the contract. PLEASE SEE PAYMENTS IN CONNECTION WITH DISTRIBUTION OF THE CONTRACT BELOW.

We review the Variable Portfolios periodically and may make changes if we determine that a Variable Portfolio no longer satisfies one or more of the selection criteria and/or if the Variable Portfolio has not attracted significant allocations from contract owners. We offer Underlying Funds of the Anchor Series Trust and SunAmerica Series Trust at least in part because they are managed by SunAmerica Asset Management Corp. ("SAAMCo"), a wholly-owned subsidiary of SunAmerica Annuity.

From time to time, certain Variable Portfolio 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 Variable Portfolio's prior name.

You are responsible for allocating Purchase Payments to the Variable Portfolios as is appropriate for your own individual circumstances, investment goals, financial situation and risk tolerance. You should periodically review your allocations and values to ensure they continue to suit your needs. You bear the risk of any decline in contract value resulting from the performance of the Variable Portfolios you have selected. In making your investment selections, you should investigate all information available to you including the Underlying Fund's prospectus, statement of additional information and annual and semi-annual reports.

During periods of low short-term interest rates, and in part due to contract fees and expenses, the investment return of the Cash Management Variable Portfolio may become extremely low and possibly negative. In the case of negative returns, your investment in the Cash Management Variable Portfolio will lose value.

We do not provide investment advice, nor do we recommend or endorse any particular Variable Portfolio. The Variable Portfolios along with their respective advisers are listed below.

ANCHOR SERIES TRUST - CLASS 1 SHARES

SAAMCo is the investment adviser and various managers are the subadviser to Anchor Series Trust ("AST").

SUNAMERICA SERIES TRUST - CLASS 1 SHARES

SAAMCo is the investment adviser and various managers are the subadvisers to SunAmerica Series Trust ("SAST").

(SEE NEXT PAGE FOR FULL LIST OF INVESTMENT OPTIONS)

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UNDERLYING FUNDS	MANAGED BY:	TRUST	ASSET CLASS
Aggressive Growth	Wells Capital Management Incorporated	SAST	STOCK
Alliance Growth	AllianceBernstein L.P.	SAST	STOCK
Asset Allocation	Edge Asset Management, Inc.	AST	BALANCED
Balanced	J.P. Morgan Investment Management Inc.	SAST	BALANCED
Capital Appreciation	Wellington Management Company, LLP	AST	STOCK
Cash Management	BofA Advisors, LLC	SAST	CASH
Corporate Bond	Federated Investment Management Company	SAST	BOND
Davis Venture Value	Davis Selected Advisers, L.P.	SAST	STOCK
"Dogs" of Wall Street	SunAmerica Asset Management Corp.	SAST	STOCK
Emerging Markets	Putnam Investment Management, LLC	SAST	STOCK
Equity Index	SunAmerica Asset Management Corp.	SAST	STOCK
Equity Opportunities	OppenheimerFunds, Inc.	SAST	STOCK
Fundamental Growth	Wells Capital Management Incorporated	SAST	STOCK
Global Bond	Goldman Sachs Asset Management International	SAST	BOND
Global Equities	J.P. Morgan Investment Management Inc.	SAST	STOCK
Government and Quality Bond	Wellington Management Company, LLP	AST	BOND
Growth	Wellington Management Company, LLP	AST	STOCK
Growth-Income	J.P. Morgan Investment Management Inc.	SAST	STOCK
High-Yield Bond	PineBridge Investments LLC	SAST	BOND
International Diversified Equities	Morgan Stanley Investment Management Inc.	SAST	STOCK
International Growth & Income	Putnam Investment Management, LLC	SAST	STOCK
Real Estate	Davis Selected Advisers, L.P.	SAST	STOCK
Small Company Value	Franklin Advisory Services, LLC	SAST	STOCK
Telecom Utility	Massachusetts Financial Services Company	SAST	STOCK
Total Return Bond	Pacific Investment Management Company LLC	SAST	BOND

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YOU SHOULD READ THE PROSPECTUSES FOR THE TRUSTS CAREFULLY. THESE PROSPECTUSES CONTAIN DETAILED INFORMATION ABOUT THE UNDERLYING FUNDS, INCLUDING EACH UNDERLYING FUND'S INVESTMENT OBJECTIVE AND RISK FACTORS. YOU MAY OBTAIN AN ADDITIONAL COPY OF THESE PROSPECTUSES FOR THE TRUSTS BY CALLING OUR ANNUITY SERVICE CENTER AT (800) 445-7862 OR BY VISITING OUR WEBSITE AT WWW.SUNAMERICA.COM. YOU MAY ALSO OBTAIN INFORMATION ABOUT THE UNDERLYING FUNDS (INCLUDING A COPY OF THE STATEMENT OF ADDITIONAL INFORMATION) BY ACCESSING THE U.S. SECURITIES AND EXCHANGE COMMISSION'S WEBSITE AT WWW.SEC.GOV.

If applicable, your Plan may limit the Underlying Funds available under your Contract.

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SUBSTITUTION, ADDITION OR DELETION OF VARIABLE PORTFOLIOS

We may, subject to any applicable law, make certain changes to the Variable Portfolios offered in your contract. We may offer new Variable Portfolios or stop offering existing Variable Portfolios. New Variable Portfolios may be made available to existing contract owners and Variable Portfolios may be closed to new or subsequent Purchase Payments, transfers or allocations. In addition, we may also liquidate the shares of any Variable Portfolio, substitute the shares of one Underlying Fund held by a Variable Portfolio for another and/or merge Variable Portfolios or cooperate in a merger of Underlying Funds. To the extent required by the Investment Company Act of 1940, as amended, we may be required to obtain SEC approval or your approval.

FIXED ACCOUNTS

Your contract may offer Fixed Accounts for varying guarantee periods. A Fixed Account may be available for differing lengths of time (such as 1, 3, or 5 years). Each guarantee period may have different guaranteed interest rates.

We guarantee that the interest rate credited to amounts allocated to any Fixed Account guarantee periods will never be less than the guaranteed minimum interest rate specified in your contract. Once the rate is established, it will not change for the duration of the guarantee period. We determine which, if any, guarantee periods will be offered at any time in our sole discretion, unless state law requires us to do otherwise. Please check with your financial representative regarding the availability of Fixed Accounts.

There are three categories of interest rates for money allocated to the Fixed Accounts. The applicable rate is guaranteed until the corresponding guarantee period expires. With each category of interest rate, your money may be credited a different rate as follows:

- Initial Rate: The rate credited to any portion of the initial Purchase Payment allocated to a Fixed Account.

- Current Rate: The rate credited to any portion of a subsequent Purchase Payment allocated to a Fixed Account.

- Renewal Rate: The rate credited to money transferred from a Fixed Account or a Variable Portfolio into a Fixed Account and to money remaining in a Fixed Account after expiration of a guarantee period.

When a guarantee period ends, you may leave your money in the same Fixed Account or you may reallocate your money to another Fixed Account, if available, or to the Variable Portfolios. If you do not want to leave your money in the same Fixed Account, you must contact us within 30 days after the end of the guarantee period and provide us with new allocation instructions. WE DO NOT CONTACT YOU. IF YOU DO NOT CONTACT US, YOUR MONEY WILL REMAIN IN THE SAME FIXED ACCOUNT WHERE IT WILL EARN INTEREST AT THE RENEWAL RATE THEN IN EFFECT FOR THAT FIXED ACCOUNT.

We reserve the right to defer payments for a withdrawal from a Fixed Account for up to six months. PLEASE SEE ACCESS TO YOUR MONEY BELOW.

If available, you may systematically transfer interest earned in available Fixed Accounts into any of the Variable Portfolios on certain periodic schedules offered by us. Systematic transfers may be started, changed or terminated at any time by contacting our Annuity Service Center. Check with your financial representative about the current availability of this service.

At any time we are crediting the minimum guaranteed interest rate specified in your contract, we reserve the right to restrict your ability to invest into the Fixed Accounts. All Fixed Accounts may not be available in your state. Please check with your financial representative regarding the availability of Fixed Accounts.

DOLLAR COST AVERAGING FIXED ACCOUNTS

You may invest initial rollover Purchase Payments in the dollar cost averaging ("DCA") Fixed Accounts, if available. The minimum Purchase Payment that you must invest for the 6-month DCA Fixed Account is $600 and for the 12-month DCA Fixed Account is $1,200. Purchase Payments less than these minimum amounts will automatically be allocated to Variable Portfolios according to your instructions or your current allocation instruction on file.

DCA Fixed Accounts credit a fixed rate of interest and can only be elected to facilitate a DCA program. PLEASE SEE DOLLAR COST AVERAGING PROGRAM BELOW for more information. Interest is credited to amounts allocated to the DCA Fixed Accounts while your money is transferred to the Variable Portfolios over certain specified time frames. The interest rates applicable to the DCA Fixed Accounts may differ from those applicable to any other Fixed Account but will never be less than the minimum guaranteed interest rate specified in your contract. However, when using a DCA Fixed Account, the annual interest rate is paid on a declining balance as you systematically transfer your money to the Variable Portfolios. Therefore, the actual effective yield will be less than the stated annual crediting rate. Please note, for administrative reasons, we accumulate all subsequent Purchase Payments made in a given month into a single trade, and apply the fixed rate of interest available at that time. We reserve the right to change the availability of DCA Fixed Accounts offered, unless state law requires us to do otherwise.

DOLLAR COST AVERAGING PROGRAM

The DCA program allows you to invest gradually in available investment options at no additional cost. Under the program,

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you systematically transfer a specified dollar amount or percentage of contract value from a Variable Portfolio, available Fixed Account or DCA Fixed Account ("source account") to any available investment options ("target account"). Fixed Accounts are not available as target accounts for the DCA program. Transfers occur on a monthly periodic schedule. The minimum transfer amount under the DCA program is $100 per transaction, regardless of the source account. Transfers resulting from your participation in the DCA program are not counted towards the number of free transfers per contract year.

We may also offer DCA Fixed Accounts as source accounts exclusively to facilitate the DCA program for a specified time period. The DCA Fixed Accounts only accept initial or subsequent Purchase Payments. You may not make a transfer from a Variable Portfolio or available Fixed Account into a DCA Fixed Account.

If you choose to allocate subsequent Purchase Payments to an active DCA program with a available Fixed Account serving as the source account, the rate applicable to that Fixed Account at the time we receive the subsequent Purchase Payment will apply. Further, we will begin transferring that subsequent Purchase Payment into your target account allocations on the same day of the month as the initial active DCA program. Therefore, you may not receive a full 30 days of interest prior to the first transfer to the target account(s).

You may terminate the DCA program at any time. If you terminate the DCA program and money remains in the DCA Fixed Account(s), we transfer the remaining money according to your current allocation instructions on file.

The DCA program is designed to lessen the impact of market fluctuations on your investment. However, the DCA program can neither guarantee a profit nor protect your investment against a loss. When you elect the DCA program, you are continuously investing in securities fluctuating at different price levels. You should consider your tolerance for investing through periods of fluctuating price levels.

EXAMPLE OF DCA PROGRAM:

Assume that you want to move $750 each month from one Variable Portfolio to another Variable Portfolio over six months. You set up a DCA program and purchase Accumulation Units at the following values:

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MONTH	ACCUMULATION UNIT VALUE	UNITS PURCHASED
<S>	<C>	<C>
1	$ 7.50	100
2	$ 5.00	150
3	$10.00	75
4	$ 7.50	100
5	$ 5.00	150
6	$ 7.50	100

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You paid an average price of only $6.67 per Accumulation Unit over six months, while the average market price actually was $7.08. By investing an equal amount of money each month, you automatically buy more Accumulation Units when the market price is low and fewer Accumulation Units when the market price is high. This example is for illustrative purposes only.

WE RESERVE THE RIGHT TO MODIFY, SUSPEND OR TERMINATE THE DCA PROGRAM AT ANY TIME.

TRANSFERS DURING THE ACCUMULATION PHASE

Subject to our rules, restrictions and policies described below, during the Accumulation Phase you may transfer funds between the Variable Portfolios and/or any available Fixed Accounts by telephone (800) 445-7862, through the Company's website (www.sunamerica.com), by U.S. Mail addressed to our Annuity Service Center, P.O. Box 54299, Los Angeles, California 90054-0299 or by facsimile. All transfer instructions submitted via facsimile must be sent to (818) 615-1543; otherwise they will not be considered received by us. We may accept transfers by telephone or the Internet unless you tell us not to on your contract application. If your contract was issued in the state of New York, we may accept transfers by telephone if you complete and send the Telephone Transfer Agreement form to our Annuity Service Center. When receiving instructions over the telephone or the Internet, we have procedures to provide reasonable assurance that the transactions executed are genuine. Thus, we are not responsible for any claim, loss or expense from any error resulting from instructions received over the telephone or the Internet. If we fail to follow our procedures, we may be liable for any losses due to unauthorized or fraudulent instructions.

We cannot guarantee that we will be able to accept telephone, fax and/or internet transfer instructions at all times. Any telephone, fax or computer system, whether it is yours, your broker-dealer's, or ours, can experience outages or delays for a variety of reasons and may prevent our processing of your transfer request. We reserve the right to modify, suspend or terminate telephone, fax and/or internet transfer privileges at any time. If telephone, fax and/or internet access is unavailable, you should make your transfer request in writing by U.S. Mail to our Annuity Service Center.

Any transfer request will be priced as of the day it is received by us in Good Order if the request is received before Market Close. If the transfer request is received after Market Close, the request will be priced as of the next business day.

Funds already in your contract cannot be transferred into the DCA Fixed Accounts.

You must transfer at least $100 per transfer. If less than $100 remains in any Variable Portfolio or Fixed Account after a transfer, that amount must be transferred as well.

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SHORT-TERM TRADING POLICIES

We do not want to issue this variable annuity contract to contract owners engaged in trading strategies that seek to benefit from short-term price fluctuations or price inefficiencies in the Variable Portfolios of this product ("Short-Term Trading") and we discourage Short-Term Trading as more fully described below. However, we cannot always anticipate if a potential contract owner intends to engage in Short-Term Trading. Short-Term Trading may create risks that may result in adverse effects on investment return of the Underlying Fund in which a Variable Portfolio invests. Such risks may include, but are not limited to: (1) interference with the management and planned investment strategies of an Underlying Fund; (2) dilution of the interests in the Underlying Fund due to practices such as "arbitrage"; and/or (3) increased brokerage and administrative costs due to forced and unplanned fund turnover. These circumstances may reduce the value of the Variable Portfolio. In addition to negatively impacting the Owner, a reduction in contract value may also be harmful to Annuitants and/or Beneficiaries.

We have adopted the following administrative procedures to discourage Short-Term Trading which are summarized below.

All transfer requests in excess of 15 transfers within a rolling 12-month look-back period ("12-Month Rolling Period") must be submitted by United States Postal Service first-class mail ("U.S. Mail"). Once a contract triggers this "Standard U.S. Mail Policy," all transfer requests must be submitted by U.S. Mail for 12 months from the date of the triggering transfer.

For example, if you made a transfer on August 16, 2012 and within the previous twelve months (from August 17, 2011 forward) you made 15 transfers including the August 16th transfer, then all transfers made for twelve months after August 16, 2012 must be submitted by U.S. Mail (from August 17, 2012 through August 16, 2013).

We will not accept transfer requests sent by any other medium except U.S. Mail during this 12-month period. Transfer requests required to be submitted by U.S. Mail can only be cancelled by a written request sent by U.S. Mail with the appropriate paperwork received prior to the execution of the transfer. All transfers made on the same day prior to Market Close are considered one transfer request. Transfers resulting from your participation in the DCA or Automatic Asset Rebalancing programs are not included for the purposes of determining the number of transfers before applying the Standard U.S. Mail Policy.

We apply the Standard U.S. Mail Policy uniformly and consistently to all contract owners except for omnibus group contracts as described below.

We believe that the Standard U.S. Mail Policy is a sufficient deterrent to Short-Term Trading. However, we may become aware of transfer patterns among the Variable Portfolios and/or Fixed Accounts which appear to be Short-Term Trading or otherwise detrimental to the Variable Portfolios but have not yet triggered the limitations of the Standard U.S. Mail Policy described above. If such transfer activity comes to our attention, we may require you to adhere to our Standard U.S. Mail Policy prior to reaching the specified number of transfers ("Accelerated U.S. Mail Policy"). To the extent we become aware of Short-Term

Trading activities which cannot be reasonably controlled solely by the Standard U.S. Mail Policy or the Accelerated U.S. Mail Policy, we reserve the right to evaluate, in our sole discretion, whether to: (1) impose further limits on the size, manner, number and/or frequency of transfers you can make; (2) impose minimum holding periods; (3) reject any Purchase Payment or transfer request; (4) terminate your transfer privileges; and/or (5) request that you surrender your contract. We will notify you in writing if your transfer privileges are terminated. In addition, we reserve the right not to accept or otherwise restrict transfers from a third party acting for you and not to accept pre-authorized transfer forms.

Some of the factors we may consider when determining whether to accelerate the Standard U.S. Mail Policy, reject transfers or impose other conditions on transfer privileges include:

(1) the number of transfers made in a defined period;

(2) the dollar amount of the transfer;

(3) the total assets of the Variable Portfolio involved in the transfer and/or transfer requests that represent a significant portion of the total assets of the Variable Portfolio;

(4) the investment objectives and/or asset classes of the particular Variable Portfolio involved in your transfers;

(5) whether the transfer appears to be part of a pattern of transfers to take advantage of short-term market fluctuations or market inefficiencies;

(6) the history of transfer activity in the contract or in other contracts we may offer; and/or

(7) other activity, as determined by us, that creates an appearance, real or perceived, of Short-Term Trading or the possibility of Short-Term Trading.

Notwithstanding the administrative procedures above, there are limitations on the effectiveness of these procedures. Our ability to detect and/or deter Short-Term Trading is limited by operational systems and technological limitations, as well as our ability to predict strategies employed by contract owners (or those acting on their behalf) to avoid detection. We cannot guarantee that we will detect and/or deter all Short-Term Trading and it is likely that some level of Short-Term Trading will occur before it is detected and steps are taken to deter it. To the extent that we are unable to detect

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and/or deter Short-Term Trading, the Variable Portfolios may be negatively impacted as described above. Additionally, the Variable Portfolios may be harmed by transfer activity related to other insurance companies and/or retirement plans or other investors that invest in shares of the Underlying Fund. Moreover, our ability to deter Short-Term Trading may be limited by decisions by state regulatory bodies and court orders which we cannot predict. You should be aware that the design of our administrative procedures involves inherently subjective decisions which we attempt to make in a fair and reasonable manner consistent with the interests of all owners of this contract. We do not enter into agreements with contract owners whereby we permit or intentionally disregard Short-Term Trading.

The Standard and Accelerated U.S. Mail Policies are applied uniformly and consistently to contract owners utilizing third party trading services/strategies performing asset allocation services for a number of contract owners at the same time. You should be aware that such third party trading services may engage in transfer activities that can also be detrimental to the Variable Portfolios, including trading relatively large groups of contracts simultaneously. These transfer activities may not be intended to take advantage of short-term price fluctuations or price inefficiencies. However, such activities can create the same or similar risks as Short-Term Trading and negatively impact the Variable Portfolios as described above.

Omnibus group contracts may invest in the same Underlying Funds available in your contract but on an aggregate, not individual basis. Thus, we have limited ability to detect Short-Term Trading in omnibus group contracts and the Standard U.S. Mail Policy does not apply to these contracts. Our inability to detect Short-Term Trading may negatively impact the Variable Portfolios as described above.

WE RESERVE THE RIGHT TO MODIFY THE POLICIES AND PROCEDURES DESCRIBED IN THIS SECTION AT ANY TIME. To the extent that we exercise this reservation of rights, we will do so uniformly and consistently unless we disclose otherwise.

UNDERLYING FUNDS' SHORT-TERM TRADING POLICIES

Please note that the Underlying Funds have their own policies and procedures with respect to frequent purchases and redemptions of their respective shares. We reserve the right to enforce these Underlying Fund policies and procedures, including, but not limited to, the right to collect a redemption fee on shares of the Underlying Fund if imposed by such Fund's Board of Trustees/Directors. As of the date of this prospectus, none of the Underlying Funds impose a redemption fee. We also reserve the right to reject, with or without prior notice, any purchase, transfer or allocation into a Variable Portfolio if the corresponding Underlying Fund will not accept such purchase, transfer or allocation for any reason. The prospectuses for the Underlying Funds describe these procedures, which may be different among Underlying Funds and may be more or less restrictive than our policies and procedures.

Under rules adopted by the Securities and Exchange Commission, we also have written agreements with the Underlying Funds that obligate us to, among other things, provide the Underlying Funds promptly upon request certain information about you (e.g., your social security number) and your trading activity. In addition, we are obligated to execute instructions from the Underlying Funds to restrict or prohibit further purchases or transfers in an Underlying Fund under certain circumstances.

Many investments in the Underlying Funds outside of these contracts are omnibus orders from intermediaries such as other separate accounts or retirement plans. If an Underlying Fund's policies and procedures fail to successfully detect and discourage Short-Term trading, there may be a negative impact to the owners of the Underlying Fund. If an Underlying Fund believes that an omnibus order we submit may reflect transfer requests from owners engaged in Short-Term Trading, the Underlying Fund may reject the entire omnibus order and delay or prevent us from implementing your transfer request.

TRANSFERS DURING THE INCOME PHASE

During the Income Phase, only one transfer per month is permitted between the Variable Portfolios. No other transfers are allowed during the Income Phase. Transfers will be effected for the last NYSE business day of the month in which we receive your request for the transfer.

AUTOMATIC ASSET REBALANCING PROGRAM

Market fluctuations may cause the percentage of your investment in the Variable Portfolios to differ from your original allocations. Under the Automatic Asset Rebalancing Program, you may elect to have your investments in the Variable Portfolios and/or Fixed Accounts, if applicable, periodically rebalanced to return your allocations to the percentages given at your last instructions for no additional charge. If you make a transfer, you must provide updated rebalancing instructions. If you do not provide new rebalancing instructions at the time you make such transfer, we will change your ongoing rebalancing instructions to reflect the percentage allocations among the new Variable Portfolios and/or Fixed Accounts, if applicable, resulting from your transfer which will replace any previous rebalancing instructions you may have provided ("Default Rebalancing Instructions"). You may change any applicable Default Rebalancing Instructions at any time by contacting the Annuity Service Center.

Automatic Asset Rebalancing typically involves shifting a portion of your money out of investment options which had higher returns into investment options which had lower returns. At your request, rebalancing occurs on a quarterly, semiannual or annual basis. Transfers resulting from your

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participation in this program are not counted against the number of free transfers per contract year.

WE RESERVE THE RIGHT TO MODIFY, SUSPEND OR TERMINATE THE AUTOMATIC ASSET REBALANCING PROGRAM AT ANY TIME.

VOTING RIGHTS

The Company is the legal owner of the Trusts' shares. However, when an Underlying Fund solicits proxies in conjunction with a shareholder vote, we must obtain your instructions on how to vote those shares. We vote all of the shares we own in proportion to your instructions. This includes any shares we own on our own behalf. Should we determine that we are no longer required to vote in the manner described above, we will vote the shares in our own right.

ACCESS TO YOUR MONEY

You can access money in your Contract in three ways:

- by receiving annuity income payments during the Income Phase, PLEASE SEE ANNUITY INCOME OPTIONS BELOW; or

- by taking a loan in accordance with the provisions of your Plan and/or this Contract (TSA only); or

- subject to the restrictions described below, by making a partial or total withdrawal.

Any request for withdrawal will be priced as of the day it is received by us in Good Order at the Annuity Service Center, if the request is received before Market Close. If the request for withdrawal is received after Market Close, the request will be priced as of the next business day.

Generally, we deduct a withdrawal charge applicable to any partial or total withdrawal before the end of the withdrawal charge period. If you made a total withdrawal, we also deduct premium taxes, if applicable.

We may be required to suspend or postpone the payment of a withdrawal for any period of time when: (1) the NYSE is closed (other than a customary weekend and holiday closings); (2) trading with the NYSE is restricted; (3) an emergency exists such that disposal of or determination of the value of shares of the Variable Portfolios is not reasonably practicable; (4) the SEC, by order, so permits for the protection of Contract owners.

Additionally, we reserve the right to defer payments for a withdrawal from a Fixed Account option. Such deferrals are limited to no longer than six months.

We may establish certain minimum withdrawal amounts or require that a minimum amount remain in a Variable Portfolio upon withdrawal. Please contact the Annuity Service Center for additional information. You must send a written withdrawal request. Unless you provide us with different instructions, partial withdrawals will be made pro rata from each Variable Portfolio and each Fixed Account option in which you are invested.

WITHDRAWAL RESTRICTIONS

Withdrawals under Section 403(b) Contracts are subject to the limitations under Section 403(b)(11) of the IRC and any applicable Plan document. Section 403(b) provides that salary reduction contributions deposited and earnings credited on any salary reduction contributions after December 31, 1988 may only be withdrawn upon (1) death; (2) disability; (3) reaching age 59 1/2; (4) separation from service; or (5) occurrence of a hardship. Amounts accumulated in one Section 403(b)(1) Contract may be transferred to another Section 403(b)(1) Contract or Section 403(b)(7) custodial account without a penalty under the IRC. Amounts accumulated in a Section 403(b)(7) custodial account and deposited in a Contract will be subject to the same withdrawal restrictions as are applicable to post-1988 salary reduction contributions. PLEASE SEE TAXES BELOW.

If your Plan is subject to Title I of ERISA, your withdrawal request must be authorized by the Contractholder on your behalf. All withdrawal requests will require the Contractholder's written authorization and written documentation specifying the portion of your Contract value which is available for distribution to you.

If your Plan is not subject to Title I of ERISA and you own a TSA, you must certify to SunAmerica Annuity that, one of the events listed in the IRC has occurred (and provide supporting information, if requested) and that SunAmerica Annuity may rely on such representation in granting such a withdrawal request. The above does not apply to transfers to other Qualified investment alternatives. PLEASE SEE TAXES BELOW. You should consult your tax adviser as well as review the provisions of any applicable Plan before requesting a withdrawal.

In addition to the restrictions noted above, a Plan may contain additional withdrawal or transfer restrictions.

Early withdrawals from a TSA or IRA, as defined under Section 72(q) and 72(t) of the IRC, may be subject to 10% penalty tax.

TEXAS OPTIONAL RETIREMENT PROGRAM

If you participate in the Texas Optional Retirement Program ("ORP") you must obtain a certificate of termination from your employer before you can redeem your Contract. We impose this requirement on you because the Texas Attorney General ruled that participants in ORP may redeem their Contract only upon termination of their employment by Texas public institutions of higher education, or upon retirement death or total disability.

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SYSTEMATIC WITHDRAWAL PROGRAM

If you elect the Systematic Withdrawal program and the terms of any applicable Plan and/or the IRC allow, then we use money in your Contract to pay your monthly, quarterly, semiannual or annual payments during the Accumulation Phase. Electronic transfer of these funds to your bank account is also available. However, any such payments you elect to receive are subject to all applicable withdrawal charges, market value adjustments, income taxes, tax penalties and other withdrawal restrictions affecting your Contract. The minimum amount of each withdrawal is $50. There must be at least $500 remaining in your Contract at all times. Withdrawals may be taxable and a 10% IRS tax penalty may apply if you are under age 59 1/2 at the time of withdrawal. There is no additional charge for participating in this program.

The program is not available to everyone. Please contact our Annuity Service Center, which can provide the necessary enrollment forms.

WE RESERVE THE RIGHT TO MODIFY, SUSPEND OR TERMINATE THE SYSTEMATIC WITHDRAWAL PROGRAM AT ANY TIME.

WITHDRAWAL CHARGES, INCOME TAXES, TAX PENALTIES AND CERTAIN WITHDRAWAL RESTRICTIONS MAY APPLY TO ANY WITHDRAWAL YOU MAKE, INCLUDING SYSTEMATIC WITHDRAWALS.

LOANS

If you own a TSA and, if applicable, your Plan permits, you may take a loan from your Contract during the Accumulation Period. You may apply for a loan under the Contract by completing a loan application available from SunAmerica Annuity. Loans are secured by a portion of your Contract Value. More information about loans, including interest rates, restrictions, terms of repayment and applicable fees and charges is available in the Certificate, the Endorsement and the Loan Agreement as well as from SunAmerica Annuity's Annuity Service Center.

FREE WITHDRAWAL AMOUNT

If your Contract is subject to withdrawal charge schedule A, you may be able to withdraw 15% of your Purchase Payments each Contract year, free of a contractual withdrawal charge. The amount available for free withdrawal each year is reduced by the amount of any Purchase Payment previously withdrawn in that Contract year. However, upon a full surrender of your Contract, any previous free withdrawals would be subject to a surrender charge, if any is applicable at the time of surrender (except in the State of Washington).

MINIMUM CONTRACT VALUE

Where permitted by state law, we may terminate your contract if your contract value is less than $2,500 as a result of withdrawals and/or fees and charges. We will provide you with sixty days written notice that your contract is being terminated. At the end of the notice period, we will distribute the contract's remaining value to you.

QUALIFIED CONTRACT OWNERS

Certain Qualified plans restrict and/or prohibit your ability to withdraw money from your contract. PLEASE SEE TAXES BELOW for a more detailed explanation.

DEATH BENEFIT

If you should die during the Accumulation Phase of your Contract, we pay a death benefit to your Beneficiary. The death benefit (unless limited by your Plan) equals the greater of:

1. Total Purchase Payments reduced by the amount of any loan(s) outstanding plus accrued interest and reduced for withdrawals (and any fees and charges applicable to those withdrawals) in the same proportion that each withdrawal reduced Contract Value on the date of the withdrawal, or;

2. Contract value.

We do not pay the death benefit if you die after you switch to the Income Phase. However, if you die during the Income Phase your Beneficiary receives any remaining guaranteed annuity income payments (or a portion thereof) in accordance with the annuity income option you selected. PLEASE SEE ANNUITY

INCOME OPTIONS BELOW.

You name your Beneficiary. You may change the Beneficiary at any time, unless you previously made an irrevocable Beneficiary designation. Plans subject to Title 1 of ERISA may impose additional restrictions on Beneficiary designation which are discussed in the Beneficiary Designation Form.

We calculate and pay the death benefit when we receive all required paperwork and satisfactory proof of death at the Annuity Service Center. All death benefit calculations discussed below are made as of the day a death benefit request is received by us in Good Order at the Annuity Service Center, (including satisfactory proof of death) if the request is received before Market Close. If the death benefit request is received after Market Close, the death benefit calculations will be as of the next business day. If the death benefit request is not received by us in Good Order or if notification of the death is made by the Beneficiary prior to submitting all required paperwork and satisfactory proof of death, the Beneficiary may have the option of transferring the entire contract value to the Cash Management Variable Portfolio or available Fixed Account by contacting the Annuity Service Center. We consider the following satisfactory proof of death:

1. a certified copy of the death certificate; or

2. a certified copy of a decree of a court of competent jurisdiction as to the finding of death; or

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3. a written statement by a medical doctor who attended the deceased at the time of death; or

4. any other proof satisfactory to us.

For contracts in which the aggregate of all Purchase Payments in contracts issued by the Company or its affiliate, The United States Life Insurance Company in the City of New York, to the same Owner/Annuitant are in excess of $1,500,000, we reserve the right to limit the death benefit amount that is in excess of contract value at the time we receive all paperwork and satisfactory proof of death. Any limit on the maximum death benefit payable would be mutually agreed upon in writing by you and the Company prior to purchasing the contract.

The death benefit must be paid by December 31st of the calendar year containing the fifth anniversary of the date of death unless the Beneficiary elects to have it payable in the form of an annuity income option. If the Beneficiary elects an annuity income option, it must be paid over the Beneficiary's lifetime or for a period not extending beyond the Beneficiary's life expectancy. Payments must begin on or before December 31st of the calendar year immediately following the year of your death.

If the Beneficiary is the Participant's surviving spouse, the surviving spouse may elect to receive the entire death benefit in equal or substantially equal payments over their life or over a period not longer than their life expectancy, commencing at any date prior to the later of:

(i) December 31st of the calendar year immediately following the calendar year in which the Participant died, and

(ii) December 31st of the calendar year in which the Participant would have attained age 70 1/2.

Certain death benefits are either no longer offered or have changed since first being offered. IF YOUR CONTRACT WAS ISSUED PRIOR TO NOVEMBER 24, 2003, PLEASE SEE APPENDIX E FOR DETAILS REGARDING THOSE FEATURES.

Payments must begin under the selected annuity income option no later than the first anniversary of death for Non-Qualified contracts or December 31st of the year following the year of death for IRAs. Beneficiaries who do not begin taking payments within these specified time periods will not be eligible to elect an annuity income option.

EXPENSES

There are fees and expenses associated with your contract which reduce your investment return. We will not increase certain contract fees, such as mortality and expense charges or withdrawal charges for the life of your contract. Underlying Fund fees may increase or decrease. Some states may require that we charge less than the amounts described below. PLEASE SEE THE STATE CONTRACT

AVAILABILITY AND/OR VARIABILITY APPENDIX FOR STATE-SPECIFIC EXPENSES.

We intend to profit from the sale of the contracts. Our profit may be derived as a result of a variety of pricing factors including but not limited to the fees and charges assessed under the contract and/or amounts we may receive from an Underlying Fund, its investment adviser and/or subadvisers (or affiliates thereof). PLEASE SEE PAYMENTS IN CONNECTION WITH DISTRIBUTION OF THE CONTRACT BELOW. The fees, charges, amounts received from the Underlying Funds (or affiliates thereof) and any resulting profit may be used for any corporate purpose including supporting marketing, distribution and/or administration of the contract and, in its role as an intermediary, the Underlying Funds.

SEPARATE ACCOUNT EXPENSES

The annualized Separate Account expense is 1.25% of the average daily ending net asset value allocated to the Variable Portfolios. This charge compensates the Company for the mortality and expense risk and the costs of contract distribution assumed by the Company.

Generally, the mortality risks assumed by the Company arise from its contractual obligations to make annuity income payments after the Annuity Date and to provide a death benefit. The expense risk assumed by the Company is that the costs of administering the contracts and the Separate Account will exceed the amount received from the fees and charges assessed under the contract.

If these charges do not cover all of our expenses, we will pay the difference. Likewise, if these charges exceed our expenses, we will keep the difference. The mortality and expense risk charge is expected to result in a profit. Profit may be used for any cost or expense including supporting distribution. PLEASE SEE PAYMENTS IN CONNECTION WITH DISTRIBUTION OF THE CONTRACT BELOW.

WITHDRAWAL CHARGES

We apply a withdrawal charge against each Purchase Payment you contribute to the Contract if you seek withdrawal of that payment prior to the end of a specified period.

If applicable, the withdrawal charge equals a percentage of the Purchase Payment you take out of the Contract. The withdrawal charge percentage may decline over time for each Purchase Payment in the Contract. The applicable withdrawal charge schedule will appear on your Contract Data Page.

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SEPARATED FROM SERVICE AT CONTRACT ISSUE
(SCHEDULE A)

<Table>
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YEARS SINCE PURCHASE PAYMENT RECEIPT	1	2	3	4	5	6
<S>	<C>	<C>	<C>	<C>	<C>	<C>
WITHDRAWAL CHARGE	6%	6%	5%	5%	4%	0%

</Table>

EMPLOYED AT CONTRACT ISSUE
(SCHEDULE B)

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YEARS SINCE PURCHASE PAYMENT RECEIPT	1	2	3	4	5	6	7
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
WITHDRAWAL CHARGE	6%	6%	5%	5%	4%	4%	0%

</Table>

You may obtain information as to the withdrawal charge applicable to your Contract by contacting your Plan Sponsor, Employer, financial representative or by consulting your Contract Data page.

When calculating the withdrawal charge, we treat withdrawals as coming first from the Purchase Payments that have been in your Contract the longest. However, for tax purposes, your withdrawals are considered earnings first, then Purchase

Payments.

Whenever possible, we deduct the withdrawal charge from the money remaining in your Contract. If you withdraw all of your Contract value, we deduct any applicable withdrawal charge from the amount withdrawn.

We calculate charges due on a total withdrawal as of the day after we receive your request and your Contract. We return your Contract value less any applicable fees and charges. You will not receive the benefit of any available and prior free withdrawal amounts (applicable only to those subject to withdrawal charge Schedule A) if you make a complete withdrawal of your Contract.

Both the insurance charges and the withdrawal charges may vary by Plan and/or group Contract based on certain objective factors. PLEASE SEE REDUCTION OR ELIMINATION OF FEES, EXPENSES AND ADDITIONAL AMOUNTS CREDITED BELOW.

EXCEPTIONS TO WITHDRAWAL CHARGE

A withdrawal charge is not applicable to withdrawals requested in the following situations:

- Annuitization (except if under the Income Protector Program), PLEASE SEE ANNUITY INCOME OPTIONS BELOW;

- Death Benefits, PLEASE SEE DEATH BENEFIT ABOVE;

- After your 10th Contract anniversary;

- If you are subject to withdrawal charge Schedule A, 15% of your Purchase Payments each Contract year;

- Disability occurring after Contract issue;

- Hardship occurring after Contract issue;

- After separation from service occurring after Contract issue;

- loans in accordance with the requirements of ERISA and/or the IRC, the Plan and the Contract; or

- to avoid Federal Income Tax penalties or satisfy income tax rules applicable to the Contract from which the withdrawal is made.

Additionally, upon conversion to an IRA from an existing Polaris Plus 403(b) Contract, IRA Contractholders will receive credit for time served in their prior Polaris Plus TSA variable annuity investment. This means we will carry over the 403(b) Purchase Payment history with respect to any potential withdrawal charges under the IRA.

Withdrawals made prior to age 59 1/2 may result in tax penalties. PLEASE SEE TAXES BELOW.

INCOME PROTECTOR PROGRAM FEE

We charge a fee for the Income Protector program, as follows:

OPTION	ANNUAL FEE AS A % OF YOUR INCOME BENEFIT BASE
Income Protector Plus	0.15%
Income Protector Max	0.30%

Since the Income Benefit Base is only a calculation and does not provide a Contract value, we deduct the fee from your actual Contract value beginning on the Contract anniversary on which your enrollment in the program becomes effective. If you elect to participate in the Income Protector program at Contract issue, we begin deducting the annual fee for the Plus or Max option when your participation becomes effective. If you elect to participate in the Income Protector program after Contract issue, we begin deducting the annual fee on the Contract anniversary following election of the Income Protector program. We will deduct this charge from your Contract value on every Contract anniversary up to and including your Income Benefit Date. PLEASE SEE OPTIONAL INCOME PROTECTOR PROGRAM BELOW.

UNDERLYING FUND EXPENSES

INVESTMENT MANAGEMENT FEES

Each Variable Portfolio purchases shares of a corresponding Underlying Fund. The Accumulation Unit value for each Variable Portfolio reflects the investment management fees and other expenses of the corresponding Underlying Fund. These fees may vary. They are not fixed or specified in your annuity contract, rather the Underlying Funds are governed by their own boards of trustees.

FOR MORE DETAILED INFORMATION ON THESE UNDERLYING FUND FEES, PLEASE REFER TO THE TRUST PROSPECTUSES.

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TRANSFER FEE

We currently permit an unlimited number of transfers between investment options, every year. We reserve the right to limit the number of transfers to 15 per year, in the future, for both new and existing Contractholders. If we do impose such a limit you will be charged $25 for each transfer over that limit. PLEASE SEE INVESTMENT OPTIONS ABOVE.

PREMIUM TAX

Certain states charge the Company a tax on Purchase Payments up to a maximum of 3.5%. These states permit us to either deduct the premium tax when you make a Purchase Payment or when you fully surrender your contract or begin the Income Phase. PLEASE SEE THE STATE CONTRACT AVAILABILITY AND/OR VARIABILITY APPENDIX BELOW for a listing of the states that charge premium taxes, the percentage of the tax and distinctions in impact on Qualified and Non-Qualified contracts.

INCOME TAXES

We do not currently deduct income taxes from your contract. We reserve the right to do so in the future.

REDUCTION OR ELIMINATION OF FEES, EXPENSES AND ADDITIONAL AMOUNTS CREDITED

Sometimes sales of contracts to groups of similarly situated individuals may lower our fees and expenses. We reserve the right to reduce or waive certain fees and expenses when this type of sale occurs. In addition, we may also credit additional amounts to contracts sold to such groups. We determine which groups are eligible for this treatment. Some of the criteria we evaluate to make a determination are size of the group; amount of expected Purchase Payments; relationship existing between us and the prospective purchaser; length of time a group of contracts is expected to remain active; purpose of the purchase and whether that purpose increases the likelihood that our expenses will be reduced; and/or any other factors that we believe indicate that fees and expenses may be reduced.

The Company may make such a determination regarding sales to its employees, its affiliates' employees and employees of currently contracted broker-dealers; its registered representatives; and immediate family members of all of those described.

WE RESERVE THE RIGHT TO MODIFY, SUSPEND OR TERMINATE ANY SUCH DETERMINATION OR THE TREATMENT APPLIED TO A PARTICULAR GROUP AT ANY TIME.

PAYMENTS IN CONNECTION WITH DISTRIBUTION OF THE CONTRACT

PAYMENTS WE MAKE

We make payments in connection with the distribution of the contracts that generally fall into the three categories below.

COMMISSIONS. Registered representatives of broker-dealers ("selling firms") licensed under federal securities laws and state insurance laws sell the contract to the public. The selling firms have entered into written selling agreements with the Company and SunAmerica Capital Services, Inc. ("SACS"), the distributor of the contracts. We pay commissions to the selling firms for the sale of your contract. The selling firms are paid commissions for the promotion and sale of the contracts according to one or more schedules. The amount and timing of commissions will vary depending on the selling firm and its selling agreement with us. For example, as one option, we may pay upfront commission only, up to a maximum 5.25% of each Purchase Payment you invest (which may include promotional amounts we may pay periodically as commission specials). Another option may be a lower upfront commission on each Purchase Payment, with a trail commission of up to a maximum 1.50% of contract value annually.

The registered representative who sells you the contract typically receives a portion of the compensation we pay to his/her selling firm, depending on the agreement between the selling firms and its registered representative and their internal compensation program. We are not involved in determining your registered representatives' compensation.

ADDITIONAL CASH COMPENSATION. We may enter into agreements to pay selling firms support fees in the form of additional cash compensation ("revenue sharing"). These revenue sharing payments may be intended to reimburse the selling firms for specific expenses incurred or may be based on sales, certain assets under management, longevity of assets invested with us and/or a flat fee. Asset-based payments primarily create incentives to service and maintain previously sold contracts. Sales-based payments primarily create incentives to make new sales of contracts.

These revenue sharing payments may be consideration for, among other things, product placement/preference and visibility, greater access to train and educate the selling firm's registered representatives about our contracts, our participation in sales conferences and educational seminars and for selling firms to perform due diligence on our contracts. The amount of these fees may be tied to the anticipated level of our access in that selling firm.

We enter into such revenue sharing arrangements in our discretion and we may negotiate customized arrangements with selling firms, including affiliated and non-affiliated selling firms based on various factors. These special compensation arrangements are not offered to all selling

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firms and the terms of such arrangements may vary between selling firms depending on, among other things, the level and type of marketing and distribution support provided, assets under management and the volume and size of the sales of our contracts.

If allowed by his or her selling firm, a registered representative or other eligible person may purchase a contract on a basis in which an additional amount is credited to the contract. PLEASE SEE REDUCTION OR ELIMINATION OF FEES, EXPENSES AND ADDITIONAL AMOUNTS CREDITED ABOVE.

We provide a list of firms to whom we paid annual amounts greater than $5,000 under these revenue sharing arrangements in 2011 in the Statement of Additional Information which is available upon request.

We do not assess a specific charge directly to you or your separate account assets in order to cover commissions and other sales expenses and incentives we pay. However, we anticipate recovering these amounts from our profits which are derived from the fees and charges collected under the contract. We hope to benefit from these revenue sharing arrangements through increased sales of our contracts and greater customer service support.

Revenue sharing arrangements may provide selling firms and/or their registered representatives with an incentive to favor sales of our contracts over other variable annuity contracts (or other investments) with respect to which a selling firm does not receive the same level of additional compensation. You should discuss with your selling firm and/or registered representative how they are compensated for sales of a contract and/or any resulting real or perceived conflicts of interest. You may wish to take such revenue sharing arrangements into account when considering or evaluating any recommendation relating to this contract.

NON-CASH COMPENSATION. Some registered representatives may receive various types of non-cash compensation such as gifts, promotional items and entertainment in connection with our marketing efforts. We may also pay for registered representatives to attend educational and/or business seminars. Any such compensation is paid in accordance with SEC and FINRA rules.

PAYMENTS WE RECEIVE

We may directly or indirectly receive revenue sharing payments from the Trusts, their investment advisers, sub-advisers and/or distributors (or affiliates thereof), in connection with certain administrative, marketing and other services we provide and related expenses we incur. The availability of these revenue sharing arrangements creates an incentive for us to seek and offer Underlying Funds (and classes of shares of such Underlying Funds) that make such payments to us. Other Underlying Funds (or available classes of shares) may have lower fees and better overall investment performance. Not all Trusts pay the same amount of revenue sharing. Therefore, the amount of fees we collect may be greater or smaller based on the Underlying Funds you select.

We generally receive two kinds of payments described below.

ADMINISTRATIVE, MARKETING AND SUPPORT SERVICE FEES. We receive compensation of up to 0.50% annually based on assets under management from certain Trusts' investment advisers, subadvisers and/or distributors (or affiliates thereof). These payments may be derived, in whole or in part, from the investment management fees deducted from assets of the Underlying Funds or wholly from the assets of the Underlying Funds. Contract Owners, through their indirect investment in the Trusts, bear the costs of these investment management fees, which in turn will reduce the return on your investment. These amounts are generally based on assets under management from certain Trusts' investment advisers or their affiliates and vary by Trust. Some investment advisers, subadvisers and/or distributors (or affiliates thereof) pay us more than others. Such amounts received from SAAMCo, a wholly-owned subsidiary of SunAmerica Annuity, are not expected to exceed 0.50% annually based on assets under management.

OTHER PAYMENTS. Certain investment advisers, subadvisers and/or distributors (or affiliates thereof) may help offset the costs we incur for marketing activities and training to support sales of the Underlying Funds in the contract. These amounts are paid voluntarily and may provide such advisers, subadvisers and/or distributors access to national and regional sales conferences attended by our employees and registered representatives. The amounts paid depend on the nature of the meetings, the number of meetings attended, the costs expected to be incurred and the level of the adviser's, subadviser's or distributor's participation.

In addition, we (and our affiliates) may receive occasional gifts, entertainment or other compensation as an incentive to market the Underlying Funds and to cooperate with their marketing efforts. As a result of these payments, the investment advisers, subadvisers and/or distributors (or affiliates thereof) may benefit from increased access to our wholesalers and to our affiliates involved in the distribution of the contract.

ANNUITY INCOME OPTIONS

ANNUITY DATE

During the Income Phase, we use the money accumulated in your Contract to make regular annuity income payments to you. You may switch to the Income Phase any time. You must provide us with a written request of the date you want annuity income payments to begin and send your request to the Annuity Service Center. Your annuity date is the first day of the month you select annuity income payments to begin ("Annuity Date"). You may change your Annuity Date by sending a written request to the Annuity Service

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Center, so long as you do so at least seven days before the annuity income payments are scheduled to begin. Once you begin receiving annuity income payments, you cannot change your annuity income option. Except as indicated under Option 5, once you begin receiving annuity income payments, you cannot otherwise access your money through withdrawal or surrender.

Generally, for Qualified Contracts, the Annuity Date may be any day after you reach age 59 1/2 but not later than your 75th birthday. However, you may be required to begin taking required minimum distributions by April 1 following the later of, the year in which you turn age 70 1/2 or the calendar year in which you retire. PLEASE SEE TAXES BELOW.

As to TSAs and IRAs, an annuity income payment is generally considered a withdrawal. Therefore, IRC withdrawal restrictions may limit the time at which annuity income payments may begin. PLEASE SEE ACCESS TO YOUR MONEY ABOVE.

Annuity income payments must begin on or before your Latest Annuity Date. If you do not choose an Annuity Date, your annuity income payments will begin on the Latest Annuity Date. If the Annuity Date is past your 85th birthday, your Contract could lose its status as an annuity under Federal tax laws. This may cause you to incur adverse tax consequences.

ANNUITY INCOME OPTIONS

Currently, this Contract offers five standard annuity income options. Other payout options may be available. Contact the Annuity Service Center for more information. If you elect to receive annuity income payments but do not select an annuity income option, your annuity income payments will be made in accordance with Option 4 for a period of 10 years. For annuity income payments selected for joint lives, we pay according to Option 3 for a period of 10 years.

We base our calculation of annuity income payments on the life of the Annuitant and the annuity rates set forth in your Contract. Under a TSA you, as the Participant, are always the Annuitant. Under an IRA you, as the contract owner, must always be the Annuitant. UNDER CERTAIN QUALIFIED CONTRACTS THE ANNUITY INCOME OPTION YOU SELECT MAY NOT EXCEED YOUR LIFE EXPECTANCY.

ANNUITY INCOME OPTION 1 - LIFE INCOME ANNUITY

This option provides annuity income payments for the life of the Annuitant. Annuity income payments end when the Annuitant dies.

ANNUITY INCOME OPTION 2 - JOINT AND SURVIVOR LIFE INCOME ANNUITY

This option provides annuity income payments for the life of the Annuitant and for the life of another designated person. Upon the death of either person, we will continue to make annuity income payments during the lifetime of the survivor. Annuity income payments end when the survivor dies.

ANNUITY INCOME OPTION 3 - JOINT AND SURVIVOR LIFE INCOME ANNUITY WITH 10 YEARS GUARANTEED

This option is similar to Option 2 above, with an additional guarantee of payments for at least 10 years. If the Annuitant and the survivor die before all of the guaranteed annuity income payments have been made, the remaining annuity income payments are made to the Beneficiary under your contract.

ANNUITY INCOME OPTION 4 - LIFE INCOME ANNUITY WITH 10, 15 OR 20 YEARS GUARANTEED

This option is similar to Option 1 above with an additional guarantee of payments for at least 10, 15 or 20 years, depending on the period chosen. If the Annuitant dies before all guaranteed annuity income payments are made, the remaining annuity income payments are made to the Beneficiary under your contract.

ANNUITY INCOME OPTION 5 - INCOME FOR A SPECIFIED PERIOD

This option provides annuity income payments for a guaranteed period ranging from 5 to 30 years, depending on the period chosen. If the Annuitant dies before all the guaranteed annuity income payments are made, the remaining annuity income payments are made to the Beneficiary under your contract. Additionally, if variable annuity income payments are elected under this option, you (or the Beneficiary under the contract if the Annuitant dies prior to all guaranteed annuity income payments being made) may redeem any remaining guaranteed variable annuity income payments after the Annuity Date. The amount available upon such redemption would be the discounted present value of any remaining guaranteed variable annuity income payments.

If provided for in your contract, any applicable withdrawal charge will be deducted from the discounted value as if you fully surrendered your contract.

The value of an Annuity Unit, regardless of the option chosen, takes into account separate account charges which includes a mortality and expense risk charge. Since Option 5 does not contain an element of mortality risk, no benefit is derived from this charge.

Please see the Statement of Additional Information for a more detailed discussion of the annuity income options.

FIXED OR VARIABLE ANNUITY INCOME PAYMENTS

You can choose annuity income payments that are fixed, variable or both. Unless otherwise elected, if at the date when annuity income payments begin you are invested in the Variable Portfolios only, your annuity income payments will be variable and if your money is only in Fixed Accounts at

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that time, your annuity income payments will be fixed in amount. Further, if you are invested in both Fixed Accounts and Variable Portfolios when annuity income payments begin, your payments will be fixed and variable, unless otherwise elected. If annuity income payments are fixed, the Company guarantees the amount of each payment. If the annuity income payments are variable, the amount is not guaranteed.

ANNUITY INCOME PAYMENTS

We make annuity income payments on a monthly, quarterly, semi-annual or annual basis. You instruct us to send you a check or to have the payments directly deposited into your bank account. If state law allows, we distribute annuities with a contract value of $5,000 or less in a lump sum. Also, if state law allows and the selected annuity income option results in annuity income payments of less than $50 per payment, we may decrease the frequency of payments.

If you are invested in the Variable Portfolios after the Annuity Date, your annuity income payments vary depending on the following:

- for life income options, your age when annuity income payments begin; and

- the contract value attributable to the Variable Portfolios on the Annuity Date; and

- the 3.5% assumed investment rate used in the annuity table for the contract; and

- the performance of the Variable Portfolios in which you are invested during the time you receive annuity income payments.

If you are invested in both the Fixed Accounts and the Variable Portfolios after the Annuity Date, the allocation of funds between the Fixed Accounts and Variable Portfolios also impacts the amount of your annuity income payments.

The value of variable annuity income payments, if elected, is based on an assumed interest rate ("AIR") of 3.5% compounded annually. Variable annuity income payments generally increase or decrease from one annuity income payment date to the next based upon the performance of the applicable Variable Portfolios. If the performance of the Variable Portfolios selected is equal to the AIR, the annuity income payments will remain constant. If performance of Variable Portfolios is greater than the AIR, the annuity income payments will increase and if it is less than the AIR, the annuity income payments will decline.

TRANSFERS DURING THE INCOME PHASE

During the Income Phase, only one transfer per month is permitted between the Variable Portfolios. No other transfers are allowed during the Income Phase. Transfers will be effected for the last NYSE business day of the month in which we receive your request for the transfer.

DEFERMENT OF PAYMENTS

We may defer making fixed payments for up to six months, or less if required by law. Interest is credited to you during the deferral period. PLEASE SEE ACCESS TO YOUR MONEY ABOVE FOR A DISCUSSION OF WHEN PAYMENTS FROM A VARIABLE PORTFOLIO MAY BE SUSPENDED OR POSTPONED.

OPTIONAL INCOME PROTECTOR PROGRAM

If elected, this program provides a future "safety net" in the event that, when you choose to begin receiving annuity income payments, your contract has not performed within a historically anticipated range. The Income Protector program offers you the ability to receive a guaranteed fixed minimum retirement annuity income upon annuitization. With the Income Protector program you know the level of minimum annuity income that will be available to you if, when you chose to begin the income phase of your Contract, down markets have negatively impacted your contract value. We reserve the right to modify, suspend or terminate the Income Protector program at any time.

The Income Protector program provides two levels of minimum retirement annuity income. The two available options are the Income Protector Plus and Income Protector Max. If you enroll in the Income Protector program, we charge a fee based on the level of protection you select. The amount of the fee and how to enroll are described below. In order to utilize the benefit of the program you must follow the provisions discussed below.

Certain IRC restrictions on annuity income options available to Qualified retirement investors may have an impact on your ability to benefit from this feature. Qualified investors should read NOTE TO QUALIFIED CONTRACTHOLDERS below.

HOW WE DETERMINE THE AMOUNT OF YOUR MINIMUM GUARANTEED ANNUITY INCOME

We base the amount of minimum annuity income available to you if you take annuity income payments using the Income Protector program upon a calculation we call the Income Benefit Base. At the time your enrollment in the Income Protector program becomes effective, your Income Benefit Base is equal to your contract value. Your participation becomes effective on either the date of issue of the Contract (if elected at the time of application) or on the contract anniversary following your enrollment in the program.

The Income Benefit Base is only a calculation. It does not represent a contract value, nor does it guarantee performance of the Variable Portfolios in which you invest.

Your Income Benefit Base increases if you make subsequent Purchase Payments and decreases if you withdraw money

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from your Contract. The exact Income Benefit Base calculation is equal to (a) plus (b) minus (c) where:

(a) is,

- for the first year of calculation, your contract value on the date your participation in the program became effective, or;

- for each subsequent year of calculation, the Income Benefit Base on the prior contract anniversary, and;

(b) is the sum of all Purchase Payments made into the Contract since the last contract anniversary, and;

(c) is all withdrawals and applicable fees and charges since the last contract anniversary in an amount proportionate to the amount by which such withdrawals decreased your contract value.

The Income Benefit Base accumulates at one of the following annual growth rates from the date your enrollment becomes effective through your election to begin receiving annuity income under the program:

<Table>
<Caption>

OPTIONS	GROWTH RATE*
<S>	<C>
The Income Protector Plus	3.25%

The Income Protector Max	5.25%

</Table>

* If you elect the Plus or Max feature on a subsequent anniversary, the growth rates may be different.

The growth rates for the Plus or Max features cease on the contract anniversary following the Annuitant's 90th birthday.

ENROLLING IN THE INCOME PROTECTOR PROGRAM

If you decide that you want the protection offered by the Income Protector program, you must elect the option of your choice by completing the Income Protector Election Form available through our Annuity Service Center. You may only elect one of the options, you can not change your election once made, and you can not terminate your enrollment. In order to obtain the benefit of the Income Protector program you may not begin the Income Phase for at least seven years following your enrollment.

STEP-UP OF YOUR INCOME BENEFIT BASE

You may also have the opportunity to "Step-Up" your Income Benefit Base. The Step-Up feature allows you to increase your Income Benefit Base to the amount of your contract value on your contract anniversary. You can only elect to Step-Up within the 30 days before the next Contract anniversary. The seven year waiting period required prior to electing annuity income payments through the Income Protector program is restarted if you step-up your Income Benefit Base.

You must complete the appropriate portion of the Income Protector Election Form to effect a Step-Up.

ELECTING TO RECEIVE ANNUITY INCOME PAYMENTS

You may elect to begin the Income Phase of your contract using the Income Protector Program ONLY within the 30 days after the seventh or later contract anniversary following the later of,

- the effective date of your enrollment in the Income Protector program, or

- the contract anniversary of your most recent Step-Up.

The contract anniversary prior to your election to begin receiving annuity income payments is your Income Benefit Date. This is the date as of which we calculate your Income Benefit Base to use in determining your guaranteed minimum fixed retirement annuity income. To arrive at the minimum guaranteed fixed retirement annuity income available to you, we apply the annuity rates stated in your Income Protector Endorsement for the annuity income option you select to your final Income Benefit Base.

You then choose if you would like to receive that annuity income annually, quarterly or monthly for the time guaranteed under your selected annuity income option. Your final Income Benefit Base is equal to (a) minus (b) where:

(a) is your Income Benefit Base as your Income Benefit Date, and;

(b) is any partial withdrawals of contract value and any charges applicable to those withdrawals and any withdrawal charges otherwise applicable, calculated as if you fully surrender your contract at the Income Benefit Date, and any applicable premium taxes.

The annuity income options available when using the Income Protector program to receive your retirement annuity income are:

- Life Annuity with 10 Year Period Certain; or

- Joint and 100% Survivor Annuity with 20 Year Period Certain

At the time you elect to begin the Income Phase, we will calculate your annual annuity income using both your final Income Benefit Base and your contract value. We will use the same annuity income option for each calculation, however, the annuity factors used to calculate your annuity income under the Income Protector program will be different. You will receive whichever provides a greater stream of annuity income. If you take annuity income payments using the Income Protector program, your annuity income payments will be fixed in amount. You are not required to use the Income Protector program to receive your annuity income payments. The general provisions of your Contract provide other annuity income options. However, we will not refund fees paid for the Income Protector program if you begin taking annuity income payments under the general provisions of your Contract. YOU MAY NEVER NEED TO RELY

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UPON THE INCOME PROTECTOR PROGRAM, IF YOUR CONTRACT PERFORMS WITHIN A HISTORICALLY ANTICIPATED RANGE. HOWEVER, PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS.

NOTE TO QUALIFIED CONTRACTHOLDERS

Qualified Contracts generally require that you select an annuity income option which does not exceed your life expectancy. That restriction may limit the benefit of the Income Protector program. To utilize the Income Protector program, you must take annuity income payments under one of two annuity income options. If those annuity income options exceed your life expectancy you may be prohibited from receiving your guaranteed fixed income under the Income Protector program. If you own a Qualified Contract to which this restriction applies and you elect the Income Protector program, you may pay for this minimum guarantee and not be able to realize the benefit. You should consult your tax advisor for information concerning your particular circumstances.

FEES ASSOCIATED WITH THE INCOME PROTECTOR PROGRAM

We charge a fee for the Income Protector program, as follows:

<Table>
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OPTION	ANNUAL FEE AS A % OF YOUR INCOME BENEFIT BASE
<S>	<C>
Income Protector Plus	0.15%
Income Protector Max	0.30%

</Table>

Since the Income Benefit Base is only a calculation and does not provide a contract value, we deduct the fee from your actual contract value beginning on the contract anniversary on which your enrollment in the program becomes effective.

If you elect to participate in the Income Protector program at Contract issue, we begin deducting the annual fee for the Plus or Max option when your participation becomes effective. If you elect to participate in the Income Protector program at some time after Contract issue, we begin deducting the annual fee on the contract anniversary of or following election. We will deduct this charge from your contract value on every contract anniversary up to and including your Income Benefit Date.

After a Step-Up, the fee for the Income Protector Max or Plus will be based on your Stepped-Up Income Benefit Base, and will be deducted from your contract value beginning on the effective date of the step-up.

The Income Protector program may not be available in your state. Please consult your financial representative for information regarding availability. PLEASE SEE APPENDIX B FOR AN EXAMPLE OF THE OPERATION OF THE INCOME PROTECTOR PROGRAM.

TAXES

THE BASIC SUMMARY BELOW ADDRESSES BROAD FEDERAL TAXATION MATTERS BASED ON THE INTERNAL REVENUE CODE ("IRC"), TREASURY REGULATIONS AND INTERPRETATIONS EXISTING AS OF THE DATE OF THIS PROSPECTUS AND GENERALLY DOES NOT ADDRESS STATE OR LOCAL TAXATION ISSUES OR QUESTIONS. IT IS NOT TAX ADVICE, NOR DOES IT INCLUDE ALL THE FEDERAL TAX RULES THAT MAY AFFECT YOU AND YOUR CONTRACT. WE CAUTION YOU TO SEEK COMPETENT TAX ADVICE ABOUT YOUR OWN CIRCUMSTANCES FROM A QUALIFIED TAX ADVISOR. WE DO NOT GUARANTEE THE TAX STATUS OR TREATMENT OF YOUR ANNUITY. TAX LAWS CONSTANTLY CHANGE; THEREFORE, WE CANNOT GUARANTEE THAT INFORMATION CONTAINED HEREIN IS COMPLETE AND/OR ACCURATE. FEDERAL INCOME TAX TREATMENT OF THE CONTRACT IS SOMETIMES UNCERTAIN AND CONGRESS, THE INTERNAL REVENUE SERVICE ("IRS") AND/OR THE COURTS MAY MODIFY TAX LAWS AND TREATMENT RETROACTIVELY. WE HAVE INCLUDED AN ADDITIONAL DISCUSSION REGARDING TAXES IN THE STATEMENT OF ADDITIONAL INFORMATION.

ANNUITY CONTRACTS IN GENERAL

The IRC provides for special rules regarding the tax treatment of annuity contracts. Generally, taxes on the earnings in your annuity contract are deferred until you take the money out. Qualified retirement investment arrangements that satisfy specific tax and ERISA requirements automatically provide tax deferral regardless of whether the underlying contract is an annuity, a trust, or a custodial account. Different rules and tax treatment apply depending on how you take the money out and whether your contract is Qualified or Non-Qualified.

If you do not purchase your contract under an employer-sponsored retirement plan, or an Individual Retirement Account or Annuity ("IRA"), your contract is referred to as a Non-Qualified contract. In general, your cost basis in a Non-Qualified contract is equal to the Purchase Payments you put into the contract. You have already been taxed on the cost basis in your Non-Qualified contract.

If you purchase your contract under a qualified employer-sponsored retirement plan or an IRA, your contract is referred to as a Qualified contract.

Examples of qualified plans or arrangements are: traditional (pre-tax) IRAs, Tax-Sheltered Annuities (also referred to as 403(b) annuities or 403(b) contracts), plans of self-employed individuals (often referred to as H.R. 10 Plans or Keogh Plans), pension and profit sharing plans including 401(k) plans, and governmental 457(b) deferred compensation plans. Typically, for employer plans and tax deductible IRA contributions, you have not paid any tax on the Purchase Payments used to buy your contract and therefore, you have no cost basis in your contract.

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AGGREGATION OF CONTRACTS

Federal tax rules generally require that all Non-Qualified contracts issued after October 21, 1988 by the same company to the same policyholder during the same calendar year will be treated as one annuity contract for purposes of determining the taxable amount upon distribution.

TAX TREATMENT OF DISTRIBUTIONS - NON-QUALIFIED CONTRACTS

If you make partial or total withdrawals from a Non-Qualified contract, the IRC generally treats such withdrawals as coming first from taxable earnings and then coming from your Purchase Payments. Purchase Payments made prior to August 14, 1982, however, are an important exception to this general rule, and for tax purposes generally are treated as being distributed first, before either the earnings on those contributions, or other Purchase Payments and earnings in the contract. If you annuitize your contract, a portion of each annuity income payment will be considered, for tax purposes, to be a return of a portion of your Purchase Payment, generally until you have received all of your Purchase Payment. Any portion of each annuity income payment that is considered a return of your Purchase Payment will not be taxed. Additionally, the taxable portion of any withdrawals, whether annuitized or other withdrawals, generally is subject to applicable state and/or local income taxes, and may be subject to an additional 10% penalty tax unless withdrawn in conjunction with the following circumstances:

- after attaining age 59 1/2;
- when paid to your Beneficiary after you die;
- after you become disabled (as defined in the IRC);
- when paid as a part of a series of substantially equal periodic payments (not less frequently than annually) made for your life (or life expectancy) or the joint lives (or joint life expectancies) of you and your designated beneficiary for a period of 5 years or attainment of age 59 1/2, whichever is later;
- under an immediate annuity contract;
- when attributable to Purchase Payments made prior to August 14, 1982.

On March 30, 2010, the Health Care and Education Reconciliation Act ("Reconciliation Act") was signed into law. Among other provisions, the

Reconciliation Act imposes a new tax on net investment income. This tax, which goes into effect in 2013, is at the rate of 3.8% of applicable thresholds for Modified Adjusted Gross Income ("MAGI") ($250,000 for joint filers; $125,000 for married individuals filing separately; and, $200,000 for individual filers). An individual with MAGI in excess of the threshold will be required to pay this new tax on net investment income in excess of the applicable MAGI threshold. For this purpose, net investment income generally will include taxable withdrawals from a Non-Qualified contract, as well as other taxable amounts including amounts taxed annually to an owner that is not a natural person (see Contracts Owned by a Trust or Corporation). This new tax generally does not apply to Qualified contracts, however taxable distributions from such contracts may be taken into account in determining the applicability of the MAGI thresholds.

A transfer of contract value to another annuity contract generally will be tax reported as a distribution unless we have sufficient information to confirm that the transfer qualifies as an exchange under IRC Section 1035 (a "1035 exchange").

TAX TREATMENT OF DISTRIBUTIONS - QUALIFIED CONTRACTS

Generally, you have not paid any taxes on the Purchase Payments used to buy a Qualified contract. As a result, most amounts withdrawn from the contract or received as annuity income payments will be taxable income. Exceptions to this general rule include withdrawals attributable to after-tax amounts permitted under the employer's plan.

The taxable portion of any withdrawal or income payment from a Qualified contract will be subject to an additional 10% penalty tax, under the IRC, except in the following circumstances:

- after attainment of age 59 1/2;
- when paid to your Beneficiary after you die;
- after you become disabled (as defined in the IRC);
- as a part of a series of substantially equal periodic payments (not less

frequently than annually) made for your life (or life expectancy) or the joint lives (or joint expectancies) of you and your designated Beneficiary for a period of 5 years or attainment of age 59 1/2, whichever is later;

- payments to employees after separation from service after attainment of age 55 (does not apply to IRAs);

- dividends paid with respect to stock of a corporation described in IRC Section 404(k);

- for payment of medical expenses to the extent such withdrawals do not exceed limitations set by the IRC for deductible amounts paid during the taxable year for medical care;

- payments to alternate payees pursuant to a qualified domestic relations order (does not apply to IRAs);

- for payment of health insurance if you are unemployed and meet certain requirements;

- distributions from IRAs for qualifying higher education expenses or first home purchases;

- amounts distributed from a Code Section 457(b) plan other than to the extent such amounts in a

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governmental Code Section 457(b) plan represent rollovers from an IRA or employer-sponsored plan to which the 10% penalty would otherwise apply and which are treated as distributed from a Qualified plan for purposes of the premature distribution penalty.

- The Pension Protection Act of 2006 created other distribution events and exemptions from the 10% early withdrawal penalty tax. These include payments to certain reservists called up for active duty after September 11, 2001 and payments up to $3,000 per year for health, life and accident insurance by certain retired public safety officers, which are federal income tax-free.

The IRC limits the withdrawal of an employee's voluntary Purchase Payments from a Tax-Sheltered Annuity (TSA) contract. Generally, withdrawals can only be made when an Owner: (1) reaches age 59 1/2; (2) severs employment with the employer; (3) dies; (4) becomes disabled (as defined in the IRC); or (5) experiences a financial hardship (as defined in the IRC). In the case of hardship, the owner can only withdraw Purchase Payments. Additional plan limitations may also apply. Amounts held in a TSA contract as of December 31, 1988 are not subject to these restrictions except as otherwise imposed by the plan.

Qualifying transfers (including intra-plan exchanges) of amounts from one TSA contract or account to another TSA contract or account, and qualifying transfers to a state defined benefit plan to purchase service credits, where permitted under the employer's plan, generally are not considered distributions, and thus are not subject to these withdrawal limitations. If amounts are transferred to a contract with lesser IRC withdrawal limitations than the account from which it is transferred, the more restrictive withdrawal limitations will continue to apply.

Transfers among 403(b) annuities and/or 403(b)(7) custodial accounts generally are subject to rules set out in the plan, the Code, regulations, IRS pronouncements, and other applicable legal authorities.

On July 26, 2007, the Department of the Treasury published final 403(b) regulations that were largely effective on January 1, 2009. These comprehensive regulations include several new rules and requirements, such as a requirement that employers maintain their 403(b) plans pursuant to a written plan. Subsequent IRS guidance and/or the terms of the written plan may impose new restrictions on both new and existing contracts, including restrictions on the availability of loans, distributions, transfers and exchanges, regardless of when a contract was purchased. Effective January 1, 2009, the Company no longer accepts new premiums (including contributions, transfers and exchanges) into new or existing 403(b) contracts. You may wish to discuss the new regulations and/or the general information above with your tax adviser.

Withdrawals from other Qualified contracts are often limited by the IRC and by the employer's plan.

If you are purchasing the contract as an investment vehicle for a trust under a Qualified Plan, you should consider that the contract does not provide any additional tax-deferral benefits beyond the treatment provided by the trust itself. In addition, if the contract itself is a qualifying arrangement (as with a 403(b) annuity or Individual Retirement Annuity), the contract generally does not provide tax deferral benefits beyond the treatment provided to alternative qualifying arrangements such as trusts or custodial accounts. However, in both cases the contract offers features and benefits that other investments may not offer. You and your financial representative should carefully consider whether the features and benefits, including the investment options, lifetime annuity income options, and protection through living benefits, death benefits and other benefits provided under an annuity contract issued in connection with a Qualified contract are suitable for your needs and objectives and are appropriate in light of the expense.

REQUIRED MINIMUM DISTRIBUTIONS

Generally, the IRC requires that you begin taking annual distributions from Qualified annuity contracts by April 1 of the calendar year following the later of (1) the calendar year in which you attain age 70 1/2 or (2) the calendar year in which you separate from service from the employer sponsoring the plan. If you own a traditional IRA, you must begin receiving minimum distributions by April 1 of the calendar year following the calendar year in which you reach age 70 1/2. If you choose to delay your first distribution until the year after the year in which you reach 70 1/2 or separate from service, as applicable, then you will be required to withdraw your second required minimum distribution on or before December 31 in that same year. For each year thereafter, you must withdraw your required minimum distribution by December 31.

If you own more than one IRA, you may be permitted to take your annual distributions in any combination from your IRAs. A similar rule applies if you own more than one TSA. However, you cannot satisfy this distribution requirement for your IRA contract by taking a distribution from a TSA, and you cannot satisfy the requirement for your TSA by taking a distribution from an IRA.

You may be subject to a surrender charge on withdrawals taken to meet minimum distribution requirements, if the withdrawals exceed the contract's maximum penalty free amount.

Failure to satisfy the minimum distribution requirements may result in a tax penalty. You should consult your tax adviser for more information. You may elect to have the required minimum distribution amount on your contract calculated and withdrawn each year under the automatic withdrawal

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option. You may select monthly, quarterly, semiannual, or annual withdrawals for this purpose. This service is provided as a courtesy and we do not guarantee the accuracy of our calculations. Accordingly, we recommend you consult your tax adviser concerning your required minimum distribution. You may terminate your election for automated minimum distribution at any time by sending a written request to our Annuity Service Center. We reserve the right to change or discontinue this service at any time.

IRS regulations require that the annuity contract value used to determine required minimum distributions include the actuarial value of other benefits under the contract, such as optional death benefits and/or living benefits. As a result, if you request a minimum distribution calculation, or if one is otherwise required to be provided, in those specific circumstances where this requirement applies, the calculation may be based upon a value that is greater than your contract value, resulting in a larger required minimum distribution. This regulation does not apply to required minimum distributions made under an irrevocable annuity income option. You should discuss the effect of these new regulations with your tax adviser.

TAX TREATMENT OF DEATH BENEFITS

The taxable amount of any death benefits paid under the contract are taxable to the Beneficiary. The rules governing the taxation of payments from an annuity contract, as discussed above, generally apply whether the death benefit is paid as lump sum or annuity income payments. Estate taxes may also apply.

Enhanced death benefits are used as investment protection and are not expected to rise to any adverse tax effects. However, the IRS could take the position that some or all of the charges for these death benefits should be treated as a partial withdrawal from the contract. In that case, the amount of the partial withdrawal may be includible in taxable income and subject to the 10% penalty if the owner is under 59 1/2, unless another exception applies.

If you own a Qualified contract and purchase these enhanced death benefits, the IRS may consider these benefits "incidental death benefits" or "life insurance." The IRC imposes limits on the amount of the incidental benefits and/or life insurance allowable for Qualified contracts and the employer-sponsored plans under which they are purchased. If the death benefit(s) selected by you are considered to exceed these limits, the benefit(s) could result in taxable income to the owner of the Qualified contract, and in some cases could adversely impact the qualified status of the Qualified contract or the plan. You should consult your tax adviser regarding these features and benefits prior to purchasing a contract.

CONTRACTS OWNED BY A TRUST OR CORPORATION

A Trust or Corporation or other owner that is not a natural person ("Non-Natural Owner") that is considering purchasing this contract should consult a tax adviser.

Generally, the IRC does not confer tax-deferred status upon a Non-Qualified contract owned by a Non-Natural Owner for federal income tax purposes. Instead in such cases, the Non-Natural Owner pays tax each year on the contract's value in excess of the owner's cost basis, and the contract's cost basis is then increased by a like amount. However, this treatment is not applied to a contract held by a trust or other entity as an agent for a natural person nor to contracts held by Qualified Plans. Please see the Statement of Additional Information for a more detailed discussion of the potential adverse tax consequences associated with non-natural ownership of a Non-Qualified annuity contract.

GIFTS, PLEDGES AND/OR ASSIGNMENTS OF A CONTRACT

If you transfer ownership of your Non-Qualified contract to a person other than your spouse (or former spouse incident to divorce) as a gift you will pay federal income tax on the contract's cash value to the extent it exceeds your cost basis. The recipient's cost basis will be increased by the amount on which you will pay federal taxes. In addition, the IRC treats any assignment or pledge (or agreement to assign or pledge) of any portion of a Non-Qualified contract as a withdrawal. Please see the Statement of Additional Information for a more detailed discussion regarding potential tax consequences of gifting, assigning, or pledging a Non-Qualified contract.

The IRC prohibits Qualified annuity contracts including IRAs from being transferred, assigned or pledged as security for a loan. This prohibition, however, generally does not apply to loans under an employer-sponsored plan (including loans from the annuity contract) that satisfy certain requirements, provided that: (a) the plan is not an unfunded deferred compensation plan; and (b) the plan funding vehicle is not an IRA.

DIVERSIFICATION AND INVESTOR CONTROL

The IRC imposes certain diversification requirements on the underlying investments for a variable annuity. We believe that the manager of the Underlying Funds monitors the Funds so as to comply with these requirements. To be treated as a variable annuity for tax purposes, the Underlying Funds must meet these requirements.

The diversification regulations do not provide guidance as to the circumstances under which you, and not the Company, would be considered the owner of the shares of the Variable Portfolios under your Non-Qualified contract, because of the degree of control you exercise over the underlying investments. This diversification requirement is sometimes

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referred to as "investor control." The determination of whether you possess sufficient incidents of ownership over Variable Portfolio assets to be deemed the owner of the Underlying Funds depends on all of the relevant facts and circumstances. However, IRS Revenue Ruling 2003-91 provides that an annuity owner's ability to choose among general investment strategies either at the time of the initial purchase or thereafter, does not constitute control sufficient to cause the contract holder to be treated as the owner of the Variable Portfolios. The Revenue Ruling provides that if, based on all the facts and circumstances, you do not have direct or indirect control over the Separate Account or any Variable Portfolio asset, then you do not possess sufficient incidents of ownership over the assets supporting the annuity to be deemed the owner of the assets for federal income tax purposes. If any guidance is provided which is considered a new position, then the guidance should generally be applied prospectively. However, if such guidance is considered not to be a new position, it may be applied retroactively. This would mean that you, as the owner of the Non-Qualified contract, could be treated as the owner of the Underlying Fund. Due to the uncertainty in this area, we reserve the right to modify the contract in an attempt to maintain favorable tax treatment.

These investor control limitations generally do not apply to Qualified contracts, which are referred to as "Pension Plan Contracts" for purposes of this rule, although the limitations could be applied to Qualified contracts in the future.

OTHER INFORMATION

THE DISTRIBUTOR

SunAmerica Capital Services, Inc. ("SACS"), Harborside Financial Center, 3200 Plaza 5, Jersey City, NJ 07311-4992, distributes the contracts. SACS, an affiliate of the Company, is a registered broker-dealer under the Securities Exchange Act of 1934, as amended, and is a member of the Financial Industry Regulatory Authority ("FINRA"). No underwriting fees are retained by SACS in connection with the distribution of the contracts.

THE COMPANY

SunAmerica Annuity and Life Assurance Company ("SunAmerica Annuity") is a stock life insurance company organized under the laws of the state of Arizona on January 1, 1996. Its principal place of business is 1 SunAmerica Center, Los Angeles, California 90067-6121. SunAmerica Annuity conducts life insurance and annuity business in the District of Columbia and all states except New York.

For details regarding name changes and redomestication of the Company, PLEASE SEE THE STATEMENT OF ADDITIONAL INFORMATION.

On December 31, 2012, SunAmerica Annuity intends to merge with and into American General Life Insurance Company ("AGL"), with AGL being the surviving insurance company. AGL is an affiliate of SunAmerica Annuity and is also an indirect, wholly owned subsidiary of American International Group, Inc. The merger transaction is subject to receipt of all required regulatory approvals, including the approvals of certain state insurance departments. In addition, we will file new registration statements with the Securities and Exchange Commission changing the issuer of your contract to AGL.

On the effective date of merger, the Separate Account will be a separate account of AGL, and the commitments under the contracts originally issued by SunAmerica Annuity will be those of AGL. Your rights and obligations under your contract will not change after the merger is complete.

OWNERSHIP STRUCTURE OF THE COMPANY

SunAmerica Annuity 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 and jurisdictions. 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.

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.

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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. For information on how to locate these documents, SEE FINANCIAL STATEMENTS, BELOW.

OPERATION OF THE COMPANY

The operations of the Company are influenced by many factors, including general economic conditions, monetary and fiscal policies of the federal government, and policies of state and other regulatory authorities. The level of sales of the Company's financial products is influenced by many factors, including general market rates of interest, the strength, weakness and volatility of equity markets, terms and conditions of competing financial products and the relative value of its brand.

The Company is exposed to market risk, contract owner 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 in the case of assets held in the separate accounts. These guaranteed benefits are sensitive to equity market conditions. The Company primarily uses capital market hedging strategies to help cover the risk of paying guaranteed living benefits in excess of account values as a result of significant downturns in equity markets. The Company has treaties to reinsure a portion of the guaranteed minimum income benefits and guaranteed death benefits for equity and mortality risk on some of its older contracts. Such risk mitigation may or may not reduce the volatility of net income and capital and surplus resulting from equity market volatility.

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

THE SEPARATE ACCOUNT

SunAmerica Annuity originally established Variable Annuity Account Seven under Arizona law on August 28, 1998.

The Separate Account is registered with the SEC as a unit investment trust under the Investment Company Act of 1940, as amended.

Purchase Payments you make that are allocated to the Variable Portfolios are invested in the Separate Account. The Company owns the assets in the Separate Account and invests them on your behalf, according to your instructions. Purchase Payments invested in the Separate Account are not guaranteed and will fluctuate with the value of the Variable Portfolios you select. Therefore, you assume all of the investment risk for contract value allocated to the Variable Portfolios. These assets are kept separate from our General Account and may not be charged with liabilities arising from any other business we may conduct. Additionally, income gains and losses (realized and unrealized) resulting from assets in the Separate Account are credited to or charged against the Separate Account without regard to other income gains or losses of the Company.

You benefit from dividends received by the Separate Account through an increase in your unit value. The Company expects to benefit from these dividends through tax credits and corporate dividends received deductions; however, these corporate deductions are not passed back to the Separate Account or to contract owners.

THE GENERAL ACCOUNT

Obligations that are paid out of the Company's general account ("General Account") include any amounts you have allocated to available Fixed Accounts, including any interest credited thereon, and amounts owed under your contract for death and/or living benefits which are in excess of portions of contract value allocated to the Variable Portfolios. The obligations and guarantees under the contract are the sole responsibility of the Company. Therefore, payments of these obligations are subject to our financial strength and claims paying ability, and our long term ability to make such payments.

The General Account assets are invested in accordance with applicable state regulation. These assets are exposed to the typical risks normally associated with a portfolio of fixed income securities, namely interest rate, option, liquidity and credit risk. The Company manages its exposure to these risks by, among other things, closely monitoring and matching the duration and cash flows of its assets and liabilities, monitoring or limiting prepayment and extension risk in its portfolio, maintaining a large percentage of its portfolio in highly liquid securities and engaging in a disciplined process of underwriting, reviewing and monitoring credit risk. With respect to the living benefits available in your contract, we also manage interest rate and certain market risk through a hedging strategy in the portfolio and we may require that

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those who elect a living benefit allocate their Purchase Payments in accordance with specified investment parameters.

CONTRACTS ISSUED PRIOR TO DECEMBER 29, 2006 WERE ISSUED WITH A GUARANTEE (THE "GUARANTEE") BY AMERICAN HOME ASSURANCE COMPANY (THE "GUARANTOR"). PLEASE SEE APPENDIX C FOR MORE INFORMATION.

FINANCIAL STATEMENTS

The financial statements described below are important for you to consider. Information about how to obtain these financial statements is also provided below.

THE COMPANY AND SEPARATE ACCOUNT

The financial statements of the Company and the Separate Account are required to be made available because you must look to those entities directly to satisfy our obligations to you under the Contract. Contracts issued by SunAmerica Annuity prior to December 29, 2006 are covered by the Guarantee. If your contract is covered by the Guarantee, financial statements of the Guarantor are also provided in relation to its ability to meet its obligations under the Guarantee; please see Appendix C for more information regarding the Guarantor.

INSTRUCTIONS TO OBTAIN FINANCIAL STATEMENTS

The financial statements of the Company, Separate Account, Guarantor, if applicable, and AIG are available by requesting a free copy of the Statement of Additional Information by calling (800) 445-7862 or by using the request form on the last page of this prospectus.

We encourage both existing and prospective contract owners to read and understand the financial statements.

You can also inspect and copy this information at SEC public facilities at the following locations:

WASHINGTON, DISTRICT OF COLUMBIA
100 F. Street, N.E., Room 1580
Washington, DC 20549

CHICAGO, ILLINOIS
175 W. Jackson Boulevard
Chicago, IL 60604

NEW YORK, NEW YORK
3 World Financial, Room 4300
New York, NY 10281

To obtain copies by mail, contact the Washington, D.C. location. After you pay the fees as prescribed by the rules and regulations of the SEC, the required documents are mailed. The Company will provide without charge to each person to whom this prospectus is delivered, upon written or oral request, a copy of the above documents. Requests for these documents should be directed to the Company's Annuity Service Center, as follows:

By Mail:
Annuity Service Center
P.O. Box 54299
Los Angeles, California 90054-0299
Telephone Number: (800) 445-7862

ADMINISTRATION

We are responsible for the administrative servicing of your contract. Please contact our Annuity Service Center at (800) 445-7862, if you have any comments, questions or service requests.

We send out transaction confirmations and quarterly statements. During the Accumulation Phase, you will receive confirmation of transactions for your contract. Transactions made pursuant to contractual or systematic agreements, such as dollar cost averaging, may be confirmed quarterly. Purchase Payments received through the automatic payment plan or a salary reduction arrangement, may also be confirmed quarterly. For all other transactions, we send confirmations. It is your responsibility to review these documents carefully and notify our Annuity Service Center of any inaccuracies immediately. We investigate all inquiries. Depending on the facts and circumstances, we may retroactively adjust your contract, provided you notify us of your concern within 30 days of receiving the transaction confirmation or quarterly statement. Any other adjustments we deem warranted are made as of the time we receive notice of the error. If you fail to notify our Annuity Service Center of any mistakes or inaccuracy within 30 days of receiving the transaction confirmation or quarterly statement, we will deem you to have ratified the transaction.

LEGAL PROCEEDINGS

There are no pending legal proceedings affecting the Separate Account. Various lawsuits against the Company have arisen in the ordinary course of business. 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 the Company, such as through financial examinations, market conduct exams or regulatory inquiries. In management's opinion, these matters are not material in relation to the financial position of the Company.

REGISTRATION STATEMENTS

Registration statements under the Securities Act of 1933, as amended, related to the contracts 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, the Company and its general account, the Variable

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Portfolios and the contract, please refer to the registration statements and exhibits.

CONTENTS OF

STATEMENT OF ADDITIONAL INFORMATION

Additional information concerning the operations of the Separate Account is contained in the Statement of Additional Information, which is available without charge upon written request. Please use the request form at the back of this prospectus and send it to our Annuity Service Center at P.O. Box 54299, Los Angeles, California 90054-0299 or by calling (800) 445-7862. The table of contents of the SAI is listed below.

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Separate Account and the Company

General Account

Performance Data

Annuity Income Payments

Annuity Unit Values

Taxes

Broker-Dealer Firms Receiving Revenue Sharing Payments

Distribution of Contracts

Financial Statements

  Separate Account Financial Statements

  SunAmerica Annuity and Life Assurance Company Financial Statements

  American Home Statutory Basis Financial Statements (if applicable)

  American International Group, Inc. Financial Information

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APPENDIX A - CONDENSED FINANCIAL INFORMATION

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VARIABLE PORTFOLIOS		FISCAL YEAR ENDED 4/30/02	FISCAL YEAR ENDED 4/30/03	FISCAL YEAR ENDED 4/30/04	FISCAL YEAR ENDED 4/30/05	FISCAL YEAR ENDED 4/30/06	FISCAL YEAR ENDED 4/30/07	FISCAL YEAR ENDED 4/30/08	FISCAL YEAR ENDED 4/30/09	FISCAL YEAR ENDED 4/30/10
AGGRESSIVE GROWTH - SAST Class 1 Shares										
(Inception Date - (a) 3/19/99 (b) 10/24/00)										
Beginning AUV.............	(a)	17.202	13.067	10.587	12.923	14.167	17.412	19.606	15.857	8.598
	(b)	6.660	5.079	4.131	5.063	5.573	6.877	7.774	6.313	3.437
Ending AUV................	(a)	13.067	10.587	12.923	14.167	17.412	19.606	15.857	8.598	12.762
	(b)	5.079	4.131	5.063	5.573	6.877	7.774	6.313	3.437	5.122
Ending Number of AUs......	(a)	893,284	812,929	790,356	693,354	535,535	437,327	363,501	300,673	277,689
	(b)	980	288	310	22	12	12	12	12	12
ALLIANCE GROWTH - SAST Class 1 Shares										
(Inception Date - (a) 3/19/99 (b) 10/24/00)										
Beginning AUV.............	(a)	35.913	28.657	24.004	26.836	27.116	34.464	35.163	34.958	23.916
	(b)	7.072	5.666	4.756	5.349	5.426	6.924	7.093	7.080	4.863
Ending AUV................	(a)	28.657	24.004	26.836	27.116	34.464	35.163	34.958	23.916	32.067

	(b)	5.666	4.765	5.349	5.426	6.924	7.093	7.080	4.863	6.547
Ending Number of AUs......	(a)	2,724,668	2,424,504	2,306,310	1,847,707	1,400,581	1,082,445	873,281	722,991	667,171
	(b)	3,136	1,984	2,006	2,006	1,916	1,916	1,916	1,916	1,867

ASSET ALLOCATION - AST Class 1 Shares
(Inception Date - (a) 3/23/99 (b) 9/19/05)

Beginning AUV.............	(a)	19.099	18.333	17.703	20.967	22.195	24.400	26.984	26.899	20.967
	(b)					13.223	13.939	15.437	15.390	12.003
Ending AUV................	(a)	18.333	17.703	20.967	22.195	24.400	26.984	26.899	20.967	26.771
	(b)					13.939	15.437	15.390	12.003	15.343
Ending Number of AUs......	(a)	602,916	571,196	662,512	566,460	480,138	417,975	364,188	290,132	256,963
	(b)					7	22	22	22	22

BALANCED - SAST Class 1 Shares
(Inception Date - (a) 3/19/99 (b) 10/24/00)

Beginning AUV.............	(a)	16.396	14.298	12.956	14.239	14.670	15.657	17.453	16.708	12.818
	(b)	8.067	7.063	6.426	7.091	7.335	7.860	8.796	8.454	6.512
Ending AUV................	(a)	14.298	12.956	14.239	14.670	15.657	17.453	16.708	12.818	16.415
	(b)	7.063	6.426	7.091	7.335	7.860	8.796	8.454	6.512	8.373
Ending Number of AUs......	(a)	4,592,956	4,022,365	3,723,491	2,949,416	2,192,601	1,710,123	1,424,818	1,080,942	961,958
	(b)	2,546	837	837	630	630	630	524	524	524

CAPITAL APPRECIATION - AST Class 1 Shares
(Inception Date - (a) 3/19/99 (b) 10/24/00)

Beginning AUV.............	(a)	37.392	31.686	27.782	34.031	34.158	43.027	47.003	50.969	33.199
	(b)	8.575	7.295	6.422	7.899	7.960	10.067	11.041	12.021	7.861
Ending AUV................	(a)	31.686	27.782	34.031	34.158	43.027	47.003	50.969	33.199	47.916
	(b)	7.295	6.422	7.899	7.960	10.067	11.041	12.021	7.861	11.392
Ending Number of AUs......	(a)	939,065	872,982	849,975	718,778	552,955	457,173	398,515	320,932	289,313
	(b)	3,904	2,897	2,025	1,009	1,009	1,009	926	926	926

CASH MANAGEMENT - SAST Class 1 Shares
(Inception Date - (a) 3/23/99 (b) 1/26/01)

Beginning AUV.............	(a)	13.012	13.185	13.171	13.080	13.092	13.373	13.858	14.162	14.073
	(b)	10.325	10.505	10.536	10.505	10.557	10.827	11.265	11.558	11.531
Ending AUV................	(a)	13.185	13.171	13.080	13.092	13.373	13.858	14.162	14.073	13.888
	(b)	10.505	10.536	10.505	10.557	10.827	11.265	11.558	11.531	11.425
Ending Number of AUs......	(a)	1,839,033	1,553,588	1,210,503	1,115,235	734,314	728,402	700,672	539,768	416,237
	(b)	3,026	3,497	3,497	3,497	0	30	30	30	30

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VARIABLE PORTFOLIOS	8 MONTHS ENDED 12/31/10	FISCAL YEAR ENDED 12/31/11
<S>	<C>	<C>
AGGRESSIVE GROWTH - SAST Class 1 Shares		
(Inception Date - (a) 3/19/99 (b) 10/24/00)		
Beginning AUV.............	12.762	$ 13.714
	5.122	$ 5.518
Ending AUV................	13.714	$ 13.275
	5.518	$ 5.363
Ending Number of AUs......	263,970	240,000
	12	12
ALLIANCE GROWTH - SAST Class 1 Shares		
(Inception Date - (a) 3/19/99 (b) 10/24/00)		
Beginning AUV.............	32.067	$ 34.008
	6.547	$ 6.961
Ending AUV................	34.008	$ 32.813
	6.961	$ 6.744
Ending Number of AUs......	607,397	530,178
	1,867	1,867
ASSET ALLOCATION - AST Class 1 Shares		
(Inception Date - (a) 3/23/99 (b) 9/19/05)		
Beginning AUV.............	26.771	$ 28.566
	15.343	$ 16.414
Ending AUV................	28.566	$ 28.473
	16.414	$ 16.420
Ending Number of AUs......	240,440	212,131
	22	22
BALANCED - SAST Class 1 Shares		

(Inception Date - (a) 3/19/99 (b) 10/24/00)		
Beginning AUV.............	16.415	$ 17.264
	8.373	$ 8.830
Ending AUV................	17.264	$ 17.438
	8.830	$ 8.954
Ending Number of AUs......	878,526	760,988
	524	524

CAPITAL APPRECIATION - AST Class 1 Shares		
(Inception Date - (a) 3/19/99 (b) 10/24/00)		
Beginning AUV.............	47.916	$ 54.119
	11.392	$ 12.901
Ending AUV................	54.119	$ 49.680
	12.901	$ 11.890
Ending Number of AUs......	270,056	244,867
	926	926

CASH MANAGEMENT - SAST Class 1 Shares		
(Inception Date - (a) 3/23/99 (b) 1/26/01)		
Beginning AUV.............	13.888	$ 13.750
	11.425	$ 11.342
Ending AUV................	13.750	$ 13.542
	11.342	$ 11.215
Ending Number of AUs......	367,410	336,087
	30	30

</Table>

AUV - Accumulation Unit Value
AU - Accumulation Units
(a) Reflecting 1.25% Separate Account expenses.
(b) Reflecting 0.85% Separate Account expenses.

Effective December 31, 2010, the Separate Account has changed its fiscal year end from April 30 to December 31.

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VARIABLE PORTFOLIOS		FISCAL YEAR ENDED 4/30/02	FISCAL YEAR ENDED 4/30/03	FISCAL YEAR ENDED 4/30/04	FISCAL YEAR ENDED 4/30/05	FISCAL YEAR ENDED 4/30/06	FISCAL YEAR ENDED 4/30/07	FISCAL YEAR ENDED 4/30/08	FISCAL YEAR ENDED 4/30/09	FISCAL YEAR ENDED 4/30/10
CORPORATE BOND - SAST Class 1 Shares										
(Inception Date - (a) 3/23/99 (b) 4/6/01)										
Beginning AUV...........	(a)	13.649	14.359	15.637	16.594	17.235	17.476	18.754	19.340	18.660
	(b)	9.958	10.517			12.777	13.007	14.014	14.510	14.056
Ending AUV..............	(a)	14.359	15.637	16.594	17.235	17.476	18.754	19.340	18.660	23.636
	(b)	10.517				13.007	14.014	14.510	14.056	17.877
Ending Number of AUs....	(a)	685,610	679,219	634,989	500,897	368,666	299,842	264,197	212,736	201,210
	(b)	255				0	0	0	0	0
DAVIS VENTURE VALUE - SAST Class 1 Shares										
(Inception Date - (a) 3/19/99 (b) 10/24/00)										
Beginning AUV...........	(a)	28.201	25.682	22.336	29.081	31.579	36.641	41.733	40.096	25.481
	(b)	9.864	9.019	7.875	10.294	11.223	13.074	14.951	14.422	9.202
Ending AUV..............	(a)	25.682	22.336	29.081	31.579	36.641	41.733	40.096	25.481	34.970
	(b)	9.019	7.875	10.294	11.223	13.074	14.951	14.422	9.202	12.680
Ending Number of AUs....	(a)	876,039	837,110	860,682	736,735	611,559	640,930	513,330	410,122	370,936
	(b)	4,088	1,413	1,375	1,204	1,168	1,168	952	952	952
"DOGS" OF WALL STREET - SAST Class 1 Shares										
(Inception Date - (a) 3/19/99 (b) 1/15/04)										
Beginning AUV...........	(a)	9.436	10.177	8.758	10.912	11.108	11.749	13.680	12.748	8.704
	(b)			11.646	11.804	12.064	12.811	14.977	14.024	9.642
Ending AUV..............	(a)	10.177	8.758	10.912	11.108	11.749	13.680	12.748	8.704	11.924
	(b)			11.804	12.064	12.811	14.977	14.024	9.642	13.303
Ending Number of AUs....	(a)	657,864	647,923	609,287	496,507	377,380	301,715	247,179	204,780	177,753

	(b)			8	8	4	4	4	4	4
EMERGING MARKETS - SAST Class 1 Shares										
(Inception Date - (a) 3/23/99 (b) 10/24/00)										
Beginning AUV...........	(a)	6.741	7.366	6.102	9.107	11.202	18.302	21.277	25.638	13.652
	(b)	9.120	10.010			15.408	25.275	29.501	35.690	19.081
Ending AUV..............	(a)	7.366	6.102	9.107	11.202	18.302	21.277	25.638	13.652	20.801
	(b)	10.010				25.275	29.501	35.690	19.081	29.190
Ending Number of AUs....	(a)	599,115	518,892	680,531	544,013	595,058	466,456	439,706	364,153	341,570
	(b)	797				0	0	0	0	0
EQUITY INDEX - SAST Class 1 Shares										
(Inception Date - (a) 3/19/99 (b) 1/19/01)										
Beginning AUV...........	(a)	9.277	7.965	6.794	8.190	8.555	9.708	10.984	10.293	6.560
	(b)	8.357	7.203			7.831	8.921	10.134	9.536	6.101
Ending AUV..............	(a)	7.965	6.794	8.190	8.555	9.708	10.984	10.293	6.560	8.950
	(b)	7.203				8.921	10.134	9.536	6.101	8.359
Ending Number of AUs....	(a)	5,912,696	5,344,702	5,140,659	4,114,983	3,059,876	2,345,019	1,882,083	1,426,489	1,249,940
	(b)	907				0	0	0	0	0
EQUITY OPPORTUNITIES - SAST Class 1 Shares										
(Inception Date - (a) 3/19/99 (b) N/A)										
Beginning AUV...........	(a)	17.333	15.940	13.207	16.286	17.263	19.241	21.474	19.756	13.388
	(b)					0	0	0	0	0
Ending AUV..............	(a)	15.940	13.207	16.286	17.263	19.241	21.474	19.756	13.388	17.713
	(b)					0	0	0	0	0
Ending Number of AUs....	(a)	477,854	463,108	428,881	329,288	225,546	175,835	144,341	128,495	120,947
	(b)					0	0	0	0	0

<Caption>

VARIABLE PORTFOLIOS	8 MONTHS ENDED 12/31/10	FISCAL YEAR ENDED 12/31/11
<S>	<C>	<C>

CORPORATE BOND - SAST Class 1 Shares
(Inception Date - (a) 3/23/99 (b) 4/6/01)

Beginning AUV...........	23.636	$ 24.669
	17.877	$ 18.707
Ending AUV..............	24.669	$ 25.925
	18.707	$ 19.739
Ending Number of AUs....	194,282	169,566
	0	0

DAVIS VENTURE VALUE - SAST Class 1 Shares
(Inception Date - (a) 3/19/99 (b) 10/24/00)

Beginning AUV...........	34.970	$ 37.103
	12.680	$ 13.489
Ending AUV..............	37.103	$ 35.092
	13.489	$ 12.809
Ending Number of AUs....	341,410	291,549
	952	952

"DOGS" OF WALL STREET - SAST Class 1 Shares
(Inception Date - (a) 3/19/99 (b) 1/15/04)

Beginning AUV...........	11.924	$ 12.809
	13.303	$ 14.366
Ending AUV..............	12.809	$ 14.255
	14.366	$ 16.097
Ending Number of AUs....	165,676	158,911
	4	4

EMERGING MARKETS - SAST Class 1 Shares
(Inception Date - (a) 3/23/99 (b) 10/24/00)

Beginning AUV...........	20.801	$ 23.996
	29.190	$ 33.762
Ending AUV..............	23.996	$ 17.516
	33.762	$ 24.744
Ending Number of AUs....	300,171	244,751
	0	0

EQUITY INDEX - SAST Class 1 Shares
(Inception Date - (a) 3/19/99 (b) 1/19/01)

Beginning AUV...........	8.950	$	9.513
	8.359	$	8.907
Ending AUV..............	9.513	$	9.542
	8.907	$	8.970
Ending Number of AUs....	1,144,865		1,008,160
	0		0

EQUITY OPPORTUNITIES - SAST Class 1 Shares
(Inception Date - (a) 3/19/99 (b) N/A)

Beginning AUV...........	17.713	$	19.296
	0		0
Ending AUV..............	19.296	$	19.036
	0		0
Ending Number of AUs....	105,232		91,230
	0		0

</Table>

AUV - Accumulation Unit Value
AU - Accumulation Units
(a) Reflecting 1.25% Separate Account expenses.
(b) Reflecting 0.85% Separate Account expenses.

Effective December 31, 2010, the Separate Account has changed its fiscal year end from April 30 to December 31.

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	FISCAL YEAR ENDED	FISCAL YEAR ENDED	FISCAL YEAR ENDED	FISCAL YEAR ENDED	FISCAL YEAR ENDED	FISCAL YEAR ENDED	FISCAL YEAR ENDED	FISCAL YEAR ENDED	FISCAL YEAR ENDED

VARIABLE PORTFOLIOS		4/30/02	4/30/03	4/30/04	4/30/05	4/30/06	4/30/07	4/30/08	4/30/09	4/30/10
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
FUNDAMENTAL GROWTH - SAST Class 1 Shares										
(Inception Date - (a) 3/19/99 (b) 10/24/00)										
Beginning AUV..............	(a)	22.464	17.538	14.568	16.767	16.392	19.012	19.834	21.141	12.533
	(b)	7.727	6.057	5.051	5.835	5.728	6.668	6.982	7.464	4.434
Ending AUV.................	(a)	17.538	14.568	16.767	16.392	19.012	19.834	21.141	12.533	16.754
	(b)	6.057	5.051	5.835	5.728	6.668	6.982	7.464	4.434	5.942
Ending Number of AUs.......	(a)	1,831,599	1,601,326	1,418,311	1,116,207	812,915	621,898	501,902	418,735	384,500
	(b)	1,209	174	174	174	189	174	174	174	87
GLOBAL BOND - SAST Class 1 Shares										
(Inception Date - (a) 3/19/99 (b) 10/24/00)										
Beginning AUV..............	(a)	15.454	15.801	16.849	16.975	17.683	18.119	18.629	21.158	20.179
	(b)	10.481	10.763			12.171	12.483	12.832	14.597	13.962
Ending AUV.................	(a)	15.801	16.849	16.975	17.683	18.119	18.629	21.158	20.179	22.354
	(b)	10.763				12.483	12.832	14.597	13.962	15.504
Ending Number of AUs.......	(a)	510,010	476,778	424,680	337,148	257,706	212,271	209,814	166,388	152,370
	(b)	446				24	24	24	24	24
GLOBAL EQUITIES - SAST Class 1 Shares										
(Inception Date - (a) 3/19/99 (b) 12/11/00)										
Beginning AUV..............	(a)	19.986	16.270	13.156	15.834	16.714	22.433	26.137	25.181	14.680
	(b)	8.673	7.089	5.753	6.938	7.359	9.911	11.595	11.214	6.572
Ending AUV.................	(a)	16.270	13.156	15.834	16.714	22.433	26.137	25.181	14.680	20.153
	(b)	7.089	5.753	6.938		9.911	11.595	11.214	6.572	9.078
Ending Number of AUs.......	(a)	598,333	550,495	522,178	430,108	351,150	311,898	260,212	211,805	192,113
	(b)	1,959	212	212		0	0	0	0	0
GOVERNMENT AND QUALITY BOND - AST Class 1 Shares										
(Inception Date - (a) 3/19/99 (b) 2/8/01)										
Beginning AUV..............	(a)	14.844	15.704	16.834	16.804	17.353	17.180	18.078	18.940	19.374
	(b)	10.717	11.384	12.253	12.280	12.732	12.656	13.371	14.064	14.444
Ending AUV.................	(a)	15.704	16.834	16.804	17.353	17.180	18.078	18.940	19.374	20.257
	(b)	11.384	12.253	12.280	12.732	12.656	13.371	14.064	14.444	15.164
Ending Number of AUs.......	(a)	3,250,427	3,259,053	2,682,883	1,995,979	1,474,874	1,180,632	1,011,087	844,486	712,133

	(b)	3,422	326	175	132	132	132	77	77	77

GROWTH - AST Class 1 Shares
(Inception Date - (a) 3/19/99 (b) 10/24/00)

Beginning AUV..............	(a)	29.136	25,649	21.660	26.870	28.327	33.323	37.311	36.496	23.277
	(b)	8.745	7.729	6.553	8.163	8.640	10.204	11.471	11.266	7.214
Ending AUV.................	(a)	25.649	21.660	26.870	28.327	33.323	37.311	36.496	23.277	32.634
	(b)	7.729	6.553	8.163	8.640	10.204	11.471	11.266	7.214	10.154
Ending Number of AUs.......	(a)	829,414	767,232	743,102	606,500	475,482	388,417	352,337	292,549	258,931
	(b)	4,575	1,707	1,707	1,317	1,256	1,256	973	973	973

GROWTH & INCOME - SAST Class 1 Shares
(Inception Date - (a) 3/19/99 (b) 10/24/00)

Beginning AUV..............	(a)	30.347	25.714	22.086	26.313	26.725	31.224	33.998	32.221	20.107
	(b)	8.734	7.431	6.407	7.659	7.809	9.160	10.014	9.529	5.964
Ending AUV.................	(a)	25.714	22.086	26.313	26.725	31.224	33.998	32.221	20.107	26.314
	(b)	7.431	6.407	7.659	7.809	9.160	10.014	9.529	5.964	7.823
Ending Number of AUs.......	(a)	2,430,317	2,202,766	2,102,000	1,686,135	1,259,880	972,775	820,352	645,017	582,402
	(b)	1,872	647	663	262	190	190	190	190	150

<Caption>

VARIABLE PORTFOLIOS	8 MONTHS ENDED 12/31/10	FISCAL YEAR ENDED 12/31/11
<S>	<C>	<C>
FUNDAMENTAL GROWTH - SAST Class 1 Shares		
(Inception Date - (a) 3/19/99 (b) 10/24/00)		
Beginning AUV..............	16.754	$ 18.671
	5.942	$ 6.644
Ending AUV.................	18.671	$ 17.429
	6.644	$ 6.235
Ending Number of AUs.......	354,187	308,274
	87	87

GLOBAL BOND - SAST Class 1 Shares
(Inception Date - (a) 3/19/99 (b) 10/24/00)

Beginning AUV..............	22.354	$ 23.524
	15.504	$ 16.349
Ending AUV.................	23.524	$ 24.568
	16.349	$ 17.137
Ending Number of AUs.......	138,773	121,501
	24	24

GLOBAL EQUITIES - SAST Class 1 Shares
(Inception Date - (a) 3/19/99 (b) 12/11/00)

Beginning AUV..............	20.153	$ 21.893
	9.078	$ 9.912
Ending AUV.................	21.893	$ 19.376
	9.912	$ 8.832
Ending Number of AUs.......	174,547	150,187
	0	0

GOVERNMENT AND QUALITY BOND - AST Class 1 Shares
(Inception Date - (a) 3/19/99 (b) 2/8/01)

Beginning AUV..............	20.257	$ 20.586
	15.164	$ 15.451
Ending AUV.................	20.586	$ 21.772
	15.451	$ 16.406
Ending Number of AUs.......	631,123	538,912
	77	77

GROWTH - AST Class 1 Shares
(Inception Date - (a) 3/19/99 (b) 10/24/00)

Beginning AUV..............	32.634	$ 34.568
	10.154	$ 10.785
Ending AUV.................	34.568	$ 32.004
	10.785	$ 10.025
Ending Number of AUs.......	230,496	191,187
	973	973

GROWTH & INCOME - SAST Class 1 Shares
(Inception Date - (a) 3/19/99 (b) 10/24/00)

Beginning AUV..............	26.314	$ 27.890
	7.823	$ 8.313
Ending AUV.................	27.890	$ 29.841
	8.313	$ 8.934
Ending Number of AUs.......	522,215	437,644
	150	150

</Table>

AUV - Accumulation Unit Value
AU - Accumulation Units
(a) Reflecting 1.25% Separate Account expenses.
(b) Reflecting 0.85% Separate Account expenses.

Effective December 31, 2010, the Separate Account has changed its fiscal year end from April 30 to December 31.

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VARIABLE PORTFOLIOS		FISCAL YEAR ENDED 4/30/02	FISCAL YEAR ENDED 4/30/03	FISCAL YEAR ENDED 4/30/04	FISCAL YEAR ENDED 4/30/05	FISCAL YEAR ENDED 4/30/06	FISCAL YEAR ENDED 4/30/07	FISCAL YEAR ENDED 4/30/08	FISCAL YEAR ENDED 4/30/09	FISCAL YEAR ENDED 4/30/10	8 MONTHS ENDED 12/31/10
HIGH-YIELD BOND - SAST Class 1 Shares											
(Inception Date - (a) 3/19/99 (b) 1/19/01)											
Beginning AUV....................	(a)	13.607	12.745	13.073	15.445	17.310	19.922	22.094	21.247	15.780	21.548
	(b)	9.622	9.049			12.453	14.361	15.950	15.363	11.426	15.625
Ending AUV.......................	(a)	12.745	13.073	15.445	17.310	19.922	22.094	21.247	15.780	21.548	22.924

	(b)	9.049				14.361	15.950	15.363	11.426	15.625	16.655
Ending Number of AUs............	(a)	368,246	352,067	340,552	272,262	201,721	188,501	146,590	125,934	119,326	116,270
	(b)	539				22	21	21	21	21	21

INTERNATIONAL DIVERSIFIED EQUITIES - SAST Class 1 Shares
(Inception Date - (a) 3/19/99 (b) 10/4/04)

Beginning AUV...................	(a)	12.332	10.238	7.134	9.425	10.452	13.929	16.019	16.414	9.452	12.640
	(b)				10.295	11.072	14.799	17.080	17.547	10.131	13.610
Ending AUV......................	(a)	10.238	7.134	9.425	10.452	13.929	16.019	16.414	9.452	12.640	13.851
	(b)				11.072	14.799	17.080	17.547	10.131	13.610	14.950
Ending Number of AUs............	(a)	397,985	378,565	390,108	341,679	317,227	276,894	263,148	218,854	199,036	179,552
	(b)				44	44	44	44	44	44	44

INTERNATIONAL GROWTH & INCOME - SAST Class 1 Shares
(Inception Date - (a) 3/24/99 (b) 10/24/00)

Beginning AUV...................	(a)	12.641	11.010	8.580	11.670	13.105	17.683	20.692	19.595	10.112	13.617
	(b)	8.725	7.631	5.970	8.153	9.192	12.453	14.630	13.910	7.207	9.744
Ending AUV......................	(a)	11.010	8.580	11.670	13.105	17.683	20.692	19.595	10.112	13.617	14.572
	(b)	7.631	5.970	8.153	9.192	12.453	14.630	13.910	7.207	9.744	10.455
Ending Number of AUs............	(a)	600,190	576,640	583,393	551,102	501,721	496,563	437,413	345,299	300,805	260,209
	(b)	807	668	750	750	722	712	712	712	712	712

REAL ESTATE - SAST Class 1 Shares
(Inception Date - (a) 3/31/99 (b) 10/24/00)

Beginning AUV...................	(a)	10.856	12.265	12.697	15.878	20.848	26.911	33.682	27.985	14.083	21.887
	(b)	11.068	12.434	12.984	16.353	21.570	27.913	35.000	29.088	14.694	22.894
Ending AUV......................	(a)	12.265	12.697	15.878	20.848	26.911	33.682	27.985	14.083	21.887	22.932
	(b)	12.434		16.353	21.570	27.913	35.000	29.088	14.694	22.894	24.037
Ending Number of AUs............	(a)	269,182	322,682	341,188	319,242	265,567	250,482	145,959	109,677	95,920	94,506
	(b)	1,034		8	8	16	15	15	15	15	15

SMALL COMPANY VALUE - SAST Class 1 Shares
(Inception Date - (a) 3/23/99 (b) 2/8/01)

Beginning AUV...................	(a)	14.522	16.627	13.176	17.750	20.462	27.190	29.133	25.175	17.076	25.551
	(b)	10.068	11.574	9.207	12.453	14.413	19.229	20.687	17.949	12.227	18.364
Ending AUV......................	(a)	16.627	13.176	17.750	20.462	27.190	29.133	25.175	17.076	25.551	27.296
	(b)	11.574	9.207	12.453	14.413	19.229	20.687	17.949	12.227	18.364	19.667
Ending Number of AUs............	(a)	458,007	457,922	494,691	456,434	384,054	340,500	246,769	196,153	196,093	199,740

	(b)	1,010	403	427	427	416	416	362	362	362	362

TELECOM UTILITY - SAST Class 1 Shares (Inception Date - (a) 3/19/99 (b) 10/24/00)											
Beginning AUV..................	(a)	13.699	10.772	8.861	10.157	11.746	12.980	16.747	17.971	11.181	15.033
	(b)	9.595		6.353	7.375	8.589	9.555	12.388	13.321	8.318	11.228
Ending AUV.....................	(a)	10.772	8.861	10.157	11.746	12.980	16.747	17.971	11.181	15.033	16.747
	(b)			7.375	8.589	9.555	12.388	13.321	8.318	11.228	12.549
Ending Number of AUs...........	(a)	421,262	358,152	330,953	276,507	208,914	175,767	154,479	123,614	106,073	100,462
	(b)			15	59	20	52	52	52	52	52

<Caption>

VARIABLE PORTFOLIOS	FISCAL YEAR ENDED 12/31/11
<S>	<C>
HIGH-YIELD BOND - SAST Class 1 Shares (Inception Date - (a) 3/19/99 (b) 1/19/01)	
Beginning AUV..................	$ 22.924
	$ 16.655
Ending AUV.....................	$ 23.608
	$ 17.187
Ending Number of AUs...........	111,602
	21
INTERNATIONAL DIVERSIFIED EQUITIES - SAST Class 1 Shares (Inception Date - (a) 3/19/99 (b) 10/4/04)	
Beginning AUV..................	$ 13.851
	$ 14.950
Ending AUV.....................	$ 11.681
	$ 12.625
Ending Number of AUs...........	151,511
	44

INTERNATIONAL GROWTH & INCOME - SAST Class 1 Shares
(Inception Date - (a) 3/24/99 (b) 10/24/00)

Beginning AUV..................	$ 14.572
	$ 10.455
Ending AUV.....................	$ 12.406
	$ 8.937
Ending Number of AUs...........	220,559
	712

REAL ESTATE - SAST Class 1 Shares
(Inception Date - (a) 3/31/99 (b) 10/24/00)

Beginning AUV..................	$ 22.932
	$ 24.037
Ending AUV.....................	$ 24.492
	$ 25.767
Ending Number of AUs...........	80,929
	15

SMALL COMPANY VALUE - SAST Class 1 Shares
(Inception Date - (a) 3/23/99 (b) 2/8/01)

Beginning AUV..................	$ 27.296
	$ 19.667
Ending AUV.....................	$ 26.087
	$ 18.867
Ending Number of AUs...........	140,852
	362

TELECOM UTILITY - SAST Class 1 Shares
(Inception Date - (a) 3/19/99 (b) 10/24/00)

Beginning AUV..................	$ 16.747
	$ 12.549
Ending AUV.....................	$ 17.576
	$ 13.209
Ending Number of AUs...........	91,771
	52

</Table>

AUV - Accumulation Unit Value
AU - Accumulation Units
(a) Reflecting 1.25% Separate Account expenses.
(b) Reflecting 0.85% Separate Account expenses.

Effective December 31, 2010, the Separate Account has changed its fiscal year end from April 30 to December 31.

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VARIABLE PORTFOLIOS		FISCAL YEAR ENDED 4/30/02	FISCAL YEAR ENDED 4/30/03	FISCAL YEAR ENDED 4/30/04	FISCAL YEAR ENDED 4/30/05	FISCAL YEAR ENDED 4/30/06	FISCAL YEAR ENDED 4/30/07	FISCAL YEAR ENDED 4/30/08	FISCAL YEAR ENDED 4/30/09	FISCAL YEAR ENDED 4/30/10	8 MONTHS ENDED 12/31/10
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
TOTAL RETURN BOND - SAST Class 1 Shares											
(Inception Date - (a) 3/31/99 (b) N/A)											
Beginning AUV..................	(a)	14.743	14.685	15.732	17.303	18.735	20.622	22.587	22.972	24.381	26.760
	(b)					0	0	0	0	0	0
Ending AUV.....................	(a)	14.685	15.732	17.303	18.735	20.622	22.587	22.972	24.381	26.760	27.385
	(b)					0	0	0	0	0	0
Ending Number of AUs...........	(a)	120,482	115,713	118,994	94,361	78,790	69,724	60,654	72,809	75,127	84,900
	(b)					0	0	0	0	0	0

<Caption>

VARIABLE PORTFOLIOS	FISCAL YEAR ENDED 12/31/11

<S> <C>

TOTAL RETURN BOND - SAST Class 1 Shares	
(Inception Date - (a) 3/31/99 (b) N/A)	
Beginning AUV....................	$27.385 0
Ending AUV.......................	$28.767 0
Ending Number of AUs............	80,320 0

</Table>

AUV - Accumulation Unit Value
AU - Accumulation Units
(a) Reflecting 1.25% Separate Account expenses.
(b) Reflecting 0.85% Separate Account expenses.

Effective December 31, 2010, the Separate Account has changed its fiscal year end from April 30 to December 31.

<PAGE>

APPENDIX B - HYPOTHETICAL EXAMPLE OF THE OPERATION OF THE INCOME PROTECTOR PROGRAM

This table assumes a $100,000 initial investment in a Qualified contract with no additional premiums, no withdrawals, no step-ups, no premium taxes, current growth rates, and election of the optional Income Protector program at contract issue.

<Table>
<Caption>

IF AT ISSUE YOU ARE	INCOME PROTECTOR OPTION	ANNUAL INCOME IF YOU ANNUITIZE ON THE FOLLOWING CONTRACT ANNIVERSARIES: 1 - 6	7	10	15	20
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Male or Female	Plus	5,500	6,379	8,275	10,931	10,931
Age 45*	Max	6,290	7,728	11,035	16,044	16,044
Joint Spousal Owners	Plus	4,884	5,603	7,119	9,164	7,164
Age 45	Max	5,586	6,788	9,493	13,451	13,451

</Table>

* Life Annuity with 10-year Period Certain

** Joint and 100% Survivor Annuity with 20-Year Period Certain

This table assumes a $100,000 initial investment in a Non-Qualified contract with no additional premiums, no withdrawals, no step-ups, no premium taxes, current growth rates, and election of the optional Income Protector program at contract issue.

<Table>
<Caption>

IF AT ISSUE YOU ARE	INCOME PROTECTOR OPTION	ANNUAL INCOME IF YOU ANNUITIZE ON THE FOLLOWING CONTRACT ANNIVERSARIES: 1 - 6	7	10	15	20
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Male	Plus	5,744	6,683	8,717	11,571	11,571
Age 45*	Max	6,569	8,096	11,624	16,982	16,982

Female	Plus	5,256	6,075	7,833	10,292	10,292
Age 45*	Max	6,011	7,360	10,446	15,106	15,106

</Table>

* Life Annuity with 10-year Period Certain

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APPENDIX C - THE GUARANTEE FOR CONTRACTS ISSUED BY SUNAMERICA ANNUITY PRIOR TO DECEMBER 29, 2006

GUARANTEE OF INSURANCE OBLIGATIONS

The Company's insurance policy obligations for individual and group contracts issued by SunAmerica Annuity prior to December 29, 2006 at 4:00 p.m. Eastern Time, are guaranteed (the "Guarantee") by American Home Assurance Company ("American Home" or "Guarantor").

As of December 29, 2006 at 4:00 p.m. Eastern Time (the "Point of Termination"), the Guarantee by American Home was terminated for prospectively issued contracts. The Guarantee will not cover any contracts or certificates with a date of issue later than the Point of Termination. The Guarantee will continue to cover individual contracts, individual certificates and group unallocated contracts with a date of issue earlier than the Point of Termination until all insurance obligations under such contracts or certificates are satisfied in full. Insurance obligations include, without limitation, contract value invested in any available Fixed Accounts, death benefits, living benefits and annuity income options. The Guarantee does not guarantee contract value or the investment performance of the Variable Portfolios available under the contracts. The Guarantee provides that individual contract owners, individual certificate holders and group unallocated contract owners with a date of issue earlier than the Point of Termination can enforce the Guarantee directly.

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, 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, an affiliate of the Company, is an indirect wholly owned subsidiary of American International Group.

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APPENDIX D - STATE CONTRACT AVAILABILITY AND/OR VARIABILITY

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PROSPECTUS PROVISION	AVAILABILITY OR VARIATION	STATES
<S>	<C>	<C>
Free Look	If you reside in Arizona and are age 65 or older on your Contract Date, the Free Look period is 30 days	Arizona
Free Look	If you reside in California and are age 60 or older on your Contract Date, the Free Look period is 30 days.	California
Premium Tax	We deduct premium tax charges of 0.50%	California

	for Qualified contracts and 2.35% for Non-Qualified contracts based on contract value when you begin the Income Phase.	
Premium Tax	We deduct premium tax charges of 0% for Qualified contracts and 2.0% for Non-Qualified contracts based on total Purchase Payments when you begin the Income Phase.	Maine
Premium Tax	We deduct premium tax charges of 0% for Qualified contracts and 3.5% for Non-Qualified contracts based on contract value when you begin the Income Phase.	Nevada
Premium Tax	For the first $500,000 in the contract, we deduct premium tax charges of 0% for Qualified contracts and 1.25% for Non-Qualified contracts based on total Purchase Payments when you begin the Income Phase. For any amount in excess of $500,000 in the contract, we deduct front-end premium tax charges of 0% for Qualified contracts and 0.80% for Non-Qualified contracts based on total Purchase Payments when you begin the Income Phase.	South Dakota
Premium Tax	We deduct premium tax charges of 1.0% for Qualified contracts and 1.0% for Non-Qualified contracts based on contract value when you begin the Income Phase.	West Virginia
Premium Tax	We deduct premium tax charges of 0% for Qualified contracts and 1.0% for Non-Qualified contracts based on total Purchase Payments when you begin the Income Phase.	Wyoming
Transfer Privilege	Any transfer over the limit of 15 will	Oregon

	incur a $25 fee.	
Transfer Privilege	Any transfer over the limit of 15 will incur a $10 fee.	Texas

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APPENDIX E - DEATH BENEFITS FOR CONTRACTS ISSUED PRIOR TO NOVEMBER 24, 2003

THE FOLLOWING IS A DESCRIPTION OF THE DEATH BENEFIT OPTION IF YOUR CONTRACT WAS ISSUED BEFORE NOVEMBER 24, 2003:

If you should die during the Accumulation Phase of your contract, We pay a death benefit to your Beneficiary.

The death benefit (unless limited by your Plan) is the greatest of:

1. Total Purchase Payments minus total withdrawals and loans (and any fees and charges applicable to those withdrawals and/or loans) at the time We receive satisfactory proof of death; or

2. Contract Value at the time We receive satisfactory proof of death and all required paperwork.

We do not pay a death benefit if you die after you switch to the Income Phase. However, if you die during the Income Phase, your Beneficiary receives any remaining guaranteed income payments (or a portion thereof) in accordance with the income option you selected.

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Please forward a copy (without charge) of the Polaris Plus Variable Annuity Statement of Additional Information to:

(Please print or type and fill in all information.)

Name

Address

City/State/Zip

<Table>
<S> <C>

Contract Issue Date: --	
Date: ------------------------------	Signed: ----------------------------

</Table>

Return to: SunAmerica Annuity and Life Assurance Company, Annuity Service Center, P.O. Box 54299,
Los Angeles, California 90054-0299

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STATEMENT OF ADDITIONAL INFORMATION

FLEXIBLE PREMIUM DEFERRED VARIABLE ANNUITY CONTRACTS

ISSUED BY

SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY

IN CONNECTION WITH

VARIABLE ANNUITY ACCOUNT SEVEN

Polaris Plus Variable Annuity

This Statement of Additional Information is not a prospectus; it should be read with the prospectus dated April 30, 2012 relating to the annuity contracts described above. A copy of the prospectus may be obtained without charge by calling (800) 445-7862 or writing us at:

SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY
ANNUITY SERVICE CENTER
P.O. BOX 54299
LOS ANGELES, CALIFORNIA 90054-0299

April 30, 2012

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SEPARATE ACCOUNT AND THE COMPANY

Variable Annuity Account Seven (the "Separate Account") was originally established by Anchor National Life Insurance Company ("Anchor National") on August 28, 1998, pursuant to the provisions of Arizona law, as a segregated asset account of Anchor National. Anchor National was incorporated in the State of California on April 12, 1965. Anchor National redomesticated to the State of Arizona on January 1, 1996. Effective March 1, 2003, Anchor National changed its name to AIG SunAmerica Life Assurance Company ("SunAmerica Life"). Effective July 20, 2009, SunAmerica Life changed its name to SunAmerica Annuity and Life Assurance Company ("Company"). These were name changes only and did not affect the substance of any contract.

The Company is an indirect, wholly owned subsidiary of American International Group, Inc. ("American International Group"), a Delaware corporation. The Company is an Arizona-domiciled life insurance company principally engaged in the business of writing variable annuity contracts directed to the market for tax-deferred, long-term savings products. The Separate Account meets the definition of a "separate account" under the federal securities laws and is registered with the Securities and Exchange Commission (the "SEC") as a unit investment trust under the Investment Company Act of 1940. This registration does not involve supervision of the management of the Separate Account or the Company by the SEC.

The assets of the Separate Account are the property of the Company. However, the assets of the Separate Account, equal to its reserves and other contract liabilities, are not chargeable with liabilities arising out of any other business the Company may conduct. Income, gains, and losses, whether or not realized, from assets allocated to the Separate Account are credited to or charged against the Separate Account without regard to other income, gains, or losses of the Company.

The Separate Account is divided into Variable Portfolios, with the assets of each Portfolio invested in the shares of one of the Underlying Funds. The Company does not guarantee the investment performance of the Separate Account, its Variable Portfolios or the Underlying Funds. Values allocated to the Separate Account and the amount of variable annuity income payments will vary with the values of shares of the Underlying Funds, and are also reduced by contract charges.

The basic objective of a variable annuity contract is to provide variable annuity income payments which will be to some degree responsive to changes in the economic environment, including inflationary forces and changes in rates of return available from various types of investments. The contract is designed to seek to accomplish this objective by providing that variable annuity income payments will reflect the investment performance of the Separate Account with respect to amounts allocated to it both before and after the Annuity Date. Since the Separate Account is always fully invested in shares of the Underlying Funds, its investment performance reflects the investment performance of those entities. The values of such shares held by the Separate Account fluctuate and are subject to the risks of changing economic conditions as well as the risk inherent in the ability of the Underlying Funds' managements to make necessary changes in their Portfolios to anticipate changes in economic conditions. Therefore, the owner bears the entire investment risk that the basic objectives of the contract may not be realized, and that the adverse effects of inflation may not be lessened. There can be no assurance that the aggregate amount of variable annuity income payments will equal or exceed the Purchase Payments made with respect to a particular account for the reasons described above, or because of the premature death of an Annuitant.

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Another important feature of the contract related to its basic objective is the Company's promise that the dollar amount of variable annuity payments made during the lifetime of the Annuitant will not be adversely affected by the actual mortality experience of the Company or by the actual expenses incurred by the Company in excess of expense deductions provided for in the contract (although the Company does not guarantee the amounts of the variable annuity income payments).

AMERICAN HOME ASSURANCE COMPANY

All references in this Statement of Additional Information to American Home Assurance Company ("American Home") apply only to contracts issued prior to December 29, 2006 at 4:00 p.m. Eastern Time. 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, 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.

GENERAL ACCOUNT

The general account is made up of all of the general assets of the Company other than those allocated to the Separate Account or any other segregated asset account of the Company. Your contract may offer Fixed Account Guarantee Periods ("FAGP") to which you may allocate certain Purchase Payments or contract value. Available guarantee periods may be for different lengths of time (such as 1, 3 or 5 years) and may have different guaranteed interest rates. We may also offer the specific Dollar Cost Averaging Fixed Accounts ("DCAFA"). Assets supporting amounts allocated to fixed investment options become part of the Company's general account assets and are available to fund the claims of all classes of customers of the Company, as well as of its creditors. Accordingly, all of the Company's assets held in the general account will be available to fund the Company's obligations under the contracts as well as such other claims.

The Company will invest the assets of the general account in the manner chosen by the Company and allowed by applicable state laws regarding the nature and quality of investments that may be made by life insurance companies and the percentage of their assets that may be committed to any particular type of investment. In general, these laws permit investments, within specified limits and subject to certain qualifications, in federal, state and municipal obligations, corporate bonds, preferred and common stocks, real estate mortgages, real estate and certain other investments.

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PERFORMANCE DATA

From time to time, we periodically advertise performance data relating to Variable Portfolios and Underlying Funds. We will calculate performance by determining the percentage change in the value of an Accumulation Unit by dividing the increase (or decrease) for that unit by the value of the Accumulation Unit at the beginning of the period. This performance number reflects the deduction of the Separate Account charges (including certain death benefit rider charges) and the Underlying Fund expenses. It does not reflect the deduction of any applicable contract maintenance fee, withdrawal (or sales) charges, if applicable, or optional feature charges. The deduction of these charges would reduce the percentage increase or make greater any percentage decrease. Any advertisement will include total return figures which reflect the deduction of the Separate Account charges (including certain death benefit charges), contract maintenance fee, withdrawal (or sales) charges and the Underlying Fund expenses.

We may advertise the optional living benefits and death benefits using illustrations showing how the benefit works with historical performance of specific Underlying Funds or with a hypothetical rate of return (which will not exceed 12%) or a combination of historical and hypothetical returns. These illustrations will reflect the deduction of all applicable charges including the Underlying Fund expenses.

The Separate Account may advertise "total return" data for the Variable Portfolios. Total return figures are based on historical data and are not intended to indicate future performance. "Total return" is a computed rate of return that, when compounded annually over a stated period of time and applied to a hypothetical initial investment in a Variable Portfolio made at the beginning of the period, will produce the same contract value at the end of the period that the hypothetical investment would have produced over the same period (assuming a complete redemption of the contract at the end of the period).

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For periods starting prior to the date the Variable Portfolios first became available through the Separate Account, the total return data for the Variable Portfolios of the Separate Account will be derived from the performance of the corresponding Underlying Funds, modified to reflect the charges and expenses as if the contract had been in existence since the inception date of each respective Underlying Fund. Further, returns shown are for the original class of shares of certain Underlying Funds, adjusted to reflect the fees and charges for the newer class of shares until performance for the newer class becomes available. Returns of the newer class of shares will be lower than those of the original class since the newer class of shares is subject to (higher) service fees. We commonly refer to these performance calculations as hypothetical adjusted historical returns. Performance figures similarly adjusted but based on the Underlying Funds' performance (outside of this Separate Account) should not be construed to be actual historical performance of the relevant Separate Account's Variable Portfolio. Rather, they are intended to indicate the historical performance of the corresponding Underlying Funds, adjusted to provide direct comparability to the performance of the Variable Portfolios after the date the contracts were first offered to the public (reflecting certain contractual fees and charges).

Performance data for the various Portfolios are computed in the manner described below.

CASH MANAGEMENT PORTFOLIO

Current yield is computed by first determining the Base Period Return attributable to a hypothetical contract having a balance of one Accumulation Unit at the beginning of a 7 day period using the formula:

Base Period Return = (EV-SV)/(SV)

where:

SV = value of one Accumulation Unit at the start of a 7 day period

EV = value of one Accumulation Unit at the end of the 7 day period

The change in the value of an Accumulation Unit during the 7 day period reflects the income received, minus any expenses accrued, during such 7 day period.

The current yield is then obtained by annualizing the Base Period Return:

$$\text{Current Yield} = (\text{Base Period Return}) \times (365/7)$$

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The Cash Management Portfolio also quotes an "effective yield" that differs from the current yield given above in that it takes into account the effect of dividend reinvestment in the Underlying Fund. The effective yield, like the current yield, is derived from the Base Period Return over a 7 day period. However, the effective yield accounts for dividend reinvestment by compounding the current yield according to the formula:

$$\text{Effective Yield} = [(\text{Base Period Return} + 1)^{365/7} - 1]$$

The yield quoted should not be considered a representation of the yield of the Cash Management Portfolio in the future since the yield is not fixed. Actual yields will depend on the type, quality and maturities of the investments held by the Underlying Fund and changes in interest rates on such investments.

Yield information may be useful in reviewing the performance of the Cash Management Portfolio and for providing a basis for comparison with other investment alternatives. However, the Cash Management Portfolio's yield fluctuates, unlike bank deposits or other investments that typically pay a fixed yield for a stated period of time. In periods of very low short-term interest rates, the Portfolio's yield may become negative, which may result in a decline in the value of your investment.

OTHER VARIABLE PORTFOLIOS

The Variable Portfolios of the Separate Account other than the Cash Management Portfolio also compute their performance data as "total return."

Total return for a Variable Portfolio represents a single computed annual rate of return that, when compounded annually over a specified time period (one, five, and ten years, or since inception) and applied to a hypothetical initial investment in a contract funded by that Portfolio made at the beginning of the period, will produce the same contract value at the end of the period that the hypothetical investment would have produced over the same period. The total rate of return (T) is computed so that it satisfies the formula:

$$P(1+T)n = ERV$$

where:

P = a hypothetical initial payment of $1,000
T = average annual total return
n = number of years
ERV = ending redeemable value of a hypothetical $1,000 payment made at the beginning of the 1, 5, or 10 year period as of the end of the period (or fractional portion thereof).

These rates of return do not reflect election of any optional features. The rates of return would be lower if the optional features were included in the calculations. As with the Cash Management Portfolio yield figures, total return figures are derived from historical data and are not intended to be a projection of future performance.

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ANNUITY INCOME PAYMENTS

INITIAL MONTHLY ANNUITY INCOME PAYMENTS

The initial annuity income payment is determined by applying separately that portion of the contract value allocated to the fixed account options and the Variable Portfolio(s), less any premium tax, and then applying it to the annuity table specified in the contract for fixed and variable annuity income payments. Those tables are based on a set amount per $1,000 of proceeds applied. The appropriate rate must be determined by the sex (except where, as in the case of certain Qualified contracts and other employer-sponsored retirement plans, such classification is not permitted) and age of the Annuitant and designated second person, if any, and the annuity income option selected.

The dollars applied are then divided by 1,000 and the result multiplied by the appropriate annuity factor appearing in the table to compute the amount of the first monthly annuity income payment. In the case of a variable annuity, that amount is divided by the value of an Annuity Unit as of the Annuity Date to establish the number of Annuity Units representing each variable annuity income payment. The number of Annuity Units determined for the first variable annuity income payment remains constant for the second and subsequent monthly variable annuity income payments, assuming that no reallocation of contract values is made.

SUBSEQUENT MONTHLY ANNUITY INCOME PAYMENTS

For fixed annuity income payments, the amount of the second and each subsequent monthly annuity income payment is the same as that determined above for the first monthly annuity income payment.

For variable annuity income payments, the amount of the second and each subsequent monthly annuity income payment is determined by multiplying the number of Annuity Units, as determined in connection with the determination of the initial monthly annuity income payment, above, by the Annuity Unit value as of the day preceding the date on which each annuity income payment is due.

ANNUITY INCOME PAYMENTS UNDER THE INCOME PROTECTOR PROGRAM

If contract holders elect to begin annuity income payments using the Income Protector program, the income benefit base is determined as described in the prospectus. The initial annuity income payment is determined by applying the income benefit base to the annuity table specifically designated for use in conjunction with the Income Protector program, either in the contract or in the endorsement to the contract. Those tables are based on a set amount per $1,000 of income benefit base applied. The appropriate rate must be determined by the sex (except where, as in the case of certain Qualified contracts and other employer-sponsored retirement plans, such classification is not permitted) and age of the Annuitant and designated second person, if any, and the annuity income option selected.

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The income benefit base is applied then divided by 1,000 and the result multiplied by the appropriate annuity factor appearing in the table to compute the amount of the first monthly annuity income payment. The amount of the second and each subsequent annuity income payment is the same as that determined above for the first monthly annuity income payment.

ANNUITY UNIT VALUES

The value of an Annuity Unit is determined independently for each Portfolio.

The annuity tables contained in the contract are based on a 3.5% per annum assumed investment rate. If the actual net investment rate experienced by a Portfolio exceed 3.5%, variable income payments derived from allocations to that Portfolio will increase over time. Conversely, if the actual rate is less than 3.5%, variable income payments will decrease over time. If the net investment rate equals 3.5%, the variable income payments will remain constant. If a higher assumed investment rate had been used, the initial monthly variable income payment would be higher, but the actual net investment rate would also have to be higher in order for income payments to increase (or not to decrease).

The payee receives the value of a fixed number of Annuity Units each month. The value of a fixed number of Annuity Units will reflect the investment performance of the Variable Portfolios elected, and the amount of each variable income payment will vary accordingly.

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For each Variable Portfolio, the value of an Annuity Unit is determined by multiplying the Annuity Unit value for the preceding month by the Net Investment Factor for the month for which the Annuity Unit value is being calculated. The result is then multiplied by a second factor which offsets the effect of the assumed net investment rate of 3.5% per annum which is assumed in the annuity tables contained in the contract.

NET INVESTMENT FACTOR

The Net Investment Factor ("NIF") is an index applied to measure the net investment performance of a Portfolio from one day to the next. The NIF may be greater or less than or equal to one; therefore, the value of an Annuity Unit may increase, decrease or remain the same.

The NIF for any Portfolio for a certain month is determined by dividing (a) by (b) where:

(a) is the Accumulation Unit value of the Portfolio determined as of the end of that month, and

(b) is the Accumulation Unit value of the Portfolio determined as of the end of the preceding month.

The NIF for a Portfolio for a given month is a measure of the net investment performance of the Portfolio from the end of the prior month to the end of the given month. A NIF of 1.000 results in no change; a NIF greater than 1.000 results in an increase; and a NIF less than 1.000 results in a decrease. The NIF is increased (or decreased) in accordance with the increases (or decreases, respectively) in the value of a share of the Underlying Fund in which the Portfolio invests; it is also reduced by Separate Account asset charges.

ILLUSTRATIVE EXAMPLE

Assume that one share of a given Portfolio had an Accumulation Unit value of $11.46 as of the close of the New York Stock Exchange ("NYSE") on the last business day in September; that its Accumulation Unit value had been $11.44 at the close of the NYSE on the last business day at the end of the previous month. The NIF for the month of September is:

$$\text{NIF} = (\$11.46/\$11.44)$$

$$= 1.00174825$$

The change in Annuity Unit value for a Portfolio from one month to the next is determined in part by multiplying the Annuity Unit value at the prior month end by the NIF for that Portfolio for the new month. In addition, however, the result of that computation must also be multiplied by an additional factor that takes into account, and neutralizes, the assumed investment rate of 3.5

percent per annum upon which the annuity income payment tables are based. For example, if the net investment rate for a Portfolio (reflected in the NIF) were equal to

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the assumed investment rate, the variable annuity income payments should remain constant (i.e., the Annuity Unit value should not change). The monthly factor that neutralizes the assumed investment rate of 3.5 percent per annum is:

$$1/[(1.035)^{(1/12)}] = 0.99713732$$

In the example given above, if the Annuity Unit value for the Portfolio was $10.103523 on the last business day in August, the Annuity Unit value on the last business day in September would have been:

$10.103523 x 1.00174825 x 0.99713732 = $10.092213

VARIABLE ANNUITY INCOME PAYMENTS

ILLUSTRATIVE EXAMPLE

Assume that a male owner, P, owns a contract in connection with which P has allocated all of his contract value to a single Portfolio. P is also the sole Annuitant and, at age 60, has elected to annuitize his contract under Option 4, a Life Annuity With 120 Monthly Annuity Income Payments Guaranteed. As of the last valuation preceding the Annuity Date, P's Account was credited with 7543.2456 Accumulation Units each having a value of $15.432655, (i.e., P's account value is equal to 7543.2456 x $15.432655 = $116,412.31). Assume also that the Annuity Unit value for the Portfolio on that same date is $13.256932, and that the Annuity Unit value on the day immediately prior to the second annuity income payment date is $13.327695.

P's first variable annuity income payment is determined from the annuity factor tables in P's contract, using the information assumed above. From these tables, which supply monthly annuity factors for each $1,000 of applied contract value, P's first variable annuity income payment is determined by multiplying the factor of 4.92 (Option 4 tables, male Annuitant age 60 at the Annuity Date) by the result of dividing P's account value by $1,000:

First Annuity Income Payment = 4.92 x ($116,412.31/$1,000) = $572.75

The number of P's Annuity Units (which will be fixed; i.e., it will not change unless he transfers his Account to another Account) is also determined at this time and is equal to the amount of the first variable annuity income payment divided by the value of an Annuity Unit on the day immediately prior to annuitization:

Annuity Units = $572.75/$13.256932 = 43.203812

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P's second variable annuity income payment is determined by multiplying the number of Annuity Units by the Annuity Unit value as of the day immediately prior to the second annuity income payment due date:

Second Annuity Income Payment = 43.203812 x $13.327695 = $575.81

The third and subsequent variable annuity income payments are computed in a manner similar to the second variable annuity income payment.

Note that the amount of the first variable annuity income payment depends on the contract value in the relevant Portfolio on the Annuity Date and thus reflects the investment performance of the Portfolio net of fees and charges during the Accumulation Phase. The amount of that payment determines the number of Annuity Units, which will remain constant during the Annuity Phase (assuming no transfers from the Portfolio). The net investment performance of the Portfolio during the Annuity Phase is reflected in continuing changes during this phase in the Annuity Unit value, which determines the amounts of the second and subsequent variable annuity income payments.

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TAXES

GENERAL

Note: We have prepared the following information on taxes as a general discussion of the subject. It is not intended as tax advice to any individual. You should consult your own tax adviser about your own circumstances.

Section 72 of the Internal Revenue Code of 1986, as amended (the "Code" or "IRC") governs taxation of annuities in general. A natural owner is not taxed on increases in the value of a contract until distribution occurs, either in the form of a non-annuity distribution or as income payments under the annuity option elected. For a lump-sum payment received as a total surrender (total redemption), the recipient is taxed on the portion of the payment that exceeds the cost basis of the contract. For a payment received as a withdrawal (partial redemption), federal tax liability is determined on a last-in, first-out basis, meaning taxable income is withdrawn before the cost basis of the contract is withdrawn. A different rule applies to Purchase Payments made (including, if applicable, in the case of a contract issued in exchange for a prior contract) prior to August 14, 1982. Those Purchase Payments are considered withdrawn first for federal income tax purposes, followed by earnings on those Purchase Payments. For Non-Qualified contracts, the cost basis is generally the Purchase Payments. The taxable portion of the lump-sum payment is taxed at ordinary income tax rates. Tax penalties may also apply.

If you purchase your contract under one of a number of types of employer-sponsored retirement plans, as an individual retirement annuity, or under an individual retirement account, your contract is referred to as a Qualified Contract. Examples of qualified plans or arrangements are: Individual Retirement Annuities and Individual Retirement Accounts (IRAs), Roth IRAs, Tax-Sheltered Annuities (also referred to as 403(b) annuities or 403(b) contracts), plans of self-employed individuals (often referred to as H.R. 10 Plans or Keogh Plans), pension and profit sharing plans including 401(k) plans, and governmental 457(b) plans. Typically, for employer plans and tax-deductible IRA contributions, you have not paid any tax on the Purchase Payments used to buy your contract and therefore, you have no cost basis in your contract. However, you normally will have a cost basis in a Roth IRA, a designated Roth account in a 403(b), 401(k), or governmental 457(b) plan, and you may have cost basis in a traditional IRA or in another Qualified contract.

For annuity payments, the portion of each payment that is in excess of the exclusion amount is includible in taxable income. The exclusion amount for payments based on a fixed annuity option is determined by multiplying the payment by the ratio that the cost basis of the Contract (if any, and adjusted for any period or refund feature) bears to the expected return under the Contract. The exclusion amount for payments based on a variable annuity option is determined by dividing the cost basis of the Contract (adjusted for any period certain or refund guarantee) by the number of years over which the annuity is expected to be paid. Payments received after the investment in the Contract has been recovered (i.e. when the total of the excludable amount equals the investment in the Contract) are fully taxable. The taxable portion is taxed at ordinary income tax rates. For certain types of qualified plans there may be no cost basis in the Contract within the meaning of Section 72 of the Code. Owners, annuitants and beneficiaries under the

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Contracts should seek competent financial advice about the tax consequences of any distributions.

On March 30, 2010 the Health Care and Education Reconciliation Act ("Reconciliation Act") was signed into law. Among other provisions, the Reconciliation Act imposes a new tax on net investment income. This tax, which goes into effect in 2013, is at the rate of 3.8% of applicable thresholds for Modified Adjusted Gross Income ("MAGI") ($250,000 for joint filers; $125,000 for married individuals filing separately; and, $200,000 for individual filers). An individual with MAGI in excess of the threshold will be required to pay this new tax on net investment income in excess of the applicable MAGI threshold. For this purpose, net investment income generally will include taxable withdrawals from a Non-Qualified contract, as well as other taxable amounts including amounts taxed annually to an owner that is not a natural person. This new tax generally does not apply to Qualified contracts, however taxable distributions from such contracts may be taken into account in determining the applicability of the MAGI thresholds.

The Company is taxed as a life insurance company under the Code. For federal income tax purposes, the Separate Account is not a separate entity from the Company and its operations form a part of the Company.

WITHHOLDING TAX ON DISTRIBUTIONS

Generally, you have not paid any federal taxes on the Purchase Payments used to buy a Qualified contract. As a result, most amounts withdrawn from the contract or received as income payments will be taxable income. Exceptions to this general rule include withdrawals attributable to after-tax Roth IRA contributions, designated Roth contributions to a 403(b), 401(k), or governmental 457(b) plan. Withdrawals from Roth IRAs are generally treated for federal tax purposes as coming first from the Roth contributions that have already been taxed, and as entirely tax free. Withdrawals from designated Roth accounts in a 403(b), 401(k) or governmental 457(b) plan, and withdrawals generally from Qualified contracts, are treated generally as coming pro-rata from amounts that already have been taxed and amounts that are taxed upon withdrawal. Qualified Distributions from Roth IRAs, designated Roth accounts in 403(b), 401(k), and governmental 457(b) plans which satisfy certain qualification requirements, including at least five years in a Roth account under the plan or IRA and either attainment of age 59 1/2, death or disability (or, if an IRA for the purchase of a first home), will not be subject to federal income taxation.

The taxable portion of any withdrawal or income payment from a Qualified contract will be subject to an additional 10% federal penalty tax, under the IRC, except in the following circumstances:

- after attainment of age 59 1/2;

- when paid to your beneficiary after you die;

- after you become disabled (as defined in the IRC);

- as a part of a series of substantially equal periodic payments (not less frequently than annually) made for your life (or life expectancy) or the joint lives (or joint expectancies) of you and your designated beneficiary for a period of 5 years or attainment of age 59 1/2, whichever is later;

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- payments to employees after separation from service after attainment of age 55 (does not apply to IRAs);

- dividends paid with respect to stock of a corporation described in IRC Section 404(k);

- for payment of medical expenses to the extent such withdrawals do not exceed limitations set by the IRC for deductible amounts paid during the taxable year for medical care;

- payments to alternate payees pursuant to a qualified domestic relations order (does not apply to IRAs);

- for payment of health insurance if you are unemployed and meet certain requirements;

- distributions from IRAs for higher education expenses;

- distributions from IRAs for first home purchases;

- amounts distributed from a Code Section 457(b) plan other than amounts representing rollovers from an IRA or employer sponsored plan to which the 10% penalty would otherwise apply; and

- The Pension Protection Act of 2006 created other distribution events and exemptions from the 10% early withdrawal penalty tax. These include payments to certain reservists called up for active duty after September 11, 2001 and payments up to $3,000 per year for health, life and accident insurance by certain retired public safety officers, which are federal income tax-free.

The Code generally requires the Company (or, in some cases, a plan administrator) to withhold federal tax on the taxable portion of any distribution or withdrawal from a contract, subject in certain instances to the payee's right to elect out of withholding or to elect a different rate of withholding. For "eligible rollover distributions" from contracts issued under certain types of qualified plans, not including IRAs, 20% of the distribution must be withheld, unless the payee elects to have the distribution "rolled over" or transferred to another eligible plan in a direct "trustee-to- trustee" transfer. This requirement is mandatory and cannot be waived by the owner. Withholding on other types of distributions, including distributions from IRAs can be waived. An "eligible rollover distribution" is the taxable portion of any amount received by a covered employee from a traditional IRA or retirement plan qualified under Sections 401 or 403 or, if from a plan of a governmental employer, under Section 457(b) of the Code, or from a tax-sheltered annuity qualified under Section 403(b) of the Code other than (1) substantially equal periodic payments calculated using the life (or life expectancy) of the employee, or joint lives (or joint life expectancies) of the employee and his or her designated Beneficiary, or for a specified period of ten years or more; (2) financial hardship withdrawals; and (3) minimum distributions required to be made under the Code (4) distribution of contributions to a Qualified contract which were made in excess of the applicable contribution limit. Failure to "roll over" the entire amount of an eligible rollover distribution (including an amount equal to the 20% portion of the distribution that was withheld) could have adverse tax consequences, including the imposition of a federal penalty tax on premature withdrawals, described later in this section. Only (1) the participant, or, (2) in the case of the participant's death, the participant's surviving spouse, or (3) in the case of a domestic relations order, the participant's spouse or ex-spouse may roll over a distribution into a plan of the participant's own. An exception to this rule is that a non-spousal beneficiary may, subject to plan provisions, roll inherited funds from an eligible retirement plan into an Inherited IRA. An Inherited IRA is an IRA created for the sole purpose of receiving funds inherited by non-spousal beneficiaries of eligible retirement plans. The distribution must be transferred to the Inherited IRA in a direct "trustee-to-trustee" transfer. Inherited IRAs must

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meet the distribution requirements relating to IRAs inherited by non-spousal beneficiaries under Code sections 408(a)(6) and (b)(3) and 401(a)(9).

Beginning in 2008, subject to federal income limitations, funds in a Qualified contract may be rolled directly over to a Roth IRA. Withdrawals or distributions from a contract other than eligible rollover distributions are also subject to withholding on the taxable portion of the distribution, but the owner may elect in such cases to waive the withholding requirement. If not waived, withholding is imposed (1) for periodic payments, at the rate that would be imposed if the payments were wages, or (2) for other distributions, at the rate of 10%. If no withholding exemption certificate is in effect for the payee, the rate under (1) above is computed by treating the payee as a married individual claiming 3 withholding exemptions.

The Small Business Jobs Act of 2010 subsequently added the ability for "in-Plan" rollovers of eligible rollover distribution from pre-tax accounts to a designated Roth account in certain employer-sponsored plans which otherwise include or permit designated Roth accounts.

DIVERSIFICATION - SEPARATE ACCOUNT INVESTMENTS

Section 817(h) of the Code imposes certain diversification standards on the underlying assets of Non-Qualified variable annuity contracts. These requirements generally do not apply to Qualified contracts, which are considered "Pension Plan Contracts" for purposes of these Code requirements. The Code provides that a variable annuity contract will not be treated as an annuity contract for any period (and any subsequent period) for which the investments are not adequately diversified, in accordance with regulations prescribed by the United States Treasury Department ("Treasury Department"). Disqualification of the contract as an annuity contract would result in imposition of federal income tax to the owner with respect to earnings allocable to the contract prior to the receipt of any payments under the contract. The Code contains a safe harbor provision which provides that annuity contracts, such as your contract, meet the diversification requirements if, as of the close of each calendar quarter, the underlying assets meet the diversification standards for a regulated investment company, and no more than 55% of the total assets consist of cash, cash items, U.S. government securities and securities of other regulated investment companies.

The Treasury Department has issued regulations which establish diversification requirements for the investment portfolios underlying variable contracts such as the contracts. The regulations amplify the diversification requirements for variable contracts set forth in the Code and provide an alternative to the safe harbor provision described above. Under the regulations an investment portfolio will be deemed adequately diversified if (1) no more than 55% of the value of the total assets of the portfolio is represented by any one investment; (2) no more than 70% of the value of the total assets of the portfolio is represented by any two investments; (3) no more than 80% of the value of the total assets of the portfolio is represented by any three investments; and (4) no more than 90% of the value of the total assets of the portfolio is represented by any four investments. For purposes of determining whether or not the diversification standards imposed on the underlying assets of variable contracts by Section 817(h) of the Code have been met, "each United States government agency or instrumentality shall be treated as a separate issuer."

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NON-NATURAL OWNERS

Under Section 72(u) of the Code, the investment earnings on premiums for the Contracts will be taxed currently to the Owner if the Owner is a non-natural person such as a corporation or certain other entities. Such Contracts generally will not be accorded tax-deferred status. However, this treatment is not applied to a Contract held by a trust or other entity as an agent for a natural person or to Contracts held by qualified plans. Purchasers should consult their own tax counsel or other tax adviser before purchasing a Contract to be owned by a non-natural person.

MULTIPLE CONTRACTS

The Code provides that multiple Non-Qualified annuity contracts which are issued within a calendar year to the same contract owner by one company are treated as one annuity contract for purposes of determining the federal tax consequences of any distribution. Such treatment may result in adverse tax consequences including more rapid taxation of the distributed amounts from such combination of contracts. For purposes of this rule, contracts received in a Section 1035 exchange will be considered issued in the year of the exchange. (However, they may be treated as issued on the issue date of the contract being exchanged, for certain purposes, including for determining whether the contract is an immediate annuity contract.) Owners should consult a tax adviser prior to purchasing more than one Non-Qualified annuity contract from the same issuer in any calendar year.

TAX TREATMENT OF ASSIGNMENTS OF QUALIFIED CONTRACTS

Generally, a Qualified contract, including an IRA, may not be assigned or pledged. One exception to this rule is if the assignment is part of a permitted loan program under an employer-sponsored plan (other than a plan funded with IRAs) or pursuant to a domestic relations order meeting the requirements of the plan or arrangement under which the contract is issued (for many plans, a Qualified Domestic Relations Order, or QDRO), or, in the case of an IRA, pursuant to a decree of divorce or separation maintenance or a written instrument incident to such decree.

TAX TREATMENT OF GIFTING, ASSIGNING OR TRANSFERRING OWNERSHIP OF A NON-QUALIFIED CONTRACT

Under IRC Section 72(e), if you transfer ownership of your Non-Qualified Contract to a person other than your spouse (or former spouse if incident to divorce) for less than adequate consideration you will be taxed on the earnings above the purchase payments at the time of transfer. If you transfer ownership of your Non-Qualified Contract and receive payment less than the Contract's value, you will also be liable for the tax on the Contract's value above your purchase payments not previously withdrawn.

The new Contract owner's purchase payments (basis) in the Contract will be increased to reflect the amount included in your taxable income.

FEDERAL WITHDRAWAL RESTRICTIONS FROM QUALIFIED CONTRACTS

The IRC limits the withdrawal of Purchase Payments from certain Tax-Sheltered Annuities (TSAs) and certain other Qualified contracts. Withdrawals generally can only be made when an owner: (1) reaches age 59 1/2 (70 1/2 in the case of Section 457(b) Plans); (2) separates from employment from the employer sponsoring the plan; (3) dies; (4) becomes disabled (as defined

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in the IRC) (does not apply to section 457(b) plans); or (5) experiences a financial hardship (as defined in the IRC). In the case of hardship, the owner generally can only withdraw Purchase Payments. There are certain exceptions to these restrictions which are generally based upon the type of investment arrangement, the type of contributions, and the date the contributions were made. Transfers of amounts from one Qualified contract to another investment option under the same plan, or to another contract or account of the same plan type or from a qualified plan to a state defined benefit plan to purchase service credits are not considered distributions, and thus are not subject to these withdrawal limitations. Such transfers may, however, be subject to limitations under the annuity contract or Plan. On July 26, 2007, the Department of the Treasury published final 403(b) regulations that are largely effective on January 1, 2009. These comprehensive regulations include several new rules and requirements, such as a requirement that employers maintain their 403(b) plans pursuant to a written plan. The final regulations, subsequent IRS guidance, and the terms of the written plan may impose new restrictions on both new and existing contracts, including restrictions on the availability of loans, distributions, transfers and exchanges, regardless of when a contract was purchased.

Prior to the effective date of the final regulations, provisions applicable to tax-free transfers AND exchanges (both referred to below as "transfers") of 403(b) annuity contracts or custodial accounts became effective September 25, 2007, replacing existing rules under IRS Revenue Ruling 90-24 ("90-24 transfer"). Under these new rules, transfers are available only to the extent permitted under the employer's 403(b) plan once established. Additionally, transfers occurring after September 24, 2007 that did not comply with these new rules could have become taxable on January 1, 2009, or the date of the transfer, whichever is later. If you make a transfer to a contract or custodial account that is not part of the employer's 403(b) plan (other than a transfer to a contract or custodial account in a different plan), and the provider and employer failed to enter into an information sharing agreement by January 1, 2009, the transfer would be considered a "failed" transfer that is subject to tax. Additional guidance issued by the IRS generally permits a failed transfer to be corrected no later than June 30, 2009 by re-transferring to a contract or custodial account that is part of the employer's 403(b) plan or that is subject to an information-sharing agreement with the employer.

In general, certain contracts originally established by a 90-24 transfer prior to September 25, 2007 are exempt (or grandfathered) from some of the requirements of the final regulations; provided that no salary reduction or other contributions have ever been made to the contract, and that no additional transfers are made to made to the contract on or after September 25, 2007. Further, contracts that are not grandfathered were generally required to be part of, and subject to the requirements of an employer's 403(b) plan upon its establishment, but no later than by January 1, 2009.

The new rules in the final regulations generally do not affect a participant's ability to transfer some or all of a 403(b) account to a state-defined benefit plan to purchase service credits, where such a transfer is otherwise consistent with applicable rules and requirements and with the terms of the employer's plan.

You may wish to discuss the new regulations and/or the general information above with your tax advisor.

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PARTIAL 1035 EXCHANGES OF NON-QUALIFIED ANNUITIES

Section 1035 of the Code provides that a Non-Qualified annuity contract may be exchanged in a tax-free transaction for another Non-Qualified annuity contract. Historically, it was generally understood that only the exchange of an entire annuity contract, as opposed to a partial exchange, would be respected by the IRS as a tax-free exchange. In 1998, the U.S. Tax Court ruled that the direct transfer of a portion of an annuity contract into another annuity contract qualified as a tax-free exchange. In 1999, the IRS acquiesced in that Tax Court decision, but stated that it would nonetheless continue to challenge partial exchange transactions under certain circumstances. In Notice 2003-51, published on July 9, 2003, the IRS announced that, pending the publication of final regulations, it will consider all the facts and circumstances to determine whether a partial exchange and subsequent withdrawal from, or surrender of, either the surviving annuity contract or the new annuity contract within 24 months of the partial exchange should be treated as an integrated transaction, and thus whether the two contracts should be treated as a single contract to determine the tax treatment of the surrender or withdrawal under Section 72 of the Code. The IRS made this earlier guidance permanent in Revenue Procedure 2008-24, superseding Notice 2003-51, although it shortened the presumption period from 24 months to 12 months. Revenue Procedure 2008-24 provides that a transfer will be treated as a tax-free exchange under Code section 1035 if either (a) no amounts are withdrawn from, or received in surrender of, either of the contracts involved in the exchange during the 12 months beginning on the date on which amounts are treated as received as premiums or other consideration paid for the contract received in exchange (the date of transfer); or (b) the taxpayer demonstrates that one of the conditions described in Code section 72(q) or any similar life event (such as divorce or loss of employment) occurred between the date of the transfer and the date of the withdrawal or surrender. We reserve the right to treat partial transfers as tax-reportable distributions, rather than as partial 1035 exchanges, in recognition of certain questions which remain notwithstanding recent IRS guidance on the subject. Such treatment for tax reporting purposes, however, should not prevent a taxpayer from taking a different position on their return, in accordance with the advice of their tax counsel or other tax consultant, if they believe the requirements of IRC Section 1035 have been satisfied. Owners should seek their own tax advice regarding such transactions and the tax risks associated with subsequent surrenders or withdrawals.

QUALIFIED PLANS

The contracts offered by this prospectus are designed to be available for use under various types of qualified plans. Taxation of owners in each qualified plan varies with the type of plan and terms and conditions of each specific plan. Owners and Beneficiaries are cautioned that benefits under a qualified plan may be subject to limitations under the IRC and the employer-sponsored plan, in addition to the terms and conditions of the contracts issued pursuant to the plan. The following are general descriptions of the types of qualified plans with which the contracts may be used. Such descriptions are not exhaustive and are for general information purposes only. The tax rules regarding qualified plans are very complex and will have differing applications depending on individual facts and circumstances. Each purchaser should obtain competent tax advice prior to purchasing a contract issued under a qualified plan. Contracts issued pursuant to qualified plans include special provisions restricting contract provisions that may otherwise be available and described in this prospectus. Generally, contracts issued pursuant to qualified plans are not transferable except upon surrender or annuitization. Various penalty and excise taxes may apply to contributions or distributions made in violation of applicable limitations. Furthermore,

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certain contractual withdrawal penalties and restrictions may apply to surrenders from Qualified contracts.

(a) Plans of Self-Employed Individuals: "H.R. 10 Plans"

Section 401 of the Code permits self-employed individuals to establish qualified plans for themselves and their employees, commonly referred to as "H.R. 10" or "Keogh" Plans. Contributions made to the plan for the benefit of the employees will not be included in the gross income of the employees, for federal tax purposes, until distributed from the plan if certain conditions are met. The tax consequences to owners may vary depending upon the particular plan design. However, the Code places limitations and restrictions on these plans, such as: amounts of allowable contributions; form, manner and timing of distributions; vesting and non-forfeitability of interests; nondiscrimination in eligibility and participation; and the tax treatment of distributions, withdrawals and surrenders. Purchasers of contracts for use with an H.R. 10 Plan should obtain competent tax advice as to the tax treatment and suitability of such an investment.

(b) Tax-Sheltered Annuities

Section 403(b) of the Code permits the purchase of "tax-sheltered annuities" by public schools and not-for-profit organizations described in Section 501(c)(3) of the Code. These qualifying employers may make contributions to the contracts for the benefit of their employees. Such contributions are not includible in the gross income of the employee until the employee receives distributions from the contract if certain conditions are met. The amount of contributions to the tax-sheltered annuity is limited to certain maximums imposed by the Code. One of these limits, on the amount that the employee may contribute on a voluntary basis, is imposed by the annuity contract as well as by the Code. That limit for 2012 is the lesser of 100% of includible compensation or $17,000. The limit may be increased by up to $3,000 for certain employees with at least fifteen years of full-time equivalent service with an eligible employer, and by an additional $5,500 in 2012 for employees age 50 or older, provided that other applicable requirements are satisfied. Total combined employer and employee contributions for 2012 may not exceed the lesser of $50,000 or 100% of compensation. Furthermore, the Code sets forth additional restrictions governing such items as transferability, distributions, nondiscrimination and withdrawals. Any employee should obtain competent tax advice as to the tax treatment and suitability of such an Investment.

(c) Individual Retirement Annuities

Section 408(b) of the Code permits eligible individuals to contribute to an individual retirement program known as a traditional "Individual Retirement Annuity" ("IRA"). Under applicable limitations, certain amounts may be contributed to an IRA which will be deductible from the individual's gross income. The ability to deduct an IRA contribution to a traditional IRA is subject to limits based upon income levels, retirement plan participation status, and other factors. The maximum IRA (traditional and/or Roth) contribution for 2012 is the lesser of $5,000 or 100% of compensation. Individuals age 50 or older may be able to contribute an additional $1,000 in 2012. IRAs are subject to limitations on eligibility, contributions, transferability and distributions. Sales of contracts for use with IRAs are subject to special requirements imposed by

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the Code, including the requirement that certain informational disclosure be given to persons desiring to establish an IRA. Purchasers of contracts to be qualified as IRAs should obtain competent tax advice as to the tax treatment and suitability of such an investment. If neither the Owner or the Owner's spouse is covered by an employer retirement plan, the IRA contribution may be fully deductible. If the Owner, or if filing jointly, the Owner or spouse, is covered by an employer retirement plan, the Owner may be entitled to only a partial (reduced) deduction or no deduction at all, depending on adjusted gross income, The rules concerning what constitutes "coverage" are complex and purchasers should consult their tax advisor or Internal Revenue Service Publication 590 for more details. The effect of income on the deduction, is sometimes called the adjusted gross income limitation (AGI limit). A modified AGI at or below a certain threshold level allows a full deduction of contributions regardless of coverage under an employer's plan. If you and your spouse are filing jointly and have a modified AGI in 2012 of less than $92,000, your contribution may be fully deductible; if your income is between $92,000 and $112,000, your contribution may be partially deductible and if your income is $112,000 or more, your contribution may not be deductible. If you are single and your income in 2012 is less than $58,000, your contribution may be fully deductible; if your income is between $58,000 and $68,000, your contribution may be partially deductible and if your income is $68,000 or more, your contribution may not be deductible. If you are married filing separately and you lived with your spouse at anytime during the year, and your income exceeds $10,000, none of your contribution may be deductible. If you and your spouse file jointly, and you are not covered by a plan but your spouse is: if your modified AGI in 2012 is between $173,000 and $183,000, your contribution may be partially deductible.

(d) Roth IRAs

Section 408A of the Code permits an individual to contribute to an individual retirement program called a Roth IRA. Contributions to a Roth IRA are not deductible but distributions are tax-free if certain requirements are satisfied. The maximum IRA (traditional and/or Roth) contribution for 2012 is the lesser of $5,000 or 100% of compensation. Individuals age 50 or older may be able to contribute an additional $1,000 in 2012. Unlike traditional IRAs, to which everyone can contribute even if they cannot deduct the full contribution, Roth IRAs have income limitations on who can establish such a contract. Generally, you can make a full or partial contribution to a Roth IRA if you have taxable compensation and your modified adjusted gross income in 2012 is less than:

$173,000 for married filing jointly or qualifying widow(er), $10,000 for married filing separately and you lived with your spouse at any time during the year, and $110,000 for single, head of household, or married filing separately and you did not live with your spouse at any time during the year. All persons may be eligible to convert a distribution from an employer-sponsored plan or from a traditional IRA into a Roth IRA. Conversions or rollovers from qualified plans into Roth IRAs normally require taxes to be paid on any previously untaxed amounts included in the amount converted. If the Contracts are made available for use with Roth IRAs, they may be subject to special requirements imposed by the Internal Revenue Service ("IRS"). Purchasers of the Contracts for this purpose will be provided with such supplementary information as may be required by the IRS or other appropriate agency.

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(e) Pension and Profit-Sharing Plans

Section 401(a) of the Code permits certain employers to establish various types of retirement plans, including 401(k) plans, for employees. However, governmental employers may not establish new 401(k) plans. These retirement plans may permit the purchase of the contracts to provide benefits under the plan. Contributions to the plan for the benefit of employees will not be includible in the gross income of the employee until distributed from the plan if certain conditions are met. The tax consequences to owners may vary depending upon the particular plan design. However, the Code places limitations on all plans on such items as amount of allowable contributions; form, manner and timing of distributions; investing and non-forfeitability of interests; nondiscrimination in eligibility and participation; and the tax treatment of distributions, withdrawals and surrenders. Purchasers of contracts for use with pension or profit sharing plans should obtain competent tax advice as to the tax treatment and suitability of such an investment.

(f) Deferred Compensation Plans - Section 457(b)

Under Section 457(b) of the Code, governmental and certain other tax-exempt employers may establish, for the benefit of their employees, deferred compensation plans, which may invest in annuity contracts. The Code, as in the case of employer sponsored retirement plans generally establishes limitations and restrictions on eligibility, contributions and distributions. Under these plans, contributions made for the benefit of the employees will not be includible in the employees' gross income until distributed from the plan if certain conditions are met. Funds in a non-governmental 457(b) plan remain assets of the employer and are subject to claims by the creditors of the employer. As of January 1, 1999, all 457(b) plans of state and local governments must hold assets and income in a qualifying trust, custodial account, or annuity contract for the exclusive benefit of participants and their Beneficiaries.

ECONOMIC GROWTH AND TAX RELIEF RECONCILIATION ACT OF 2001 AND PENSION PROTECTION ACT OF 2006

For tax years beginning in 2002, the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) expanded the range of eligible tax-free rollover distributions that may be made among qualified plans and increased contribution limits applicable to these plans. The changes made to the IRC by EGTRRA were scheduled to expire on December 31, 2010. The Pension Protection Act of 2006 made permanent those provisions of EGTRRA relating to IRAs and employer sponsored plans.

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BROKER-DEALER FIRMS
RECEIVING REVENUE SHARING PAYMENTS

The following list includes the names of member firms of the FINRA (or their affiliated broker-dealers) that we believe received a revenue sharing payment of more than $5,000 as of the calendar year ending December 31, 2011, from SunAmerica Annuity and Life Assurance Company and The United States Life Insurance Company in the City of New York, both affiliated life companies. Your registered representative can provide you with more information about the compensation arrangements that apply upon the sale of the Contract.

BancWest Investment Services, Inc.
CCO Investment Services Corporation
Citigroup Global Markets Inc.
CUSO Financial Services, L.P.
Edward D. Jones & Co., L.P.

Financial Network Investment Corporation
FSC Securities Corp.
Infinex Investments, Inc.
ING Financial Partners, Inc.
Janney Montgomery Scott LLC.
J.J.B. Hilliard, W.L. Lyons, Inc.
James Borello & Co
Lincoln Financial Advisor
Lincoln Financial Securities
LPL Financial Corporation
Morgan Keegan & Company, Inc.
Morgan Stanley & Co., Incorporated
Multi Financial Securities Corp.
NEXT Financial Group, Inc.
Primevest Financial Services, Inc.
Raymond James & Associates
Raymond James Financial
RBC Capital Markets Corporation
Royal Alliance Associates, Inc.
SagePoint Financial, Inc.
Sammons Securities Co. LLC
Securities America, Inc.
UBS Financial Services Inc.
U.S. Bancorp Investments, Inc.
Wells Fargo Advisor, LLC
Wescom Financial Services

We will update this list annually; interim arrangements may not be reflected. You are encouraged to review the prospectus for each Underlying Fund for any other compensation arrangements pertaining to the distribution of Underlying Fund shares.

Certain broker dealers with which we have selling agreements are our affiliates. In an effort to promote the sale of our products, affiliated firms may pay their registered representatives additional cash incentives which may include but are not limited to bonus payments, expense payments, health and retirement benefits or the waiver of overhead costs or expenses in connection with the sale of the Contracts, that they would not receive in connection with the sale of contracts issued by unaffiliated companies.

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DISTRIBUTION OF CONTRACTS

The contracts are offered through SunAmerica Capital Services, Inc., located at Harborside Financial Center, 3200 Plaza 5, Jersey City, New Jersey 07311. SunAmerica Capital Services, Inc. is registered as a broker-dealer under the Securities Exchange Act of 1934, as amended, and is a member of the Financial Industry Regulatory Authority. The Company and SunAmerica Capital Services, Inc. are each an indirect, wholly owned subsidiary of American International Group. Contracts are offered on a continuous basis.

FINANCIAL STATEMENTS

The following financial statements of Variable Annuity Account Seven and consolidated financial statements of SunAmerica Annuity and Life Assurance Company are included in this Statement of Additional Information:

Variable Annuity Account Seven Financial Statements:

- Report of Independent Registered Public Accounting Firm
- Statements of Assets and Liabilities, December 31, 2011
- Schedules of Portfolio Investments, December 31, 2011
- Statements of Operations, for the year ended December 31, 2011
- Statements of Changes in Net Assets, for the year ended December 31, 2011
- Statements of Changes in Net Assets, for the eight months ended December 31, 2010, except as indicated
- Statements of Changes in Net Assets, for the year ended April 30, 2010
- Notes to Financial Statements

SunAmerica Annuity and Life Assurance Company Financial Statements:

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

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The consolidated financial statements of the Company should be considered only as bearing on the ability of the Company to meet its obligation under the contracts.

AMERICAN HOME STATUTORY BASIS FINANCIAL STATEMENTS

The following statutory financial statements of American Home Assurance Company are included in this Statement of Additional Information:

- Report of Independent Auditors
- Statutory Statements of Admitted Assets, Liabilities, Capital and Surplus as of December 31, 2011 and 2010

- Statutory Statements of Income and Changes in Capital and Surplus for the years ended December 31, 2011, 2010 and 2009

- Statutory Statements of Cash Flow for the years ended December 31, 2011, 2010 and 2009

- Notes to Statutory Basis Financial Statements

You should only consider the statutory financial statements of American Home that we include in this Statement of Additional Information as bearing on the ability of American Home, as guarantor, to meet its obligations under the guarantee of insurance obligations under contracts issued prior to December 29, 2006 at 4 p.m. Eastern time ("Point of Termination"). Contracts with an issue date after the Point of Termination are not covered by the American Home guarantee.

PricewaterhouseCoopers LLP, 350 South Grand Avenue, Los Angeles, California 90071, serves as the independent registered public accounting firm for the Separate Account and the Company. PricewaterhouseCoopers LLP, 300 Madison Avenue, New York, New York 10017, serves as the independent auditor for American Home Assurance Company. The audited financial statements referred to above are included in reliance on the reports 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.

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

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

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VARIABLE ANNUITY ACCOUNT SEVEN

OF

SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY

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VARIABLE ANNUITY ACCOUNT SEVEN
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SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of SunAmerica Annuity and Life Assurance Company and the Contractholders of its separate account, Variable Annuity Account Seven:

In our opinion, the accompanying statements of assets and liabilities, including the schedules of portfolio investments, and the related statements of operations and of changes in net assets present fairly, in all material respects, the financial position of each of the Variable Accounts constituting Variable Annuity Account Seven (the "Separate Account"), a separate account of SunAmerica Annuity and Life Assurance Company, at December 31, 2011, and the results of their operations for the year then ended, and the changes in each of their net assets for the year ended December 31, 2011, for the periods indicated in the eight months ended December 31, 2010 and for the year ended April 30, 2010, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Separate Account's management; 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 audits 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 disclosure 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 securities at December 31, 2011 by correspondence with the custodians and transfer agents, provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Los Angeles, California
April 25, 2012

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VARIABLE ANNUITY ACCOUNT SEVEN
OF
SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY

STATEMENTS OF ASSETS AND LIABILITIES
DECEMBER 31, 2011

<TABLE>
<CAPTION>

	Asset Allocation Portfolio (Class 1)	Capital Appreciation Portfolio (Class 1)	Government and Quality Bond Portfolio (Class 1)	Growth Portfolio (Class 1)	Asset Allocation Portfolio (Class 3)
<S>	<C>	<C>	<C>	<C>	<C>
Assets:					
Investments in Trusts, at net asset value	$12,702,926	$70,183,281	$56,385,005	$31,593,436	$5,456,788
Liabilities:	--	--	--	--	--
Net assets:	$12,702,926	$70,183,281	$56,385,005	$31,593,436	$5,456,788
Accumulation units	$12,666,252	$70,009,875	$56,234,185	$31,531,443	$5,456,788
Contracts in payout (annuitization) period	36,674	173,406	150,820	61,993	--
Total net assets	$12,702,926	$70,183,281	$56,385,005	$31,593,436	$5,456,788
Accumulation units outstanding	642,249	3,863,350	3,152,043	2,361,780	357,310
Contracts with total expenses of 0.85%(1):					
Accumulation units outstanding	22	926	77	973	--
Unit value of accumulation units	$ 16.42	$ 11.89	$ 16.41	$ 10.03	$ --

Contracts with total expenses of 0.85%(2):					
Accumulation units outstanding	400,609	3,319,573	2,448,302	2,028,986	307,308
Unit value of accumulation units	$ 15.52	$ 16.07	$ 17.12	$ 11.76	$ 15.30
Contracts with total expenses of 0.95%					
Accumulation units outstanding	--	--	--	--	30,480
Unit value of accumulation units	$ --	$ --	$ --	$ --	$ 15.28
Contracts with total expenses of 1.10%:					
Accumulation units outstanding	29,487	297,984	164,752	140,634	10,381
Unit value of accumulation units	$ 15.11	$ 15.63	$ 16.66	$ 11.44	$ 14.89
Contracts with total expenses of 1.20%:					
Accumulation units outstanding	--	--	--	--	9,141
Unit value of accumulation units	$ --	$ --	$ --	$ --	$ 14.89
Contracts with total expenses of 1.25%:					
Accumulation units outstanding	212,131	244,867	538,912	191,187	--
Unit value of accumulation units	$ 28.47	$ 49.68	$ 21.77	$ 32.00	$ --

<CAPTION>

<S>	Capital Appreciation Portfolio (Class 3) <C>	Government and Quality Bond Portfolio (Class 3) <C>	Growth Portfolio (Class 3) <C>	Natural Resources Portfolio (Class 3) <C>	Aggressive Growth Portfolio (Class 1) <C>
Assets:					
Investments in Trusts, at net asset value	$105,117,546	$97,013,952	$3,958,202	$6,378,281	$4,336,866
Liabilities:	--	--	--	--	--
Net assets:	$105,117,546	$97,013,952	$3,958,202	$6,378,281	$4,336,866
Accumulation units	$105,062,852	$96,869,292	$3,958,202	$6,378,281	$4,334,320
Contracts in payout (annuitization) period	54,694	144,660	--	--	2,546
Total net assets	$105,117,546	$97,013,952	$3,958,202	$6,378,281	$4,336,866

	============	===========	==========	==========	==========
Accumulation units outstanding	6,638,165	5,757,968	341,477	654,820	381,288
	============	===========	==========	==========	==========
Contracts with total expenses of 0.85%(1):					
Accumulation units outstanding	--	--	--	--	12
Unit value of accumulation units	$ --	$ --	$ --	$ --	$ 5.36
Contracts with total expenses of 0.85%(2):					
Accumulation units outstanding	6,392,822	4,934,413	330,585	612,888	111,402
Unit value of accumulation units	$ 15.85	$ 16.87	$ 11.60	$ 9.75	$ 8.19
Contracts with total expenses of 0.95%					
Accumulation units outstanding	87,337	534,665	6,968	13,784	--
Unit value of accumulation units	$ 15.80	$ 16.86	$ 11.59	$ 9.73	$ --
Contracts with total expenses of 1.10%:					
Accumulation units outstanding	124,318	73,420	915	16,837	29,874
Unit value of accumulation units	$ 15.41	$ 16.42	$ 11.26	$ 9.61	$ 7.98
Contracts with total expenses of 1.20%:					
Accumulation units outstanding	33,688	215,470	3,009	11,311	--
Unit value of accumulation units	$ 15.37	$ 16.41	$ 11.27	$ 9.60	$ --
Contracts with total expenses of 1.25%:					
Accumulation units outstanding	--	--	--	--	240,000
Unit value of accumulation units	$ --	$ --	$ --	$ --	$ 13.28

</TABLE>

(1) Offered in Polaris Plus product.

(2) Offered in Polaris II Asset Manager, Polaris II A-Class, and Polaris II A-Class Platinum products.

The accompanying notes are an integral part of the financial statements.

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VARIABLE ANNUITY ACCOUNT SEVEN
OF

SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY

STATEMENTS OF ASSETS AND LIABILITIES
DECEMBER 31, 2011
(continued)

<TABLE>
<CAPTION>

<S>	Alliance Growth Portfolio (Class 1) <C>	Balanced Portfolio (Class 1) <C>	Blue Chip Growth Portfolio (Class 1) <C>	Capital Growth Portfolio (Class 1) <C>	Cash Management Portfolio (Class 1) <C>
Assets:					
Investments in Trusts, at net asset value	$20,614,056	$16,862,084	$1,032,130	$1,138,262	$19,038,886
Liabilities:	--	--	--	--	--
Net assets:	$20,614,056	$16,862,084	$1,032,130	$1,138,262	$19,038,886
Accumulation units	$20,602,290	$16,775,908	$1,032,130	$1,138,262	$18,927,383
Contracts in payout (annuitization) period	11,766	86,176	--	--	111,503
Total net assets	$20,614,056	$16,862,084	$1,032,130	$1,138,262	$19,038,886
Accumulation units outstanding	927,957	1,107,883	174,245	148,001	1,583,571
Contracts with total expenses of 0.85%(1):					
Accumulation units outstanding	1,867	524	--	--	30
Unit value of accumulation units	$ 6.74	$ 8.95	$ --	$ --	$ 11.22
Contracts with total expenses of 0.85%(2):					
Accumulation units outstanding	371,570	337,401	167,095	134,214	1,184,921
Unit value of accumulation units	$ 8.11	$ 10.36	$ 5.93	$ 7.71	$ 11.63
Contracts with total expenses of 0.95%					

Accumulation units outstanding	--	--	--	--	--
Unit value of accumulation units	$ --	$ --	$ --	$ --	$ --
Contracts with total expenses of 1.10%:					
Accumulation units outstanding	24,342	8,970	7,150	13,787	62,533
Unit value of accumulation units	$ 7.89	$ 10.09	$ 5.77	$ 7.50	$ 11.34
Contracts with total expenses of 1.20%:					
Accumulation units outstanding	--	--	--	--	--
Unit value of accumulation units	$ --	$ --	$ --	$ --	$ --
Contracts with total expenses of 1.25%:					
Accumulation units outstanding	530,178	760,988	--	--	336,087
Unit value of accumulation units	$ 32.81	$ 17.44	$ --	$ --	$ 13.54

<CAPTION>

	Corporate Bond Portfolio (Class 1)	Davis Venture Value Portfolio (Class 1)	"Dogs" of Wall Street Portfolio (Class 1)	Emerging Markets Portfolio (Class 1)	Equity Index Portfolio (Class 1)
<S>	<C>	<C>	<C>	<C>	<C>
Assets:					
Investments in Trusts, at net asset value	$68,020,756	$57,459,907	$3,758,211	$7,759,890	$9,620,430
Liabilities:	--	--	--	--	--
Net assets:	$68,020,756	$57,459,907	$3,758,211	$7,759,890	$9,620,430
Accumulation units	$67,976,153	$57,370,099	$3,758,211	$7,735,402	$9,596,341
Contracts in payout (annuitization) period	44,603	89,808	--	24,488	24,089
Total net assets	$68,020,756	$57,459,907	$3,758,211	$7,759,890	$9,620,430
Accumulation units outstanding	3,163,389	3,661,616	247,452	404,082	1,008,160
Contracts with total expenses of 0.85%(1):					

Accumulation units outstanding	--	952	4	--	--
Unit value of accumulation units	$ --	$ 12.81	$ 16.10	$ --	$ --
Contracts with total expenses of 0.85%(2):					
Accumulation units outstanding	2,799,036	3,088,508	81,882	141,502	--
Unit value of accumulation units	$ 21.29	$ 14.05	$ 16.89	$ 21.86	$ --
Contracts with total expenses of 0.95%					
Accumulation units outstanding	--	--	--	--	--
Unit value of accumulation units	$ --	$ --	$ --	$ --	$ --
Contracts with total expenses of 1.10%:					
Accumulation units outstanding	194,787	280,607	6,655	17,829	--
Unit value of accumulation units	$ 20.71	$ 13.67	$ 16.47	$ 21.31	$ --
Contracts with total expenses of 1.20%:					
Accumulation units outstanding	--	--	--	--	--
Unit value of accumulation units	$ --	$ --	$ --	$ --	$ --
Contracts with total expenses of 1.25%:					
Accumulation units outstanding	169,566	291,549	158,911	244,751	1,008,160
Unit value of accumulation units	$ 25.93	$ 35.09	$ 14.26	$ 17.52	$ 9.54

</TABLE>

(1) Offered in Polaris Plus product.

(2) Offered in Polaris II Asset Manager, Polaris II A-Class, and Polaris II A-Class Platinum products.

The accompanying notes are an integral part of the financial statements.

<PAGE>

VARIABLE ANNUITY ACCOUNT SEVEN
OF
SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY

STATEMENTS OF ASSETS AND LIABILITIES
DECEMBER 31, 2011
(continued)

<TABLE>
<CAPTION>

<S>	Equity Opportunities Portfolio (Class 1) <C>	Fundamental Growth Portfolio (Class 1) <C>	Global Bond Portfolio (Class 1) <C>	Global Equities Portfolio (Class 1) <C>	Growth Opportunities Portfolio (Class 1) <C>
Assets:					
Investments in Trusts, at net asset value	$8,917,611	$9,920,792	$15,102,584	$4,878,592	$1,550,205
Liabilities:	--	--	--	--	--
Net assets:	$8,917,611	$9,920,792	$15,102,584	$4,878,592	$1,550,205
Accumulation units	$8,892,599	$9,901,824	$15,088,926	$4,877,039	$1,549,594
Contracts in payout (annuitization) period	25,012	18,968	13,658	1,553	611
Total net assets	$8,917,611	$9,920,792	$15,102,584	$4,878,592	$1,550,205
Accumulation units outstanding	679,123	979,576	786,317	375,753	254,477
Contracts with total expenses of 0.85%(1):					
Accumulation units outstanding	--	87	24	--	--
Unit value of accumulation units	$ --	$ 6.24	$ 17.14	$ --	$ --
Contracts with total expenses of 0.85%(2):					
Accumulation units outstanding	547,143	619,790	598,083	200,924	240,248
Unit value of accumulation units	$ 12.24	$ 6.79	$ 18.28	$ 8.75	$ 6.08
Contracts with total expenses of 0.95%					
Accumulation units outstanding	--	--	--	--	--
Unit value of accumulation units	$ --	$ --	$ --	$ --	$ --
Contracts with total expenses of 1.10%:					

Accumulation units outstanding	40,750	51,425	66,709	24,642	14,229
Unit value of accumulation units	$ 11.91	$ 6.61	$ 17.79	$ 8.52	$ 6.27
Contracts with total expenses of 1.20%:					
Accumulation units outstanding	--	--	--	--	--
Unit value of accumulation units	$ --	$ --	$ --	$ --	$ --
Contracts with total expenses of 1.25%:					
Accumulation units outstanding	91,230	308,274	121,501	150,187	--
Unit value of accumulation units	$ 19.04	$ 17.43	$ 24.57	$ 19.38	$ --

<CAPTION>

	Growth-Income Portfolio (Class 1)	High-Yield Bond Portfolio (Class 1)	International Diversified Equities Portfolio (Class 1)	International Growth and Income Portfolio (Class 1)	MFS Massachusetts Investors Trust Portfolio (Class 1)
<S>	<C>	<C>	<C>	<C>	<C>
Assets:					
Investments in Trusts, at net asset value	$17,904,980	$13,645,893	$4,981,467	$8,694,008	$4,000,677
Liabilities:	--	--	--	--	--
Net assets:	$17,904,980	$13,645,893	$4,981,467	$8,694,008	$4,000,677
Accumulation units	$17,828,057	$13,634,421	$4,946,316	$8,688,961	$3,998,372
Contracts in payout (annuitization) period	76,923	11,472	35,151	5,047	2,305
Total net assets	$17,904,980	$13,645,893	$4,981,467	$8,694,008	$4,000,677
Accumulation units outstanding	934,705	766,664	560,559	820,755	367,906
Contracts with total expenses of 0.85%(1):					
Accumulation units outstanding	150	21	44	712	--
Unit value of accumulation units	$ 8.93	$ 17.19	$ 12.63	$ 8.94	$ --

Contracts with total expenses of 0.85%(2):					
Accumulation units outstanding	467,904	613,082	376,656	542,775	343,551
Unit value of accumulation units	$ 9.76	$ 16.84	$ 7.87	$ 9.95	$ 10.89
Contracts with total expenses of 0.95%					
Accumulation units outstanding	--	--	--	--	--
Unit value of accumulation units	$ --	$ --	$ --	$ --	$ --
Contracts with total expenses of 1.10%:					
Accumulation units outstanding	29,007	41,959	32,348	56,709	24,355
Unit value of accumulation units	$ 9.50	$ 16.40	$ 7.66	$ 9.69	$ 10.60
Contracts with total expenses of 1.20%:					
Accumulation units outstanding	--	--	--	--	--
Unit value of accumulation units	$ --	$ --	$ --	$ --	$ --
Contracts with total expenses of 1.25%:					
Accumulation units outstanding	437,644	111,602	151,511	220,559	--
Unit value of accumulation units	$ 29.84	$ 23.61	$ 11.68	$ 12.41	$ --

</TABLE>

(1) Offered in Polaris Plus product.

(2) Offered in Polaris II Asset Manager, Polaris II A-Class, and Polaris II A-Class Platinum products.

The accompanying notes are an integral part of the financial statements.

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VARIABLE ANNUITY ACCOUNT SEVEN
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STATEMENTS OF ASSETS AND LIABILITIES
DECEMBER 31, 2011
(continued)

<TABLE>
<CAPTION>

<S>	MFS Total Return Portfolio (Class 1) <C>	Mid-Cap Growth Portfolio (Class 1) <C>	Real Estate Portfolio (Class 1) <C>	Small Company Value Portfolio (Class 1) <C>	Technology Portfolio (Class 1) <C>
Assets:					
Investments in Trusts, at net asset value	$86,038,905	$3,521,322	$5,299,776	$3,681,375	$318,713
Liabilities:	--	--	--	--	--
Net assets:	$86,038,905	$3,521,322	$5,299,776	$3,681,375	$318,713
Accumulation units	$85,799,595	$3,519,279	$5,299,454	$3,681,375	$318,713
Contracts in payout (annuitization) period	239,310	2,043	322	--	--
Total net assets	$86,038,905	$3,521,322	$5,299,776	$3,681,375	$318,713
Accumulation units outstanding	5,205,010	372,085	192,759	141,214	139,237
Contracts with total expenses of 0.85%(1):					
Accumulation units outstanding	--	--	15	362	--
Unit value of accumulation units	$ --	$ --	$ 25.77	$ 18.87	$ --
Contracts with total expenses of 0.85%(2):					
Accumulation units outstanding	4,814,248	346,585	104,510	--	117,091
Unit value of accumulation units	$ 16.56	$ 9.48	$ 29.72	$ --	$ 2.30
Contracts with total expenses of 0.95%					
Accumulation units outstanding	--	--	--	--	--
Unit value of accumulation units	$ --	$ --	$ --	$ --	$ --
Contracts with total expenses of 1.10%:					
Accumulation units outstanding	390,762	25,500	7,305	--	22,146
Unit value of accumulation units	$ 16.12	$ 9.23	$ 28.93	$ --	$ 2.24
Contracts with total expenses of 1.20%:					

Accumulation units outstanding	--	--	--	--	--
Unit value of accumulation units	$ --	$ --	$ --	$ --	$ --
Contracts with total expenses of 1.25%:					
Accumulation units outstanding	--	--	80,929	140,852	--
Unit value of accumulation units	$ --	$ --	$ 24.49	$ 26.09	$ --

<CAPTION>

<S>	Telecom Utility Portfolio (Class 1) <C>	Total Return Bond Portfolio (Class 1) <C>	Aggressive Growth Portfolio (Class 3) <C>	Alliance Growth Portfolio (Class 3) <C>	Balanced Portfolio (Class 3) <C>
Assets:					
Investments in Trusts, at net asset value	$2,245,084	$26,095,979	$385,850	$9,130,254	$4,064,697
Liabilities:	--	--	--	--	--
Net assets:	$2,245,084	$26,095,979	$385,850	$9,130,254	$4,064,697
Accumulation units	$2,232,873	$26,095,979	$385,850	$9,130,254	$4,064,697
Contracts in payout (annuitization) period	12,211	--	--	--	--
Total net assets	$2,245,084	$26,095,979	$385,850	$9,130,254	$4,064,697
Accumulation units outstanding	142,761	1,281,945	47,837	1,143,404	398,661
Contracts with total expenses of 0.85%(1):					
Accumulation units outstanding	52	--	--	--	--
Unit value of accumulation units	$ 13.21	$ --	$ --	$ --	$ --
Contracts with total expenses of 0.85%(2):					
Accumulation units outstanding	46,633	1,134,476	39,725	1,118,951	325,995
Unit value of accumulation units	$ 12.42	$ 19.82	$ 8.07	$ 7.99	$ 10.22

Contracts with total expenses of 0.95%					
Accumulation units outstanding	--	--	6,372	1,215	45,572
Unit value of accumulation units	$ --	$ --	$ 8.07	$ 7.97	$ 10.21
Contracts with total expenses of 1.10%:					
Accumulation units outstanding	4,305	67,149	548	22,485	4,616
Unit value of accumulation units	$ 12.10	$ 19.30	$ 7.93	$ 7.77	$ 9.88
Contracts with total expenses of 1.20%:					
Accumulation units outstanding	--	--	1,192	753	22,478
Unit value of accumulation units	$ --	$ --	$ 7.92	$ 7.76	$ 9.88
Contracts with total expenses of 1.25%:					
Accumulation units outstanding	91,771	80,320	--	--	--
Unit value of accumulation units	$ 17.58	$ 28.77	$ --	$ --	$ --

</TABLE>

(1) Offered in Polaris Plus product.

(2) Offered in Polaris II Asset Manager, Polaris II A-Class, and Polaris II A-Class Platinum products.

The accompanying notes are an integral part of the financial statements.

<PAGE>

VARIABLE ANNUITY ACCOUNT SEVEN
OF
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STATEMENTS OF ASSETS AND LIABILITIES
DECEMBER 31, 2011
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<TABLE>
<CAPTION>

<S>	Blue Chip Growth Portfolio (Class 3) <C>	Capital Growth Portfolio (Class 3) <C>	Cash Management Portfolio (Class 3) <C>	Corporate Bond Portfolio (Class 3) <C>	Davis Venture Value Portfolio (Class 3) <C>

Assets:					
Investments in Trusts, at net asset value	$1,777,763	$3,109,242	$13,425,444	$172,812,534	$81,238,583
Liabilities:	--	--	--	--	--
Net assets:	$1,777,763	$3,109,242	$13,425,444	$172,812,534	$81,238,583
Accumulation units	$1,777,763	$3,109,242	$13,425,444	$172,804,641	$81,219,383
Contracts in payout (annuitization) period	--	--	--	7,893	19,200
Total net assets	$1,777,763	$3,109,242	$13,425,444	$172,812,534	$81,238,583
Accumulation units outstanding	304,672	409,439	1,171,718	8,239,617	5,871,997
Contracts with total expenses of 0.85%(1):					
Accumulation units outstanding	--	--	--	--	--
Unit value of accumulation units	$ --	$ --	$ --	$ --	$ --
Contracts with total expenses of 0.85%(2):					
Accumulation units outstanding	241,176	396,118	1,065,113	7,825,877	5,626,575
Unit value of accumulation units	$ 5.85	$ 7.60	$ 11.46	$ 20.99	$ 13.84
Contracts with total expenses of 0.95%					
Accumulation units outstanding	47,145	4,175	86,712	209,299	105,832
Unit value of accumulation units	$ 5.84	$ 7.60	$ 11.46	$ 20.98	$ 13.82
Contracts with total expenses of 1.10%:					
Accumulation units outstanding	922	7,266	12,947	128,139	93,562
Unit value of accumulation units	$ 5.65	$ 7.39	$ 11.11	$ 20.42	$ 13.47
Contracts with total expenses of 1.20%:					
Accumulation units outstanding	15,429	1,880	6,946	76,302	46,028
Unit value of accumulation units	$ 5.65	$ 7.39	$ 11.11	$ 20.41	$ 13.44
Contracts with total expenses of 1.25%:					
Accumulation units outstanding	--	--	--	--	--

Unit value of accumulation units	$ --	$ --	$ --	$ --	$ --

<CAPTION>

<S>	"Dogs" of Wall Street Portfolio (Class 3) <C>	Emerging Markets Portfolio (Class 3) <C>	Equity Opportunities Portfolio (Class 3) <C>	Foreign Value Portfolio (Class 3) <C>	Fundamental Growth Portfolio (Class 3) <C>
Assets:					
Investments in Trusts, at net asset value	$1,722,968	$9,319,379	$1,089,923	$64,786,340	$2,829,282
Liabilities:	--	--	--	--	--
Net assets:	$1,722,968	$9,319,379	$1,089,923	$64,786,340	$2,829,282
Accumulation units	$1,707,558	$9,319,379	$1,089,923	$64,772,433	$2,829,282
Contracts in payout (annuitization) period	15,410	--	--	13,907	--
Total net assets	$1,722,968	$9,319,379	$1,089,923	$64,786,340	$2,829,282
Accumulation units outstanding	103,475	432,992	90,495	7,616,670	422,765
Contracts with total expenses of 0.85%(1):					
Accumulation units outstanding	--	--	--	--	--
Unit value of accumulation units	$ --	$ --	$ --	$ --	$ --
Contracts with total expenses of 0.85%(2):					
Accumulation units outstanding	99,735	404,837	84,431	6,372,025	415,891
Unit value of accumulation units	$ 16.66	$ 21.54	$ 12.06	$ 8.51	$ 6.70
Contracts with total expenses of 0.95%					
Accumulation units outstanding	2,212	14,205	549	835,489	914
Unit value of accumulation units	$ 16.67	$ 21.51	$ 12.06	$ 8.51	$ 6.69
Contracts with total expenses of 1.10%:					

Accumulation units outstanding	808	9,025	5,259	91,547	3,341
Unit value of accumulation units	$ 16.20	$ 21.00	$ 11.74	$ 8.39	$ 6.48
Contracts with total expenses of 1.20%:					
Accumulation units outstanding	720	4,925	256	317,609	2,619
Unit value of accumulation units	$ 16.21	$ 20.99	$ 11.75	$ 8.39	$ 6.48
Contracts with total expenses of 1.25%:					
Accumulation units outstanding	--	--	--	--	--
Unit value of accumulation units	$ --	$ --	$ --	$ --	$ --

</TABLE>

(1) Offered in Polaris Plus product.

(2) Offered in Polaris II Asset Manager, Polaris II A-Class, and Polaris II A-Class Platinum products.

The accompanying notes are an integral part of the financial statements.

<PAGE>

VARIABLE ANNUITY ACCOUNT SEVEN
OF
SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY

STATEMENTS OF ASSETS AND LIABILITIES
DECEMBER 31, 2011
(continued)

<TABLE>
<CAPTION>

<S>	Global Bond Portfolio (Class 3) <C>	Global Equities Portfolio (Class 3) <C>	Growth Opportunities Portfolio (Class 3) <C>	Growth-Income Portfolio (Class 3) <C>	High-Yield Bond Portfolio (Class 3) <C>
Assets:					
Investments in Trusts, at net asset value	$26,445,146	$1,155,601	$19,802,800	$6,662,058	$35,021,899
Liabilities:	--	--	--	--	--

Net assets:	$26,445,146	$1,155,601	$19,802,800	$6,662,058	$35,021,899
Accumulation units	$26,423,690	$1,155,601	$19,802,800	$6,662,058	$34,968,953
Contracts in payout (annuitization) period	21,456	--	--	--	52,946
Total net assets	$26,445,146	$1,155,601	$19,802,800	$6,662,058	$35,021,899
Accumulation units outstanding	1,469,111	133,917	3,300,537	694,256	2,111,423
Contracts with total expenses of 0.85%(1):					
Accumulation units outstanding	--	--	--	--	--
Unit value of accumulation units	$ --	$ --	$ --	$ --	$ --
Contracts with total expenses of 0.85%(2):					
Accumulation units outstanding	1,366,513	128,888	3,011,808	511,134	2,036,917
Unit value of accumulation units	$ 18.02	$ 8.63	$ 5.99	$ 9.62	$ 16.60
Contracts with total expenses of 0.95%					
Accumulation units outstanding	54,780	4,043	184,748	122,533	25,720
Unit value of accumulation units	$ 18.00	$ 8.63	$ 5.99	$ 9.62	$ 16.59
Contracts with total expenses of 1.10%:					
Accumulation units outstanding	18,136	647	46,955	12,290	31,964
Unit value of accumulation units	$ 17.54	$ 8.43	$ 6.18	$ 9.32	$ 16.17
Contracts with total expenses of 1.20%:					
Accumulation units outstanding	29,682	339	57,026	48,299	16,822
Unit value of accumulation units	$ 17.52	$ 8.43	$ 6.18	$ 9.32	$ 16.16
Contracts with total expenses of 1.25%:					
Accumulation units outstanding	--	--	--	--	--
Unit value of accumulation units	$ --	$ --	$ --	$ --	$ --

<CAPTION>

International International

<S>	Diversified Equities Portfolio (Class 3) <C>	Growth and Income Portfolio (Class 3) <C>	Marsico Focused Growth Portfolio (Class 3) <C>	MFS Massachusetts Investors Trust Portfolio (Class 3) <C>	MFS Total Return Portfolio (Class 3) <C>
Assets:					
Investments in Trusts, at net asset value	$4,648,045	$32,850,575	$3,170,730	$33,390,332	$111,079,120
Liabilities:	--	--	--	--	--
Net assets:	$4,648,045	$32,850,575	$3,170,730	$33,390,332	$111,079,120
Accumulation units	$4,648,045	$32,850,575	$3,170,730	$33,390,332	$111,063,382
Contracts in payout (annuitization) period	--	--	--	--	15,738
Total net assets	$4,648,045	$32,850,575	$3,170,730	$33,390,332	$111,079,120
Accumulation units outstanding	599,697	3,349,655	317,623	3,118,241	6,808,929
Contracts with total expenses of 0.85%(1):					
Accumulation units outstanding	--	--	--	--	--
Unit value of accumulation units	$ --	$ --	$ --	$ --	$ --
Contracts with total expenses of 0.85%(2):					
Accumulation units outstanding	584,966	3,290,580	259,755	2,550,427	6,607,241
Unit value of accumulation units	$ 7.75	$ 9.81	$ 9.99	$ 10.73	$ 16.32
Contracts with total expenses of 0.95%					
Accumulation units outstanding	4,630	2,783	32,760	374,486	56,871
Unit value of accumulation units	$ 7.75	$ 9.81	$ 9.99	$ 10.73	$ 16.31
Contracts with total expenses of 1.10%:					
Accumulation units outstanding	7,059	48,678	14,239	40,679	121,360
Unit value of accumulation units	$ 7.55	$ 9.55	$ 9.85	$ 10.32	$ 15.88

Contracts with total expenses of 1.20%:					
Accumulation units outstanding	3,042	7,614	10,869	152,649	23,457
Unit value of accumulation units	$ 7.55	$ 9.55	$ 9.85	$ 10.31	$ 15.87
Contracts with total expenses of 1.25%:					
Accumulation units outstanding	--	--	--	--	--
Unit value of accumulation units	$ --	$ --	$ --	$ --	$ --

</TABLE>

(1) Offered in Polaris Plus product.

(2) Offered in Polaris II Asset Manager, Polaris II A-Class, and Polaris II A-Class Platinum products.

The accompanying notes are an integral part of the financial statements.

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VARIABLE ANNUITY ACCOUNT SEVEN
OF
SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY

STATEMENTS OF ASSETS AND LIABILITIES
DECEMBER 31, 2011
(continued)

<TABLE>
<CAPTION>

<S>	Mid-Cap Growth Portfolio (Class 3) <C>	Real Estate Portfolio (Class 3) <C>	Small & Mid Cap Value Portfolio (Class 3) <C>	Small Company Value Portfolio (Class 3) <C>	Technology Portfolio (Class 3) <C>
Assets:					
Investments in Trusts, at net asset value	$7,862,931	$23,668,467	$44,564,972	$27,942,383	$586,022
Liabilities:	--	--	--	--	--
Net assets:	$7,862,931	$23,668,467	$44,564,972	$27,942,383	$586,022

Accumulation units	$7,862,931	$23,668,467	$44,558,722	$27,931,988	$586,022
Contracts in payout (annuitization) period	--	--	6,250	10,395	--
Total net assets	$7,862,931	$23,668,467	$44,564,972	$27,942,383	$586,022
Accumulation units outstanding	845,004	808,937	4,147,775	2,899,537	258,808
Contracts with total expenses of 0.85%(1):					
Accumulation units outstanding	--	--	--	--	--
Unit value of accumulation units	$ --	$ --	$ --	$ --	$ --
Contracts with total expenses of 0.85%(2):					
Accumulation units outstanding	413,646	750,135	3,847,381	2,556,855	242,634
Unit value of accumulation units	$ 9.35	$ 29.28	$ 10.75	$ 9.64	$ 2.26
Contracts with total expenses of 0.95%					
Accumulation units outstanding	296,738	34,676	177,599	223,090	15,580
Unit value of accumulation units	$ 9.34	$ 29.27	$ 10.74	$ 9.64	$ 2.26
Contracts with total expenses of 1.10%:					
Accumulation units outstanding	17,105	12,015	56,523	36,103	118
Unit value of accumulation units	$ 9.10	$ 28.50	$ 10.60	$ 9.51	$ 2.18
Contracts with total expenses of 1.20%:					
Accumulation units outstanding	117,515	12,111	66,272	83,489	476
Unit value of accumulation units	$ 9.09	$ 28.50	$ 10.59	$ 9.51	$ 2.19
Contracts with total expenses of 1.25%:					
Accumulation units outstanding	--	--	--	--	--
Unit value of accumulation units	$ --	$ --	$ --	$ --	$ --

<CAPTION>

	Telecom Utility Portfolio (Class 3)	Total Return Bond Portfolio (Class 3)	Invesco Van Kampen V.I. Capital Growth Fund (Series II)	Invesco Van Kampen V.I. Comstock Fund (Series II)	Invesco Van Kampen V.I. Growth and Income Fund (Series II)

<S>	<C>	<C>	<C>	<C>	<C>
Assets:					
Investments in Trusts, at net asset value	$1,138,993	$99,250,165	$5,785,568	$215,633,423	$227,760,765
Liabilities:	--	--	--	--	--
Net assets:	$1,138,993	$99,250,165	$5,785,568	$215,633,423	$227,760,765
Accumulation units	$1,138,993	$99,250,165	$5,785,568	$215,512,403	$227,531,326
Contracts in payout (annuitization) period	--	--	--	121,020	229,439
Total net assets	$1,138,993	$99,250,165	$5,785,568	$215,633,423	$227,760,765
Accumulation units outstanding	93,254	5,088,050	547,888	16,891,729	15,734,906
Contracts with total expenses of 0.85%(1):					
Accumulation units outstanding	--	--	--	--	--
Unit value of accumulation units	$ --	$ --	$ --	$ --	$ --
Contracts with total expenses of 0.85%(2):					
Accumulation units outstanding	86,663	4,126,544	505,335	15,678,524	14,480,884
Unit value of accumulation units	$ 12.23	$ 19.54	$ 10.58	$ 12.78	$ 14.49
Contracts with total expenses of 0.95%					
Accumulation units outstanding	2,103	651,411	3,172	422,878	487,187
Unit value of accumulation units	$ 12.21	$ 19.53	$ 10.56	$ 12.78	$ 14.48
Contracts with total expenses of 1.10%:					
Accumulation units outstanding	2,301	54,171	36,765	624,030	570,083
Unit value of accumulation units	$ 11.92	$ 19.03	$ 10.35	$ 12.46	$ 14.11
Contracts with total expenses of 1.20%:					
Accumulation units outstanding	2,187	255,924	2,616	166,297	196,752
Unit value of accumulation units	$ 11.91	$ 19.02	$ 10.34	$ 12.46	$ 14.10

Contracts with total expenses of 1.25%:					
Accumulation units outstanding	--	--	--	--	--
Unit value of accumulation units	$ --	$ --	$ --	$ --	$ --

</TABLE>

(1) Offered in Polaris Plus product.

(2) Offered in Polaris II Asset Manager, Polaris II A-Class, and Polaris II A-Class Platinum products.

The accompanying notes are an integral part of the financial statements.

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VARIABLE ANNUITY ACCOUNT SEVEN
OF
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STATEMENTS OF ASSETS AND LIABILITIES
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(continued)

<TABLE>
<CAPTION>

<S>	Growth and Income Portfolio (Class VC) <C>	Mid Cap Value Portfolio (Class VC) <C>	Asset Allocation Fund (Class 2) <C>	Global Growth Fund (Class 2) <C>	Growth Fund (Class 2) <C>
Assets:					
Investments in Trusts, at net asset value	$120,543,506	$77,188,094	$299,059,306	$261,361,569	$207,500,378
Liabilities:	--	--	--	--	--
Net assets:	$120,543,506	$77,188,094	$299,059,306	$261,361,569	$207,500,378
Accumulation units	$120,384,708	$77,145,361	$298,593,517	$261,205,469	$207,308,900

Contracts in payout (annuitization) period	158,798	42,733	465,789	156,100	191,478
Total net assets	$120,543,506	$77,188,094	$299,059,306	$261,361,569	$207,500,378
Accumulation units outstanding	10,291,928	5,575,464	17,776,821	11,908,185	10,468,633
Contracts with total expenses of 0.85%(1):					
Accumulation units outstanding	--	--	--	--	--
Unit value of accumulation units	$ --	$ --	$ --	$ --	$ --
Contracts with total expenses of 0.85%(2):					
Accumulation units outstanding	9,725,893	5,228,574	17,008,847	11,146,565	9,748,039
Unit value of accumulation units	$ 11.73	$ 13.86	$ 16.84	$ 21.97	$ 19.85
Contracts with total expenses of 0.95%					
Accumulation units outstanding	61,706	24,441	65,422	270,895	159,147
Unit value of accumulation units	$ 11.72	$ 13.87	$ 16.83	$ 21.96	$ 19.85
Contracts with total expenses of 1.10%:					
Accumulation units outstanding	484,291	314,406	659,756	388,333	501,629
Unit value of accumulation units	$ 11.45	$ 13.53	$ 16.46	$ 21.48	$ 19.40
Contracts with total expenses of 1.20%:					
Accumulation units outstanding	20,038	8,043	42,796	102,392	59,818
Unit value of accumulation units	$ 11.44	$ 13.54	$ 16.46	$ 21.47	$ 19.40
Contracts with total expenses of 1.25%:					
Accumulation units outstanding	--	--	--	--	--
Unit value of accumulation units	$ --	$ --	$ --	$ --	$ --

<CAPTION>

	Growth-Income Fund (Class 2)	Franklin Income Securities Fund (Class 2)	Franklin Templeton VIP Founding Funds Allocation Fund (Class 2)	Real Return Portfolio (Class 3)
<S>	<C>	<C>	<C>	<C>

Assets:				
Investments in Trusts, at net asset value	$363,374,312	$15,179,584	$23,506,395	$7,022,566
Liabilities:	--	--	--	--
Net assets:	$363,374,312	$15,179,584	$23,506,395	$7,022,566
Accumulation units	$363,111,860	$15,154,069	$23,506,395	$7,022,566
Contracts in payout (annuitization) period	262,452	25,515	--	--
Total net assets	$363,374,312	$15,179,584	$23,506,395	$7,022,566
Accumulation units outstanding	21,562,653	1,407,331	2,561,875	573,990
Contracts with total expenses of 0.85%(1):				
Accumulation units outstanding	--	--	--	--
Unit value of accumulation units	$ --	$ --	$ --	$ --
Contracts with total expenses of 0.85%(2):				
Accumulation units outstanding	20,655,681	1,242,645	2,509,007	287,872
Unit value of accumulation units	$ 16.87	$ 10.79	$ 9.18	$ 12.24
Contracts with total expenses of 0.95%				
Accumulation units outstanding	62,260	90,666	24,669	208,508
Unit value of accumulation units	$ 16.84	$ 10.78	$ 9.18	$ 12.23
Contracts with total expenses of 1.10%:				
Accumulation units outstanding	815,903	19,610	11,966	9
Unit value of accumulation units	$ 16.47	$ 10.71	$ 9.09	$ 12.27
Contracts with total expenses of 1.20%:				
Accumulation units outstanding	28,809	54,410	16,233	77,601
Unit value of accumulation units	$ 16.47	$ 10.70	$ 9.09	$ 12.23
Contracts with total expenses of 1.25%:				
Accumulation units outstanding	--	--	--	--

Unit value of accumulation units	$	--	$	--	$	--	$	--

</TABLE>

(1) Offered in Polaris Plus product.

(2) Offered in Polaris II Asset Manager, Polaris II A-Class, and Polaris II A-Class Platinum products.

The accompanying notes are an integral part of the financial statements.

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SCHEDULES OF PORTFOLIO INVESTMENTS
DECEMBER 31, 2011

<TABLE>
<CAPTION>

Variable Accounts	Shares	Net Asset Value Per Share	Net Asset Value	Cost	Level (Note A)
<S>	<C>	<C>	<C>	<C>	<C>
ANCHOR SERIES TRUST					
Asset Allocation Portfolio (Class 1)	975,151	$ 13.03	$ 12,702,926	$ 12,542,111	1
Capital Appreciation Portfolio (Class 1)	2,055,874	34.14	70,183,281	71,406,819	1
Government and Quality Bond Portfolio (Class 1)	3,621,172	15.57	56,385,005	54,166,313	1
Growth Portfolio (Class 1)	1,636,499	19.31	31,593,436	37,924,523	1
Asset Allocation Portfolio (Class 3)	420,815	12.97	5,456,788	5,001,626	1
Capital Appreciation Portfolio (Class 3)	3,146,679	33.41	105,117,546	109,800,972	1
Government and Quality Bond Portfolio (Class 3)	6,249,540	15.52	97,013,952	94,234,854	1
Growth Portfolio (Class 3)	205,477	19.26	3,958,202	3,890,417	1
Natural Resources Portfolio (Class 3)	263,775	24.18	6,378,281	8,549,224	1
SUNAMERICA SERIES TRUST					
Aggressive Growth Portfolio (Class 1)	447,008	$ 9.70	$ 4,336,866	$ 5,516,759	1
Alliance Growth Portfolio (Class 1)	925,378	22.28	20,614,056	27,424,174	1
Balanced Portfolio (Class 1)	1,168,580	14.43	16,862,084	18,073,926	1
Blue Chip Growth Portfolio (Class 1)	149,442	6.91	1,032,130	989,815	1
Capital Growth Portfolio (Class 1)	134,013	8.49	1,138,262	1,081,080	1

Cash Management Portfolio (Class 1)	1,789,096	10.64	19,038,886	19,190,464	1
Corporate Bond Portfolio (Class 1)	5,115,715	13.30	68,020,756	61,571,250	1
Davis Venture Value Portfolio (Class 1)	2,623,853	21.90	57,459,907	60,602,257	1
"Dogs" of Wall Street Portfolio (Class 1)	441,437	8.51	3,758,211	3,568,154	1
Emerging Markets Portfolio (Class 1)	1,124,196	6.90	7,759,890	8,243,692	1
Equity Index Portfolio (Class 1)	914,636	10.52	9,620,430	9,934,854	1
Equity Opportunities Portfolio (Class 1)	774,047	11.52	8,917,611	8,762,193	1
Fundamental Growth Portfolio (Class 1)	636,994	15.57	9,920,792	12,473,716	1
Global Bond Portfolio (Class 1)	1,211,296	12.47	15,102,584	14,879,745	1
Global Equities Portfolio (Class 1)	390,547	12.49	4,878,592	5,878,069	1
Growth Opportunities Portfolio (Class 1)	222,899	6.95	1,550,205	1,389,357	1
Growth-Income Portfolio (Class 1)	846,460	21.15	17,904,980	19,243,546	1
High-Yield Bond Portfolio (Class 1)	2,545,839	5.36	13,645,893	13,518,315	1
International Diversified Equities Portfolio (Class 1)	657,715	7.57	4,981,467	5,869,920	1
International Growth and Income Portfolio (Class 1)	1,142,298	7.61	8,694,008	11,737,437	1
MFS Massachusetts Investors Trust Portfolio (Class 1)	293,617	13.63	4,000,677	3,654,095	1
MFS Total Return Portfolio (Class 1)	5,941,999	14.48	86,038,905	91,783,836	1
Mid-Cap Growth Portfolio (Class 1)	330,371	10.66	3,521,322	2,986,704	1
Real Estate Portfolio (Class 1)	420,906	12.59	5,299,776	4,924,641	1
Small Company Value Portfolio (Class 1)	223,647	16.46	3,681,375	3,432,263	1
Technology Portfolio (Class 1)	117,879	2.70	318,713	281,319	1
Telecom Utility Portfolio (Class 1)	202,841	11.07	2,245,084	2,203,957	1
Total Return Bond Portfolio (Class 1)	2,896,036	9.01	26,095,979	24,718,012	1
Aggressive Growth Portfolio (Class 3)	40,343	9.56	385,850	343,576	1
Alliance Growth Portfolio (Class 3)	412,480	22.14	9,130,254	9,078,938	1
Balanced Portfolio (Class 3)	282,374	14.39	4,064,697	3,820,838	1
Blue Chip Growth Portfolio (Class 3)	258,098	6.89	1,777,763	1,658,964	1
Capital Growth Portfolio (Class 3)	373,023	8.34	3,109,242	2,842,464	1
Cash Management Portfolio (Class 3)	1,272,158	10.55	13,425,444	13,449,302	1
Corporate Bond Portfolio (Class 3)	13,058,262	13.23	172,812,534	156,730,578	1
Davis Venture Value Portfolio (Class 3)	3,721,362	21.83	81,238,583	86,915,199	1
"Dogs" of Wall Street Portfolio (Class 3)	203,096	8.48	1,722,968	1,496,017	1
Emerging Markets Portfolio (Class 3)	1,368,082	6.81	9,319,379	8,443,557	1
Equity Opportunities Portfolio (Class 3)	94,804	11.50	1,089,923	935,680	1
Foreign Value Portfolio (Class 3)	5,393,337	12.01	64,786,340	74,174,017	1
Fundamental Growth Portfolio (Class 3)	184,898	15.30	2,829,282	2,408,448	1
Global Bond Portfolio (Class 3)	2,143,818	12.34	26,445,146	25,778,502	1
Global Equities Portfolio (Class 3)	93,110	12.41	1,155,601	1,191,258	1
Growth Opportunities Portfolio (Class 3)	2,920,626	6.78	19,802,800	14,821,148	1
Growth-Income Portfolio (Class 3)	315,476	21.12	6,662,058	6,574,294	1
High-Yield Bond Portfolio (Class 3)	6,563,230	5.34	35,021,899	36,050,297	1
International Diversified Equities Portfolio (Class 3)	617,831	7.52	4,648,045	5,695,560	1

International Growth and Income Portfolio (Class 3)	4,315,363	7.61	32,850,575	33,192,407	1
Marsico Focused Growth Portfolio (Class 3)	357,710	8.86	3,170,730	3,082,532	1
MFS Massachusetts Investors Trust Portfolio (Class 3)	2,455,990	13.60	33,390,332	27,402,826	1
MFS Total Return Portfolio (Class 3)	7,687,959	14.45	111,079,120	119,089,500	1
Mid-Cap Growth Portfolio (Class 3)	755,023	10.41	7,862,931	7,472,719	1
Real Estate Portfolio (Class 3)	1,892,162	12.51	23,668,467	14,179,443	1
Small & Mid Cap Value Portfolio (Class 3)	2,814,898	15.83	44,564,972	31,199,330	1
Small Company Value Portfolio (Class 3)	1,708,471	16.36	27,942,383	22,103,612	1
Technology Portfolio (Class 3)	221,942	2.64	586,022	570,325	1
Telecom Utility Portfolio (Class 3)	103,192	11.04	1,138,993	1,023,858	1
Total Return Bond Portfolio (Class 3)	11,100,116	8.94	99,250,165	93,148,830	1
INVESCO VARIABLE INSURANCE FUNDS (Series II):					
Invesco Van Kampen V.I. Capital Growth Fund	184,548	$ 31.35	$ 5,785,568	$4,596,252	1
Invesco Van Kampen V.I. Comstock Fund	19,116,438	11.28	215,633,423	226,404,129	1
Invesco Van Kampen V.I. Growth and Income Fund	12,838,826	17.74	227,760,765	229,889,411	1
LORD ABBETT SERIES FUND, INC. (Class VC):					
Growth and Income Portfolio	5,442,145	$ 22.15	$ 120,543,506	$ 136,465,366	1
Mid Cap Value Portfolio	4,866,841	15.86	77,188,094	84,409,385	1
AMERICAN FUNDS INSURANCE SERIES (Class 2):					
Asset Allocation Fund	18,621,376	$ 16.06	$ 299,059,306	$ 299,494,031	1
Global Growth Fund	13,549,070	19.29	261,361,569	276,111,713	1
Growth Fund	4,015,100	51.68	207,500,378	215,531,136	1
Growth-Income Fund	10,988,035	33.07	363,374,312	400,434,452	1
FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST (Class 2):					
Franklin Income Securities Fund	1,060,027	$ 14.32	$ 15,179,584	$ 13,534,655	1
Franklin Templeton VIP Founding Funds Allocation Fund	3,097,022	7.59	23,506,395	19,151,388	1
SEASONS SERIES TRUST (Class 3):					
Real Return Portfolio	693,462	$ 10.13	$ 7,022,566	$ 6,888,337	1

</TABLE>

(A) Represents the level within the fair value hierarchy under which the portfolio is classified as defined in Fair Value Measurements, and described in Note 3 to the Financial Statements.

The accompanying notes are an integral part of the financial statements.

<PAGE>

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<TABLE>
<CAPTION>

<S>	Asset Allocation Portfolio (Class 1) <C>	Capital Appreciation Portfolio (Class 1) <C>	Government and Quality Bond Portfolio (Class 1) <C>	Growth Portfolio (Class 1) <C>	Asset Allocation Portfolio (Class 3) <C>
Investment income:					
Dividends	$ 362,233	$ --	$ 1,820,603	$ 264,720	$ 132,209
Expenses:					
Charges for distribution, mortality and expense risk	(141,589)	(797,821)	(567,091)	(348,736)	(43,342)
Net investment income (loss)	220,644	(797,821)	1,253,512	(84,016)	88,867
Net realized gains (losses) from securities transactions	(270,582)	1,480,118	404,727	(2,826,088)	(219,325)
Realized gain distributions	--	--	255,390	--	--
Net realized gains (losses)	(270,582)	1,480,118	660,117	(2,826,088)	(219,325)
Net unrealized appreciation (depreciation) of investments:					
Beginning of period	104,998	4,997,836	625,241	(6,754,893)	319,398
End of period	160,815	(1,223,538)	2,218,692	(6,331,087)	455,162

Change in net unrealized appreciation (depreciation) of investments	55,817	(6,221,374)	1,593,451	423,806	135,764
Increase (decrease) in net assets from operations	$ 5,879	$ (5,539,077)	$ 3,507,080	$ (2,486,298)	$ 5,306

<CAPTION>

	Capital Appreciation Portfolio (Class 3)	Government and Quality Bond Portfolio (Class 3)	Growth Portfolio (Class 3)	Natural Resources Portfolio (Class 3)	Aggressive Growth Portfolio (Class 1)
<S>	<C>	<C>	<C>	<C>	<C>
Investment income:					
Dividends	$ --	$ 2,669,352	$ 20,092	$ 33,826	$ --
Expenses:					
Charges for distribution, mortality and expense risk	(1,043,944)	(782,327)	(37,382)	(67,792)	(54,052)
Net investment income (loss)	(1,043,944)	1,887,025	(17,290)	(33,966)	(54,052)
Net realized gains (losses) from securities transactions	(4,290,254)	625,463	(297,468)	(1,762,606)	(274,185)
Realized gain distributions	--	405,496	--	1,862,403	--
Net realized gains (losses)	(4,290,254)	1,030,959	(297,468)	99,797	(274,185)
Net unrealized appreciation (depreciation) of investments:					
Beginning of period	(1,765,308)	433,985	49,944	(425,494)	(1,359,483)
End of period	(4,683,426)	2,779,098	67,785	(2,170,943)	(1,179,893)

Change in net unrealized appreciation (depreciation) of investments	(2,918,118)	2,345,113	17,841	(1,745,449)	179,590
Increase (decrease) in net assets from operations	$ (8,252,316)	$5,263,097	$ (296,917)	$ (1,679,618)	$ (148,647)

</TABLE>

The accompanying notes are an integral part of the financial statements.

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(continued)

<TABLE>
<CAPTION>

<S>	Alliance Growth Portfolio (Class 1) <C>	Balanced Portfolio (Class 1) <C>	Blue Chip Growth Portfolio (Class 1) <C>	Capital Growth Portfolio (Class 1) <C>	Cash Management Portfolio (Class 1) <C>
Investment income:					
Dividends	$ 111,243	$ 316,364	$ 2,288	$ --	$ --
Expenses:					
Charges for distribution, mortality and expense risk	(275,269)	(209,215)	(8,900)	(12,089)	(173,244)
Net investment income (loss)	(164,026)	107,149	(6,612)	(12,089)	(173,244)

Net realized gains (losses) from sale of securities	(1,153,256)	(381,665)	32,845	190,819	(95,602)
Realized gain distributions	--	--	--	--	--
Net realized gains (losses)	(1,153,256)	(381,665)	32,845	190,819	(95,602)
Net unrealized appreciation (depreciation) of investments:					
Beginning of period	(7,415,283)	(1,688,155)	131,085	285,984	(197,784)
End of period	(6,810,118)	(1,211,842)	42,315	57,182	(151,578)
Change in net unrealized appreciation (depreciation) of investments	605,165	476,313	(88,770)	(228,802)	46,206
Increase (decrease) in net assets from operations	$ (712,117)	$ 201,797	$ (62,537)	$ (50,072)	$ (222,640)

<CAPTION>

<S>	Corporate Bond Portfolio (Class 1) <C>	Davis Venture Value Portfolio (Class 1) <C>	"Dogs" of Wall Street Portfolio (Class 1) <C>	Emerging Markets Portfolio (Class 1) <C>	Equity Index Portfolio (Class 1) <C>
Investment income:					
Dividends	$ 4,461,696	$ 825,094	$ 76,765	$ 56,881	$ 158,106
Expenses:					
Charges for distribution, mortality and expense risk	(642,984)	(616,165)	(36,767)	(114,855)	(130,441)
Net investment income (loss)	3,818,712	208,929	39,998	(57,974)	27,665
Net realized gains (losses) from sale					

of securities	2,236,171	(1,384,505)	78,210	1,174,249	(85,931)
Realized gain distributions	332,720	--	--	--	--
Net realized gains (losses)	2,568,891	(1,384,505)	78,210	1,174,249	(85,931)
Net unrealized appreciation (depreciation) of investments:					
Beginning of period	8,922,219	(1,019,689)	(57,300)	3,708,054	(432,234)
End of period	6,449,506	(3,142,350)	190,057	(483,802)	(314,424)
Change in net unrealized appreciation (depreciation) of investments	(2,472,713)	(2,122,661)	247,357	(4,191,856)	117,810
Increase (decrease) in net assets from operations	$ 3,914,890	$ (3,298,237)	$ 365,565	$ (3,075,581)	$ 59,544

</TABLE>

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(continued)

<TABLE>
<CAPTION>

	Equity Opportunities Portfolio (Class 1)	Fundamental Growth Portfolio (Class 1)	Global Bond Portfolio (Class 1)	Global Equities Portfolio (Class 1)	Growth Opportunities Portfolio (Class 1)

<S>	<C>	<C>	<C>	<C>	<C>
Investment income:					
Dividends	$ 55,066	$ --	$ 347,147	$ 53,898	$ --
Expenses:					
Charges for distribution, mortality and expense risk	(92,666)	(121,411)	(145,609)	(63,437)	(15,214)
Net investment income (loss)	(37,600)	(121,411)	201,538	(9,539)	(15,214)
Net realized gains (losses) from sale of securities	(766,556)	(351,993)	23,430	(238,828)	127,830
Realized gain distributions	--	--	215,520	--	--
Net realized gains (losses)	(766,556)	(351,993)	238,950	(238,828)	127,830
Net unrealized appreciation (depreciation) of investments:					
Beginning of period	(533,024)	(2,335,258)	(27,886)	(579,304)	328,819
End of period	155,418	(2,552,924)	222,839	(999,477)	160,848
Change in net unrealized appreciation (depreciation) of investments	688,442	(217,666)	250,725	(420,173)	(167,971)
Increase (decrease) in net assets from operations	$ (115,714)	$ (691,070)	$ 691,213	$ (668,540)	$ (55,355)

<CAPTION>

	Growth-Income Portfolio	High-Yield Bond Portfolio	International Diversified Equities Portfolio	International Growth and Income Portfolio	MFS Massachusetts Investors Trust Portfolio

<S>

	(Class 1) <C>	(Class 1) <C>	(Class 1) <C>	(Class 1) <C>	(Class 1) <C>
Investment income:					
Dividends	$ 174,151	$ 1,184,745	$ 129,936	$ 315,060	$ 29,346
Expenses:					
Charges for distribution, mortality and expense risk	(215,429)	(136,600)	(63,046)	(108,163)	(37,226)
Net investment income (loss)	(41,278)	1,048,145	66,890	206,897	(7,880)
Net realized gains (losses) from sale of securities	(1,575,201)	(890,036)	(344,099)	(2,433,723)	162,096
Realized gain distributions	--	--	--	--	--
Net realized gains (losses)	(1,575,201)	(890,036)	(344,099)	(2,433,723)	162,096
Net unrealized appreciation (depreciation) of investments:					
Beginning of period	(4,259,325)	(208,651)	(222,674)	(3,705,433)	600,868
End of period	(1,338,566)	127,578	(888,453)	(3,043,429)	346,582
Change in net unrealized appreciation (depreciation) of investments	2,920,759	336,229	(665,779)	662,004	(254,286)
Increase (decrease) in net assets from operations	$ 1,304,280	$ 494,338	$ (942,988)	$ (1,564,822)	$ (100,070)

</TABLE>

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<TABLE>
<CAPTION>

<S>	MFS Total Return Portfolio (Class 1) <C>	Mid-Cap Growth Portfolio (Class 1) <C>	Real Estate Portfolio (Class 1) <C>	Small Company Value Portfolio (Class 1) <C>	Technology Portfolio (Class 1) <C>
Investment income:					
Dividends	$ 2,462,229	$ --	$ 52,256	$ 15,077	$ --
Expenses:					
Charges for distribution, mortality and expense risk	(830,968)	(35,334)	(55,485)	(53,304)	(3,460)
Net investment income (loss)	1,631,261	(35,334)	(3,229)	(38,227)	(3,460)
Net realized gains (losses) from sale of securities	(2,518,584)	164,397	(812,820)	570,716	54,082
Realized gain distributions	--	--	--	--	--
Net realized gains (losses)	(2,518,584)	164,397	(812,820)	570,716	54,082
Net unrealized appreciation (depreciation) of investments:					
Beginning of period	(7,853,538)	889,106	(805,044)	942,391	112,285
End of period	(5,744,931)	534,618	375,135	249,112	37,394

Change in net unrealized appreciation (depreciation) of investments	2,108,607	(354,488)	1,180,179	(693,279)	(74,891)
Increase (decrease) in net assets from operations	$ 1,221,284	$ (225,425)	$ 364,130	$ (160,790)	$ (24,269)

<CAPTION>

<S>	Telecom Utility Portfolio (Class 1) <C>	Total Return Bond Portfolio (Class 1) <C>	Aggressive Growth Portfolio (Class 3) <C>	Alliance Growth Portfolio (Class 3) <C>	Balanced Portfolio (Class 3) <C>
Investment income:					
Dividends	$ 53,284	$ 378,544	$ --	$ 22,401	$ 56,520
Expenses:					
Charges for distribution, mortality and expense risk	(26,475)	(218,212)	(3,492)	(91,114)	(30,171)
Net investment income (loss)	26,809	160,332	(3,492)	(68,713)	26,349
Net realized gains (losses) from sale of securities	29,843	892,680	(12,928)	138,176	224,751
Realized gain distributions	--	292,587	--	--	--
Net realized gains (losses)	29,843	1,185,267	(12,928)	138,176	224,751
Net unrealized appreciation (depreciation) of investments:					
Beginning of period	(14,931)	1,464,039	40,802	435,766	464,765
End of period	41,127	1,377,967	42,274	51,316	243,859

Change in net unrealized appreciation (depreciation) of investments	56,058	(86,072)	1,472	(384,450)	(220,906)
Increase (decrease) in net assets from operations	$ 112,710	$ 1,259,527	$ (14,948)	$ (314,987)	$ 30,194

</TABLE>

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(continued)

<TABLE>
<CAPTION>

<S>	Blue Chip Growth Portfolio (Class 3) <C>	Capital Growth Portfolio (Class 3) <C>	Cash Management Portfolio (Class 3) <C>	Corporate Bond Portfolio (Class 3) <C>	Davis Venture Portfolio (Class 3) <C>
Investment income:					
Dividends	$ 96	$ --	$ --	$ 10,711,069	$ 951,913
Expenses:					
Charges for distribution, mortality and expense risk	(14,197)	(29,424)	(104,979)	(1,538,304)	(756,649)
Net investment income (loss)	(14,101)	(29,424)	(104,979)	9,172,765	195,264

Net realized gains (losses) from sale of securities	115,409	(48,493)	(65,264)	4,499,044	(7,227,904)
Realized gain distributions	--	--	--	828,968	--
Net realized gains (losses)	115,409	(48,493)	(65,264)	5,328,012	(7,227,904)
Net unrealized appreciation (depreciation) of investments:					
Beginning of period	326,855	274,675	(24,520)	21,334,354	(8,300,117)
End of period	118,799	266,778	(23,858)	16,081,956	(5,676,616)
Change in net unrealized appreciation (depreciation) of investments	(208,056)	(7,897)	662	(5,252,398)	2,623,501
Increase (decrease) in net assets from operations	$ (106,748)	$ (85,814)	$ (169,581)	$ 9,248,379	$ (4,409,139)

<CAPTION>

<S>	"Dogs" of Wall Street Portfolio (Class 3) <C>	Emerging Markets Portfolio (Class 3) <C>	Equity Opportunities Portfolio (Class 3) <C>	Foreign Value Portfolio (Class 3) <C>	Fundamental Growth Portfolio (Class 3) <C>
Investment income:					
Dividends	$ 32,155	$ 43,344	$ 3,601	$ 948,611	$ --
Expenses:					
Charges for distribution, mortality and expense risk	(12,030)	(92,682)	(10,712)	(539,678)	(28,058)
Net investment income (loss)	20,125	(49,338)	(7,111)	408,933	(28,058)
Net realized gains (losses) from					

sale of securities	(16,656)	1,012,821	(97,037)	(4,174,931)	(88,785)
Realized gain distributions	--	--	--	--	--
Net realized gains (losses)	(16,656)	1,012,821	(97,037)	(4,174,931)	(88,785)
Net unrealized appreciation (depreciation) of investments:					
Beginning of period	71,154	4,815,374	73,143	(5,796,079)	471,093
End of period	226,951	875,822	154,243	(9,387,677)	420,834
Change in net unrealized appreciation (depreciation) of investments	155,797	(3,939,552)	81,100	(3,591,598)	(50,259)
Increase (decrease) in net assets from operations	$ 159,266	$ (2,976,069)	$ (23,048)	$ (7,357,596)	$ (167,102)

</TABLE>

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<TABLE>
<CAPTION>

	Global Bond Portfolio (Class 3)	Global Equities Portfolio (Class 3)	Growth Opportunities Portfolio (Class 3)	Growth-Income Portfolio (Class 3)	High-Yield Bond Portfolio (Class 3)

<S>	<C>	<C>	<C>	<C>	<C>
Investment income:					
Dividends	$ 538,316	$ 10,147	$ --	$ 39,968	$ 2,983,772
Expenses:					
Charges for distribution, mortality and expense risk	(228,858)	(11,280)	(173,178)	(43,215)	(317,750)
Net investment income (loss)	309,458	(1,133)	(173,178)	(3,247)	2,666,022
Net realized gains (losses) from sale of securities	86,338	(113,394)	615,969	(419,653)	(1,700,497)
Realized gain distributions	366,469	--	--	--	--
Net realized gains (losses)	452,807	(113,394)	615,969	(419,653)	(1,700,497)
Net unrealized appreciation (depreciation) of investments:					
Beginning of period	217,905	(579)	5,754,102	(749,840)	(1,265,684)
End of period	666,644	(35,657)	4,981,652	87,764	(1,028,398)
Change in net unrealized appreciation (depreciation) of investments	448,739	(35,078)	(772,450)	837,604	237,286
Increase (decrease) in net assets from operations	$ 1,211,004	$ (149,605)	$ (329,659)	$ 414,704	$ 1,202,811

<CAPTION>

	International Diversified Equities Portfolio (Class 3)	International Growth and Income Portfolio (Class 3)	Marsico Focused Growth Portfolio (Class 3)	MFS Massachusetts Investors Trust Portfolio (Class 3)	MFS Total Return Portfolio (Class 3)
<S>	<C>	<C>	<C>	<C>	<C>

Investment income:					
Dividends	$ 104,632	$ 1,070,058	$ 3,499	$ 150,706	$ 2,830,722
Expenses:					
Charges for distribution, mortality and expense risk	(46,647)	(312,300)	(26,857)	(260,188)	(1,022,482)
Net investment income (loss)	57,985	757,758	(23,358)	(109,482)	1,808,240
Net realized gains (losses) from sale of securities	(422,601)	(3,335,775)	(236,906)	31,826	(5,513,594)
Realized gain distributions	--	--	--	--	--
Net realized gains (losses)	(422,601)	(3,335,775)	(236,906)	31,826	(5,513,594)
Net unrealized appreciation (depreciation) of investments:					
Beginning of period	(579,547)	2,168,744	(94,103)	6,608,130	(12,805,127)
End of period	(1,047,515)	(341,832)	88,198	5,987,506	(8,010,380)
Change in net unrealized appreciation (depreciation) of investments	(467,968)	(2,510,576)	182,301	(620,624)	4,794,747
Increase (decrease) in net assets from operations	$ (832,584)	$ (5,088,593)	$ (77,963)	$ (698,280)	$ 1,089,393

</TABLE>

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<TABLE>
<CAPTION>

<S>	Mid-Cap Growth Portfolio (Class 3) <C>	Real Estate Portfolio (Class 3) <C>	Small & Mid Cap Value Portfolio (Class 3) <C>	Small Company Portfolio (Class 3) <C>	Technology Portfolio (Class 3) <C>
Investment income:					
Dividends	$ --	$ 189,557	$ 59,143	$ 64,704	$ --
Expenses:					
Charges for distribution, mortality and expense risk	(43,376)	(207,571)	(393,674)	(236,577)	(6,113)
Net investment income (loss)	(43,376)	(18,014)	(334,531)	(171,873)	(6,113)
Net realized gains (losses) from sale of securities	142,800	1,387,135	398,279	330,776	123,245
Realized gain distributions	--	--	--	--	--
Net realized gains (losses)	142,800	1,387,135	398,279	330,776	123,245
Net unrealized appreciation (depreciation) of investments:					
Beginning of period	748,432	9,097,626	16,913,537	6,799,948	178,359
End of period	390,212	9,489,024	13,365,642	5,838,771	15,697
Change in net unrealized appreciation (depreciation) of investments	(358,220)	391,398	(3,547,895)	(961,177)	(162,662)

Increase (decrease) in net assets from operations	$ (258,796)	$ 1,760,519	$ (3,484,147)	$ (802,274)	$ (45,530)

<CAPTION>

<S>	Telecom Utility Portfolio (Class 3) <C>	Total Return Bond Portfolio (Class 3) <C>	Invesco Van Kampen V.I. Capital Growth Fund (Series II) <C>	Invesco Van Kampen V.I. Comstock Fund (Series II) <C>	Invesco Van Kampen V.I. Growth and Income Fund (Series II) <C>
Investment income:					
Dividends	$ 20,934	$ 1,077,355	$ --	$ 3,194,159	$ 2,463,725
Expenses:					
Charges for distribution, mortality and expense risk	(8,035)	(736,302)	(60,720)	(2,014,209)	(2,102,693)
Net investment income (loss)	12,899	341,053	(60,720)	1,179,950	361,032
Net realized gains (losses) from sale of securities	(26,206)	3,060,226	481,246	(6,532,428)	(3,803,917)
Realized gain distributions	--	984,836	--	--	--
Net realized gains (losses)	(26,206)	4,045,062	481,246	(6,532,428)	(3,803,917)
Net unrealized appreciation (depreciation) of investments:					
Beginning of period	55,549	6,158,153	2,072,159	(10,412,549)	808,028
End of period	115,135	6,101,335	1,189,316	(10,770,706)	(2,128,646)
Change in net unrealized appreciation (depreciation) of investments	59,586	(56,818)	(882,843)	(358,157)	(2,936,674)

Increase (decrease) in net assets from operations	$ 46,279	$ 4,329,297	$ (462,317)	$ (5,710,635)	$ (6,379,559)

</TABLE>

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<TABLE>
<CAPTION>

<S>	Growth and Income Portfolio (Class VC) <C>	Mid Cap Value Portfolio (Class VC) <C>	Asset Allocation Fund (Class 2) <C>	Global Growth Fund (Class 2) <C>	Growth Fund (Class 2) <C>
Investment income:					
Dividends	$ 939,292	$ 172,497	$ 5,855,956	$ 3,745,966	$ 1,391,433
Expenses:					
Charges for distribution, mortality and expense risk	(1,188,795)	(777,601)	(2,780,851)	(2,532,034)	(2,014,543)
Net investment income (loss)	(249,503)	(605,104)	3,075,105	1,213,932	(623,110)
Net realized gains (losses) from sale of securities	(4,108,446)	(4,593,180)	(2,248,237)	2,510,922	(1,106,128)
Realized gain distributions	--	--	--	--	--

Net realized gains (losses)	(4,108,446)	(4,593,180)	(2,248,237)	2,510,922	(1,106,128)
Net unrealized appreciation (depreciation) of investments:					
Beginning of period	(11,211,789)	(8,701,536)	(1,704,321)	15,959,876	643,675
End of period	(15,921,860)	(7,221,291)	(434,725)	(14,750,144)	(8,030,758)
Change in net unrealized appreciation (depreciation) of investments	(4,710,071)	1,480,245	1,269,596	(30,710,020)	(8,674,433)
Increase (decrease) in net assets from operations	$ (9,068,020)	$ (3,718,039)	$ 2,096,464	$ (26,985,166)	$(10,403,671)

<CAPTION>

<S>	Growth-Income Fund (Class 2) <C>	Franklin Income Securities Fund (Class 2) <C>	Franklin Templeton VIP Founding Funds Allocation Fund (Class 2) <C>	Real Return Portfolio (Class 3) <C>
Investment income:				
Dividends	$ 5,974,981	$ 790,215	$ 3,771	$ --
Expenses:				
Charges for distribution, mortality and expense risk	(3,462,910)	(121,018)	(209,811)	(31,584)
Net investment income (loss)	2,512,071	669,197	(206,040)	(31,584)
Net realized gains (losses) from sale of securities	(7,539,388)	37,668	(101,028)	44,946
Realized gain distributions	--	--	--	--

Net realized gains (losses)	(7,539,388)	37,668	(101,028)	44,946
Net unrealized appreciation (depreciation) of investments:				
Beginning of period	(32,362,578)	2,118,159	4,536,709	(11,142)
End of period	(37,060,140)	1,644,929	4,355,007	134,229
Change in net unrealized appreciation (depreciation) of investments	(4,697,562)	(473,230)	(181,702)	145,371
Increase (decrease) in net assets from operations	$ (9,724,879)	$ 233,635	$ (488,770)	$ 158,733

</TABLE>

The accompanying notes are an integral part of the financial statements.

<PAGE>

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<TABLE>
<CAPTION>

<S>	Asset Allocation Portfolio (Class 1) <C>	Capital Appreciation Portfolio (Class 1) <C>	Government and Quality Bond Portfolio (Class 1) <C>	Growth Portfolio (Class 1) <C>	Asset Allocation Portfolio (Class 3) <C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ 220,644	$ (797,821)	$ 1,253,512	$ (84,016)	$ 88,867

Net realized gains (losses)	(270,582)	1,480,118	660,117	(2,826,088)	(219,325)
Change in net unrealized appreciation (depreciation) of investments	55,817	(6,221,374)	1,593,451	423,806	135,764
Increase(decrease) in net assets from operations	5,879	(5,539,077)	3,507,080	(2,486,298)	5,306
From capital transactions:					
Net proceeds from units sold	33,147	180,184	72,842	63,770	466,883
Cost of units redeemed	(1,673,268)	(13,586,113)	(10,829,160)	(6,609,270)	(781,930)
Net transfers	168,322	(2,033,023)	(2,216,614)	(1,322,448)	1,026,440
Contract maintenance charge	--	--	--	--	(1,033)
Increase(decrease) in net assets from capital transactions	(1,471,799)	(15,438,952)	(12,972,932)	(7,867,948)	710,360
Increase (decrease) in net assets	(1,465,920)	(20,978,029)	(9,465,852)	(10,354,246)	715,666
Net assets at beginning of period	14,168,846	91,161,310	65,850,857	41,947,682	4,741,122
Net assets at end of period	$ 12,702,926	$ 70,183,281	$ 56,385,005	$ 31,593,436	$5,456,788
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	2,012	7,776	3,762	3,996	30,623
Units redeemed	(79,774)	(689,331)	(633,816)	(469,095)	(51,304)
Units transferred	7,945	(123,767)	(132,507)	(94,359)	68,338
Increase (decrease) in units outstanding	(69,817)	(805,322)	(762,561)	(559,458)	47,657
Beginning units	712,066	4,668,672	3,914,604	2,921,238	309,653
Ending units	642,249	3,863,350	3,152,043	2,361,780	357,310

<CAPTION>

	Capital Appreciation Portfolio (Class 3)	Government and Quality Bond Portfolio (Class 3)	Growth Portfolio (Class 3)	Natural Resources Portfolio (Class 3)	Aggressive Growth Portfolio (Class 1)

<S> <C> <C> <C> <C> <C>

INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ (1,043,944)	$ 1,887,025	$ (17,290)	$ (33,966)	$ (54,052)
Net realized gains (losses)	(4,290,254)	1,030,959	(297,468)	99,797	(274,185)
Change in net unrealized appreciation (depreciation) of investments	(2,918,118)	2,345,113	17,841	(1,745,449)	179,590
Increase(decrease) in net assets from operations	(8,252,316)	5,263,097	(296,917)	(1,679,618)	(148,647)
From capital transactions:					
Net proceeds from units sold	1,071,887	6,064,874	132,350	139,384	9,587
Cost of units redeemed	(14,180,498)	(11,894,511)	(533,467)	(1,013,856)	(454,535)
Net transfers	(2,002,338)	4,869,731	(174,648)	61,740	2,832
Contract maintenance charge	(18,565)	(10,607)	(795)	(1,411)	--
Increase(decrease) in net assets from capital transactions	(15,129,514)	(970,513)	(576,560)	(814,143)	(442,116)
Increase (decrease) in net assets	(23,381,830)	4,292,584	(873,477)	(2,493,761)	(590,763)
Net assets at beginning of period	128,499,376	92,721,368	4,831,679	8,872,042	4,927,629
Net assets at end of period	$ 105,117,546	$ 97,013,952	$ 3,958,202	$ 6,378,281	$4,336,866
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	62,965	368,254	10,983	11,929	767
Units redeemed	(798,472)	(729,792)	(43,386)	(84,413)	(41,248)
Units transferred	(84,739)	297,272	(12,515)	9,215	1,924
Increase (decrease) in units outstanding	(820,246)	(64,266)	(44,918)	(63,269)	(38,557)
Beginning units	7,458,411	5,822,234	386,395	718,089	419,845
Ending units	6,638,165	5,757,968	341,477	654,820	381,288

</TABLE>

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(continued)

<TABLE>
<CAPTION>

	Alliance Growth Portfolio (Class 1)	Balanced Portfolio (Class 1)	Blue Chip Growth Portfolio (Class 1)	Capital Growth Portfolio (Class 1)	Cash Management Portfolio (Class 1)
<S>	<C>	<C>	<C>	<C>	<C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ (164,026)	$ 107,149	$ (6,612)	$ (12,089)	$ (173,244)
Net realized gains (losses)	(1,153,256)	(381,665)	32,845	190,819	(95,602)
Change in net unrealized appreciation (depreciation) of investments	605,165	476,313	(88,770)	(228,802)	46,206
Increase (decrease) in net assets from operations	(712,117)	201,797	(62,537)	(50,072)	(222,640)
From capital transactions:					
Net proceeds from units sold	69,512	28,634	875	28	1,091,341
Cost of units redeemed	(3,346,126)	(2,411,671)	(169,343)	(415,519)	(17,214,574)
Net transfers	(369,146)	308,651	193,233	51,597	17,987,730
Contract maintenance charge	--	--	--	--	--
Increase (decrease) in net assets from capital transactions	(3,645,760)	(2,074,386)	24,765	(363,894)	1,864,497

Increase (decrease) in net assets	(4,357,877)	(1,872,589)	(37,772)	(413,966)	1,641,857
Net assets at beginning of period	24,971,933	18,734,673	1,069,902	1,552,228	17,397,029
Net assets at end of period	$ 20,614,056	$ 16,862,084	$ 1,032,130	$ 1,138,262	$ 19,038,886
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	2,681	1,939	140	4	88,254
Units redeemed	(166,322)	(161,602)	(26,600)	(53,624)	(1,458,080)
Units transferred	(32,610)	39,746	31,632	4,239	1,534,695
Increase (decrease) in units outstanding	(196,251)	(119,917)	5,172	(49,381)	164,869
Beginning units	1,124,208	1,227,800	169,073	197,382	1,418,702
Ending units	927,957	1,107,883	174,245	148,001	1,583,571

<CAPTION>

<S>	Corporate Bond Portfolio (Class 1) <C>	Davis Venture Value Portfolio (Class 1) <C>	"Dogs" of Wall Street Portfolio (Class 1) <C>	Emerging Markets Portfolio (Class 1) <C>	Equity Index Portfolio (Class 1) <C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ 3,818,712	$ 208,929	$ 39,998	$ (57,974)	$ 27,665
Net realized gains (losses)	2,568,891	(1,384,505)	78,210	1,174,249	(85,931)
Change in net unrealized appreciation (depreciation) of investments	(2,472,713)	(2,122,661)	247,357	(4,191,856)	117,810
Increase (decrease) in net assets from operations	3,914,890	(3,298,237)	365,565	(3,075,581)	59,544
From capital transactions:					
Net proceeds from units sold	178,003	173,903	8,172	8,755	26,614
Cost of units redeemed	(12,235,093)	(10,085,420)	(420,929)	(1,733,802)	(1,190,712)
Net transfers	(1,464,818)	(2,667,913)	777,259	(517,511)	(166,780)

Contract maintenance charge	--	--	--	--	--
Increase (decrease) in net assets from capital transactions	13,521,908)	(12,579,430)	364,502	(2,242,558)	(1,330,878)
Increase (decrease) in net assets	(9,607,018)	(15,877,667)	730,067	(5,318,139)	(1,271,334)
Net assets at beginning of period	77,627,774	73,337,574	3,028,144	13,078,029	10,891,764
Net assets at end of period	$68,020,756	$ 57,459,907	$ 3,758,211	$ 7,759,890	$ 9,620,430
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	8,004	10,071	506	302	2,650
Units redeemed	(583,092)	(618,927)	(28,771)	(69,552)	(123,751)
Units transferred	(70,972)	(180,709)	50,018	(24,292)	(15,604)
Increase (decrease) in units outstanding	(646,060)	(789,565)	21,753	(93,542)	(136,705)
Beginning units	3,809,449	4,451,181	225,699	497,624	1,144,865
Ending units	3,163,389	3,661,616	247,452	404,082	1,008,160

</TABLE>

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(continued)

<TABLE>
<CAPTION>

	Equity Opportunities	Fundamental	Global Bond	Global Equities	Growth Opportunities

	Portfolio (Class 1)	Growth Portfolio (Class 1)	Portfolio (Class 1)	Portfolio (Class 1)	Portfolio (Class 1)
<S>	<C>	<C>	<C>	<C>	<C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ (37,600)	$ (121,411)	$ 201,538	$ (9,539)	$ (15,214)
Net realized gains (losses)	(766,556)	(351,993)	238,950	(238,828)	127,830
Change in net unrealized appreciation (depreciation) of investments	688,442	(217,666)	250,725	(420,173)	(167,971)
Increase(decrease) in net assets from operations	(115,714)	(691,070)	691,213	(668,540)	(55,355)
From capital transactions:					
Net proceeds from units sold	11,325	13,887	15,732	16,551	1,881
Cost of units redeemed	(1,730,910)	(1,647,956)	(2,160,414)	(783,529)	(371,767)
Net transfers	(333,402)	(220,260)	456,556	34,438	238,388
Contract maintenance charge	--	--	--	--	--
Increase(decrease) in net assets from capital transactions	(2,052,987)	(1,854,329)	(1,688,126)	(732,540)	(131,498)
Increase (decrease) in net assets	(2,168,701)	(2,545,399)	(996,913)	(1,401,080)	(186,853)
Net assets at beginning of period	11,086,312	12,466,191	16,099,497	6,279,672	1,737,058
Net assets at end of period	$ 8,917,611	$ 9,920,792	$ 15,102,584	$ 4,878,592	$ 1,550,205
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	625	1,129	732	1,203	294
Units redeemed	(134,119)	(165,259)	(114,678)	(53,338)	(56,910)
Units transferred	(26,834)	(19,966)	23,180	3,179	35,048
Increase (decrease) in units outstanding	(160,328)	(184,096)	(90,766)	(48,956)	(21,568)
Beginning units	839,451	1,163,672	877,083	424,709	276,045
Ending units	679,123	979,576	786,317	375,753	254,477

<CAPTION>

<S>	Growth-Income Portfolio (Class 1) <C>	High-Yield Bond Portfolio (Class 1) <C>	International Diversified Equities Portfolio (Class 1) <C>	International Growth and Income Portfolio (Class 1) <C>	MFS Massachusetts Investors Trust Portfolio (Class 1) <C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ (41,278)	$ 1,048,145	$ 66,890	$ 206,897	$ (7,880)
Net realized gains (losses)	(1,575,201)	(890,036)	(344,099)	(2,433,723)	162,096
Change in net unrealized appreciation (depreciation) of investments	2,920,759	336,229	(665,779)	662,004	(254,286)
Increase(decrease) in net assets from operations	1,304,280	494,338	(942,988)	(1,564,822)	(100,070)
From capital transactions:					
Net proceeds from units sold	68,083	9,347	29,723	36,342	2,935
Cost of units redeemed	(2,936,301)	(2,544,892)	(1,026,962)	(2,126,620)	(557,846)
Net transfers	(635,078)	302,201	(165,230)	(17,845)	128,527
Contract maintenance charge	--	--	--	--	--
Increase(decrease) in net assets from capital transactions	(3,503,296)	(2,233,344)	(1,162,469)	(2,108,123)	(426,384)
Increase (decrease) in net assets	(2,199,016)	(1,739,006)	(2,105,457)	(3,672,945)	(526,454)
Net assets at beginning of period	20,103,996	15,384,899	7,086,924	12,366,953	4,527,131
Net assets at end of period	$ 17,904,980	$ 13,645,893	$ 4,981,467	$ 8,694,008	$ 4,000,677
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	4,718	464	3,674	2,966	247

Units redeemed	(166,368)	(146,775)	(103,288)	(180,259)	(49,373)
Units transferred	(36,179)	14,337	(15,234)	(194)	12,065
Increase (decrease) in units outstanding	(197,829)	(131,974)	(114,848)	(177,487)	(37,061)
Beginning units	1,132,534	898,638	675,407	998,242	404,967
Ending units	934,705	766,664	560,559	820,755	367,906

</TABLE>

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<TABLE>
<CAPTION>

<S>	MFS Total Return Portfolio (Class 1) <C>	Mid-Cap Growth Portfolio (Class 1) <C>	Real Estate Portfolio (Class 1) <C>	Small Company Value Portfolio (Class 1) <C>	Technology Portfolio (Class 1) <C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ 1,631,261	$ (35,334)	$ (3,229)	$ (38,227)	$ (3,460)
Net realized gains (losses)	(2,518,584)	164,397	(812,820)	570,716	54,082
Change in net unrealized appreciation (depreciation) of investments	2,108,607	(354,488)	1,180,179	(693,279)	(74,891)
Increase (decrease) in net assets from operations	1,221,284	(225,425)	364,130	(160,790)	(24,269)

From capital transactions:					
Net proceeds from units sold	295,241	3,737	5,878	9,579	--
Cost of units redeemed	(17,905,544)	(668,442)	(875,132)	(584,999)	(89,335)
Net transfers	(2,471,066)	105,845	173,733	(1,041,665)	5,276
Contract maintenance charge	--	--	--	--	--
Increase (decrease) in net assets from capital transactions	(20,081,369)	(558,860)	(695,521)	(1,617,085)	(84,059)
Increase (decrease) in net assets	(18,860,085)	(784,285)	(331,391)	(1,777,875)	(108,328)
Net assets at beginning of period	104,898,990	4,305,607	5,631,167	5,459,250	427,041
Net assets at end of period	$ 86,038,905	$ 3,521,322	$ 5,299,776	$ 3,681,375	$ 318,713
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	15,919	371	189	334	--
Units redeemed	(1,073,066)	(63,904)	(32,304)	(21,798)	(35,647)
Units transferred	(149,910)	11,013	5,178	(37,424)	67
Increase (decrease) in units outstanding	(1,207,057)	(52,520)	(26,937)	(58,888)	(35,580)
Beginning units	6,412,067	424,605	219,696	200,102	174,817
Ending units	5,205,010	372,085	192,759	141,214	139,237

<CAPTION>

<S>	Telecom Utility Portfolio (Class 1) <C>	Total Return Bond Portfolio (Class 1) <C>	Aggressive Growth Portfolio (Class 3) <C>	Alliance Growth Portfolio (Class 3) <C>	Balanced Portfolio (Class 3) <C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ 26,809	$ 160,332	$ (3,492)	$ (68,713)	$ 26,349
Net realized gains (losses)	29,843	1,185,267	(12,928)	138,176	224,751
Change in net unrealized appreciation (depreciation) of investments	56,058	(86,072)	1,472	(384,450)	(220,906)

Increase (decrease) in net assets from operations	112,710	1,259,527	(14,948)	(314,987)	30,194
From capital transactions:					
Net proceeds from units sold	1,500	123,499	74,617	131,741	345,308
Cost of units redeemed	(305,947)	(4,553,987)	(44,710)	(1,683,851)	(445,340)
Net transfers	291,834	5,272,160	(53,798)	(663,295)	767,502
Contract maintenance charge	--	--	(136)	(1,895)	(439)
Increase (decrease) in net assets from capital transactions	(12,613)	841,672	(24,027)	(2,217,300)	667,031
Increase (decrease) in net assets	100,097	2,101,199	(38,975)	(2,532,287)	697,225
Net assets at beginning of period	2,144,987	23,994,780	424,825	11,662,541	3,367,472
Net assets at end of period	$ 2,245,084	$ 26,095,979	$ 385,850	$ 9,130,254	$ 4,064,697
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	87	5,847	9,139	15,368	34,472
Units redeemed	(19,644)	(232,952)	(5,524)	(200,680)	(43,268)
Units transferred	22,529	269,828	(6,816)	(82,435)	74,084
Increase (decrease) in units outstanding	2,972	42,723	(3,201)	(267,747)	65,288
Beginning units	139,789	1,239,222	51,038	1,411,151	333,373
Ending units	142,761	1,281,945	47,837	1,143,404	398,661

</TABLE>

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(continued)

<TABLE>
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<S>	Blue Chip Growth Portfolio (Class 3) <C>	Capital Growth Portfolio (Class 3) <C>	Cash Management Portfolio (Class 3) <C>	Corporate Bond Portfolio (Class 3) <C>	Davis Venture Value Portfolio (Class 3) <C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ (14,101)	$ (29,424)	$ (104,979)	$ 9,172,765	$ 195,264
Net realized gains (losses)	115,409	(48,493)	(65,264)	5,328,012	(7,227,904)
Change in net unrealized appreciation (depreciation) of investments	(208,056)	(7,897)	662	(5,252,398)	2,623,501
Increase (decrease) in net assets from operations	(106,748)	(85,814)	(169,581)	9,248,379	(4,409,139)
From capital transactions:					
Net proceeds from units sold	135,195	34,679	4,090,804	3,107,997	921,756
Cost of units redeemed	(201,546)	(314,975)	(13,793,062)	(22,038,706)	(9,851,954)
Net transfers	388,556	(243,388)	12,436,543	(5,407,105)	(1,633,991)
Contract maintenance charge	(323)	(464)	(2,754)	(23,999)	(13,019)
Increase (decrease) in net assets from capital transactions	321,882	(524,148)	2,731,531	(24,361,813)	(10,577,208)
Increase (decrease) in net assets	215,134	(609,962)	2,561,950	(15,113,434)	(14,986,347)
Net assets at beginning of period	1,562,629	3,719,204	10,863,494	187,925,968	96,224,930
Net assets at end of period	$ 1,777,763	$ 3,109,242	$ 13,425,444	$ 172,812,534	$ 81,238,583
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	22,785	4,477	357,373	151,333	66,448

Units redeemed	(32,559)	(40,918)	(1,194,791)	(1,074,150)	(680,934)
Units transferred	64,838	(32,066)	1,074,385	(264,975)	(99,616)
Increase (decrease) in units outstanding	55,064	(68,507)	236,967	(1,187,792)	(714,102)
Beginning units	249,608	477,946	934,751	9,427,409	6,586,099
Ending units	304,672	409,439	1,171,718	8,239,617	5,871,997

<CAPTION>

<S>	"Dogs" of Wall Street Portfolio (Class 3) <C>	Emerging Markets Portfolio (Class 3) <C>	Equity Opportunities Portfolio (Class 3) <C>	Foreign Value Portfolio (Class 3) <C>	Fundamental Growth Portfolio (Class 3) <C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ 20,125	$ (49,338)	$ (7,111)	$ 408,933	$ (28,058)
Net realized gains (losses)	(16,656)	1,012,821	(97,037)	(4,174,931)	(88,785)
Change in net unrealized appreciation (depreciation) of investments	155,797	(3,939,552)	81,100	(3,591,598)	(50,259)
Increase (decrease) in net assets from operations	159,266	(2,976,069)	(23,048)	(7,357,596)	(167,102)
From capital transactions:					
Net proceeds from units sold	17,390	172,560	39,108	4,372,022	52,497
Cost of units redeemed	(117,319)	(1,366,894)	(167,507)	(6,540,107)	(279,800)
Net transfers	436,994	1,114,807	(46,539)	10,450,690	(218,177)
Contract maintenance charge	(306)	(1,268)	(210)	(6,951)	(321)
Increase (decrease) in net assets from capital transactions	336,759	(80,795)	(175,148)	8,275,654	(445,801)
Increase (decrease) in net assets	496,025	(3,056,864)	(198,196)	918,058	(612,903)
Net assets at beginning of period	1,226,943	12,376,243	1,288,119	63,868,282	3,442,185
Net assets at end of period	$ 1,722,968	$ 9,319,379	$ 1,089,923	$ 64,786,340	$ 2,829,282

ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	1,070	7,090	3,208	485,236	7,487
Units redeemed	(7,521)	(49,796)	(14,279)	(671,676)	(39,861)
Units transferred	27,815	55,506	(4,064)	1,244,121	(25,586)
Increase (decrease) in units outstanding	21,364	12,800	(15,135)	1,057,681	(57,960)
Beginning units	82,111	420,192	105,630	6,558,989	480,725
Ending units	103,475	432,992	90,495	7,616,670	422,765

</TABLE>

The accompanying notes are an integral part of the financial statements.

<PAGE>

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OF
SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY
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(continued)

<TABLE>
<CAPTION>

<S>	Global Bond Portfolio (Class 3) <C>	Global Equities Portfolio (Class 3) <C>	Growth Opportunities Portfolio (Class 3) <C>	Growth-Income Portfolio (Class 3) <C>	High-Yield Bond Portfolio (Class 3) <C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ 309,458	$ (1,133)	$ (173,178)	$ (3,247)	$ 2,666,022
Net realized gains (losses)	452,807	(113,394)	615,969	(419,653)	(1,700,497)

Change in net unrealized appreciation (depreciation) of investments	448,739	(35,078)	(772,450)	837,604	237,286
Increase (decrease) in net assets from operations	1,211,004	(149,605)	(329,659)	414,704	1,202,811
From capital transactions:					
Net proceeds from units sold	681,155	22,021	598,469	783,791	451,748
Cost of units redeemed	(3,145,102)	(121,828)	(1,613,075)	(738,363)	(4,798,616)
Net transfers	532,765	(21,085)	810,140	1,509,604	(502,106)
Contract maintenance charge	(3,438)	(256)	(1,649)	(691)	(5,492)
Increase (decrease) in net assets from capital transactions	(1,934,620)	(121,148)	(206,115)	1,554,341	(4,854,466)
Increase (decrease) in net assets	(723,616)	(270,753)	(535,774)	1,969,045	(3,651,655)
Net assets at beginning of period	27,168,762	1,426,354	20,338,574	4,693,013	38,673,554
Net assets at end of period	$26,445,146	$ 1,155,601	$ 19,802,800	$ 6,662,058	$ 35,021,899
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	38,121	2,559	98,592	85,558	27,509
Units redeemed	(178,144)	(12,514)	(253,081)	(79,402)	(289,491)
Units transferred	31,387	(2,622)	180,231	165,139	(30,719)
Increase (decrease) in units outstanding	(108,636)	(12,577)	25,742	171,295	(292,701)
Beginning units	1,577,747	146,494	3,274,795	522,961	2,404,124
Ending units	1,469,111	133,917	3,300,537	694,256	2,111,423

<CAPTION>

<S>	International Diversified Equities Portfolio (Class 3) <C>	International Growth and Income Portfolio (Class 3) <C>	Marsico Focused Growth Portfolio (Class 3) <C>	MFS Massachusetts Investors Trust Portfolio (Class 3) <C>	MFS Total Return Portfolio (Class 3) <C>

INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ 57,985	$ 757,758	$ (23,358)	$ (109,482)	$ 1,808,240
Net realized gains (losses)	(422,601)	(3,335,775)	(236,906)	31,826	(5,513,594)
Change in net unrealized appreciation (depreciation) of investments	(467,968)	(2,510,576)	182,301	(620,624)	4,794,747
Increase (decrease) in net assets from operations	(832,584)	(5,088,593)	(77,963)	(698,280)	1,089,393
From capital transactions:					
Net proceeds from units sold	92,983	193,091	173,863	2,522,449	1,434,219
Cost of units redeemed	(570,954)	(3,777,022)	(249,038)	(2,519,434)	(15,182,393)
Net transfers	(16,386)	2,008,653	289,344	4,799,240	(3,682,252)
Contract maintenance charge	(825)	(4,085)	(459)	(2,316)	(18,342)
Increase (decrease) in net assets from capital transactions	(495,182)	(1,579,363)	213,710	4,799,939	(17,448,768)
Increase (decrease) in net assets	(1,327,766)	(6,667,956)	135,747	4,101,659	(16,359,375)
Net assets at beginning of period	5,975,811	39,518,531	3,034,983	29,288,673	127,438,495
Net assets at end of period	$ 4,648,045	$ 32,850,575	$ 3,170,730	$ 33,390,332	$ 111,079,120
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	11,097	17,796	17,387	236,405	87,921
Units redeemed	(63,829)	(336,344)	(24,075)	(226,581)	(926,816)
Units transferred	1,327	232,830	28,117	459,880	(225,941)
Increase (decrease) in units outstanding	(51,405)	(85,718)	21,429	469,704	(1,064,836)
Beginning units	651,102	3,435,373	296,194	2,648,537	7,873,765
Ending units	599,697	3,349,655	317,623	3,118,241	6,808,929

</TABLE>

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VARIABLE ANNUITY ACCOUNT SEVEN
OF
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(continued)

<TABLE>
<CAPTION>

<S>	Mid-Cap Growth Portfolio (Class 3) <C>	Real Estate Portfolio (Class 3) <C>	Small & Mid Cap Value Portfolio (Class 3) <C>	Small Company Value Portfolio (Class 3) <C>	Technology Portfolio (Class 3) <C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ (43,376)	$ (18,014)	$ (334,531)	$ (171,873)	$ (6,113)
Net realized gains (losses)	142,800	1,387,135	398,279	330,776	123,245
Change in net unrealized appreciation (depreciation) of investments	(358,220)	391,398	(3,547,895)	(961,177)	(162,662)
Increase (decrease) in net assets from operations	(258,796)	1,760,519	(3,484,147)	(802,274)	(45,530)
From capital transactions:					
Net proceeds from units sold	1,739,798	541,904	1,110,155	1,362,228	40,894
Cost of units redeemed	(473,933)	(2,051,966)	(4,443,329)	(2,791,976)	(105,291)
Net transfers	3,181,149	(1,110,573)	2,854,050	1,304,397	(78,765)
Contract maintenance charge	(488)	(2,345)	(4,331)	(3,313)	(141)
Increase (decrease) in net assets from capital transactions	4,446,526	(2,622,980)	(483,455)	(128,664)	(143,303)

Increase (decrease) in net assets	4,187,730	(862,461)	(3,967,602)	(930,938)	(188,833)
Net assets at beginning of period	3,675,201	24,530,928	48,532,574	28,873,321	774,855
Net assets at end of period	$ 7,862,931	$23,668,467	$ 44,564,972	$ 27,942,383	$ 586,022
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	184,049	19,230	103,862	146,779	17,398
Units redeemed	(47,178)	(71,435)	(383,880)	(281,706)	(43,300)
Units transferred	341,966	(35,278)	318,439	167,840	(35,508)
Increase (decrease) in units outstanding	478,837	(87,483)	38,421	32,913	(61,410)
Beginning units	366,167	896,420	4,109,354	2,866,624	320,218
Ending units	845,004	808,937	4,147,775	2,899,537	258,808

<CAPTION>

<S>	Telecom Utility Portfolio (Class 3) <C>	Total Return Bond Portfolio (Class 3) <C>	Invesco Van Kampen V.I. Capital Growth Fund (Series II) <C>	Invesco Van Kampen V.I. Comstock Fund (Series II) <C>	Invesco Van Kampen V.I. Growth and Income Fund (Series II) <C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ 12,899	$ 341,053	$ (60,720)	$ 1,179,950	$ 361,032
Net realized gains (losses)	(26,206)	4,045,062	481,246	(6,532,428)	(3,803,917)
Change in net unrealized appreciation (depreciation) of investments	59,586	(56,818)	(882,843)	(358,157)	(2,936,674)
Increase (decrease) in net assets from operations	46,279	4,329,297	(462,317)	(5,710,635)	(6,379,559)
From capital transactions:					
Net proceeds from units sold	45,641	8,038,956	98,531	4,043,373	5,191,615

Cost of units redeemed	(84,643)	(7,883,006)	(1,049,336)	(32,269,146)	(33,484,244)
Net transfers	282,134	12,153,148	(381,769)	(2,047,760)	(572,488)
Contract maintenance charge	(189)	(7,923)	(387)	(20,915)	(21,681)
Increase (decrease) in net assets from capital transactions	242,943	12,301,175	(1,332,961)	(30,294,448)	(28,886,798)
Increase (decrease) in net assets	289,222	16,630,472	(1,795,278)	(36,005,083)	(35,266,357)
Net assets at beginning of period	849,771	82,619,693	7,580,846	251,638,506	263,027,122
Net assets at end of period	$ 1,138,993	$ 99,250,165	$ 5,785,568	$ 215,633,423	$ 227,760,765
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	4,009	419,466	8,278	318,164	361,828
Units redeemed	(6,882)	(415,763)	(92,031)	(2,430,310)	(2,232,848)
Units transferred	23,029	634,455	(34,697)	(123,996)	2,992
Increase (decrease) in units outstanding	20,156	638,158	(118,450)	(2,236,142)	(1,868,028)
Beginning units	73,098	4,449,892	666,338	19,127,871	17,602,934
Ending units	93,254	5,088,050	547,888	16,891,729	15,734,906

</TABLE>

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(continued)

<TABLE>

<CAPTION>

<S>	Growth and Income Portfolio (Class VC) <C>	Mid Cap Value Portfolio (Class VC) <C>	Asset Allocation Fund (Class 2) <C>	Global Growth Fund (Class 2) <C>	Growth Fund (Class 2) <C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ (249,503)	$ (605,104)	$ 3,075,105	$ 1,213,932	$ (623,110)
Net realized gains (losses)	(4,108,446)	(4,593,180)	(2,248,237)	2,510,922	(1,106,128)
Change in net unrealized appreciation (depreciation) of investments	(4,710,071)	1,480,245	1,269,596	(30,710,020)	(8,674,433)
Increase (decrease) in net assets from operations	(9,068,020)	(3,718,039)	2,096,464	(26,985,166)	(10,403,671)
From capital transactions:					
Net proceeds from units sold	868,695	304,518	2,805,736	4,382,985	2,536,782
Cost of units redeemed	(20,635,458)	(14,127,313)	(41,000,752)	(39,296,012)	(30,581,172)
Net transfers	(4,550,974)	(4,207,145)	(9,041,152)	541,579	(5,608,505)
Contract maintenance charge	(9,548)	(5,225)	(29,494)	(27,567)	(18,298)
Increase (decrease) in net assets from capital transactions	(24,327,285)	(18,035,165)	(47,265,662)	(34,399,015)	(33,671,193)
Increase (decrease) in net assets	(33,395,305)	(21,753,204)	(45,169,198)	(61,384,181)	(44,074,864)
Net assets at beginning of period	153,938,811	98,941,298	344,228,504	322,745,750	251,575,242
Net assets at end of period	$ 120,543,506	$ 77,188,094	$ 299,059,306	$ 261,361,569	$207,500,378
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	69,432	19,967	165,525	190,691	123,383
Units redeemed	(1,652,488)	(957,036)	(2,406,694)	(1,627,690)	(1,447,272)
Units transferred	(362,247)	(287,941)	(530,426)	63,582	(251,256)
Increase (decrease) in units outstanding	(1,945,303)	(1,225,010)	(2,771,595)	(1,373,417)	(1,575,145)

Beginning units	12,237,231	6,800,474	20,548,416	13,281,602	12,043,778
Ending units	10,291,928	5,575,464	17,776,821	11,908,185	10,468,633

<CAPTION>

	Growth-Income Fund (Class 2)	Franklin Income Securities Fund (Class 2)	Franklin Templeton VIP Founding Funds Allocation Fund (Class 2)	Real Return Portfolio (Class 3)
<S>	<C>	<C>	<C>	<C>
INCREASE (DECREASE) IN NET ASSETS:				
From operations:				
Net investment income (loss)	$ 2,512,071	$ 669,197	$ (206,040)	$ (31,584)
Net realized gains (losses)	(7,539,388)	37,668	(101,028)	44,946
Change in net unrealized appreciation (depreciation) of investments	(4,697,562)	(473,230)	(181,702)	145,371
Increase (decrease) in net assets from operations	(9,724,879)	233,635	(488,770)	158,733
From capital transactions:				
Net proceeds from units sold	2,352,022	762,366	415,900	1,359,958
Cost of units redeemed	(51,893,554)	(1,145,468)	(2,182,583)	(301,766)
Net transfers	(14,770,037)	1,776,500	660,285	3,809,339
Contract maintenance charge	(35,647)	(1,712)	(2,640)	(196)
Increase (decrease) in net assets from capital transactions	(64,347,216)	1,391,686	(1,109,038)	4,867,335
Increase (decrease) in net assets	(74,072,095)	1,625,321	(1,597,808)	5,026,068
Net assets at beginning of period	437,446,407	13,554,263	25,104,203	1,996,498
Net assets at end of period	$ 363,374,312	$ 15,179,584	$ 23,506,395	$ 7,022,566

ANALYSIS OF INCREASE (DECREASE)

IN UNITS OUTSTANDING:				
Units sold	135,524	71,469	43,094	112,098
Units redeemed	(2,987,658)	(105,326)	(227,011)	(25,305)
Units transferred	(848,944)	165,994	74,917	315,740
Increase (decrease) in units outstanding	(3,701,078)	132,137	(109,000)	402,533
Beginning units	25,263,731	1,275,194	2,670,875	171,457
Ending units	21,562,653	1,407,331	2,561,875	573,990

</TABLE>

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<TABLE>
<CAPTION>

<S>	Asset Allocation Portfolio (Class 1) <C>	Capital Appreciation Portfolio (Class 1) <C>	Government and Quality Bond Portfolio (Class 1) <C>	Growth Portfolio (Class 1) <C>	Asset Allocation Portfolio (Class 3) <C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ 268,288	$ (406,222)	$ 2,380,663	$ 34,846	$ 81,486
Net realized gains (losses)	(202,096)	(901,704)	334,555	(2,815,125)	(115,639)
Change in net unrealized appreciation (depreciation) of					

investments	827,168	11,760,448	(1,327,057)	4,937,009	324,026
Increase (decrease) in net assets from operations	893,360	10,452,522	1,388,161	2,156,730	289,873
From capital transactions:					
Net proceeds from units sold	2,181	87,662	17,157	32,011	4,017
Cost of units redeemed	(1,293,762)	(7,229,492)	(8,756,062)	(4,174,468)	(227,409)
Net transfers	1,223,748	(1,818,115)	1,118,188	(1,481,578)	392,666
Contract maintenance charge	--	--	--	--	(632)
Increase (decrease) in net assets from capital transactions	(67,833)	(8,959,945)	(7,620,717)	(5,624,035)	168,642
Increase (decrease) in net assets	825,527	1,492,577	(6,232,556)	(3,467,305)	458,515
Net assets at beginning of period	13,343,319	89,668,733	72,083,413	45,414,987	4,282,607
Net assets at end of period	$ 14,168,846	$ 91,161,310	$ 65,850,857	$ 41,947,682	$ 4,741,122
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	105	4,039	1,027	2,393	280
Units redeemed	(76,162)	(437,334)	(515,815)	(331,924)	(16,289)
Units transferred	84,555	(119,526)	68,288	(116,501)	26,913
Increase (decrease) in units outstanding	8,498	(552,821)	(446,500)	(446,032)	10,904
Beginning units	703,568	5,221,493	4,361,104	3,367,270	298,749
Ending units	712,066	4,668,672	3,914,604	2,921,238	309,653

<CAPTION>

<S>	Capital Appreciation Portfolio (Class 3) <C>	Government and Quality Bond Portfolio (Class 3) <C>	Growth Portfolio (Class 3) <C>	Natural Resources Portfolio (Class 3) <C>	Aggressive Growth Portfolio (Class 1) <C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ (675,471)	$ 2,870,520	$ (2,498)	$ 10,156	$ (34,587)
Net realized gains (losses)	(3,404,544)	476,611	(250,157)	(453,803)	(313,472)
Change in net unrealized appreciation (depreciation) of investments	19,165,483	(1,743,494)	526,156	1,578,593	663,689
Increase (decrease) in net assets from operations	15,085,468	1,603,637	273,501	1,134,946	315,630
From capital transactions:					
Net proceeds from units sold	292,507	312,227	73,408	8,880	30,297
Cost of units redeemed	(7,011,055)	(5,762,816)	(239,843)	(457,032)	(319,112)
Net transfers	(5,913,721)	3,844,995	(127,949)	(402,617)	(9,247)
Contract maintenance charge	(14,777)	(7,881)	(500)	(1,116)	--
Increase (decrease) in net assets from capital transactions	(12,647,046)	(1,613,475)	(294,884)	(851,885)	(298,062)
Increase (decrease) in net assets	2,438,422	(9,838)	(21,383)	283,061	17,568
Net assets at beginning of period	126,060,954	92,731,206	4,853,062	8,588,981	4,910,061

Net assets at end of period	$ 128,499,376	$ 92,721,368	$ 4,831,679	$ 8,872,042	$ 4,927,629
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	19,545	19,605	6,563	748	3,917
Units redeemed	(467,715)	(359,956)	(21,211)	(43,468)	(32,697)
Units transferred	(365,630)	239,620	(10,473)	(36,492)	(4,352)
Increase (decrease) in units outstanding	(813,800)	(100,731)	(25,121)	(79,212)	(33,132)
Beginning units	8,272,211	5,922,965	411,516	797,301	452,977
Ending units	7,458,411	5,822,234	386,395	718,089	419,845

</TABLE>

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<TABLE>
<CAPTION>

<S>	Alliance Growth Portfolio (Class 1) <C>	Balanced Portfolio (Class 1) <C>	Blue Chip Growth Portfolio (Class 1) <C>	Capital Growth Portfolio (Class 1) <C>	Cash Management Portfolio (Class 1) <C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ 14,980	$ 215,256	$ (3,011)	$ (8,446)	$ (128,287)
Net realized gains (losses)	(1,181,608)	(402,325)	11,222	(2,459)	(288,187)

Change in net unrealized appreciation (depreciation) of investments	2,489,034	1,098,523	57,633	73,260	256,453
Increase (decrease) in net assets from operations	1,322,406	911,454	65,844	62,355	(160,021)
From capital transactions:					
Net proceeds from units sold	20,482	14,260	105	19	303,059
Cost of units redeemed	(1,965,899)	(1,533,857)	(133,478)	(468,319)	(10,602,558)
Net transfers	(588,052)	(24,894)	(24,667)	340,702	7,324,969
Contract maintenance charge	-	-	-	-	-
Increase (decrease) in net assets from capital transactions	(2,533,469)	(1,544,491)	(158,040)	(127,598)	(2,974,530)
Increase (decrease) in net assets	(1,211,063)	(633,037)	(92,196)	(65,243)	(3,134,551)
Net assets at beginning of period	26,182,996	19,367,710	1,162,098	1,617,471	20,531,580
Net assets at end of period	$ 24,971,933	$ 18,734,673	$ 1,069,902	$ 1,552,228	$17,397,029
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	574	1,071	19	3	25,589
Units redeemed	(109,894)	(105,258)	(23,439)	(68,131)	(867,817)
Units transferred	(43,316)	798	(4,227)	47,519	598,331
Increase (decrease) in units outstanding	(152,636)	(103,389)	(27,647)	(20,609)	(243,897)
Beginning units	1,276,844	1,331,189	196,720	217,991	1,662,599
Ending units	1,124,208	1,227,800	169,073	197,382	1,418,702

<CAPTION>

	Corporate Bond Portfolio (Class 1)	Davis Venture Value Portfolio (Class 1)	"Dogs" of Wall Street Portfolio (Class 1)	Emerging Markets Portfolio (Class 1)	Equity Index Portfolio Class 1)
<S>	<C>	<C>	<C>	<C>	<C>
INCREASE (DECREASE) IN NET ASSETS:					

From operations:					
Net investment income (loss)	$ 4,575,658	$ 96,210	$ 61,374	$ 91,089	$ 84,286
Net realized gains (losses)	1,569,769	(1,792,358)	(104,159)	445,062	(154,768)
Change in net unrealized appreciation (depreciation) of investments	(2,504,027)	5,696,910	245,562	1,289,521	679,322
Increase (decrease) in net assets from operations	3,641,400	4,000,762	202,777	1,825,672	608,840
From capital transactions:					
Net proceeds from units sold	35,834	44,193	734	10,204	13,311
Cost of units redeemed	(8,693,231)	(6,872,578)	(357,064)	(1,287,374)	(818,678)
Net transfers	(295,997)	(1,320,859)	117,045	599,094	(99,663)
Contract maintenance charge	-	-	-	-	-
Increase (decrease) in net assets from capital transactions	(8,953,394)	(8,149,244)	(239,285)	(678,076)	(905,030)
Increase (decrease) in net assets	(5,311,994)	(4,148,482)	(36,508)	1,147,596	(296,190)
Net assets at beginning of period	82,939,768	77,486,056	3,064,652	11,930,433	11,187,954
Net assets at end of period	$ 77,627,774	$ 73,337,574	$ 3,028,144	$13,078,029	$ 10,891,764
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	1,446	1,838	60	385	1,404
Units redeemed	(437,902)	(467,656)	(27,102)	(53,413)	(94,612)
Units transferred	(16,099)	(102,193)	7,569	21,494	(11,867)
Increase (decrease) in units outstanding	(452,555)	(568,011)	(19,473)	(31,534)	(105,075)
Beginning units	4,262,004	5,019,192	245,172	529,158	1,249,940
Ending units	3,809,449	4,451,181	225,699	497,624	1,144,865

</TABLE>
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<PAGE>

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(continued)

<TABLE>
<CAPTION>

<S>	Equity Opportunities Portfolio (Class 1) <C>	Fundamental Growth Portfolio (Class 1) <C>	Global Bond Portfolio (Class 1) <C>	Global Equities Portfolio (Class 1) <C>	Growth Opportunities Portfolio (Class 1) <C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ 9,489	$ (81,354)	$ 579,175	$ 57,359	$ (8,976)
Net realized gains (losses)	(738,086)	(412,181)	405,041	(191,957)	(24,623)
Change in net unrealized appreciation (depreciation) of investments	1,647,762	1,764,056	(131,303)	614,790	194,432
Increase (decrease) in net assets from operations	919,165	1,270,521	852,913	480,192	160,833
From capital transactions:					
Net proceeds from units sold	7,140	9,011	3,270	4,284	914
Cost of units redeemed	(925,254)	(888,347)	(1,875,133)	(521,184)	(188,735)
Net transfers	(474,301)	(159,587)	682,997	58,419	149,274
Contract maintenance charge	--	--	--	--	--
Increase (decrease) in net assets from capital transactions	(1,392,415)	(1,038,923)	(1,188,866)	(458,481)	(38,547)
Increase (decrease) in net assets	(473,250)	231,598	(335,953)	21,711	122,286

Net assets at beginning of period	11,559,562	12,234,593	16,435,450	6,257,961	1,614,772
Net assets at end of period	$ 11,086,312	$ 12,466,191	$16,099,497	$6,279,672	$ 1,737,058
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	582	588	139	183	163
Units redeemed	(77,380)	(97,700)	(104,654)	(37,795)	(33,478)
Units transferred	(38,510)	(18,812)	38,480	5,732	27,185
Increase (decrease) in units outstanding	(115,308)	(115,924)	(66,035)	(31,880)	(6,130)
Beginning units	954,759	1,279,596	943,118	456,589	282,175
Ending units	839,451	1,163,672	877,083	424,709	276,045

</TABLE>

<TABLE>
<CAPTION>

<S>	Growth-Income Portfolio (Class 1) <C>	High-Yield Bond Portfolio (Class 1) <C>	International Diversified Equities Portfolio (Class 1) <C>	International Growth and Income Portfolio (Class 1) <C>	MFS Massachusetts Investors Trust Portfolio (Class 1) <C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ 40,311	$ 1,396,819	$ 234,242	$ 415,322	$ 16,708
Net realized gains (losses)	(1,590,741)	(634,355)	(11,071)	(1,033,612)	62,058
Change in net unrealized appreciation (depreciation) of investments	2,603,059	228,160	395,651	1,435,956	106,578
Increase (decrease) in net assets from operations	1,052,629	990,624	618,822	817,666	185,344
From capital transactions:					
Net proceeds from units sold	12,002	8,791	4,454	12,201	1,392
Cost of units redeemed	(1,754,075)	(1,928,889)	(563,406)	(1,128,530)	(632,421)

Net transfers	(1,002,008)	201,859	(22,081)	(27,327)	350,487
Contract maintenance charge	--	--	--	--	--
Increase (decrease) in net assets from capital transactions	(2,744,081)	(1,718,239)	(581,033)	(1,143,656)	(280,542)
Increase (decrease) in net assets	(1,691,452)	(727,615)	37,789	(325,990)	(95,198)
Net assets at beginning of period	21,795,448	16,112,514	7,049,135	12,692,943	4,622,329
Net assets at end of period	$ 20,103,996	$ 15,384,899	$ 7,086,924	$ 12,366,953	$ 4,527,131
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	484	491	319	805	139
Units redeemed	(107,064)	(120,073)	(58,727)	(100,834)	(62,143)
Units transferred	(100,739)	10,540	(1,990)	3,744	34,251
Increase (decrease) in units outstanding	(207,319)	(109,042)	(60,398)	(96,285)	(27,753)
Beginning units	1,339,853	1,007,680	735,805	1,094,527	432,720
Ending units	1,132,534	898,638	675,407	998,242	404,967

</TABLE>

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<PAGE>

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(continued)

<TABLE>
<CAPTION>

	MFS Total Return Portfolio (Class 1)	Mid-Cap Growth Portfolio (Class 1)	Real Estate Portfolio (Class 1)	Small Company Value Portfolio (Class 1)	Technology Portfolio (Class 1)
<S>	<C>	<C>	<C>	<C>	<C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ 2,442,197	$ (20,673)	$ 64,733	$ (9,988)	$ (2,486)
Net realized gains (losses)	(2,276,727)	(54,931)	(828,753)	122,218	21,104
Change in net unrealized appreciation (depreciation) of investments	4,247,185	554,385	1,007,271	115,781	25,034
Increase (decrease) in net assets from operations	4,412,655	478,781	243,251	228,011	43,652
From capital transactions:					
Net proceeds from units sold	71,144	1,787	5,267	3,293	1,201
Cost of units redeemed	(11,258,661)	(233,106)	(579,693)	(267,991)	(69,820)
Net transfers	290,672	336,336	(22,630)	478,825	(1,267)
Contract maintenance charge	--	--	--	--	--
Increase (decrease) in net assets from capital transactions	(10,896,845)	105,017	(597,056)	214,127	(69,886)
Increase (decrease) in net assets	(6,484,190)	583,798	(353,805)	442,138	(26,234)
Net assets at beginning of period	111,383,180	3,721,809	5,984,972	5,017,112	453,275
Net assets at end of period	$ 104,898,990	$ 4,305,607	$ 5,631,167	$ 5,459,250	$ 427,041
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	4,678	211	211	166	541
Units redeemed	(723,649)	(26,887)	(22,684)	(11,417)	(30,870)
Units transferred	12,749	35,737	(1,243)	14,898	(178)
Increase (decrease) in units outstanding	(706,222)	9,061	(23,716)	3,647	(30,507)
Beginning units	7,118,289	415,544	243,412	196,455	205,324
Ending units	6,412,067	424,605	219,696	200,102	174,817

<CAPTION>

<S>	Telecom Utility Portfolio (Class 1) <C>	Total Return Bond Portfolio (Class 1) <C>	Aggressive Growth Portfolio (Class 3) <C>	Alliance Growth Portfolio (Class 3) <C>	Balanced Portfolio (Class 3) <C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ 43,580	$ 507,451	$ (2,276)	$ 7,990	$ 33,903
Net realized gains (losses)	(63,508)	292,827	(64,311)	(74,855)	(31,604)
Change in net unrealized appreciation (depreciation) of investments	248,306	(279,746)	81,140	698,273	160,674
Increase (decrease) in net assets from operations	228,378	520,532	14,553	631,408	162,973
From capital transactions:					
Net proceeds from units sold	1,549	4,694	--	2,033	414,081
Cost of units redeemed	(132,603)	(2,306,208)	(29,046)	(831,775)	(155,636)
Net transfers	(76,216)	5,150,838	(98,934)	(310,668)	(121,461)
Contract maintenance charge	--	--	(72)	(1,338)	(362)
Increase (decrease) in net assets from capital transactions	(207,270)	2,849,324	(128,052)	(1,141,748)	136,622
Increase (decrease) in net assets	21,108	3,369,856	(113,499)	(510,340)	299,595
Net assets at beginning of period	2,123,879	20,624,924	538,324	12,172,881	3,067,877
Net assets at end of period	$ 2,144,987	$ 23,994,780	$ 424,825	$ 11,662,541	$ 3,367,472
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	88	247	--	291	42,602
Units redeemed	(10,410)	(120,673)	(4,056)	(112,293)	(15,997)
Units transferred	(6,199)	267,064	(14,493)	(40,377)	(13,001)
Increase (decrease) in units outstanding	(16,521)	146,638	(18,549)	(152,379)	13,604
Beginning units	156,310	1,092,584	69,587	1,563,530	319,769

Ending units	139,789	1,239,222	51,038	1,411,151	333,373

</TABLE>

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(continued)

<TABLE>
<CAPTION>

<S>	Blue Chip Growth Portfolio (Class 3) <C>	Capital Growth Portfolio (Class 3) <C>	Cash Management Portfolio (Class 3) <C>	Corporate Bond Portfolio (Class 3) <C>	Davis Venture Value Portfolio (Class 3) <C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ (6,729)	$ (19,840)	$ (69,869)	$ 10,385,985	$ (10,137)
Net realized gains (losses)	(10,802)	(128,269)	(174,156)	2,807,537	(4,663,406)
Change in net unrealized appreciation (depreciation) of investments	136,187	356,489	133,921	(5,045,170)	10,192,628
Increase (decrease) in net assets from operations	118,656	208,380	(110,104)	8,148,352	5,519,085
From capital transactions:					
Net proceeds from units sold	25,050	3,134	418,758	563,533	244,433
Cost of units redeemed	(133,780)	(158,791)	(6,346,574)	(13,319,596)	(5,362,825)
Net transfers	262,099	(54,249)	6,046,336	(1,073,358)	(2,641,068)
Contract maintenance charge	(230)	(294)	(2,311)	(19,311)	(10,741)

Increase (decrease) in net assets from capital transactions	153,139	(210,200)	116,209	(13,848,732)	(7,770,201)
Increase (decrease) in net assets	271,795	(1,820)	6,105	(5,700,380)	(2,251,116)
Net assets at beginning of period	1,290,834	3,721,024	10,857,389	193,626,348	98,476,046
Net assets at end of period	$ 1,562,629	$ 3,719,204	$ 10,863,494	$ 187,925,968	$ 96,224,930
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	4,300	451	35,875	28,621	18,519
Units redeemed	(23,139)	(22,725)	(544,379)	(679,991)	(403,516)
Units transferred	48,053	(5,900)	517,395	(68,716)	(187,074)
Increase (decrease) in units outstanding	29,214	(28,174)	8,891	(720,086)	(572,071)
Beginning units	220,394	506,120	925,860	10,147,495	7,158,170
Ending units	249,608	477,946	934,751	9,427,409	6,586,099

<CAPTION>

	"Dogs" of Wall Street Portfolio (Class 3)	Emerging Markets Portfolio (Class 3)	Equity Opportunities Portfolio (Class 3)	Foreign Value Portfolio (Class 3)	Fundamental Growth Portfolio (Class 3)
<S>	<C>	<C>	<C>	<C>	<C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ 19,731	$ 71,512	$ (1,028)	$ 757,404	$ (18,420)
Net realized gains (losses)	(40,753)	(397,245)	(99,032)	(2,133,404)	(153,559)
Change in net unrealized appreciation (depreciation) of investments	93,059	1,956,373	214,139	4,439,868	549,797
Increase (decrease) in net assets from operations	72,037	1,630,640	114,079	3,063,868	377,818
From capital transactions:					
Net proceeds from units sold	--	31,618	23,980	256,881	2,001
Cost of units redeemed	(65,917)	(490,007)	(37,876)	(2,891,413)	(151,043)

Net transfers	454,051	234,201	133,905	2,737,545	(196,893)
Contract maintenance charge	(153)	(938)	(111)	(5,529)	(120)
Increase (decrease) in net assets from capital transactions	387,981	(225,126)	119,898	97,484	(346,055)
Increase (decrease) in net assets	460,018	1,405,514	233,977	3,161,352	31,763
Net assets at beginning of period	766,925	10,970,729	1,054,142	60,706,930	3,410,422
Net assets at end of period	$ 1,226,943	$ 12,376,243	$ 1,288,119	$ 63,868,282	$ 3,442,185
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	--	1,213	2,256	27,935	316
Units redeemed	(4,721)	(18,815)	(3,452)	(320,027)	(24,062)
Units transferred	31,609	7,771	12,588	321,655	(26,823)
Increase (decrease) in units outstanding	26,888	(9,831)	11,392	29,563	(50,569)
Beginning units	55,223	430,023	94,238	6,529,426	531,294
Ending units	82,111	420,192	105,630	6,558,989	480,725

</TABLE>

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(continued)

<TABLE>
<CAPTION>

Growth

<S>	Global Bond Portfolio (Class 3) <C>	Global Equities Portfolio (Class 3) <C>	Opportunities Portfolio (Class 3) <C>	Growth-Income Portfolio (Class 3) <C>	High-Yield Bond Portfolio (Class 3) <C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ 892,394	$ 12,653	$ (104,069)	$ 8,091	$ 3,391,693
Net realized gains (losses)	542,672	(89,209)	(48,584)	(362,090)	(1,491,494)
Change in net unrealized appreciation (depreciation) of investments	(102,123)	192,025	2,023,046	609,701	465,416
Increase (decrease) in net assets from operations	1,332,943	115,469	1,870,393	255,702	2,365,615
From capital transactions:					
Net proceeds from units sold	23,445	--	66,208	13,128	35,847
Cost of units redeemed	(1,420,040)	(36,098)	(804,348)	(256,939)	(2,752,607)
Net transfers	768,959	59,688	138,209	(164,994)	(489,284)
Contract maintenance charge	(2,399)	(143)	(1,301)	(476)	(4,519)
Increase (decrease) in net assets from capital transactions	(630,035)	23,447	(601,232)	(409,281)	(3,210,563)
Increase (decrease) in net assets	702,908	138,916	1,269,161	(153,579)	(844,948)
Net assets at beginning of period	26,465,854	1,287,438	19,069,413	4,846,592	39,518,502
Net assets at end of period	$ 27,168,762	$ 1,426,354	$ 20,338,574	$ 4,693,013	$ 38,673,554
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	1,402	--	11,686	1,762	2,341
Units redeemed	(83,261)	(4,270)	(148,287)	(31,886)	(179,838)
Units transferred	40,598	6,977	37,466	(19,859)	(34,441)
Increase (decrease) in units outstanding	(41,261)	2,707	(99,135)	(49,983)	(211,938)
Beginning units	1,619,008	143,787	3,373,930	572,944	2,616,062
Ending units	1,577,747	146,494	3,274,795	522,961	2,404,124

<CAPTION>

	International Diversified Equities Portfolio (Class 3)	International Growth and Income Portfolio (Class 3)	Marsico Focused Growth Portfolio (Class 3)	MFS Massachusetts Investors Trust Portfolio (Class 3)	MFS Total Return Portfolio (Class 3)
<S>	<C>	<C>	<C>	<C>	<C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ 184,257	$ 1,249,188	$ (9,791)	$ 57,692	$ 2,672,511
Net realized gains (losses)	(242,906)	(4,551,478)	(139,589)	(94,192)	(3,680,117)
Change in net unrealized appreciation (depreciation) of investments	574,831	6,218,906	399,324	1,417,260	6,148,579
Increase (decrease) in net assets from operations	516,182	2,916,616	249,944	1,380,760	5,140,973
From capital transactions:					
Net proceeds from units sold	28,575	49,897	13,564	155,441	325,248
Cost of units redeemed	(255,122)	(1,879,030)	(161,202)	(1,223,652)	(8,498,407)
Net transfers	(58,830)	(667,755)	93,951	1,444,858	(3,077,283)
Contract maintenance charge	(601)	(3,416)	(337)	(1,847)	(14,942)
Increase (decrease) in net assets from capital transactions	(285,978)	(2,500,304)	(54,024)	374,800	(11,265,384)
Increase (decrease) in net assets	230,204	416,312	195,920	1,755,560	(6,124,411)
Net assets at beginning of period	5,745,607	39,102,219	2,839,063	27,533,113	133,562,906
Net assets at end of period	$ 5,975,811	$ 39,518,531	$ 3,034,983	$ 29,288,673	$ 127,438,495
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	3,178	4,860	1,481	14,847	20,907
Units redeemed	(31,164)	(180,110)	(17,148)	(121,415)	(555,392)
Units transferred	(7,539)	(30,213)	10,359	154,892	(205,691)
Increase (decrease) in units outstanding	(35,525)	(205,463)	(5,308)	48,324	(740,176)

Beginning units	686,627	3,640,836	301,502	2,600,213	8,613,941
Ending units	651,102	3,435,373	296,194	2,648,537	7,873,765

</TABLE>

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(continued)

<TABLE>
<CAPTION>

<S>	Mid-Cap Growth Portfolio (Class 3) <C>	Real Estate Portfolio (Class 3) <C>	Small & Mid Cap Value Portfolio (Class 3) <C>	Small Company Value Portfolio (Class 3) <C>	Technology Portfolio (Class 3) <C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ (16,068)	$ 248,948	$ (170,659)	$ (33,761)	$ (3,759)
Net realized gains (losses)	(48,816)	(356,206)	(453,232)	(566,872)	50,715
Change in net unrealized appreciation (depreciation) of investments	495,462	1,122,577	3,000,191	2,469,902	19,199
Increase (decrease) in net assets from operations	430,578	1,015,319	2,376,300	1,869,269	66,155
From capital transactions:					
Net proceeds from units sold	50,452	57,247	106,808	51,827	--
Cost of units redeemed	(100,475)	(1,042,825)	(2,117,022)	(1,520,943)	(14,229)
Net transfers	790,878	(35,880)	(1,360,209)	(1,116,483)	31,213

Contract maintenance charge	(313)	(1,806)	(3,479)	(2,760)	(61)
Increase (decrease) in net assets from capital transactions	740,542	(1,023,264)	(3,373,902)	(2,588,359)	16,923
Increase (decrease) in net assets	1,171,120	(7,945)	(997,602)	(719,090)	83,078
Net assets at beginning of period	2,504,081	24,538,873	49,530,176	29,592,411	691,777
Net assets at end of period	$ 3,675,201	$ 24,530,928	$ 48,532,574	$ 28,873,321	$ 774,855
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	5,272	2,214	10,332	5,927	--
Units redeemed	(11,709)	(40,053)	(202,695)	(172,669)	(6,702)
Units transferred	90,673	(6,124)	(86,085)	(108,295)	10,887
Increase (decrease) in units outstanding	84,236	(43,963)	(278,448)	(275,037)	4,185
Beginning units	281,931	940,383	4,387,802	3,141,661	316,033
Ending units	366,167	896,420	4,109,354	2,866,624	320,218

<CAPTION>

<S>	Telecom Utility Portfolio (Class 3) <C>	Total Return Bond Portfolio (Class 3) <C>	Invesco Van Kampen V.I. Capital Growth Fund (Series II) <C>	Invesco Van Kampen V.I. Comstock Fund (Series II) <C>	Invesco Van Kampen V.I. Growth and Income Fund (Series II) <C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ 15,818	$ 1,512,200	$ (41,597)	$ (1,366,597)	$ (1,424,406)
Net realized gains (losses)	(6,073)	1,304,417	191,491	(6,583,466)	(4,718,890)
Change in net unrealized appreciation (depreciation) of investments	74,675	(1,061,752)	497,384	25,213,616	14,708,044
Increase (decrease) in net assets from operations	84,420	1,754,865	647,278	17,263,553	8,564,748

From capital transactions:					
Net proceeds from units sold	--	490,269	6,362	535,799	550,581
Cost of units redeemed	(11,653)	(3,840,532)	(802,904)	(19,217,979)	(18,648,556)
Net transfers	53,216	8,058,608	(214,177)	(4,221,047)	(1,827,324)
Contract maintenance charge	(104)	(5,960)	(267)	(16,731)	(17,767)
Increase (decrease) in net assets from capital transactions	41,459	4,702,385	(1,010,986)	(22,919,958)	(19,943,066)
Increase (decrease) in net assets	125,879	6,457,250	(363,708)	(5,656,405)	(11,378,318)
Net assets at beginning of period	723,892	76,162,443	7,944,554	257,294,911	274,405,440
Net assets at end of period	$ 849,771	$ 82,619,693	$ 7,580,846	$ 251,638,506	$ 263,027,122
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	--	26,325	721	39,217	39,053
Units redeemed	(1,126)	(206,052)	(79,230)	(1,610,498)	(1,377,925)
Units transferred	4,786	427,609	(22,953)	(333,109)	(95,832)
Increase (decrease) in units outstanding	3,660	247,882	(101,462)	(1,904,390)	(1,434,704)
Beginning units	69,438	4,202,010	767,800	21,032,261	19,037,638
Ending units	73,098	4,449,892	666,338	19,127,871	17,602,934

</TABLE>

The accompanying notes are an integral part of the financial statements.

<PAGE>

VARIABLE ANNUITY ACCOUNT SEVEN
OF
SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY

STATEMENTS OF CHANGES IN NET ASSETS
FOR THE EIGHT MONTHS ENDED
DECEMBER 31, 2010

(continued)

<TABLE>
<CAPTION>

<S>	Growth and Income Portfolio (Class VC) <C>	Mid Cap Value Portfolio (Class VC) <C>	Asset Allocation Fund (Class 2) <C>	Global Growth Fund (Class 2) <C>	Growth Fund (Class 2) <C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ (39,855)	$ (167,259)	$ 4,588,937	$ 2,754,866	$ 332,256
Net realized gains (losses)	(4,538,622)	(5,274,282)	(3,421,873)	(1,000,643)	(3,634,505)
Change in net unrealized appreciation (depreciation) of investments	11,417,005	15,114,897	21,446,828	26,637,712	26,045,396
Increase (decrease) in net assets from operations	6,838,528	9,673,356	22,613,892	28,391,935	22,743,147
From capital transactions:					
Net proceeds from units sold	299,271	237,531	826,166	703,292	343,026
Cost of units redeemed	(12,674,819)	(8,099,792)	(24,210,544)	(21,884,688)	(17,807,957)
Net transfers	(3,991,969)	(3,214,379)	(5,954,383)	(5,350,847)	(7,123,383)
Contract maintenance charge	(7,789)	(3,991)	(24,217)	(22,088)	(14,235)
Increase (decrease) in net assets from capital transactions	(16,375,306)	(11,080,631)	(29,362,978)	(26,554,331)	(24,602,549)
Increase (decrease) in net assets	(9,536,778)	(1,407,275)	(6,749,086)	1,837,604	(1,859,402)
Net assets at beginning of period	163,475,589	100,348,573	350,977,590	320,908,146	253,434,644
Net assets at end of period	$ 153,938,811	$ 98,941,298	$ 344,228,504	$ 322,745,750	$ 251,575,242
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	23,399	15,709	48,556	29,976	16,836
Units redeemed	(1,118,404)	(635,955)	(1,567,164)	(993,453)	(953,677)
Units transferred	(340,666)	(254,053)	(389,188)	(242,136)	(379,394)
Increase (decrease) in units					

outstanding	(1,435,671)	(874,299)	(1,907,796)	(1,205,613)	(1,316,235)
Beginning units	13,672,902	7,674,773	22,456,212	14,487,215	13,360,013
Ending units	12,237,231	6,800,474	20,548,416	13,281,602	12,043,778

<CAPTION>

<S>	Growth-Income Fund (Class 2) <C>	Franklin Income Securities Fund (Class 2) <C>	Franklin Templeton VIP Founding Funds Allocation Fund (Class 2) <C>	Real Return Portfolio (Class 3) (1) <C>
INCREASE (DECREASE) IN NET ASSETS:				
From operations:				
Net investment income (loss)	$ 3,752,611	$ 749,885	$ 377,897	$ 13,906
Net realized gains (losses)	(8,568,086)	(90,845)	(191,449)	869
Change in net unrealized appreciation (depreciation) of investments	25,433,597	117,447	949,819	(11,142)
Increase (decrease) in net assets from operations	20,618,122	776,487	1,136,267	3,633
From capital transactions:				
Net proceeds from units sold	879,789	11,711	37,596	34,231
Cost of units redeemed	(30,371,667)	(634,416)	(983,308)	(42,324)
Net transfers	(6,805,731)	988,365	333,366	2,001,007
Contract maintenance charge	(28,643)	(1,274)	(2,405)	(49)
Increase (decrease) in net assets from capital transactions	(36,326,252)	364,386	(614,751)	1,992,865
Increase (decrease) in net assets	(15,708,130)	1,140,873	521,516	1,996,498
Net assets at beginning of period	453,154,537	12,413,390	24,582,687	--
Net assets at end of period	$ 437,446,407	$ 13,554,263	$ 25,104,203	$ 1,996,498

ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:

Units sold	51,345	1,194	4,074	2,944
Units redeemed	(1,924,041)	(63,335)	(111,653)	(3,665)
Units transferred	(426,832)	98,289	34,187	172,178
Increase (decrease) in units outstanding	(2,299,528)	36,148	(73,392)	171,457
Beginning units	27,563,259	1,239,046	2,744,267	--
Ending units	25,263,731	1,275,194	2,670,875	171,457

</TABLE>

(1) For the period from May 3, 2010 (inception) to December 31, 2010.

The accompanying notes are an integral part of the financial statements.

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VARIABLE ANNUITY ACCOUNT SEVEN
OF
SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY

STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED
APRIL 30, 2010

<TABLE>
<CAPTION>

<S>	Asset Allocation Portfolio (Class 1) <C>	Capital Appreciation Portfolio (Class 1) <C>	Government and Quality Bond Portfolio (Class 1) <C>	Growth Portfolio (Class 1) <C>	Asset Allocation Portfolio (Class 3) <C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ 335,809	$ (778,487)	$ 3,079,911	$ 42,558	$ 101,178
Net realized gains (losses)	(508,087)	(3,372,986)	339,765	(4,683,477)	(361,258)
Change in net unrealized appreciation (depreciation) of investments	3,323,430	34,639,900	293,670	19,331,547	1,248,465

Increase (decrease) in net assets from operations	3,151,152	30,488,427	3,713,346	14,690,628	988,385
From capital transactions:					
Net proceeds from units sold	16,326	91,786	46,051	74,729	4,079
Cost of units redeemed	(1,625,460)	(10,781,825)	(14,710,307)	(5,738,591)	(421,950)
Net transfers	258,189	(2,132,927)	(2,937,170)	(1,817,739)	218,146
Contract maintenance charge	--	--	--	--	(1,044)
Increase (decrease) in net assets from capital transactions	(1,350,945)	(12,822,966)	(17,601,426)	(7,481,601)	(200,769)
Increase (decrease) in net assets	1,800,207	17,665,461	(13,888,080)	7,209,027	787,616
Net assets at beginning of period	11,543,112	72,003,272	85,971,493	38,205,960	3,494,991
Net assets at end of period	$ 13,343,319	$ 89,668,733	$ 72,083,413	$ 45,414,987	$ 4,282,607
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	1,030	3,816	2,651	3,064	310
Units redeemed	(93,565)	(746,485)	(917,130)	(487,888)	(31,846)
Units transferred	22,851	(139,619)	(193,239)	(155,924)	18,633
Increase (decrease) in units outstanding	(69,684)	(882,288)	(1,107,718)	(640,748)	(12,903)
Beginning units	773,252	6,103,781	5,468,822	4,008,018	311,652
Ending units	703,568	5,221,493	4,361,104	3,367,270	298,749

<CAPTION>

<S>	Capital Appreciation Portfolio (Class 3) <C>	Government and Quality Bond Portfolio (Class 3) <C>	Growth Portfolio (Class 3) <C>	Natural Resources Portfolio (Class 3) <C>	Aggressive Growth Portfolio (Class 1) <C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ (976,716)	$ 3,267,112	$ (6,969)	$ 10,738	$ (43,055)

Net realized gains (losses)	(4,640,350)	204,781	(686,382)	(535,975)	(583,755)
Change in net unrealized appreciation (depreciation) of investments	46,673,741	623,481	2,230,001	3,290,647	2,276,291
Increase (decrease) in net assets from operations	41,056,675	4,095,374	1,536,650	2,765,410	1,649,481
From capital transactions:					
Net proceeds from units sold	896,382	657,392	71,342	20,406	131,626
Cost of units redeemed	(7,318,276)	(6,147,189)	(387,815)	(789,438)	(470,915)
Net transfers	(2,686,202)	12,764,249	(336,314)	72,911	59,230
Contract maintenance charge	(22,366)	(13,590)	(833)	(1,749)	--
Increase (decrease) in net assets from capital transactions	(9,130,462)	7,260,862	(653,620)	(697,870)	(280,059)
Increase (decrease) in net assets	31,926,213	11,356,236	883,030	2,067,540	1,369,422
Net assets at beginning of period	94,134,741	81,374,970	3,970,032	6,521,441	3,540,639
Net assets at end of period	$ 126,060,954	$ 92,731,206	$ 4,853,062	$ 8,588,981	$ 4,910,061
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	66,466	42,738	6,720	1,961	16,751
Units redeemed	(548,811)	(400,268)	(35,990)	(76,369)	(57,974)
Units transferred	(174,113)	837,825	(31,888)	7,138	10,982
Increase (decrease) in units outstanding	(656,458)	480,295	(61,158)	(67,270)	(30,241)
Beginning units	8,928,669	5,442,670	472,674	864,571	483,218
Ending units	8,272,211	5,922,965	411,516	797,301	452,977

</TABLE>

The accompanying notes are an integral part of the financial statements.

<PAGE>

VARIABLE ANNUITY ACCOUNT SEVEN
OF
SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY

STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED
APRIL 30, 2010
(continued)

<TABLE>
<CAPTION>

<S>	Alliance Growth Portfolio (Class 1) <C>	Balanced Portfolio (Class 1) <C>	Blue Chip Growth Portfolio (Class 1) <C>	Capital Growth Portfolio (Class 1) <C>	Cash Management Portfolio (Class 1) <C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ (153,112)	$ 387,856	$ (6,022)	$ (13,892)	$ 435,879
Net realized gains (losses)	(1,419,313)	(908,253)	(5,093)	(20,835)	(791,461)
Change in net unrealized appreciation (depreciation) of investments	8,693,181	5,061,319	315,757	471,114	65,377
Increase (decrease) in net assets from operations	7,120,756	4,540,922	304,642	436,387	(290,205)
From capital transactions:					
Net proceeds from units sold	61,161	15,236	318	29	727,099
Cost of units redeemed	(2,416,031)	(2,480,718)	(187,390)	(389,080)	(20,717,039)
Net transfers	2,039	238,438	105,578	391,691	(3,862,044)
Contract maintenance charge	--	--	--	--	--
Increase (decrease) in net assets from capital transactions	(2,352,831)	(2,227,044)	(81,494)	2,640	(23,851,984)
Increase (decrease) in net assets	4,767,925	2,313,878	223,148	439,027	(24,142,189)
Net assets at beginning of period	21,415,071	17,053,832	938,950	1,178,444	44,673,769
Net assets at end of period	$ 26,182,996	$ 19,367,710	$ 1,162,098	$ 1,617,471	$ 20,531,580

ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	1,833	973	69	4	60,867
Units redeemed	(161,396)	(196,332)	(36,479)	(59,233)	(1,666,881)
Units transferred	6,563	20,978	21,595	65,317	(374,818)
Increase (decrease) in units outstanding	(153,000)	(174,381)	(14,815)	6,088	(1,980,832)
Beginning units	1,429,844	1,505,570	211,535	211,903	3,643,431
Ending units	1,276,844	1,331,189	196,720	217,991	1,662,599

<CAPTION>

<S>	Corporate Bond Portfolio (Class 1) <C>	Davis Venture Value Portfolio (Class 1) <C>	"Dogs" of Wall Street Portfolio (Class 1) <C>	Emerging Markets Portfolio (Class 1) <C>	Equity Index Portfolio (Class 1) <C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ 4,175,449	$ 420,225	$ 96,305	$ (118,751)	$ 132,820
Net realized gains (losses)	1,287,154	(1,626,830)	(258,948)	(6,088,020)	(370,390)
Change in net unrealized appreciation (depreciation) of investments	14,196,538	24,627,622	1,040,448	10,207,814	3,498,704
Increase (decrease) in net assets from operations	19,659,141	23,421,017	877,805	4,001,043	3,261,134
From capital transactions:					
Net proceeds from units sold	68,135	119,554	4,398	4,214	22,129
Cost of units redeemed	(14,698,978)	(9,627,072)	(400,516)	(1,118,230)	(1,436,951)
Net transfers	1,594,431	(1,700,070)	219,257	1,256,555	(15,484)
Contract maintenance charge	--	--	--	--	--
Increase (decrease) in net assets from capital transactions	(13,036,412)	(11,207,588)	(176,861)	142,539	(1,430,306)
Increase (decrease) in net assets	6,622,729	12,213,429	700,944	4,143,582	1,830,828
Net assets at beginning of period	76,317,039	65,272,627	2,363,708	7,786,851	9,357,126

Net assets at end of period	$ 82,939,768	$ 77,486,056	$ 3,064,652	$ 11,930,433	$ 11,187,954
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	3,363	4,887	381	202	2,781
Units redeemed	(822,604)	(706,332)	(35,508)	(55,774)	(177,121)
Units transferred	90,144	(131,582)	18,396	53,216	(2,209)
Increase (decrease) in units outstanding	(729,097)	(833,027)	(16,731)	(2,356)	(176,549)
Beginning units	4,991,101	5,852,219	261,903	531,514	1,426,489
Ending units	4,262,004	5,019,192	245,172	529,158	1,249,940

</TABLE>

The accompanying notes are an integral part of the financial statements.

<PAGE>

VARIABLE ANNUITY ACCOUNT SEVEN
OF
SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY

STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED
APRIL 30, 2010
(continued)

<TABLE>
<CAPTION>

<S>	Equity Opportunities Portfolio (Class 1) <C>	Fundamental Growth Portfolio (Class 1) <C>	Global Bond Portfolio (Class 1) <C>	Global Equities Portfolio (Class 1) <C>	Growth Opportunities Portfolio (Class 1) <C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ 32,211	$ (125,947)	$ 420,549	$ 87,902	$ (10,585)
Net realized gains (losses)	(1,537,622)	(759,588)	782,698	(325,581)	(39,419)

Change in net unrealized appreciation (depreciation) of investments	4,660,113	4,278,088	581,061	2,027,108	425,327
Increase (decrease) in net assets from operations	3,154,702	3,392,553	1,784,308	1,789,429	375,323
From capital transactions:					
Net proceeds from units sold	24,635	27,948	15,231	15,102	5,924
Cost of units redeemed	(1,536,130)	(1,463,857)	(2,735,343)	(886,613)	(98,618)
Net transfers	(384,628)	(290,622)	844,963	412,319	538,935
Contract maintenance charge	--	--	--	--	--
Increase (decrease) in net assets from capital transactions	(1,896,123)	(1,726,531)	(1,875,149)	(459,192)	446,241
Increase (decrease) in net assets	1,258,579	1,666,022	(90,841)	1,330,237	821,564
Net assets at beginning of period	10,300,983	10,568,571	16,526,291	4,927,724	793,208
Net assets at end of period	$ 11,559,562	$ 12,234,593	$ 16,435,450	$ 6,257,961	$ 1,614,772
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	2,224	3,542	885	1,208	1,228
Units redeemed	(142,281)	(194,768)	(159,546)	(83,133)	(20,252)
Units transferred	(42,691)	(51,387)	47,108	49,263	113,142
Increase (decrease) in units outstanding	(182,748)	(242,613)	(111,553)	(32,662)	94,118
Beginning units	1,137,507	1,522,209	1,054,671	489,251	188,057
Ending units	954,759	1,279,596	943,118	456,589	282,175

<CAPTION>

	Growth-Income Portfolio (Class 1)	High-Yield Bond Portfolio (Class 1)	International Diversified Equities Portfolio (Class 1)	International Growth and Income Portfolio (Class 1)	MFS Massachusetts Investors Trust Portfolio (Class 1)
<S>	<C>	<C>	<C>	<C>	<C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ 50,479	$ 1,159,587	$ 17,026	$ (131,383)	$ 13,643
Net realized gains (losses)	(2,184,598)	(1,376,293)	(7,206)	(1,571,486)	17,114

Change in net unrealized appreciation (depreciation) of investments	7,788,975	4,865,931	1,732,894	5,483,731	1,092,939
Increase (decrease) in net assets from operations	5,654,856	4,649,225	1,742,714	3,780,862	1,123,696
From capital transactions:					
Net proceeds from units sold	41,072	18,914	7,635	27,618	1,475
Cost of units redeemed	(2,615,421)	(2,244,957)	(732,612)	(1,959,186)	(571,088)
Net transfers	(387,007)	1,194,272	950,262	(166,209)	982,402
Contract maintenance charge	--	--	--	--	--
Increase (decrease) in net assets from capital transactions	(2,961,356)	(1,031,771)	225,285	(2,097,777)	412,789
Increase (decrease) in net assets	2,693,500	3,617,454	1,967,999	1,683,085	1,536,485
Net assets at beginning of period	19,101,948	12,495,060	5,081,136	11,009,858	3,085,844
Net assets at end of period	$ 21,795,448	$ 16,112,514	$ 7,049,135	$ 12,692,943	$ 4,622,329
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	3,013	1,062	640	2,311	147
Units redeemed	(215,882)	(159,348)	(79,118)	(177,910)	(59,503)
Units transferred	(35,760)	94,781	116,423	(13,343)	103,497
Increase (decrease) in units outstanding	(248,629)	(63,505)	37,945	(188,942)	44,141
Beginning units	1,588,482	1,071,185	697,860	1,283,469	388,579
Ending units	1,339,853	1,007,680	735,805	1,094,527	432,720

</TABLE>

The accompanying notes are an integral part of the financial statements.

<PAGE>

VARIABLE ANNUITY ACCOUNT SEVEN
OF
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STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED
APRIL 30, 2010
(continued)

<TABLE>
<CAPTION>

<S>	MFS Total Return Portfolio (Class 1) <C>	Mid-Cap Growth Portfolio (Class 1) <C>	Real Estate Portfolio (Class 1) <C>	Small Company Value Portfolio (Class 1) <C>	Technology Portfolio (Class 1) <C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ 3,148,044	$ (28,550)	$ 53,989	$ (19,874)	$ (3,655)
Net realized gains (losses)	(3,899,792)	(189,287)	(1,979,822)	66,982	(81,190)
Change in net unrealized appreciation (depreciation) of investments	24,280,525	1,302,263	4,246,097	1,532,118	230,628
Increase (decrease) in net assets from operations	23,528,777	1,084,426	2,320,264	1,579,226	145,783
From capital transactions:					
Net proceeds from units sold	120,874	3,369	6,251	7,817	--
Cost of units redeemed	(15,796,536)	(458,636)	(922,543)	(366,166)	(74,455)
Net transfers	1,302,465	774,384	(175,909)	442,257	128,994
Contract maintenance charge	--	--	--	--	--
Increase (decrease) in net assets from capital transactions	(14,373,197)	319,117	(1,092,201)	83,908	54,539
Increase (decrease) in net assets	9,155,580	1,403,543	1,228,063	1,663,134	200,322
Net assets at beginning of period	102,227,600	2,318,266	4,756,909	3,353,978	252,953
Net assets at end of period	$ 111,383,180	$ 3,721,809	$ 5,984,972	$ 5,017,112	$ 453,275
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	8,369	342	273	352	--
Units redeemed	(1,082,777)	(57,728)	(44,992)	(17,230)	(35,539)
Units transferred	92,002	111,229	(11,759)	16,818	79,542

Increase (decrease) in units outstanding	(982,406)	53,843	(56,478)	(60)	44,003
Beginning units	8,100,695	361,701	299,890	196,515	161,321
Ending units	7,118,289	415,544	243,412	196,455	205,324

<CAPTION>

	Telecom Utility Portfolio (Class 1)	Total Return Bond Portfolio (Class 1)	Aggressive Growth Portfolio (Class 3)	Alliance Growth Portfolio (Class 3)	Balanced Portfolio (Class 3)
<S>	<C>	<C>	<C>	<C>	<C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ 88,416	$ 198,634	$ (3,211)	$ (63,866)	$ 47,792
Net realized gains (losses)	(156,665)	371,242	(102,468)	(178,848)	(88,224)
Change in net unrealized appreciation (depreciation) of investments	680,993	1,180,694	251,655	3,639,586	611,647
Increase (decrease) in net assets from operations	612,744	1,750,570	145,976	3,396,872	571,215
From capital transactions:					
Net proceeds from units sold	4,254	9,958	25,145	8,470	--
Cost of units redeemed	(385,831)	(3,499,277)	(55,925)	(1,040,377)	(260,091)
Net transfers	29,830	6,811,927	98,185	(472,641)	765,770
Contract maintenance charge	--	--	(133)	(2,504)	(410)
Increase (decrease) in net assets from capital transactions	(351,747)	3,322,608	67,272	(1,507,052)	505,269
Increase (decrease) in net assets	260,997	5,073,178	213,248	1,889,820	1,076,484
Net assets at beginning of period	1,862,882	15,551,746	325,076	10,283,061	1,991,393
Net assets at end of period	$ 2,123,879	$ 20,624,924	$ 538,324	$ 12,172,881	$ 3,067,877
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	313	554	4,320	1,156	--
Units redeemed	(33,514)	(193,482)	(8,883)	(144,676)	(30,414)
Units transferred	4,309	383,208	11,707	(66,580)	83,977

Increase (decrease) in units outstanding	(28,892)	190,280	7,144	(210,100)	53,563
Beginning units	185,202	902,304	62,443	1,773,630	266,206
Ending units	156,310	1,092,584	69,587	1,563,530	319,769

</TABLE>

The accompanying notes are an integral part of the financial statements.

<PAGE>

VARIABLE ANNUITY ACCOUNT SEVEN
OF
SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY

STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED
APRIL 30, 2010
(continued)

<TABLE>
<CAPTION>

<S>	Blue Chip Growth Portfolio (Class 3) <C>	Capital Growth Portfolio (Class 3) <C>	Cash Management Portfolio (Class 3) <C>	Corporate Bond Portfolio (Class 3) <C>	Davis Venture Value Portfolio (Class 3) <C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ (10,123)	$ (29,852)	$ 255,113	$ 8,849,827	$ 298,650
Net realized gains (losses)	(77,256)	(188,170)	(518,755)	1,088,886	(3,062,774)
Change in net unrealized appreciation (depreciation) of investments	418,265	1,173,858	73,405	31,996,629	30,834,499
Increase (decrease) in net assets from operations	330,886	955,836	(190,237)	41,935,342	28,070,375
From capital transactions:					
Net proceeds from units sold	28,191	5,353	691,135	919,607	538,782
Cost of units redeemed	(448,759)	(184,032)	(10,466,417)	(12,723,729)	(5,546,318)
Net transfers	499,149	(49,322)	(1,489,043)	8,792,813	(726,240)

Contract maintenance charge	(233)	(558)	(3,855)	(31,455)	(17,348)
Increase (decrease) in net assets from capital transactions	78,348	(228,559)	(11,268,180)	(3,042,764)	(5,751,124)
Increase (decrease) in net assets	409,234	727,277	(11,458,417)	38,892,578	22,319,251
Net assets at beginning of period	881,600	2,993,747	22,315,806	154,733,770	76,156,795
Net assets at end of period	$ 1,290,834	$ 3,721,024	$ 10,857,389	$ 193,626,348	$ 98,476,046
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	5,096	797	58,517	52,981	43,534
Units redeemed	(80,964)	(26,758)	(887,771)	(718,579)	(445,997)
Units transferred	96,389	(10,139)	(125,780)	525,527	(48,169)
Increase (decrease) in units outstanding	20,521	(36,100)	(955,034)	(140,071)	(450,632)
Beginning units	199,873	542,220	1,880,894	10,287,566	7,608,802
Ending units	220,394	506,120	925,860	10,147,495	7,158,170

<CAPTION>

<S>	"Dogs" of Wall Street Portfolio (Class 3) <C>	Emerging Markets Portfolio (Class 3) <C>	Equity Opportunities Portfolio (Class 3) <C>	Foreign Value Portfolio (Class 3) <C>	Fundamental Growth Portfolio (Class 3) <C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ 23,096	$ (83,621)	$ 187	$ 869,534	$ (27,223)
Net realized gains (losses)	(78,829)	(3,387,585)	(154,984)	(574,263)	(96,032)
Change in net unrealized appreciation (depreciation) of investments	277,045	7,215,919	389,629	12,862,734	1,033,049
Increase (decrease) in net assets from operations	221,312	3,744,713	234,832	13,158,005	909,794
From capital transactions:					
Net proceeds from units sold	--	176,203	64,707	468,064	11,975
Cost of units redeemed	(46,965)	(583,245)	(142,507)	(2,819,685)	(173,073)

Net transfers	(3,920)	189,443	170,144	5,223,880	29,441
Contract maintenance charge	(239)	(1,390)	(131)	(8,891)	(373)
Increase (decrease) in net assets from capital transactions	(51,124)	(218,989)	92,213	2,863,368	(132,030)
Increase (decrease) in net assets	170,188	3,525,724	327,045	16,021,373	777,764
Net assets at beginning of period	596,737	7,445,005	727,097	44,685,557	2,632,658
Net assets at end of period	$ 766,925	$ 10,970,729	$ 1,054,142	$ 60,706,930	$ 3,410,422
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	--	7,217	6,044	50,871	2,215
Units redeemed	(3,660)	(25,437)	(13,895)	(313,848)	(29,044)
Units transferred	(70)	2,959	15,941	584,134	9,017
Increase (decrease) in units outstanding	(3,730)	(15,261)	8,090	321,157	(17,812)
Beginning units	58,953	445,284	86,148	6,208,269	549,106
Ending units	55,223	430,023	94,238	6,529,426	531,294

</TABLE>

The accompanying notes are an integral part of the financial statements.

<PAGE>

VARIABLE ANNUITY ACCOUNT SEVEN
OF
SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY

STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED
APRIL 30, 2010
(continued)

<TABLE>
<CAPTION>

	Global Bond	Global Equities	Growth Opportunities	Growth-Income	High-Yield Bond

	Portfolio (Class 3)	Portfolio (Class 3)	Portfolio (Class 3)	Portfolio (Class 3)	Portfolio (Class 3)
<S>	<C>	<C>	<C>	<C>	<C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ 582,369	$ 16,952	$ (135,239)	$ 8,615	$ 2,694,624
Net realized gains (losses)	765,548	(70,813)	(165,809)	(506,076)	(1,746,657)
Change in net unrealized appreciation (depreciation) of investments	1,009,777	383,483	5,181,079	1,689,521	10,249,444
Increase (decrease) in net assets from operations	2,357,694	329,622	4,880,031	1,192,060	11,197,411
From capital transactions:					
Net proceeds from units sold	139,791	41,742	194,716	3,386	152,982
Cost of units redeemed	(1,868,750)	(63,142)	(669,986)	(367,592)	(2,865,094)
Net transfers	4,705,409	133,382	3,057,431	34,834	223,182
Contract maintenance charge	(4,094)	(210)	(1,720)	(899)	(6,911)
Increase (decrease) in net assets from capital transactions	2,972,356	111,772	2,580,441	(330,271)	(2,495,841)
Increase (decrease) in net assets	5,330,050	441,394	7,460,472	861,789	8,701,570
Net assets at beginning of period	21,135,804	846,044	11,608,941	3,984,803	30,816,932
Net assets at end of period	$ 26,465,854	$ 1,287,438	$ 19,069,413	$ 4,846,592	$ 39,518,502
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	8,763	5,204	40,198	430	11,640
Units redeemed	(114,824)	(7,953)	(139,471)	(46,032)	(211,843)
Units transferred	290,563	16,613	695,374	1,150	26,384
Increase (decrease) in units outstanding	184,502	13,864	596,101	(44,452)	(173,819)
Beginning units	1,434,506	129,923	2,777,829	617,396	2,789,881
Ending units	1,619,008	143,787	3,373,930	572,944	2,616,062

<CAPTION>

International International MFS Massachusetts

<S> <C>

	Diversified Equities Portfolio (Class 3)	Growth and Income Portfolio (Class 3)	Marsico Focused Growth Portfolio (Class 3)	Investors Trust Portfolio (Class 3)	MFS Total Return Portfolio (Class 3)
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ 7,560	$ (321,733)	$ (10,582)	$ 42,922	$ 3,299,361
Net realized gains (losses)	(346,304)	(5,850,103)	(366,639)	(158,237)	(3,849,071)
Change in net unrealized appreciation (depreciation) of investments	1,853,389	16,628,705	1,138,617	6,793,092	27,209,598
Increase (decrease) in net assets from operations	1,514,645	10,456,869	761,396	6,677,777	26,659,888
From capital transactions:					
Net proceeds from units sold	150,865	328,909	46,646	313,623	527,792
Cost of units redeemed	(498,313)	(2,001,037)	(280,936)	(1,061,737)	(9,452,221)
Net transfers	(41,583)	24,057	134,202	4,233,199	1,478,146
Contract maintenance charge	(1,057)	(5,548)	(582)	(2,578)	(24,542)
Increase (decrease) in net assets from capital transactions	(390,088)	(1,653,619)	(100,670)	3,482,507	(7,470,825)
Increase (decrease) in net assets	1,124,557	8,803,250	660,726	10,160,284	19,189,063
Net assets at beginning of period	4,621,050	30,298,969	2,178,337	17,372,829	114,373,843
Net assets at end of period	$ 5,745,607	$ 39,102,219	$ 2,839,063	$ 27,533,113	$ 133,562,906
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	18,774	31,895	5,376	32,971	36,614
Units redeemed	(62,208)	(194,943)	(34,056)	(110,837)	(652,642)
Units transferred	(9,546)	(819)	15,426	476,767	104,625
Increase (decrease) in units outstanding	(52,980)	(163,867)	(13,254)	398,901	(511,403)
Beginning units	739,607	3,804,703	314,756	2,201,312	9,125,344
Ending units	686,627	3,640,836	301,502	2,600,213	8,613,941

</TABLE>

The accompanying notes are an integral part of the financial statements.

<PAGE>

VARIABLE ANNUITY ACCOUNT SEVEN
OF
SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY

STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED
APRIL 30, 2010
(continued)

<TABLE>
<CAPTION>

<S>	Mid-Cap Growth Portfolio (Class 3) <C>	Real Estate Portfolio (Class 3) <C>	Small & Mid Cap Value Portfolio (Class 3) <C>	Small Company Value Portfolio (Class 3) <C>	Technology Portfolio (Class 3) <C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ (17,282)	$ 165,522	$ (143,783)	$ (89,801)	$ (5,131)
Net realized gains (losses)	(42,821)	(6,510,760)	(1,540,489)	(1,259,176)	(70,717)
Change in net unrealized appreciation (depreciation) of investments	724,910	16,039,412	21,951,735	11,644,810	283,555
Increase (decrease) in net assets from operations	664,807	9,694,174	20,267,463	10,295,833	207,707
From capital transactions:					
Net proceeds from units sold	12,708	212,150	347,093	158,272	3,077
Cost of units redeemed	(77,265)	(1,133,601)	(2,289,750)	(1,463,090)	(73,452)
Net transfers	486,692	(3,012,451)	(3,715,329)	(562,496)	106,703
Contract maintenance charge	(415)	(2,864)	(5,695)	(4,212)	(111)
Increase (decrease) in net assets from capital transactions	421,720	(3,936,766)	(5,663,681)	(1,871,526)	36,217

Increase (decrease) in net assets	1,086,527	5,757,408	14,603,782	8,424,307	243,924
Net assets at beginning of period	1,417,554	18,781,465	34,926,394	21,168,104	447,853
Net assets at end of period	$ 2,504,081	$ 24,538,873	$ 49,530,176	$ 29,592,411	$ 691,777
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	1,475	9,888	38,172	20,224	1,586
Units redeemed	(9,858)	(52,782)	(249,260)	(186,540)	(35,014)
Units transferred	67,693	(136,922)	(338,645)	(59,720)	61,878
Increase (decrease) in units outstanding	59,310	(179,816)	(549,733)	(226,036)	28,450
Beginning units	222,621	1,120,199	4,937,535	3,367,697	287,583
Ending units	281,931	940,383	4,387,802	3,141,661	316,033

</TABLE>

<TABLE>
<CAPTION>

	Telecom Utility Portfolio (Class 3)	Total Return Bond Portfolio (Class 3)	Invesco Van Kampen V.I. Capital Growth Fund (Series II)	Invesco Van Kampen V.I. Comstock Fund (Series II)	Invesco Van Kampen V.I. Growth and Income Fund (Series II)
<S>	<C>	<C>	<C>	<C>	<C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ 32,495	$ 629,984	$ (62,986)	$ 1,877,947	$ 1,122,031
Net realized gains (losses)	(58,672)	296,860	(63,466)	(11,675,921)	(6,205,882)
Change in net unrealized appreciation (depreciation) of investments	248,152	4,928,413	2,748,637	90,553,651	89,618,212
Increase (decrease) in net assets from operations	221,975	5,855,257	2,622,185	80,755,677	84,534,361
From capital transactions:					

Net proceeds from units sold	-	724,231	14,198	1,023,455	1,067,111
Cost of units redeemed	(100,141)	(3,312,096)	(929,319)	(24,647,866)	(23,813,797)
Net transfers	(45,384)	23,468,034	749,527	(6,576,338)	1,092,389
Contract maintenance charge	(215)	(8,073)	(458)	(26,373)	(27,947)
Increase (decrease) in net assets from capital transactions	(145,740)	20,872,096	(166,052)	(30,227,122)	(21,682,244)
Increase (decrease) in net assets	76,235	26,727,353	2,456,133	50,528,555	62,852,117
Net assets at beginning of period	647,657	49,435,090	5,488,421	206,766,356	211,553,323
Net assets at end of period	$ 723,892	$ 76,162,443	$ 7,944,554	$ 257,294,911	$ 274,405,440
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	-	41,137	1,652	92,087	82,400
Units redeemed	(10,062)	(188,832)	(104,044)	(2,253,800)	(1,845,809)
Units transferred	(4,148)	1,351,750	97,936	(564,563)	163,927
Increase (decrease) in units outstanding	(14,210)	1,204,055	(4,456)	(2,726,276)	(1,599,482)
Beginning units	83,648	2,997,955	772,256	23,758,537	20,637,120
Ending units	69,438	4,202,010	767,800	21,032,261	19,037,638

</TABLE>

The accompanying notes are an integral part of the financial statements.

<PAGE>

VARIABLE ANNUITY ACCOUNT SEVEN
OF
SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY

STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED
APRIL 30, 2010
(continued)

<TABLE>
<CAPTION>

<S>	Growth and Income Portfolio (Class VC) <C>	Mid Cap Value Portfolio (Class VC) <C>	Asset Allocation Fund (Class 2) <C>	Global Growth Fund (Class 2) <C>	Growth Fund (Class 2) <C>
INCREASE (DECREASE) IN NET ASSETS:					
From operations:					
Net investment income (loss)	$ 78,302	$ (376,148)	$ 4,567,152	$ 1,337,382	$ (637,030)
Net realized gains (losses)	(6,645,964)	(8,781,301)	(6,502,957)	(2,612,013)	(6,633,865)
Change in net unrealized appreciation (depreciation) of investments	55,618,687	42,132,553	79,322,724	95,988,421	83,059,502
Increase (decrease) in net assets from operations	49,051,025	32,975,104	77,386,919	94,713,790	75,788,607
From capital transactions:					
Net proceeds from units sold	655,647	251,584	2,324,130	1,506,794	1,165,983
Cost of units redeemed	(13,947,276)	(9,605,373)	(34,367,044)	(28,609,224)	(22,732,286)
Net transfers	(3,361,650)	(3,292,676)	(1,176,643)	(675,847)	(2,378,848)
Contract maintenance charge	(12,322)	(6,422)	(37,937)	(35,544)	(21,560)
Increase (decrease) in net assets from capital transactions	(16,665,601)	(12,652,887)	(33,257,494)	(27,813,821)	(23,966,711)
Increase (decrease) in net assets	32,385,424	20,322,217	44,129,425	66,899,969	51,821,896
Net assets at beginning of period	131,090,165	80,026,356	306,848,165	254,008,177	201,612,748
Net assets at end of period	$ 163,475,589	$ 100,348,573	$ 350,977,590	$ 320,908,146	$ 253,434,644
ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:					
Units sold	61,732	18,746	160,133	69,268	64,345
Units redeemed	(1,322,734)	(860,189)	(2,387,543)	(1,384,763)	(1,341,503)
Units transferred	(307,609)	(295,253)	(52,339)	(23,855)	(106,764)
Increase (decrease) in units outstanding	(1,568,611)	(1,136,696)	(2,279,749)	(1,339,350)	(1,383,922)

Beginning units	15,241,513	8,811,469	24,735,961	15,826,565	14,743,935
Ending units	13,672,902	7,674,773	22,456,212	14,487,215	13,360,013

</TABLE>

<TABLE>
<CAPTION>

<S>	Growth-Income Fund (Class 2) <C>	Franklin Income Securities Fund (Class 2) <C>	Franklin Templeton VIP Founding Funds Allocation Fund (Class 2) <C>
INCREASE (DECREASE) IN NET ASSETS:			
From operations:			
Net investment income (loss)	$ 2,620,733	$ 646,183	$ 343,707
Net realized gains (losses)	(11,069,529)	(234,527)	(548,976)
Change in net unrealized appreciation (depreciation) of investments	130,939,236	2,761,036	6,539,886
Increase (decrease) in net assets from operations	122,490,440	3,172,692	6,334,617
From capital transactions:			
Net proceeds from units sold	2,699,971	67,979	58,400
Cost of units redeemed	(41,288,354)	(495,743)	(1,113,509)
Net transfers	490,087	1,735,306	1,239,711
Contract maintenance charge	(44,108)	(1,682)	(3,814)
Increase (decrease) in net assets from capital transactions	(38,142,404)	1,305,860	180,788
Increase (decrease) in net assets	84,348,036	4,478,552	6,515,405
Net assets at beginning of period	368,806,501	7,934,838	18,067,282
Net assets at end of period	$ 453,154,537	$ 12,413,390	$ 24,582,687

ANALYSIS OF INCREASE (DECREASE) IN UNITS OUTSTANDING:			
Units sold	164,928	7,452	7,270
Units redeemed	(2,757,463)	(54,865)	(137,135)
Units transferred	74,081	204,102	157,543
Increase (decrease) in units outstanding	(2,518,454)	156,689	27,678
Beginning units	30,081,713	1,082,357	2,716,589
Ending units	27,563,259	1,239,046	2,744,267

</TABLE>

The accompanying notes are an integral part of the financial statements.

<PAGE>

VARIABLE ANNUITY ACCOUNT SEVEN
OF
SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION

Variable Annuity Account Seven of SunAmerica Annuity and Life Assurance Company (the "Separate Account") is an investment account of SunAmerica Annuity and Life Assurance Company (the "Company"). The Company is a direct wholly owned subsidiary of SunAmerica Life Insurance Company, which is a subsidiary of SAFG Retirement Services, Inc. (formerly known as AIG Retirement Services, Inc.), the retirement services and asset management organization within American International Group, Inc. ("American International Group"). American International Group is a holding company which through its subsidiaries is engaged in a broad range of insurance and insurance-related activities, financial services, retirement savings, and asset management. AIG Retirement Services, Inc. changed its name to SAFG Retirement Services, Inc. on June 10, 2010. The Separate Account is registered as a unit investment trust pursuant to the provisions of the Investment Company Act of 1940, as amended.

The Separate Account offers the following variable annuity products: Polaris Plus, Polaris II Asset Manager, Polaris II A-Class, Polaris II A-Class Platinum Series, and Polaris Platinum O-Series.

The Separate Account contracts are sold through the Company's affiliated broker-dealers, independent broker-dealers, full-service securities firms, and financial institutions. The distributor of these contracts is SunAmerica Capital Services, Inc., an affiliate of the Company. No underwriting fees are paid in connection with the distribution of the contracts.

The Separate Account is composed of a total of 79 variable portfolios of different classes (the "Variable Accounts"). Each of the Variable Accounts is invested solely in the shares of one of the following: (1) the nine currently available Class 1 and Class 3 investment portfolios of the Anchor Series Trust (the "Anchor Trust"), (2) the fifty-eight currently available Class 1 and Class 3 investment portfolios of the SunAmerica Series Trust (the "SunAmerica Trust"), (3) the three currently available Series II investment portfolios of the Invesco Variable Insurance Funds (the "Invesco Funds"), (4) the two currently available Class VC investment portfolios of the Lord Abbett Series Fund, Inc. (the "Lord Abbett Fund"), (5) the four currently available Class 2 investment portfolios of the American Fund Insurance Series (the "American Series"), (6) the two currently available Class 2 investment portfolios of the Franklin Templeton Variable Insurance Products Trust (the "Franklin Trust"), or (7) the one currently available Class 3 investment portfolio of the Seasons Series Trust (the "Seasons Trust"). The primary difference between the classes of the Variable Accounts is that the Class 2 shares in the American Series, the Series II shares in the Invesco Funds, the Class 2 shares in the Franklin Trust and the Class 3 shares in the Anchor Trust, the SunAmerica Trust, and the Seasons Trust are subject to 12b-1 fees of 0.25%, of each classes' average daily net assets, while the Class 1 shares are not subject to 12b-1 fees. The Class VC Shares of the Lord Abbett Fund are not subject to 12b-1 fees. The Anchor Trust, the SunAmerica Trust, the Invesco Funds, the Lord Abbett Fund are not subject to 12b-1 fees. The Anchor Trust, the

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1. ORGANIZATION (continued)

SunAmerica Trust, the Invesco Funds, the Lord Abbett Fund, the Franklin Trust, the American Series, and the Seasons Trust (collectively referred to as the "Trusts") are diversified, open-ended investment companies, which retain investment advisers to assist in their investment activities. The Anchor Trust, the SunAmerica Trust, and the Seasons Trust are affiliated investment companies. The contract holder may elect to have payments allocated to the guaranteed-interest funds of the Company (the "General Account"), which are not a part of the Separate Account. The financial statements include balances allocated by the participants to the Variable Accounts and do not include balances allocated to the General Account.

On June 1, 2010, the portfolios of the Van Kampen Life Investment Trust (the "Van Kampen Trust") were reorganized into the Invesco Funds. On that date, the Variable Accounts that invested in portfolios of the Van Kampen Trust exchanged their shares in the portfolios of the Van Kampen Trust for shares with an equal value in similar portfolios of the Invesco Funds. The predecessor and current portfolios before and after the changes are listed below.

Predecessor Van Kampen Trust Portfolio	Current Invesco Funds Portfolio
Capital Growth Portfolio	Invesco Van Kampen V.I. Capital Growth Fund
Comstock Portfolio	Invesco Van Kampen V.I. Comstock Fund
Growth and Income Portfolio	Invesco Van Kampen V.I. Growth and Income Fund

Effective December 31, 2010, Variable Annuity Account Seven changed its year-end from April 30 to December 31. Reflecting this change are the

Variable Annuity Account Seven audited Statements of Changes in Net Assets for the eight months ended December 31, 2010 and for the fiscal year ended April 30, 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INVESTMENT ACCOUNTING AND VALUATION: The investments are stated at the net asset value of each of the portfolios of the Trusts as determined at the close of the business day. Purchases and sales of shares of the portfolios are valued at the net asset values of such portfolios, which value their investment securities at fair value, on the date the shares are purchased or sold. Dividends and capital gains distributions are recorded on the ex-distribution date. Realized gains and losses on the sale of investments in the Trusts are recognized at the date of sale and are determined on a first-in, first-out basis. Accumulation unit values are computed daily based on total net assets of the portfolios.

FEDERAL INCOME TAXES: The Company qualifies for federal income tax treatment granted to life insurance companies under subchapter L of the Internal Revenue Service Code (the "Code"). The operations of the Separate Account are part of the total

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

operations of the Company and are not taxed separately. Under the current provisions of the Code, the Company does not expect to incur federal income taxes on the earnings of the Separate Account to the extent that the earnings are credited under the contracts. Based on this, no charge is being made currently to the Separate Account for federal income taxes. The Separate Account is not treated as a regulated investment company under the Code.

USE OF ESTIMATES: The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported therein. Actual results could differ from these estimates.

RESERVES FOR CONTRACTS IN PAYOUT (ANNUITIZATION) PERIOD: Net assets allocated to contracts in the payout period are based on the Annuity 2000 Mortality Table depending on the calendar year of annuitization as well as other assumptions, including provisions for the risk of adverse deviation from assumptions. An assumed interest rate of 3.5% is used in determining annuity payments for all products.

The mortality risk is fully borne by the Company and may result in additional amounts being transferred into the Separate Account by the Company to cover greater longevity of the annuitant than expected. Conversely, if amounts allocated exceed amounts required, transfers may be made to the Company. Transfers are recorded as cost of units redeemed or as net proceeds from units sold in the accompanying Statements of Changes in Net Assets.

Annuity benefit payments are recorded as cost of units redeemed in the accompanying Statements of Changes in Net Assets.

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.

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3. FAIR VALUE MEASUREMENTS (continued)

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.

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 trusts, which are registered and open-end 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 as of December 31, 2011 and for the year then ended. The Separate Account had no liabilities as of December 31, 2011. See the Schedules 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.

4. CHARGES AND DEDUCTIONS

Charges and deductions are applied against the current value of the Separate Account and are paid as follows:

WITHDRAWAL CHARGE: The Polaris Plus, Polaris Platinum O-Series, and Polaris II A-Class Platinum Series contracts provide that in the event that a contract holder withdraws all or a portion of the contract value during the surrender charge period, withdrawal charges may be assessed on the excess of the free withdrawal amounts as defined in the contract. The withdrawal charges are based on tables of charges applicable to the specific contracts, with a maximum charge of 6% for the Polaris Plus and Polaris Platinum O-Series products and 0.50% for the Polaris II A-Class Platinum Series product,

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4. CHARGES AND DEDUCTIONS (continued)

of any amount withdrawn that exceed the free withdrawal amount and are recorded as cost of units redeemed in the accompanying Statements of Changes in Net Assets. There are no withdrawal charges under the Polaris II Asset Manager and Polaris II A-Class contracts.

CONTRACT MAINTENANCE CHARGE: An annual contract maintenance charge ranging from $35 to $50 is charged against certain contracts, which reimburses the

Company for expenses incurred in establishing and maintaining records relating to the contract. The contract maintenance charge is assessed on each anniversary during the accumulation phase. In the event that a total surrender of contract value is made, the entire charge is assessed as of the date of surrender, and deducted from that withdrawal. The contract maintenance charge is recorded as a charge in the Statements of Changes in Net Assets. There are no contract maintenance charges under the Polaris Plus, Polaris II Asset Manager, and Polaris II A-Class contracts.

SEPARATE ACCOUNT ANNUAL CHARGE: The Company deducts a separate account annual charge comprised of mortality and expense risk charges and distribution expense charges, computed on a daily basis. Separate Account annual charges are recorded as a charge in the Statements of Operations. The total annual rates of the net asset value of each portfolio, depending on any death benefits elected for each product, is as follows: Polaris Plus, 0.85% or 1.25%, Polaris II Asset Manager, Polaris II A-Class, and Polaris II A-Class Platinum Series, 0.85% or 1.10%, and Polaris Platinum O-Series, 0.95% or 1.20%. The mortality risk charge is compensation for the mortality risks assumed by the Company from its contractual obligations to make annuity payments after the contract has annuitized for the life of the annuitant and to provide the standard death benefit. The expense risk charge is compensation for assuming the risk that the current contract administration charges will be insufficient in the future to cover the cost of administering the contract. The distribution expense is deducted at an annual rate of 0.15% of the net asset value of each portfolio and is included in the respective separate account annual charge rate. It is for all expenses associated with the distribution of the contract. If this charge is not sufficient to cover the cost of distributing the contract, the Company will bear the loss.

TRANSFER FEE: A transfer fee of $25 ($10 in Pennsylvania and Texas), depending on the contract provisions, may be assessed on each transfer of funds in excess of the maximum transactions allowed within a contract year and is recorded as cost of units redeemed in the accompanying Statements of Changes in Net Assets. There are no transfer fees under the Polaris Plus contracts.

INCOME PROTECTOR FEE: The optional Income Protector Program, offered in Polaris Plus, provides a guaranteed fixed minimum retirement income upon annuitization. The fee is either 0.15% or 0.30% of the income benefit base (as defined in the prospectus), deducted annually from the contract value, and is recorded as cost of units redeemed in the

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VARIABLE ANNUITY ACCOUNT SEVEN
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NOTES TO FINANCIAL STATEMENTS

4. CHARGES AND DEDUCTIONS (continued)

accompanying Statements of Changes in Net Assets. The income benefit base is calculated using the contract value on the effective date of the enrollment in the program and then each subsequent contract anniversary, adjusted for the applicable growth rates, purchase payments, proportional withdrawals, fees, and charges.

MARKETLOCK, MARKETLOCK FOR LIFE PLUS, MARKETLOCK INCOME PLUS, AND MARKETLOCK FOR LIFE FEE: The optional MarketLock, MarketLock for Life Plus, MarketLock Income Plus, and MarketLock for Life features provide a guaranteed withdrawal stream by locking in market gains during an applicable evaluation period. The MarketLock feature is offered in Polaris II A-Class Platinum Series. The annual fee for MarketLock ranges from 0.50% to 0.65% of the maximum anniversary value benefit base (as defined in the prospectus), deducted quarterly from the contract value and is recorded as cost of units redeemed in the accompanying Statements of Changes in Net Assets. The maximum anniversary value benefit base is calculated as the greater of eligible purchase payments received during the first two years, adjusted for withdrawals or the maximum anniversary date contract value occurring in the first ten contract years, adjusted for withdrawals.

The MarketLock for Life Plus and MarketLock Income Plus features are offered in Polaris II A-Class Platinum Series. The annual fee ranges from 0.70% to 0.75% for one covered person and from 0.95% to 1.00% for two covered persons for MarketLock for Life Plus and ranges from 0.85% to 0.95% for one covered person and 1.10% to 1.35% for two covered persons for MarketLock Income Plus, of the income base, deducted quarterly from the contract value and recorded as cost of units redeemed in the Statements of Changes in Net Assets. The income base for MarketLock for

Life Plus and MarketLock Income Plus is calculated as the greater of purchase payments made in the first contract year and purchase payments made in contract years 2-5, capped at 100% of purchase payments made in the first year plush a bonus, if eligible, or the highest anniversary date contract value less purchase payments in years 2-5 over the first year purchase payments.

The MarketLock for Life feature is offered in Polaris II A-Class Platinum Series. The annual fee is 0.70% for one covered person and 0.95% for two covered persons, of the maximum anniversary value benefit base, deducted quarterly from the contract value and recorded as cost of units redeemed in the accompanying Statements of Changes in Net Assets. The maximum anniversary value benefit base for MarketLock for Life is calculated as the greater of purchase payments made in the first contract year and purchase payments made in contact years 2-5, capped at 100% of purchase payments in year 2-5 over the first year purchase payments.

SUNAMERICA INCOME PLUS FEE: The optional SunAmerica Income Plus feature provides a guaranteed withdrawal steam by locking in market gains during an applicable evaluation period. The SunAmerica Income Plus feature is offered in Polaris Platinum O-Series. The annual fee ranges from 0.60% to 2.20% for one covered person and 0.60%

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4. CHARGES AND DEDUCTIONS (continued)

to 2.70% for two covered persons, of the maximum anniversary value benefit base, deducted quarterly from the contract value and recorded as cost of units redeemed in the accompanying Statements of Changes in Net Assets. The fee may change after the first year based on an index of market volatility. The maximum anniversary value benefit base is calculated as the greater of eligible purchase payments received during the first five years, adjusted for withdrawals plus a credit, if eligible, or the maximum anniversary date contract value.

SALES CHARGE: For the Polaris II A-Class and the Polaris II A-Class Platinum Series products, an up-front sales charge may be applied against the gross purchase payments made on the contract. The sales charge ranges from 0.50% to 5.75% of the gross purchase payment invested, depending on the investment amount and is paid to the Company. The net proceeds from units sold are recorded in the accompanying Statements of Changes in Net Assets.

PREMIUM BASED CHARGE: For the Polaris Platinum O-Series product, an up-front sales charge is applied against the gross purchase payments made on the contract. The sales charge ranges from 1.25% to 5.00% of the gross purchase payment invested, depending on the investment amount and the year of receipt and is paid to the Company. The charge is deducted from the contract value on a quarterly basis over a period of 7 years and is recorded as cost of units redeemed in the accompanying Statements of Changes in Net Assets.

PREMIUM TAXES: Certain states charge the Company a premium tax on purchase payments up to a maximum of 3.5%. Some states assess premium taxes at the time purchase payments are made; whereas some states assess premium taxes at the time annuity payments begin or at the time of surrender. There are certain states that do not assess premium taxes. The Company currently deducts premium taxes upon annuitization; however, it reserves the right to deduct premium taxes when a purchase payment is made or upon surrender of the contract. Premium taxes are deducted from purchases when a contract annuitizes in the Statements of Changes in Net Assets.

SEPARATE ACCOUNT INCOME TAXES: The Company currently does not maintain a provision for taxes, but has reserved the right to establish such a provision for taxes in the future if it determines, in its sole discretion, that it will incur a tax as a result of the operation of the Separate Account.

5. PURCHASES AND SALES OF INVESTMENTS

The aggregate cost of the Trusts' shares acquired and the aggregate proceeds from shares sold during the year ended December 31, 2011 consist of the following:

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VARIABLE ANNUITY ACCOUNT SEVEN
OF
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NOTES TO FINANCIAL STATEMENTS

5. PURCHASES AND SALES OF INVESTMENTS (continued)

<TABLE>
<CAPTION>

Variable Account:	Cost of Shares Acquired	Proceeds from Shares Sold
<S>	<C>	<C>
ANCHOR TRUST:		
Asset Allocation Portfolio (Class 1)	$ 1,453,010	$ 2,704,165
Capital Appreciation Portfolio (Class 1)	3,652,654	19,889,427
Government and Quality Bond Portfolio (Class 1)	3,935,411	15,399,441
Growth Portfolio (Class 1)	533,403	8,485,367
Asset Allocation Portfolio (Class 3)	1,915,364	1,116,137
Capital Appreciation Portfolio (Class 3)	4,670,574	20,844,032
Government and Quality Bond Portfolio (Class 3)	20,704,748	19,382,740
Growth Portfolio (Class 3)	413,541	1,007,391
Natural Resources Portfolio (Class 3)	3,009,082	1,994,788
SUNAMERICA TRUST:		
Aggressive Growth Portfolio (Class 1)	$ 211,544	$ 707,712
Alliance Growth Portfolio (Class 1)	406,977	4,216,763
Balanced Portfolio (Class 1)	1,099,026	3,066,263
Blue Chip Growth Portfolio (Class 1)	253,418	235,265
Capital Growth Portfolio (Class 1)	418,966	794,949
Cash Management Portfolio (Class 1)	18,907,061	17,215,808
Corporate Bond Portfolio (Class 1)	6,147,289	15,517,765
Davis Venture Value Portfolio (Class 1)	1,209,244	13,579,745
"Dogs" of Wall Street Portfolio (Class 1)	1,034,170	629,670
Emerging Markets Portfolio (Class 1)	1,047,792	3,348,324
Equity Index Portfolio (Class 1)	667,095	1,970,308
Equity Opportunities Portfolio (Class 1)	173,939	2,264,526
Fundamental Growth Portfolio (Class 1)	144,529	2,120,269

Global Bond Portfolio (Class 1)	2,177,840	3,448,908
Global Equities Portfolio (Class 1)	369,708	1,111,787
Growth Opportunities Portfolio (Class 1)	476,478	623,190
Growth-Income Portfolio (Class 1)	618,629	4,163,203
High-Yield Bond Portfolio (Class 1)	2,282,202	3,467,401
International Diversified Equities Portfolio (Class 1)	539,097	1,634,676
International Growth and Income Portfolio (Class 1)	999,943	2,901,169
MFS Massachusetts Investors Trust Portfolio (Class 1)	527,605	961,869
MFS Total Return Portfolio (Class 1)	3,184,879	21,634,987
Mid-Cap Growth Portfolio (Class 1)	650,625	1,244,819
Real Estate Portfolio (Class 1)	690,136	1,388,886
Small Company Value Portfolio (Class 1)	367,995	2,023,307
Technology Portfolio (Class 1)	61,643	149,162
Telecom Utility Portfolio (Class 1)	1,304,708	1,290,512
Total Return Bond Portfolio (Class 1)	7,196,920	5,902,329

</TABLE>

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VARIABLE ANNUITY ACCOUNT SEVEN
OF
SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS

5. PURCHASES AND SALES OF INVESTMENTS (continued)

<Table>
<Caption>

Variable Account:	Cost of Shares Acquired	Proceeds from Shares Sold
<S>	<C>	<C>
SUNAMERICA TRUST (continued):		
Aggressive Growth Portfolio (Class 3)	$ 95,099	$ 122,618
Alliance Growth Portfolio (Class 3)	232,880	2,518,893
Balanced Portfolio (Class 3)	1,954,932	1,261,552
Blue Chip Growth Portfolio (Class 3)	645,717	337,936
Capital Growth Portfolio (Class 3)	151,272	704,844
Cash Management Portfolio (Class 3)	22,733,348	20,106,796

Corporate Bond Portfolio (Class 3)	20,299,005	34,659,085
Davis Venture Value Portfolio (Class 3)	4,673,667	15,055,611
"Dogs" of Wall Street Portfolio (Class 3)	699,446	342,562
Emerging Markets Portfolio (Class 3)	2,702,045	2,832,178
Equity Opportunities Portfolio (Class 3)	143,719	325,978
Foreign Value Portfolio (Class 3)	16,362,214	7,677,627
Fundamental Growth Portfolio (Class 3)	502,129	975,988
Global Bond Portfolio (Class 3)	4,719,154	5,977,847
Global Equities Portfolio (Class 3)	284,572	406,853
Growth Opportunities Portfolio (Class 3)	3,556,769	3,936,062
Growth-Income Portfolio (Class 3)	2,504,649	953,555
High-Yield Bond Portfolio (Class 3)	4,173,628	6,362,072
International Diversified Equities Portfolio (Class 3)	673,738	1,110,935
International Growth and Income Portfolio (Class 3)	4,805,543	5,627,148
Marsico Focused Growth Portfolio (Class 3)	696,998	506,646
MFS Massachusetts Investors Trust Portfolio (Class 3)	7,572,410	2,881,953
MFS Total Return Portfolio (Class 3)	4,716,576	20,357,104
Mid-Cap Growth Portfolio (Class 3)	5,481,564	1,078,414
Real Estate Portfolio (Class 3)	1,938,318	4,579,312
Small & Mid Cap Value Portfolio (Class 3)	7,560,403	8,378,389
Small Company Value Portfolio (Class 3)	4,985,870	5,286,407
Technology Portfolio (Class 3)	225,825	375,241
Telecom Utility Portfolio (Class 3)	490,283	234,441
Total Return Bond Portfolio (Class 3)	31,161,784	17,534,720
INVESCO FUNDS (Class II):		
Invesco Van Kampen V.I. Capital Growth Fund	$ 476,854	$ 1,870,535
Invesco Van Kampen V.I. Comstock Fund	12,702,192	41,816,690
Invesco Van Kampen V.I. Growth and Income Fund	15,036,903	43,562,669
LORD ABBETT FUND (Class VC):		
Growth and Income Portfolio	$ 3,808,090	$ 28,384,878
Mid Cap Value Portfolio	1,594,425	20,234,694

</Table>

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VARIABLE ANNUITY ACCOUNT SEVEN
OF
SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY

5. PURCHASES AND SALES OF INVESTMENTS (continued)

<TABLE>
<CAPTION>

Variable Account:	Cost of Shares Acquired	Proceeds from Shares Sold
<S>	<C>	<C>
AMERICAN SERIES (Class 2):		
Asset Allocation Fund	$ 9,792,433	$ 53,982,990
Global Growth Fund	16,816,067	50,001,150
Growth Fund	7,355,644	41,649,947
Growth-Income Fund	8,890,538	70,725,683
FRANKLIN TEMPLETON TRUST (Class 2):		
Franklin Income Securities Fund	$ 3,945,489	$ 1,884,606
Franklin Templeton VIP Founding Funds Allocation Fund	1,786,377	3,101,455
SEASONS TRUST (Class 3):		
Real Return Portfolio	$ 5,887,933	$ 1,052,182

</TABLE>

6. 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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7. UNIT VALUES

A summary of unit values and units outstanding for the variable accounts and the expense ratios, excluding expenses of the underlying funds, total return and investment income ratios for the year ended December 31, 2011, for the eight months ended December 31, 2010 and for the years ended April 30, 2010, 2009, 2008 and 2007 follows:

<TABLE>
<CAPTION>

	At December 31 or April 30			For the Period Ended December 31 or April 30		
Year	Units	Unit Fair Value Lowest to Highest ($)	Net Assets ($)	Expense Ratio Lowest to Highest (1)	Investment Income Ratio (2)	Total Return Lowest to Highest (3)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Asset Allocation Portfolio (Class 1)						
12/31/2011	642,249	16.42 to 28.47(4)	12,702,926	0.85% to 1.25%	2.68%	-0.33% to 0.04%(5)
12/31/2010	712,066	16.41 to 28.57(4)	14,168,846	0.85% to 1.25%	2.76%	6.70% to 6.98%(5)
4/30/2010	703,568	15.34 to 26.77(4)	13,343,319	0.85% to 1.25%	3.67%	27.69% to 27.83%(5)
4/30/2009	773,252	12.00 to 20.97(4)	11,543,112	0.85% to 1.25%	3.55%	-22.05% to -22.01%(5)
4/30/2008	869,404	15.39 to 26.90(4)	17,088,965	0.85% to 1.25%	2.88%	-0.32% to -0.30%(5)
4/30/2007	916,119	15.44 to 26.98(4)	18,467,182	0.85% to 1.25%	3.16%	10.59% to 10.74%(5)
Capital Appreciation Portfolio (Class 1)						
12/31/2011	3,863,350	16.07 to 49.68(4)	70,183,281	0.85% to 1.25%	0.00%	-8.20% to -7.83%
12/31/2010	4,668,672	17.44 to 54.12(4)	91,161,310	0.85% to 1.25%	0.13%	12.95% to 13.25%
4/30/2010	5,221,493	15.40 to 47.92(4)	89,668,733	0.85% to 1.25%	0.00%	44.33% to 44.91%
4/30/2009	6,103,781	10.63 to 33.20(4)	72,003,272	0.85% to 1.25%	0.00%	-34.86% to -34.60%
4/30/2008	7,277,987	16.25 to 50.97(4)	131,934,651	0.85% to 1.25%	0.34%	8.44% to 8.87%
4/30/2007	8,114,213	14.92 to 47.00(4)	135,629,169	0.85% to 1.25%	0.14%	9.24% to 9.68%
Government and Quality Bond Portfolio (Class 1)						
12/31/2011	3,152,043	17.12 to 21.77(4)	56,385,005	0.85% to 1.25%	3.05%	5.76% to 6.18%
12/31/2010	3,914,604	16.12 to 20.59(4)	65,850,857	0.85% to 1.25%	4.02%	1.62% to 1.90%
4/30/2010	4,361,104	15.82 to 20.26(4)	72,083,413	0.85% to 1.25%	4.93%	4.56% to 4.98%
4/30/2009	5,468,822	15.07 to 19.37(4)	85,971,493	0.85% to 1.25%	4.17%	2.30% to 2.71%
4/30/2008	5,992,724	14.67 to 18.94(4)	92,173,031	0.85% to 1.25%	3.74%	4.76% to 5.18%
4/30/2007	5,953,394	13.95 to 18.08(4)	87,861,069	0.85% to 1.25%	3.65%	5.23% to 5.65%
Growth Portfolio (Class 1)						

12/31/2011	2,361,780	11.76 to 32.00(4)	31,593,436	0.85% to 1.25%	0.71%	-7.42% to -7.05%
12/31/2010	2,921,238	12.65 to 34.57(4)	41,947,682	0.85% to 1.25%	0.72%	5.93% to 6.21%
4/30/2010	3,367,270	11.91 to 32.63(4)	45,414,987	0.85% to 1.25%	1.04%	40.20% to 40.76%
4/30/2009	4,008,018	8.46 to 23.28(4)	38,205,960	0.85% to 1.25%	0.91%	-36.22% to -35.96%
4/30/2008	4,982,926	13.21 to 36.50(4)	73,973,227	0.85% to 1.25%	0.73%	-2.18% to -1.79%
4/30/2007	5,772,736	13.45 to 37.31(4)	86,859,847	0.85% to 1.25%	0.61%	11.97% to 12.41%

Asset Allocation Portfolio (Class 3)

12/31/2011	357,310	14.89 to 15.30	5,456,788	0.85% to 1.20%	2.59%	-5.92%(10) to -0.18%
12/31/2010	309,653	14.95 to 15.32	4,741,122	0.85% to 1.10%	2.50%	6.63% to 6.81%
4/30/2010	298,749	14.02 to 14.35	4,282,607	0.85% to 1.10%	3.32%	27.56% to 27.88%
4/30/2009	311,652	10.99 to 11.22	3,494,991	0.85% to 1.10%	3.28%	-22.12% to -21.93%
4/30/2008	265,948	14.11 to 14.37	3,820,926	0.85% to 1.10%	2.08%	-0.41% to -0.17%
4/30/2007	103,436	14.17 to 14.39	1,488,630	0.85% to 1.10%	1.64%	10.61%(6) to 10.95%(6)

Capital Appreciation Portfolio (Class 3)

12/31/2011	6,638,165	15.37 to 15.85	105,117,546	0.85% to 1.20%	0.00%	-19.45%(10) to -8.06%
12/31/2010	7,458,411	16.80 to 17.24	128,499,376	0.85% to 1.10%	0.00%	12.87% to 13.06%
4/30/2010	8,272,211	14.88 to 15.25	126,060,954	0.85% to 1.10%	0.00%	44.19% to 44.55%
4/30/2009	8,928,669	10.32 to 10.55	94,134,741	0.85% to 1.10%	0.00%	-34.93% to -34.77%
4/30/2008	6,845,459	15.86 to 16.17	110,634,862	0.85% to 1.10%	0.13%	8.33% to 8.60%
4/30/2007	3,085,252	14.64 to 14.89	45,912,750	0.85% to 1.10%	0.00%	9.53%(6) to 9.82%(6)

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7. UNIT VALUES (continued)

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At December 31 or April 30	For the Period Ended December 31 or April 30

Year	Units	Unit Fair Value Lowest to Highest ($)	Net Assets ($)	Expense Ratio Lowest to Highest (1)	Investment Income Ratio (2)	Total Return Lowest to Highest (3)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Government and Quality Bond Portfolio (Class 3)						
12/31/2011	5,757,968	16.41 to 16.87	97,013,952	0.85% to 1.20%	2.93%	4.47%(10) to 5.92%
12/31/2010	5,822,234	15.54 to 15.93	92,721,368	0.85% to 1.10%	3.69%	1.56% to 1.72%
4/30/2010	5,922,965	15.31 to 15.66	92,731,206	0.85% to 1.10%	4.48%	4.45% to 4.72%
4/30/2009	5,442,670	14.65 to 14.96	81,374,970	0.85% to 1.10%	3.70%	2.20% to 2.45%
4/30/2008	3,775,931	14.34 to 14.60	55,105,056	0.85% to 1.10%	3.27%	4.66% to 4.92%
4/30/2007	2,044,042	13.70 to 13.91	28,430,845	0.85% to 1.10%	1.30%	5.45%(6) to 5.71%(6)
Growth Portfolio (Class 3)						
12/31/2011	341,477	11.27 to 11.60(4)	3,958,202	0.85% to 1.20%	0.46%	-14.08%(10) to -7.28%
12/31/2010	386,395	12.18 to 12.51	4,831,679	0.85% to 1.10%	0.52%	5.81% to 6.03%
4/30/2010	411,516	11.51 to 11.79	4,853,062	0.85% to 1.10%	0.71%	39.93% to 40.41%
4/30/2009	472,674	8.23 to 8.40	3,970,032	0.85% to 1.10%	0.50%	-36.30% to -36.12%
4/30/2008	296,113	12.92 to 13.15	3,893,356	0.85% to 1.10%	0.43%	-2.21% to -2.04%
4/30/2007	143,500	13.21 to 13.42	1,925,911	0.85% to 1.10%	0.24%	12.29%(6) to 12.64%(6)
Natural Resources Portfolio (Class 3)						
12/31/2011	654,820	9.60 to 9.75	6,378,281	0.85% to 1.20%	0.42%	-27.10%(10) to -21.14%
12/31/2010	718,089	12.22 to 12.36	8,872,042	0.85% to 1.10%	0.71%	14.50% to 14.69%
4/30/2010	797,301	10.67 to 10.78	8,588,981	0.85% to 1.10%	1.00%	42.47% to 42.83%
4/30/2009	864,571	7.49 to 7.54	6,521,441	0.85% to 1.10%	0.81%	-48.71% to -48.58%
4/30/2008	617,073	14.60 to 14.67	9,051,703	0.85% to 1.10%	0.69%	31.40% to 31.74%
4/30/2007	226,414	11.11 to 11.14	2,521,228	0.85% to 1.10%	0.18%	11.12%(6) to 11.36%(6)
Aggressive Growth Portfolio (Class 1)						
12/31/2011	381,288	8.19 to 13.28(4)	4,336,866	0.85% to 1.25%	0.00%	-3.20% to -2.81%
12/31/2010	419,845	8.42 to 13.71(4)	4,927,629	0.85% to 1.25%	0.00%	7.45% to 7.74%
4/30/2010	452,977	7.82 to 12.76(4)	4,910,061	0.85% to 1.25%	0.13%	48.43% to 49.03%
4/30/2009	483,218	5.25 to 8.60(4)	3,540,639	0.85% to 1.25%	0.82%	-45.77% to -45.56%
4/30/2008	584,193	9.64 to 15.86(4)	7,886,613	0.85% to 1.25%	0.64%	-19.13% to -18.80%
4/30/2007	686,222	11.87 to 19.61(4)	11,523,478	0.85% to 1.25%	0.10%	12.60% to 13.05%
Alliance Growth Portfolio (Class 1)						

12/31/2011	927,957	8.11 to 32.81(4)	20,614,056	0.85% to 1.25%	0.48%	-3.51% to -3.13%
12/31/2010	1,124,208	8.37 to 34.01(4)	24,971,933	0.85% to 1.25%	0.86%	6.05% to 6.34%
4/30/2010	1,276,844	7.87 to 32.07(4)	26,182,996	0.85% to 1.25%	0.57%	34.09% to 34.63%
4/30/2009	1,429,844	5.85 to 23.92(4)	21,415,071	0.85% to 1.25%	0.19%	-31.59% to -31.31%
4/30/2008	1,797,555	8.51 to 34.96(4)	38,382,318	0.85% to 1.25%	0.05%	-0.58% to -0.18%
4/30/2007	2,189,625	8.53 to 35.16(4)	47,489,197	0.85% to 1.25%	0.13%	2.03% to 2.44%
Balanced Portfolio (Class 1)						
12/31/2011	1,107,883	10.36 to 17.44(4)	16,862,084	0.85% to 1.25%	1.77%	1.00% to 1.41%
12/31/2010	1,227,800	10.22 to 17.26(4)	18,734,673	0.85% to 1.25%	1.97%	5.17% to 5.45%
4/30/2010	1,331,189	9.69 to 16.42(4)	19,367,710	0.85% to 1.25%	3.28%	28.07% to 28.58%
4/30/2009	1,505,570	7.54 to 12.82(4)	17,053,832	0.85% to 1.25%	3.93%	-23.28% to -22.98%
4/30/2008	1,878,292	9.78 to 16.71(4)	28,239,635	0.85% to 1.25%	2.96%	-4.27% to -3.88%
4/30/2007	2,217,107	10.18 to 17.45(4)	35,003,995	0.85% to 1.25%	2.76%	11.47% to 11.92%
Blue Chip Growth Portfolio (Class 1)						
12/31/2011	174,245	5.77 to 5.93	1,032,130	0.85% to 1.10%	0.22%	-6.62% to -6.39%
12/31/2010	169,073	6.18 to 6.33	1,069,902	0.85% to 1.10%	0.29%	6.89% to 7.07%
4/30/2010	196,720	5.78 to 5.92	1,162,098	0.85% to 1.10%	0.32%	32.80% to 33.13%
4/30/2009	211,535	4.35 to 4.44	938,950	0.85% to 1.10%	0.54%	-31.55% to -31.37%
4/30/2008	248,749	6.36 to 6.48	1,608,902	0.85% to 1.10%	0.35%	-0.44% to -0.19%
4/30/2007	289,877	6.39 to 6.49	1,878,739	0.85% to 1.10%	0.25%	9.97% to 10.25%

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7. UNIT VALUES (continued)

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At December 31 or April 30	For the Period Ended December 31 or April 30

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<S>	<C>	<C>	<C>	<C>	<C>	<C>
Capital Growth Portfolio (Class 1)						
12/31/2011	148,001	7.50 to 7.71	1,138,262	0.85% to 1.10%	0.00%	-2.39% to -2.15%
12/31/2010	197,382	7.69 to 7.88	1,552,228	0.85% to 1.10%	0.00%	5.85% to 6.03%
4/30/2010	217,991	7.26 to 7.43	1,617,471	0.85% to 1.10%	0.00%	33.16% to 33.50%
4/30/2009	211,903	5.45 to 5.57	1,178,444	0.85% to 1.10%	0.00%	-38.05% to -37.90%
4/30/2008	217,046	8.81 to 8.96	1,943,884	0.85% to 1.10%	1.18%	1.64% to 1.89%
4/30/2007	247,323	8.66 to 8.80	2,174,280	0.85% to 1.10%	0.31%	14.30% to 14.58%
Cash Management Portfolio (Class 1)						
12/31/2011	1,583,571	11.63 to 13.54(4)	19,038,886	0.85% to 1.25%	0.00%	-1.51% to -1.12%
12/31/2010	1,418,702	11.76 to 13.75(4)	17,397,029	0.85% to 1.25%	0.00%	-0.99% to -0.73%
4/30/2010	1,662,599	11.85 to 13.89(4)	20,531,580	0.85% to 1.25%	2.53%	-1.31% to -0.91%
4/30/2009	3,643,431	11.95 to 14.07(4)	44,673,769	0.85% to 1.25%	3.51%	-0.63% to -0.23%
4/30/2008	2,585,728	11.98 to 14.16(4)	32,502,964	0.85% to 1.25%	3.25%	2.19% to 2.60%
4/30/2007	1,908,753	11.68 to 13.86(4)	23,875,174	0.85% to 1.25%	2.55%	3.63% to 4.04%
Corporate Bond Portfolio (Class 1)						
12/31/2011	3,163,389	21.29 to 25.93(4)	68,020,756	0.85% to 1.25%	6.21%	5.09% to 5.51%
12/31/2010	3,809,449	20.18 to 24.67(4)	77,627,774	0.85% to 1.25%	6.28%	4.37% to 4.65%
4/30/2010	4,262,004	19.28 to 23.64(4)	82,939,768	0.85% to 1.25%	5.91%	26.67% to 27.18%
4/30/2009	4,991,101	15.16 to 18.66(4)	76,317,039	0.85% to 1.25%	4.72%	-3.52% to -3.13%
4/30/2008	5,908,285	15.65 to 19.34(4)	93,350,119	0.85% to 1.25%	3.89%	3.13% to 3.54%
4/30/2007	5,762,823	15.12 to 18.75(4)	88,117,103	0.85% to 1.25%	4.34%	7.31% to 7.74%
Davis Venture Value Portfolio (Class 1)						
12/31/2011	3,661,616	14.05 to 35.09(4)	57,459,907	0.85% to 1.25%	1.25%	-5.42% to -5.04%
12/31/2010	4,451,181	14.79 to 37.10(4)	73,337,574	0.85% to 1.25%	0.77%	6.10% to 6.38%
4/30/2010	5,019,192	13.90 to 34.97(4)	77,486,056	0.85% to 1.25%	1.50%	37.24% to 37.80%
4/30/2009	5,852,219	10.09 to 25.48(4)	65,272,627	0.85% to 1.25%	2.04%	-36.45% to -36.20%
4/30/2008	7,123,996	15.81 to 40.10(4)	124,976,792	0.85% to 1.25%	0.92%	-3.92% to -3.54%
4/30/2007	8,070,942	16.39 to 41.73(4)	148,405,314	0.85% to 1.25%	0.98%	13.90% to 14.35%
"Dogs" Of Wall Street Portfolio (Class 1)						

12/31/2011	247,452	14.26 to 16.89	3,758,211	0.85% to 1.25%	2.31%	11.28% to 11.73%(5)
12/31/2010	225,699	12.81 to 15.12	3,028,144	0.85% to 1.25%	2.90%	7.42% to 7.71%(5)
4/30/2010	245,172	11.92 to 14.04	3,064,652	0.85% to 1.25%	4.53%	37.01% to 37.56%(5)
4/30/2009	261,903	8.70 to 10.20	2,363,708	0.85% to 1.25%	3.97%	-31.73% to -31.45%(5)
4/30/2008	303,915	12.75 to 14.89	3,993,931	0.85% to 1.25%	2.67%	-6.81% to -6.44%(5)
4/30/2007	373,356	13.68 to 15.91	5,265,702	0.85% to 1.25%	2.40%	16.44% to 16.90%

Emerging Markets Portfolio (Class 1)

12/31/2011	404,082	17.52 to 21.86	7,759,890	0.85% to 1.25%	0.54%	-27.00% to -26.71%
12/31/2010	497,624	24.00 to 29.82	13,078,029	0.85% to 1.25%	1.49%	15.36% to 15.66%
4/30/2010	529,158	20.80 to 25.79	11,930,433	0.85% to 1.25%	0.00%	52.37% to 52.98%
4/30/2009	531,514	13.65 to 16.86	7,786,851	0.85% to 1.25%	2.11%	-46.75% to -46.54%
4/30/2008	687,305	25.64 to 31.53	19,068,073	0.85% to 1.25%	1.93%	20.50% to 20.98%
4/30/2007	705,715	21.28 to 26.06	16,152,724	0.85% to 1.25%	0.95%	16.26% to 16.72%

Equity Index Portfolio (Class 1)

12/31/2011	1,008,160	9.54	9,620,430	1.25%	1.51%	0.30%
12/31/2010	1,144,865	9.51	10,891,764	1.25%	1.67%	6.29%
4/30/2010	1,249,940	8.95	11,187,954	1.25%	2.51%	36.45%
4/30/2009	1,426,489	6.56	9,357,126	1.25%	2.48%	-36.27%
4/30/2008	1,882,083	10.29	19,373,157	1.25%	1.58%	-6.28%
4/30/2007	2,345,019	10.98	25,756,567	1.25%	1.56%	13.14%

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7. UNIT VALUES (continued)

<TABLE>
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At December 31 or April 30	For the Period Ended December 31 or April 30

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<S>	<C>	<C>	<C>	<C>	<C>	<C>
Equity Opportunities Portfolio (Class 1)						
12/31/2011	679,123	12.24 to 19.04(4)	8,917,611	0.85% to 1.25%	0.56%	-1.35% to -0.95%
12/31/2010	839,451	12.35 to 19.30(4)	11,086,312	0.85% to 1.25%	0.72%	8.94% to 9.23%
4/30/2010	954,759	11.31 to 17.71(4)	11,559,562	0.85% to 1.25%	1.23%	32.30% to 32.84%
4/30/2009	1,137,507	8.51 to 13.39(4)	10,300,983	0.85% to 1.25%	1.86%	-32.23% to -31.96%
4/30/2008	1,374,566	12.51 to 19.76(4)	18,231,057	0.85% to 1.25%	1.84%	-8.00% to -7.63%
4/30/2007	1,550,960	13.55 to 21.47(4)	22,389,453	0.85% to 1.25%	1.63%	11.61% to 12.05%
Fundamental Growth Portfolio (Class 1)						
12/31/2011	979,576	6.79 to 17.43(4)	9,920,792	0.85% to 1.25%	0.00%	-6.65% to -6.28%(5)
12/31/2010	1,163,672	7.24 to 18.67(4)	12,466,191	0.85% to 1.25%	0.00%	11.44% to 11.74%(5)
4/30/2010	1,279,596	6.48 to 16.75(4)	12,234,593	0.85% to 1.25%	0.00%	33.69% to 34.42%
4/30/2009	1,522,209	4.83 to 12.53(4)	10,568,571	0.85% to 1.25%	0.00%	-40.72% to -40.48%
4/30/2008	1,859,610	8.11 to 21.14(4)	21,612,238	0.85% to 1.25%	0.00%	6.59% to 7.02%
4/30/2007	2,167,678	7.58 to 19.83(4)	24,040,160	0.85% to 1.25%	0.02%	4.32% to 4.74%
Global Bond Portfolio (Class 1)						
12/31/2011	786,317	18.28 to 24.57(4)	15,102,584	0.85% to 1.25%	2.27%	4.44% to 4.86%
12/31/2010	877,083	17.43 to 23.52(4)	16,099,497	0.85% to 1.25%	4.16%	5.24% to 5.52%
4/30/2010	943,118	16.52 to 22.35(4)	16,435,450	0.85% to 1.25%	3.45%	10.78% to 11.23%
4/30/2009	1,054,671	14.85 to 20.18(4)	16,526,291	0.85% to 1.25%	3.46%	-4.63% to -4.24%
4/30/2008	1,270,133	15.51 to 21.16(4)	20,864,229	0.85% to 1.25%	0.49%	13.57% to 14.03%
4/30/2007	818,750	13.60 to 18.63(4)	12,192,862	0.85% to 1.25%	9.13%	2.82% to 3.23%(5)
Global Equities Portfolio (Class 1)						
12/31/2011	375,753	8.75 to 19.38(4)	4,878,592	0.85% to 1.25%	0.93%	-11.50% to -11.14%
12/31/2010	424,709	9.85 to 21.89(4)	6,279,672	0.85% to 1.25%	1.74%	8.64% to 8.93%
4/30/2010	456,589	9.04 to 20.15(4)	6,257,961	0.85% to 1.25%	2.62%	37.29% to 37.84%
4/30/2009	489,251	6.56 to 14.68(4)	4,927,724	0.85% to 1.25%	2.81%	-41.70% to -41.47%
4/30/2008	620,943	11.21 to 25.18(4)	10,592,395	0.85% to 1.25%	1.24%	-3.66% to -3.27%
4/30/2007	697,578	11.59 to 26.14(4)	12,617,488	0.85% to 1.25%	0.89%	16.51% to 16.98%
Growth Opportunities Portfolio (Class 1)						

12/31/2011	254,477	6.08 to 6.27	1,550,205	0.85% to 1.10%	0.00%	-3.43% to -3.19%
12/31/2010	276,045	6.28 to 6.49	1,737,058	0.85% to 1.10%	0.00%	9.89% to 10.07%
4/30/2010	282,175	5.71 to 5.91	1,614,772	0.85% to 1.10%	0.00%	35.23% to 35.57%
4/30/2009	188,057	4.21 to 4.37	793,208	0.85% to 1.10%	0.00%	-31.48% to -31.31%
4/30/2008	175,626	6.13 to 6.38	1,077,783	0.85% to 1.10%	0.00%	2.41% to 2.67%
4/30/2007	181,505	5.97 to 6.23	1,085,841	0.85% to 1.10%	0.00%	-0.92% to -0.68%
Growth-Income Portfolio (Class 1)						
12/31/2011	934,705	9.76 to 29.84(4)	17,904,980	0.85% to 1.25%	0.92%	6.99% to 7.42%(5)
12/31/2010	1,132,534	9.09 to 27.89(4)	20,103,996	0.85% to 1.25%	0.98%	5.99% to 6.27%
4/30/2010	1,339,853	8.55 to 26.31(4)	21,795,448	0.85% to 1.25%	1.38%	30.87% to 31.40%
4/30/2009	1,588,482	6.51 to 20.11(4)	19,101,948	0.85% to 1.25%	1.36%	-37.60% to -37.35%
4/30/2008	1,960,560	10.39 to 32.22(4)	38,263,550	0.85% to 1.25%	0.98%	-5.23% to -4.85%(5)
4/30/2007	2,172,631	10.92 to 34.00(4)	46,157,588	0.85% to 1.25%	0.75%	8.88% to 9.32%(5)
High-Yield Bond Portfolio (Class 1)						
12/31/2011	766,664	17.19 to 23.61(4)	13,645,893	0.85% to 1.25%	8.16%	2.98% to 3.19%(5)
12/31/2010	898,638	16.66 to 22.92(4)	15,384,899	0.85% to 1.25%	9.62%	6.39% to 6.59%(5)
4/30/2010	1,007,680	15.63 to 21.55(4)	16,112,514	0.85% to 1.25%	8.43%	36.56% to 36.75%(5)
4/30/2009	1,071,185	11.43 to 15.78(4)	12,495,060	0.85% to 1.25%	12.09%	-25.73% to -25.63%(5)
4/30/2008	1,122,869	15.36 to 21.25(4)	17,677,184	0.85% to 1.25%	7.63%	-3.84% to -3.68%(5)
4/30/2007	1,264,402	15.95 to 22.09(4)	20,788,545	0.85% to 1.25%	7.63%	10.90% to 11.06%(5)

</TABLE>

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VARIABLE ANNUITY ACCOUNT SEVEN
OF
SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS

7. UNIT VALUES (continued)

<TABLE>
<CAPTION>

At December 31 or April 30	For the Period Ended December 31 or April 30

Year	Units	Unit Fair Value Lowest to Highest ($)	Net Assets ($)	Expense Ratio Lowest to Highest (1)	Investment Income Ratio (2)	Total Return Lowest to Highest (3)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
International Diversified Equities Portfolio (Class 1)						
12/31/2011	560,559	11.68 to 12.63(4)	4,981,467	0.85% to 1.25%	2.06%	-15.67% to -15.55%(5)
12/31/2010	675,407	13.85 to 14.95(4)	7,086,924	0.85% to 1.25%	4.22%	9.58% to 9.85%(5)
4/30/2010	735,805	12.64 to 13.61(4)	7,049,135	0.85% to 1.25%	1.27%	33.73% to 34.34%
4/30/2009	697,860	9.45 to 10.13(4)	5,081,136	0.85% to 1.25%	4.13%	-42.42% to -42.26%(5)
4/30/2008	842,165	16.41 to 17.55(4)	10,620,895	0.85% to 1.25%	2.09%	2.47% to 2.73%(5)
4/30/2007	812,228	16.02 to 17.08(4)	10,099,384	0.85% to 1.25%	0.41%	15.00% to 15.42%(5)
International Growth and Income Portfolio (Class 1)						
12/31/2011	820,755	9.95 to 12.41(4)	8,694,008	0.85% to 1.25%	2.88%	-14.86% to -14.52%
12/31/2010	998,242	11.64 to 14.57(4)	12,366,953	0.85% to 1.25%	4.25%	7.01% to 7.29%
4/30/2010	1,094,527	10.85 to 13.62(4)	12,692,943	0.85% to 1.25%	0.00%	34.67% to 35.21%
4/30/2009	1,283,469	8.03 to 10.11(4)	11,009,858	0.85% to 1.25%	3.73%	-48.39% to -48.19%
4/30/2008	1,900,582	15.49 to 19.60(4)	31,204,073	0.85% to 1.25%	1.67%	-5.30% to -4.92%
4/30/2007	1,930,818	16.29 to 20.69(4)	33,618,066	0.85% to 1.25%	1.26%	17.01% to 17.48%
MFS Massachusetts Investors Trust Portfolio (Class 1)						
12/31/2011	367,906	10.60 to 10.89	4,000,677	0.85% to 1.10%	0.68%	-2.98% to -2.74%
12/31/2010	404,967	10.93 to 11.20	4,527,131	0.85% to 1.10%	0.98%	4.44% to 4.62%
4/30/2010	432,720	10.47 to 10.71	4,622,329	0.85% to 1.10%	1.21%	34.18% to 34.52%
4/30/2009	388,579	7.80 to 7.96	3,085,844	0.85% to 1.10%	1.20%	-32.13% to -31.96%
4/30/2008	492,672	11.49 to 11.70	5,753,833	0.85% to 1.10%	1.18%	0.51% to 0.77%
4/30/2007	571,906	11.43 to 11.61	6,629,932	0.85% to 1.10%	0.70%	12.29% to 12.57%
MFS Total Return Portfolio (Class 1)						
12/31/2011	5,205,010	16.12 to 16.56	86,038,905	0.85% to 1.10%	2.58%	0.81% to 1.06%
12/31/2010	6,412,067	15.99 to 16.39	104,898,990	0.85% to 1.10%	2.95%	4.39% to 4.56%
4/30/2010	7,118,289	15.32 to 15.67	111,383,180	0.85% to 1.10%	3.72%	23.71% to 24.02%
4/30/2009	8,100,695	12.38 to 12.64	102,227,600	0.85% to 1.10%	3.66%	-21.50% to -21.30%
4/30/2008	10,055,681	15.77 to 16.06	161,294,974	0.85% to 1.10%	2.66%	-4.27% to -4.03%
4/30/2007	10,626,450	16.47 to 16.73	177,627,795	0.85% to 1.10%	2.38%	12.03% to 12.31%
Mid-Cap Growth Portfolio (Class 1)						

12/31/2011	372,085	9.23 to 9.48	3,521,322	0.85% to 1.10%	0.00%	-6.96% to -6.73%
12/31/2010	424,605	9.92 to 10.16	4,305,607	0.85% to 1.10%	0.00%	13.02% to 13.21%
4/30/2010	415,544	8.78 to 8.98	3,721,809	0.85% to 1.10%	0.00%	39.52% to 39.87%
4/30/2009	361,701	6.29 to 6.42	2,318,266	0.85% to 1.10%	0.00%	-33.90% to -33.74%
4/30/2008	441,212	9.52 to 9.69	4,268,355	0.85% to 1.10%	0.24%	1.85% to 2.10%
4/30/2007	432,792	9.34 to 9.49	4,101,234	0.85% to 1.10%	0.00%	2.10% to 2.35%
Real Estate Portfolio (Class 1)						
12/31/2011	192,759	24.49 to 29.72	5,299,776	0.85% to 1.25%	0.94%	6.81% to 7.23%
12/31/2010	219,696	22.93 to 27.71	5,631,167	0.85% to 1.25%	1.85%	4.77% to 5.05%
4/30/2010	243,412	21.89 to 26.38	5,984,972	0.85% to 1.25%	2.02%	55.42% to 56.04%
4/30/2009	299,890	14.08 to 16.91	4,756,909	0.85% to 1.25%	4.34%	-49.67% to -49.47%
4/30/2008	382,374	27.98 to 33.46	11,983,610	0.85% to 1.25%	1.55%	-16.91% to -16.58%
4/30/2007	589,555	33.68 to 40.11	22,020,106	0.85% to 1.25%	1.24%	25.16% to 25.66%
Small Company Value Portfolio (Class 1)						
12/31/2011	141,214	18.87 to 26.09	3,681,375	0.85% to 1.25%	0.36%	-4.43% to -4.07%
12/31/2010	200,102	19.67 to 27.30	5,459,250	0.85% to 1.25%	0.59%	6.83% to 7.09%
4/30/2010	196,455	18.36 to 25.55	5,017,112	0.85% to 1.25%	0.75%	49.63% to 50.20%
4/30/2009	196,515	12.23 to 17.08	3,353,978	0.85% to 1.25%	0.59%	-32.17% to -31.88%
4/30/2008	247,131	17.95 to 25.18	6,218,989	0.85% to 1.25%	0.00%	-13.59% to -13.23%
4/30/2007	340,916	20.69 to 29.13	9,928,447	0.85% to 1.25%	0.01%	7.15% to 7.58%

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7. UNIT VALUES (continued)

<TABLE>
<CAPTION>

At December 31 or April 30	For the Period Ended December 31 or April 30

Year	Units	Unit Fair Value Lowest to Highest ($)	Net Assets ($)	Expense Ratio Lowest to Highest (1)	Investment Income Ratio (2)	Total Return Lowest to Highest (3)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Technology Portfolio (Class 1)						
12/31/2011	139,237	2.24 to 2.30	318,713	0.85% to 1.10%	0.00%	-6.42% to -6.18%
12/31/2010	174,817	2.39 to 2.45	427,041	0.85% to 1.10%	0.00%	10.55% to 10.73%
4/30/2010	205,324	2.16 to 2.21	453,275	0.85% to 1.10%	0.00%	40.56% to 40.91%
4/30/2009	161,321	1.54 to 1.57	252,953	0.85% to 1.10%	0.00%	-35.24% to -35.07%
4/30/2008	177,656	2.38 to 2.42	429,037	0.85% to 1.10%	0.00%	-1.43% to -1.18%
4/30/2007	147,503	2.41 to 2.45	360,403	0.85% to 1.10%	0.00%	1.20% to 1.45%
Telecom Utility Portfolio (Class 1)						
12/31/2011	142,761	13.21 to 17.58(4)	2,245,084	0.85% to 1.25%	2.35%	4.95% to 5.26%(5)
12/31/2010	139,789	12.55 to 16.75(4)	2,144,987	0.85% to 1.25%	2.90%	11.41% to 11.76%
4/30/2010	156,310	11.23 to 15.03(4)	2,123,879	0.85% to 1.25%	5.35%	34.46% to 35.00%
4/30/2009	185,202	8.32 to 11.18(4)	1,862,882	0.85% to 1.25%	3.03%	-37.78% to -37.56%(5)
4/30/2008	222,071	13.32 to 17.97(4)	3,621,268	0.85% to 1.25%	3.04%	7.31% to 7.53%(5)
4/30/2007	228,872	12.39 to 16.75(4)	3,559,841	0.85% to 1.25%	3.49%	29.03% to 29.65%
Total Return Bond Portfolio (Class 1)						
12/31/2011	1,281,945	19.82 to 28.77(4)	26,095,979	0.85% to 1.25%	1.56%	5.05% to 5.47%
12/31/2010	1,239,222	18.80 to 27.39(4)	23,994,780	0.85% to 1.25%	2.76%	2.34% to 2.61%
4/30/2010	1,092,584	18.32 to 26.76(4)	20,624,924	0.85% to 1.25%	1.93%	9.76% to 10.20%
4/30/2009	902,304	16.62 to 24.38(4)	15,551,746	0.85% to 1.25%	3.08%	6.13% to 6.56%
4/30/2008	431,252	15.60 to 22.97(4)	7,169,673	0.85% to 1.25%	6.45%	1.70% to 2.11%
4/30/2007	441,898	15.28 to 22.59(4)	7,255,884	0.85% to 1.25%	7.41%	9.53% to 9.97%
Aggressive Growth Portfolio (Class 3)						
12/31/2011	47,837	7.92 to 8.07	385,850	0.85% to 1.20%	0.00%	-12.26%(10) to -3.05%
12/31/2010	51,038	8.18 to 8.33	424,825	0.85% to 1.10%	0.00%	7.44% to 7.56%
4/30/2010	69,587	7.62 to 7.74	538,324	0.85% to 1.10%	0.00%	48.54% to 48.66%
4/30/2009	62,443	5.13 to 5.21	325,076	0.85% to 1.10%	0.39%	-45.75% to -45.71%
4/30/2008	54,796	9.45 to 9.59	525,484	0.85% to 1.10%	0.38%	-19.04% to -18.99%
4/30/2007	27,200	11.67 to 11.84	321,940	0.85% to 1.10%	0.00%	13.05%(6) to 13.31%(6)
Alliance Growth Portfolio (Class 3)						

12/31/2011	1,143,404	7.76 to 7.99	9,130,254	0.85% to 1.20%	0.21%	-10.19%(10) to	-3.37%
12/31/2010	1,411,151	8.07 to 8.27	11,662,541	0.85% to 1.10%	0.65%	5.98% to	6.16%
4/30/2010	1,563,530	7.61 to 7.79	12,172,881	0.85% to 1.10%	0.32%	33.95% to	34.29%
4/30/2009	1,773,630	5.68 to 5.80	10,283,061	0.85% to 1.10%	0.00%	-31.66% to	-31.49%
4/30/2008	1,941,059	8.31 to 8.47	16,426,222	0.85% to 1.10%	0.00%	-0.68% to	-0.43%
4/30/2007	1,540,187	8.37 to 8.50	13,090,904	0.85% to 1.10%	0.00%	2.62%(6) to	2.89%(6)

Balanced Portfolio (Class 3)

12/31/2011	398,661	9.88 to 10.22	4,064,697	0.85% to 1.20%	1.57%	-4.37%(10) to	1.16%
12/31/2010	333,373	9.79 to 10.10	3,367,472	0.85% to 1.10%	1.69%	5.09% to	5.27%
4/30/2010	319,769	9.32 to 9.60	3,067,877	0.85% to 1.10%	2.79%	27.94% to	28.26%
4/30/2009	266,206	7.28 to 7.48	1,991,393	0.85% to 1.10%	3.37%	-23.43% to	-23.18%
4/30/2008	157,604	9.51 to 9.74	1,535,078	0.85% to 1.10%	2.44%	-4.61% to	-4.07%
4/30/2007	72,752	9.97 to 10.15	738,657	0.85% to 1.10%	2.46%	11.39%(6) to	11.95%(6)

Blue Chip Growth Portfolio (Class 3)

12/31/2011	304,672	5.65 to 5.85	1,777,763	0.85% to 1.20%	0.01%	-12.42%(10) to	-6.62%
12/31/2010	249,608	6.07 to 6.26	1,562,629	0.85% to 1.10%	0.08%	6.77% to	6.89%
4/30/2010	220,394	5.68 to 5.86	1,290,834	0.85% to 1.10%	0.05%	32.36% to	32.80%
4/30/2009	199,873	4.29 to 4.41	881,600	0.85% to 1.10%	0.19%	-31.94% to	-31.54%
4/30/2008	114,836	6.31 to 6.44	739,922	0.85% to 1.10%	0.09%	-0.82% to	-0.44%
4/30/2007	31,532	6.36 to 6.47	204,059	0.85% to 1.10%	0.01%	9.90%(6) to	10.38%(6)

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7. UNIT VALUES (continued)

<TABLE>
<CAPTION>

At December 31 or April 30	For the Period Ended December 31 or April 30

Year	Units	Unit Fair Value Lowest to Highest ($)	Net Assets ($)	Expense Ratio Lowest to Highest (1)	Investment Income Ratio (2)	Total Return Lowest to Highest (3)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Capital Growth Portfolio (Class 3)						
12/31/2011	409,439	7.39 to 7.60	3,109,242	0.85% to 1.20%	0.00%	-9.14%(10) to -2.39%
12/31/2010	477,946	7.59 to 7.78	3,719,204	0.85% to 1.10%	0.00%	5.67% to 5.85%
4/30/2010	506,120	7.18 to 7.35	3,721,024	0.85% to 1.10%	0.00%	32.83% to 33.17%
4/30/2009	542,220	5.41 to 5.52	2,993,747	0.85% to 1.10%	0.00%	-38.21% to -38.05%
4/30/2008	315,718	8.75 to 8.92	2,814,010	0.85% to 1.10%	0.80%	1.39% to 1.65%
4/30/2007	111,654	8.63 to 8.77	978,668	0.85% to 1.10%	0.07%	14.37%(6) to 14.75%(6)
Cash Management Portfolio (Class 3)						
12/31/2011	1,171,718	11.11 to 11.46	13,425,444	0.85% to 1.20%	0.00%	-1.37% to -1.06%(5)(10)
12/31/2010	934,751	11.29 to 11.62	10,863,494	0.85% to 1.10%	0.00%	-1.04% to -0.89%
4/30/2010	925,860	11.41 to 11.73	10,857,389	0.85% to 1.10%	2.47%	-1.41% to -1.16%
4/30/2009	1,880,894	11.57 to 11.87	22,315,806	0.85% to 1.10%	3.30%	-0.81% to -0.48%
4/30/2008	903,247	11.66 to 11.92	10,769,286	0.85% to 1.10%	2.74%	1.90% to 2.34%
4/30/2007	221,901	11.45 to 11.65	2,585,109	0.85% to 1.10%	1.18%	3.06%(6) to 3.78%(6)
Corporate Bond Portfolio (Class 3)						
12/31/2011	8,239,617	20.41 to 20.99	172,812,534	0.85% to 1.20%	5.97%	1.50%(10) to 5.25%
12/31/2010	9,427,409	19.45 to 19.94	187,925,968	0.85% to 1.10%	6.09%	4.30% to 4.47%
4/30/2010	10,147,495	18.64 to 19.09	193,626,348	0.85% to 1.10%	5.66%	26.55% to 26.87%
4/30/2009	10,287,566	14.73 to 15.05	154,733,770	0.85% to 1.10%	4.44%	-3.61% to -3.37%
4/30/2008	7,546,558	15.29 to 15.57	117,474,094	0.85% to 1.10%	3.28%	3.02% to 3.28%
4/30/2007	2,737,040	14.84 to 15.08	41,252,054	0.85% to 1.10%	2.33%	7.41%(6) to 7.69%(6)
Davis Venture Value Portfolio (Class 3)						
12/31/2011	5,871,997	13.44 to 13.84	81,238,583	0.85% to 1.20%	1.07%	-11.67%(10) to -5.28%
12/31/2010	6,586,099	14.25 to 14.62	96,224,930	0.85% to 1.10%	0.56%	6.03% to 6.20%
4/30/2010	7,158,170	13.44 to 13.76	98,476,046	0.85% to 1.10%	1.19%	37.11% to 37.45%
4/30/2009	7,608,802	9.81 to 10.01	76,156,795	0.85% to 1.10%	1.65%	-36.51% to -36.35%
4/30/2008	5,189,859	15.44 to 15.73	81,616,529	0.85% to 1.10%	0.65%	-4.02% to -3.78%
4/30/2007	2,334,998	16.09 to 16.35	38,159,680	0.85% to 1.10%	0.47%	14.21%(6) to 14.51%(6)
"Dogs" Of Wall Street Portfolio (Class 3)						

12/31/2011	103,475	16.21 to 16.66(4)	1,722,968	0.85% to 1.20%	2.23%	2.41%(10) to 11.45%
12/31/2010	82,111	14.58 to 14.95	1,226,943	0.85% to 1.10%	2.75%	7.34% to 7.53%
4/30/2010	55,223	13.58 to 13.90	766,925	0.85% to 1.10%	4.12%	36.87% to 37.22%
4/30/2009	58,953	9.92 to 10.13	596,737	0.85% to 1.10%	3.41%	-31.79% to -31.62%
4/30/2008	58,757	14.55 to 14.81	869,654	0.85% to 1.10%	1.87%	-6.91% to -6.68%
4/30/2007	15,406	15.63 to 15.87	244,392	0.85% to 1.10%	1.08%	16.65%(6) to 17.21%(6)
Emerging Markets Portfolio (Class 3)						
12/31/2011	432,992	20.99 to 21.54	9,319,379	0.85% to 1.20%	0.40%	-30.13%(10) to -26.90%
12/31/2010	420,192	28.80 to 29.47	12,376,243	0.85% to 1.10%	1.22%	15.28% to 15.47%
4/30/2010	430,023	24.98 to 25.52	10,970,729	0.85% to 1.10%	0.00%	52.21% to 52.60%
4/30/2009	445,284	16.41 to 16.72	7,445,005	0.85% to 1.10%	1.78%	-46.81% to -46.67%
4/30/2008	187,242	30.86 to 31.36	5,869,661	0.85% to 1.10%	1.52%	20.38% to 20.68%
4/30/2007	78,177	25.63 to 25.99	2,030,305	0.85% to 1.10%	0.43%	15.89%(6) to 16.18%(6)
Equity Opportunities Portfolio (Class 3)						
12/31/2011	90,495	11.75 to 12.06(4)	1,089,923	0.85% to 1.20%	0.29%	-6.08%(10) to -1.20%
12/31/2010	105,630	11.91 to 12.21	1,288,119	0.85% to 1.10%	0.48%	8.87% to 9.05%
4/30/2010	94,238	10.94 to 11.20	1,054,142	0.85% to 1.10%	0.88%	32.17% to 32.51%
4/30/2009	86,148	8.28 to 8.45	727,097	0.85% to 1.10%	1.45%	-32.30% to -32.13%
4/30/2008	77,706	12.23 to 12.45	966,485	0.85% to 1.10%	1.48%	-8.09% to -7.86%
4/30/2007	44,392	13.31 to 13.51	599,323	0.85% to 1.10%	0.91%	11.80%(6) to 12.09%(6)

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7. UNIT VALUES (continued)

<TABLE>
<CAPTION>

At December 31 or April 30	For the Period Ended December 31 or April 30

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<S>	<C>	<C>	<C>	<C>	<C>	<C>
Foreign Value Portfolio (Class 3)						
12/31/2011	7,616,670	8.39 to 8.51	64,786,340	0.85% to 1.20%	1.48%	-22.25%(10) to -12.60%
12/31/2010	6,558,989	9.63 to 9.74	63,868,282	0.85% to 1.10%	1.86%	4.56% to 4.73%
4/30/2010	6,529,426	9.21 to 9.30	60,706,930	0.85% to 1.10%	2.38%	28.85% to 29.18%
4/30/2009	6,208,269	7.15 to 7.20	44,685,557	0.85% to 1.10%	3.27%	-39.79% to -39.64%
4/30/2008	3,247,960	11.87 to 11.93	38,732,779	0.85% to 1.10%	1.64%	-2.48% to -2.24%
4/30/2007	1,412,237	12.17 to 12.20	17,227,088	0.85% to 1.10%	0.51%	21.70%(6) to 21.99%(6)
Fundamental Growth Portfolio (Class 3)						
12/31/2011	422,765	6.48 to 6.70	2,829,282	0.85% to 1.20%	0.00%	-14.02%(10) to -6.51%
12/31/2010	480,725	6.94 to 7.16	3,442,185	0.85% to 1.10%	0.00%	11.34% to 11.55%
4/30/2010	531,294	6.24 to 6.42	3,410,422	0.85% to 1.10%	0.00%	33.50% to 33.89%
4/30/2009	549,106	4.67 to 4.80	2,632,658	0.85% to 1.10%	0.00%	-40.80% to -40.64%
4/30/2008	177,756	7.89 to 8.08	1,435,774	0.85% to 1.10%	0.00%	6.18% to 6.83%
4/30/2007	11,279	7.43 to 7.56	85,279	0.85% to 1.10%	0.00%	4.81%(6) to 5.26%(6)
Global Bond Portfolio (Class 3)						
12/31/2011	1,469,111	17.52 to 18.02	26,445,146	0.85% to 1.20%	2.01%	0.95%(10) to 4.59%
12/31/2010	1,577,747	16.81 to 17.23	27,168,762	0.85% to 1.10%	3.96%	5.16% to 5.34%
4/30/2010	1,619,008	15.98 to 16.35	26,465,854	0.85% to 1.10%	3.16%	10.67% to 10.95%
4/30/2009	1,434,506	14.44 to 14.74	21,135,804	0.85% to 1.10%	3.23%	-4.72% to -4.48%
4/30/2008	818,108	15.16 to 15.43	12,619,049	0.85% to 1.10%	0.24%	13.46% to 13.74%
4/30/2007	191,065	13.36 to 13.57	2,590,965	0.85% to 1.10%	5.37%	2.58%(6) to 2.83%(6)
Global Equities Portfolio (Class 3)						
12/31/2011	133,917	8.43 to 8.63	1,155,601	0.85% to 1.20%	0.76%	-18.94%(10) to -11.37%
12/31/2010	146,494	9.53 to 9.74	1,426,354	0.85% to 1.10%	1.57%	8.66% to 8.74%
4/30/2010	143,787	8.77 to 8.95	1,287,438	0.85% to 1.10%	2.36%	37.36% to 37.50%
4/30/2009	129,923	6.38 to 6.51	846,044	0.85% to 1.10%	2.42%	-41.69% to -41.62%
4/30/2008	150,531	10.95 to 11.15	1,678,705	0.85% to 1.10%	1.03%	-3.74% to -3.51%
4/30/2007	112,385	11.38 to 11.56	1,298,904	0.85% to 1.10%	0.40%	16.27%(6) to 16.66%(6)
Growth Opportunities Portfolio (Class 3)						

12/31/2011	3,300,537	5.99 to 6.18	19,802,800	0.85% to 1.20%	0.00%	-14.75%(10) to -3.44%
12/31/2010	3,274,795	6.21 to 6.41	20,338,574	0.85% to 1.10%	0.00%	9.70% to 9.89%
4/30/2010	3,373,930	5.65 to 5.84	19,069,413	0.85% to 1.10%	0.00%	34.89% to 35.23%
4/30/2009	2,777,829	4.18 to 4.33	11,608,941	0.85% to 1.10%	0.00%	-31.65% to -31.48%
4/30/2008	191,851	6.10 to 6.34	1,170,449	0.85% to 1.10%	0.00%	2.16% to 2.42%
4/30/2007	87,358	5.95 to 6.21	520,946	0.85% to 1.10%	0.00%	-0.96%(6) to -0.64%(6)

Growth-Income Portfolio (Class 3)

12/31/2011	694,256	9.32 to 9.62	6,662,058	0.85% to 1.20%	0.78%	-2.42%(10) to 7.15%
12/31/2010	522,961	8.72 to 8.98	4,693,013	0.85% to 1.10%	0.76%	5.92% to 6.10%
4/30/2010	572,944	8.23 to 8.46	4,846,592	0.85% to 1.10%	1.05%	30.75% to 31.07%
4/30/2009	617,396	6.29 to 6.46	3,984,803	0.85% to 1.10%	1.00%	-37.67% to -37.51%
4/30/2008	569,721	10.10 to 10.33	5,885,515	0.85% to 1.10%	0.66%	-5.37% to -5.08%
4/30/2007	101,291	10.67 to 10.89	1,102,657	0.85% to 1.10%	0.21%	8.52%(6) to 9.30%(6)

High-Yield Bond Portfolio (Class 3)

12/31/2011	2,111,423	16.16 to 16.60	35,021,899	0.85% to 1.20%	8.04%	-2.85%(10) to 3.14%
12/31/2010	2,404,124	15.72 to 16.09	38,673,554	0.85% to 1.10%	9.48%	6.31% to 6.49%
4/30/2010	2,616,062	14.78 to 15.11	39,518,502	0.85% to 1.10%	8.11%	36.42% to 36.76%
4/30/2009	2,789,881	10.84 to 11.05	30,816,932	0.85% to 1.10%	12.02%	-25.81% to -25.62%
4/30/2008	1,832,333	14.61 to 14.86	27,212,609	0.85% to 1.10%	6.49%	-3.93% to -3.69%
4/30/2007	450,753	15.20 to 15.42	6,950,276	0.85% to 1.10%	4.12%	10.71%(6) to 10.99%(6)

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VARIABLE ANNUITY ACCOUNT SEVEN
OF
SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS

7. UNIT VALUES (continued)

<TABLE>
<CAPTION>

At December 31 or April 30	For the Period Ended December 31 or April 30

Year	Units	Unit Fair Value Lowest to Highest ($)	Net Assets ($)	Expense Ratio Lowest to Highest (1)	Investment Income Ratio (2)	Total Return Lowest to Highest (3)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
International Diversified Equities Portfolio (Class 3)						
12/31/2011	599,697	7.55 to 7.75	4,648,045	0.85% to 1.20%	1.90%	-22.60%(10) to -15.54%
12/31/2010	651,102	8.96 to 9.18	5,975,811	0.85% to 1.10%	3.95%	9.50% to 9.68%
4/30/2010	686,627	8.19 to 8.37	5,745,607	0.85% to 1.10%	0.99%	33.60% to 33.93%
4/30/2009	739,607	6.13 to 6.25	4,621,050	0.85% to 1.10%	4.05%	-42.47% to -42.33%
4/30/2008	519,361	10.65 to 10.84	5,626,325	0.85% to 1.10%	1.75%	2.37% to 2.62%
4/30/2007	215,249	10.40 to 10.56	2,272,248	0.85% to 1.10%	0.16%	14.62%(6) to 14.92%(6)
International Growth and Income Portfolio (Class 3)						
12/31/2011	3,349,655	9.55 to 9.81	32,850,575	0.85% to 1.20%	2.89%	-22.26%(10) to -14.74%
12/31/2010	3,435,373	11.23 to 11.51	39,518,531	0.85% to 1.10%	3.95%	6.93% to 7.11%
4/30/2010	3,640,836	10.50 to 10.74	39,102,219	0.85% to 1.10%	0.00%	34.53% to 34.87%
4/30/2009	3,804,703	7.81 to 7.97	30,298,969	0.85% to 1.10%	3.17%	-48.45% to -48.32%
4/30/2008	1,501,532	15.14 to 15.41	23,134,118	0.85% to 1.10%	1.28%	-5.39% to -5.16%
4/30/2007	423,527	16.01 to 16.25	6,879,058	0.85% to 1.10%	0.63%	16.72%(6) to 17.01%(6)
Marsico Focused Growth Portfolio (Class 3)						
12/31/2011	317,623	9.85 to 9.99	3,170,730	0.85% to 1.20%	0.11%	-9.03%(10) to -2.52%
12/31/2010	296,194	10.13 to 10.25	3,034,983	0.85% to 1.10%	0.22%	8.64% to 8.83%
4/30/2010	301,502	9.33 to 9.42	2,839,063	0.85% to 1.10%	0.46%	35.74% to 36.08%
4/30/2009	314,756	6.87 to 6.92	2,178,337	0.85% to 1.10%	0.27%	-36.46% to -36.30%
4/30/2008	305,656	10.81 to 10.87	3,320,771	0.85% to 1.10%	0.00%	3.19% to 3.44%
4/30/2007	203,598	10.48 to 10.51	2,138,576	0.85% to 1.10%	0.00%	4.80%(6) to 5.06%(6)
MFS Massachusetts Investors Trust Portfolio (Class 3)						
12/31/2011	3,118,241	10.31 to 10.73	33,390,332	0.85% to 1.20%	0.49%	-10.26%(10) to -2.98%
12/31/2010	2,648,537	10.66 to 11.06	29,288,673	0.85% to 1.10%	0.79%	4.27% to 4.44%
4/30/2010	2,600,213	10.23 to 10.59	27,533,113	0.85% to 1.10%	1.03%	33.85% to 34.19%
4/30/2009	2,201,312	7.64 to 7.90	17,372,829	0.85% to 1.10%	0.66%	-32.30% to -32.13%
4/30/2008	45,027	11.29 to 11.63	523,067	0.85% to 1.10%	0.90%	0.24% to 0.51%
4/30/2007	15,110	11.26 to 11.57	174,212	0.85% to 1.10%	0.21%	12.58%(6) to 12.91%(6)

MFS Total Return Portfolio (Class 3)

12/31/2011	6,808,929	15.87 to 16.32	111,079,120	0.85% to 1.20%	2.36%	-4.82%(10) to 0.81%
12/31/2010	7,873,765	15.79 to 16.19	127,438,495	0.85% to 1.10%	2.72%	4.21% to 4.38%
4/30/2010	8,613,941	15.16 to 15.51	133,562,906	0.85% to 1.10%	3.43%	23.40% to 23.71%
4/30/2009	9,125,344	12.28 to 12.54	114,373,843	0.85% to 1.10%	3.37%	-21.69% to -21.50%
4/30/2008	7,467,400	15.68 to 15.97	119,224,419	0.85% to 1.10%	2.18%	-4.52% to -4.28%
4/30/2007	2,743,739	16.43 to 16.69	45,763,499	0.85% to 1.10%	1.25%	12.13%(6) to 12.42%(6)

Mid-Cap Growth Portfolio (Class 3)

12/31/2011	845,004	9.09 to 9.35	7,862,931	0.85% to 1.20%	0.00%	-15.38%(10) to -6.96%
12/31/2010	366,167	9.80 to 10.05	3,675,201	0.85% to 1.10%	0.00%	12.83% to 13.02%
4/30/2010	281,931	8.69 to 8.89	2,504,081	0.85% to 1.10%	0.00%	39.17% to 39.52%
4/30/2009	222,621	6.24 to 6.37	1,417,554	0.85% to 1.10%	0.00%	-34.07% to -33.90%
4/30/2008	163,829	9.47 to 9.64	1,578,667	0.85% to 1.10%	0.03%	1.59% to 1.85%
4/30/2007	90,634	9.32 to 9.46	857,521	0.85% to 1.10%	0.00%	2.69%(6) to 2.94%(6)

Real Estate Portfolio (Class 3)

12/31/2011	808,937	28.50 to 29.28	23,668,467	0.85% to 1.20%	0.77%	-4.23%(10) to 6.97%
12/31/2010	896,420	26.71 to 27.38	24,530,928	0.85% to 1.10%	1.65%	4.70% to 4.87%
4/30/2010	940,383	25.51 to 26.10	24,538,873	0.85% to 1.10%	1.63%	55.26% to 55.65%
4/30/2009	1,120,199	16.43 to 16.77	18,781,465	0.85% to 1.10%	3.18%	-49.72% to -49.60%
4/30/2008	195,450	32.68 to 33.27	6,501,661	0.85% to 1.10%	1.26%	-17.00% to -16.79%
4/30/2007	102,154	39.37 to 39.99	4,083,352	0.85% to 1.10%	0.58%	26.23%(6) to 26.59%(6)

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7. UNIT VALUES (continued)

<TABLE>
<CAPTION>

At December 31 or April 30	For the Period Ended December 31 or April 30

Year	Units	Unit Fair Value Lowest to Highest ($)	Net Assets ($)	Expense Ratio Lowest to Highest (1)	Investment Income Ratio (2)	Total Return Lowest to Highest (3)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Small & Mid Cap Value Portfolio (Class 3)						
12/31/2011	4,147,775	10.59 to 10.75	44,564,972	0.85% to 1.20%	0.13%	-15.85%(10) to -9.00%
12/31/2010	4,109,354	11.67 to 11.81	48,532,574	0.85% to 1.10%	0.20%	4.45% to 4.63%
4/30/2010	4,387,802	11.18 to 11.29	49,530,176	0.85% to 1.10%	0.53%	59.19% to 59.59%
4/30/2009	4,937,535	7.02 to 7.07	34,926,394	0.85% to 1.10%	0.23%	-33.50% to -33.33%
4/30/2008	1,362,455	10.56 to 10.61	14,456,548	0.85% to 1.10%	0.44%	-7.76% to -7.52%
4/30/2007	908,556	11.44 to 11.47	10,425,086	0.85% to 1.10%	0.05%	14.45%(6) to 14.75%(6)
Small Company Value Portfolio (Class 3)						
12/31/2011	2,899,537	9.51 to 9.64	27,942,383	0.85% to 1.20%	0.23%	-10.53%(10) to -4.28%
12/31/2010	2,866,624	9.96 to 10.07	28,873,321	0.85% to 1.10%	0.45%	6.76% to 6.93%
4/30/2010	3,141,661	9.33 to 9.42	29,592,411	0.85% to 1.10%	0.51%	49.48% to 49.86%
4/30/2009	3,367,697	6.24 to 6.29	21,168,104	0.85% to 1.10%	0.23%	-32.24% to -32.07%
4/30/2008	1,666,072	9.21 to 9.25	15,416,331	0.85% to 1.10%	0.00%	-13.70% to -13.48%
4/30/2007	314,883	10.67 to 10.70	3,367,814	0.85% to 1.10%	0.00%	6.69%(6) to 6.96%(6)
Technology Portfolio (Class 3)						
12/31/2011	258,808	2.19 to 2.26(4)	586,022	0.85% to 1.20%	0.00%	-10.46%(10) to -6.42%(5)
12/31/2010	320,218	2.33 to 2.42	774,855	0.85% to 1.10%	0.00%	10.18% to 10.55%
4/30/2010	316,033	2.12 to 2.19	691,777	0.85% to 1.10%	0.00%	39.38% to 40.56%
4/30/2009	287,583	1.52 to 1.56	447,853	0.85% to 1.10%	0.00%	-35.51% to -35.24%
4/30/2008	149,648	2.36 to 2.40	359,865	0.85% to 1.10%	0.00%	-1.83% to -1.43%
4/30/2007	16,146	2.40 to 2.44	39,385	0.85% to 1.10%	0.00%	1.36%(6) to 1.72%(6)
Telecom Utility Portfolio (Class 3)						
12/31/2011	93,254	11.91 to 12.23	1,138,993	0.85% to 1.20%	2.19%	-5.86%(10) to 5.10%
12/31/2010	73,098	11.37 to 11.64	849,771	0.85% to 1.10%	2.69%	11.33% to 11.51%
4/30/2010	69,438	10.21 to 10.43	723,892	0.85% to 1.10%	5.09%	34.32% to 34.66%
4/30/2009	83,648	7.60 to 7.75	647,657	0.85% to 1.10%	2.67%	-37.85% to -37.69%
4/30/2008	58,854	12.23 to 12.44	731,526	0.85% to 1.10%	1.42%	7.16% to 7.50%
4/30/2007	2,799	11.41 to 11.57	32,370	0.85% to 1.10%	0.48%	21.19%(7) to 21.26%(7)
Total Return Bond Portfolio (Class 3)						

12/31/2011	5,088,050	19.02 to 19.54	99,250,165	0.85% to 1.20%	1.25%	3.53%(10) to 5.20%
12/31/2010	4,449,892	18.13 to 18.57	82,619,693	0.85% to 1.10%	2.51%	2.27% to 2.44%
4/30/2010	4,202,010	17.73 to 18.13	76,162,443	0.85% to 1.10%	1.76%	9.65% to 9.93%
4/30/2009	2,997,955	16.17 to 16.49	49,435,090	0.85% to 1.10%	2.66%	6.03% to 6.29%
4/30/2008	189,877	15.25 to 15.52	2,945,070	0.85% to 1.10%	5.88%	1.60% to 1.85%
4/30/2007	102,373	15.01 to 15.23	1,559,010	0.85% to 1.10%	3.60%	9.42%(6) to 9.69%(6)

Invesco Van Kampen V.I. Capital Growth Fund (Series II)

12/31/2011	547,888	10.34 to 10.58	5,785,568	0.85% to 1.20%	0.00%	-14.09%(10) to -7.18%
12/31/2010	666,338	11.18 to 11.39	7,580,846	0.85% to 1.10%	0.00%	9.80% to 9.98%
4/30/2010	767,800	10.18 to 10.36	7,944,554	0.85% to 1.10%	0.00%	45.23% to 45.60%
4/30/2009	772,256	7.01 to 7.12	5,488,421	0.85% to 1.10%	0.00%	-35.91% to -35.75%
4/30/2008	877,919	10.94 to 11.08	9,713,264	0.85% to 1.10%	0.16%	5.44% to 5.71%
4/30/2007	900,337	10.37 to 10.48	9,424,612	0.85% to 1.10%	0.00%	0.76% to 1.01%(5)

Invesco Van Kampen V.I. Comstock Fund (Series II)

12/31/2011	16,891,729	12.46 to 12.78	215,633,423	0.85% to 1.20%	1.36%	-11.15%(10) to -2.94%
12/31/2010	19,127,871	12.87 to 13.17	251,638,506	0.85% to 1.10%	0.00%	7.37% to 7.55%
4/30/2010	21,032,261	11.99 to 12.24	257,294,911	0.85% to 1.10%	1.64%	40.23% to 40.58%
4/30/2009	23,758,537	8.55 to 8.71	206,766,356	0.85% to 1.10%	2.47%	-34.69% to -34.53%
4/30/2008	23,500,551	13.09 to 13.30	312,387,623	0.85% to 1.10%	1.97%	-13.48% to -13.26%
4/30/2007	19,886,050	15.13 to 15.34	304,736,859	0.85% to 1.10%	1.25%	14.53% to 14.82%(5)

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7. UNIT VALUES (continued)

<TABLE>
<CAPTION>

At December 31 or April 30	For the Period Ended December 31 or April 30

Year	Units	Unit Fair Value Lowest to Highest ($)	Net Assets ($)	Expense Ratio Lowest to Highest (1)	Investment Income Ratio (2)	Total Return Lowest to Highest (3)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Invesco Van Kampen V.I. Growth and Income Fund (Series II)						
12/31/2011	15,734,906	14.10 to 14.49	227,760,765	0.85% to 1.20%	1.00%	-10.74%(10) to -3.09%
12/31/2010	17,602,934	14.59 to 14.96	263,027,122	0.85% to 1.10%	0.00%	3.50% to 3.67%
4/30/2010	19,037,638	14.10 to 14.43	274,405,440	0.85% to 1.10%	1.30%	40.26% to 40.61%
4/30/2009	20,637,120	10.05 to 10.26	211,553,323	0.85% to 1.10%	2.22%	-33.49% to -33.32%
4/30/2008	19,029,493	15.12 to 15.39	292,566,735	0.85% to 1.10%	1.67%	-8.76% to -8.53%
4/30/2007	15,346,236	16.57 to 16.82	257,912,123	0.85% to 1.10%	1.60%	14.46% to 14.75%(5)
Growth and Income Portfolio (Class VC)						
12/31/2011	10,291,928	11.44 to 11.73	120,543,506	0.85% to 1.20%	0.68%	-12.93%(10) to -6.88%
12/31/2010	12,237,231	12.32 to 12.59	153,938,811	0.85% to 1.10%	0.55%	5.04% to 5.22%
4/30/2010	13,672,902	11.73 to 11.97	163,475,589	0.85% to 1.10%	0.92%	38.67% to 39.02%
4/30/2009	15,241,513	8.46 to 8.61	131,090,165	0.85% to 1.10%	1.82%	-37.35% to -37.19%
4/30/2008	16,144,393	13.50 to 13.71	221,105,034	0.85% to 1.10%	1.28%	-6.87% to -6.63%
4/30/2007	14,981,110	14.50 to 14.68	219,759,130	0.85% to 1.10%	1.25%	11.24% to 11.52%(5)
Mid Cap Value Portfolio (Class VC)						
12/31/2011	5,575,464	13.54 to 13.86(4)	77,188,094	0.85% to 1.20%	0.19%	-13.37%(10) to -4.82%
12/31/2010	6,800,474	14.25 to 14.57	98,941,298	0.85% to 1.10%	0.40%	11.10% to 11.28%
4/30/2010	7,674,773	12.83 to 13.09	100,348,573	0.85% to 1.10%	0.45%	43.62% to 43.99%
4/30/2009	8,811,469	8.93 to 9.09	80,026,356	0.85% to 1.10%	1.52%	-36.55% to -36.40%
4/30/2008	10,397,065	14.08 to 14.29	148,474,445	0.85% to 1.10%	0.46%	-16.11% to -15.90%
4/30/2007	9,734,214	16.78 to 16.99	165,297,895	0.85% to 1.10%	0.49%	17.11% to 17.40%(5)
Asset Allocation Fund (Class 2)						
12/31/2011	17,776,821	16.46 to 16.84	299,059,306	0.85% to 1.20%	1.80%	-6.35%(10) to 0.44%
12/31/2010	20,548,416	16.43 to 16.76	344,228,504	0.85% to 1.10%	1.98%	7.01% to 7.19%
4/30/2010	22,456,212	15.36 to 15.64	350,977,590	0.85% to 1.10%	2.21%	25.69% to 26.00%
4/30/2009	24,735,961	12.22 to 12.41	306,848,165	0.85% to 1.10%	2.94%	-26.24% to -26.06%
4/30/2008	23,973,019	16.57 to 16.79	402,208,968	0.85% to 1.10%	2.19%	-3.24% to -3.00%
4/30/2007	18,214,301	17.12 to 17.31	315,024,276	0.85% to 1.10%	2.14%	9.94% to 10.21%(5)
Global Growth Fund (Class 2)						

12/31/2011	11,908,185	21.47 to 21.97	261,361,569	0.85% to 1.20%	1.27%	-17.13%(10) to -9.66%
12/31/2010	13,281,602	23.83 to 24.32	322,745,750	0.85% to 1.10%	1.49%	9.53% to 9.71%
4/30/2010	14,487,215	21.76 to 22.16	320,908,146	0.85% to 1.10%	1.29%	37.68% to 38.03%
4/30/2009	15,826,565	15.81 to 16.06	254,008,177	0.85% to 1.10%	2.18%	-34.28% to -34.12%
4/30/2008	15,374,374	24.05 to 24.37	374,542,455	0.85% to 1.10%	2.58%	1.92% to 2.17%
4/30/2007	12,313,486	23.60 to 23.86	293,600,783	0.85% to 1.10%	0.68%	15.39% to 15.68%(5)

Growth Fund (Class 2)

12/31/2011	10,468,633	19.40 to 19.85	207,500,378	0.85% to 1.20%	0.59%	-12.83%(10) to -5.09%
12/31/2010	12,043,778	20.49 to 20.91	251,575,242	0.85% to 1.10%	0.72%	9.94% to 10.13%
4/30/2010	13,360,013	18.64 to 18.99	253,434,644	0.85% to 1.10%	0.60%	38.39% to 38.74%
4/30/2009	14,743,935	13.47 to 13.68	201,612,748	0.85% to 1.10%	0.99%	-37.78% to -37.62%
4/30/2008	14,604,346	21.64 to 21.94	320,152,992	0.85% to 1.10%	0.78%	-0.02% to 0.23%
4/30/2007	13,104,310	21.65 to 21.89	286,621,960	0.85% to 1.10%	0.78%	8.79% to 9.06%(5)

Growth-Income Fund (Class 2)

12/31/2011	21,562,653	16.47 to 16.87	363,374,312	0.85% to 1.20%	1.48%	-9.22%(10) to -2.66%
12/31/2010	25,263,731	16.97 to 17.33	437,446,407	0.85% to 1.10%	1.49%	5.15% to 5.32%
4/30/2010	27,563,259	16.14 to 16.45	453,154,537	0.85% to 1.10%	1.48%	33.77% to 34.10%
4/30/2009	30,081,713	12.06 to 12.27	368,806,501	0.85% to 1.10%	2.05%	-34.25% to -34.09%
4/30/2008	30,286,402	18.35 to 18.61	563,331,161	0.85% to 1.10%	1.55%	-5.45% to -5.21%
4/30/2007	25,584,037	19.40 to 19.64	502,013,296	0.85% to 1.10%	1.51%	13.27% to 13.55%(5)

</TABLE>

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7. UNIT VALUES (continued)

<TABLE>
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At December 31 or April 30	For the Period Ended December 31 or April 30

Year	Units	Unit Fair Value Lowest to Highest ($)	Net Assets ($)	Expense Ratio Lowest to Highest (1)	Investment Income Ratio (2)	Total Return Lowest to Highest (3)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Franklin Income Securities Fund (Class 2)						
12/31/2011	1,407,331	10.70 to 10.79	15,179,584	0.85% to 1.20%	5.53%	-5.54%(10) to 1.52%
12/31/2010	1,275,194	10.57 to 10.63	13,554,263	0.85% to 1.10%	6.52%	5.93% to 6.10%
4/30/2010	1,239,046	9.98 to 10.02	12,413,390	0.85% to 1.10%	6.78%	36.32% to 36.66%
4/30/2009	1,082,357	7.32 to 7.33	7,934,838	0.85% to 1.10%	1.46%	-27.67% to -27.59%
4/30/2008	64,002	10.12	647,972	0.85% to 1.10%	0.00%	1.22%(8) to 1.24%(8)
4/30/2007	-	-	-	-	-	-
Franklin Templeton Vip Founding Funds Allocation Fund (Class 2)						
12/31/2011	2,561,875	9.09 to 9.18	23,506,395	0.85% to 1.20%	0.02%	-10.47%(10) to -2.38%
12/31/2010	2,670,875	9.34 to 9.40	25,104,203	0.85% to 1.10%	2.20%	4.75% to 4.93%
4/30/2010	2,744,267	8.91 to 8.96	24,582,687	0.85% to 1.10%	2.39%	34.35% to 34.69%
4/30/2009	2,716,589	6.63 to 6.65	18,067,282	0.85% to 1.10%	3.55%	-33.46% to -33.29%
4/30/2008	83,158	9.97	829,091	0.85% to 1.10%	0.00%	-0.31%(8) to -0.30%(8)
4/30/2007	-	-	-	-	-	- -
Real Return Portfolio (Class 3)						
12/31/2011	573,990	12.23 to 12.24(4)	7,022,566	0.85% to 1.20%	0.00%(9)	2.20%(10) to 5.10%(5)
12/31/2010	171,457	11.64 to 11.66	1,996,498	0.85% to 1.10%	1.59%(9)	1.35%(9) to 1.52%(9)
4/30/2010	-	-	-	-	-	-
4/30/2009	-	-	-	-	-	-
4/30/2008	-	-	-	-	-	-
4/30/2007	-	-	-	-	-	-

</TABLE>

(1) These amounts represent the annualized contract expenses of the variable account, consisting of distribution, mortality and expense charges, for each period indicated. The ratios include only those expenses that result in a direct reduction to unit values. Charges made directly to contract owner accounts through the redemption of units and expenses of the underlying investment portfolios have been excluded. For additional information on charges and deductions, see footnote 4.

(2) These amounts represent the dividends, excluding distributions of capital

gains, received by the variable account from the underlying investment portfolio, net of management fees assessed by the portfolio manager, divided by the average net assets. These ratios exclude those expenses, such as mortality and expense charges, that are assessed against contract owner accounts either through reductions in the unit values or the redemption of units. The recognition of investment income by the variable account is affected by the timing of the declaration of dividends by the underlying investment portfolio in which the variable account invests. The average net assets are calculated by adding ending net asset balances at the end of each month of the year and dividing it by the number of months that the portfolio had an ending asset balance during the year. The ratios for period ended December 31, 2010 are only for eight months unless otherwise noted.

(3) These amounts represent the total return for the periods indicated, including changes in the value of the underlying investment portfolio, and expenses assessed through the reduction of unit values. These ratios do not include any expenses assessed through the redemption of units. Investment options with a date notation indicate the effective date of that investment option in the variable account. The total return is calculated for each period indicated or from the effective date through the end of the reporting period. The total returns for period ended December 31, 2010 are only for eight months unless otherwise noted.

(4) Individual contract unit fair values are not all within the range presented due to differences in the unit fair value at a product's launch date and other market conditions.

(5) Individual contract total returns are not all within the total return range presented due to a variable account being added to a product during the year.

(6) For the period from May 1, 2006 (inception) to April 30, 2007.

(7) For the period from August 28, 2006 (inception) to April 30, 2007.

(8) For the period from February 4, 2008 (inception) to April 30, 2008.

(9) For the period from May 3, 2010 (inception) to December 31, 2010.

(10) For the period from May 2, 2011 (inception) to December 31, 2011.

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SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Consolidated Statements of Comprehensive Income (Loss) - Years Ended December 31, 2011, 2010 and 2009	4
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholder of
SunAmerica Annuity and Life Assurance Company:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income (loss), comprehensive income (loss), shareholder's equity and cash flows present fairly, in all material respects, the financial position of SunAmerica Annuity and Life Assurance 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.

/s/ PricewaterhouseCoopers LLP
Los Angeles, California
April 25, 2012

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SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY
CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

	December 31, 2011	December 31, 2010
	(In millions)	
<S>	<C>	<C>
ASSETS:		
Investments:		
Fixed maturity securities, available for sale, at fair value (amortized cost: 2011 - $3,486; 2010 - $2,575)	$ 3,588	$ 2,620
Fixed maturity securities, trading, at fair value	20	19
Hybrid securities, trading, at fair value	12	-

Mortgage and other loans receivable (net of allowance: 2011 - $14; 2010 - $21)	403	395
Policy loans	105	116
Mutual funds, at fair value	1	1
Partnerships (portion measured at fair value: 2011 - $2; 2010 - $2)	203	194
Derivative assets, at fair value	131	131
Short-term investments (portion measured at fair value: 2011 - $157; 2010 - $491)	277	706
Total investments	4,740	4,182
Cash	212	76
Accrued investment income	41	37
Income taxes receivable from Parent	-	38
Deferred policy acquisition costs	516	612
Deferred sales inducements	93	108
Deferred tax asset	348	7
Amounts due from related parties	49	16
Receivable from brokers	3	1
Other assets	84	84
Separate account assets, at fair value	21,039	22,685
TOTAL ASSETS	$ 27,125	$ 27,846

</TABLE>

See accompanying notes to consolidated financial statements.

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SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY
CONSOLIDATED BALANCE SHEETS (Continued)

<TABLE>
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	December 31,	
	2011	2010

	(In millions)	
<S>	<C>	<C>
LIABILITIES AND SHAREHOLDER'S EQUITY:		
Liabilities:		
Policyholder contract deposits	$ 4,543	$ 3,649
Future policy benefits	417	379
Income taxes payable to Parent	102	-
Payable to brokers	-	3
Other liabilities	201	220
Separate account liabilities	21,039	22,685
TOTAL LIABILITIES	26,302	26,936
COMMITMENTS AND CONTINGENT LIABILITIES (SEE NOTE 10)		
SHAREHOLDER'S EQUITY:		
Common stock, $1,000 par value, 4,000 shares authorized, 3,511 shares issued and outstanding	4	4
Additional paid-in capital	1,249	1,245
Accumulated deficit	(486)	(372)
Accumulated other comprehensive income	56	33
TOTAL SHAREHOLDER'S EQUITY	823	910
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 27,125	$ 27,846

</TABLE>

See accompanying notes to consolidated financial statements.

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SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY
CONSOLIDATED STATEMENTS OF INCOME (LOSS)

<TABLE>
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Years ended December 31,

<S>	<C> 2011	<C> 2010	<C> 2009
		(In millions)	
REVENUES:			
Fee income:			
Variable annuity fees, net of reinsurance	$ 516	$ 470	$ 424
Asset management fees	41	40	35
Universal life insurance policy fees, net of reinsurance	23	25	28
Surrender charges	13	15	20
Other fee income	13	13	11
Total fee income	606	563	518
Net investment income	211	206	208
Net realized investment gain (loss):			
Total other-than-temporary impairment losses on available for sale securities	(25)	(54)	(159)
Portion of other-than temporary impairments on available for sale fixed maturity securities recognized in accumulated other comprehensive income (loss)	2	(15)	35
Net other-than-temporary impairments on available for sale fixed maturity securities recognized in net income (loss)	(23)	(69)	(124)
Other realized investment gains (losses)	(282)	151	318
Total net realized investment gain (loss)	(305)	82	194
TOTAL REVENUES	512	851	920
BENEFITS AND EXPENSES:			
Interest credited on policyholder contract deposits	131	129	133
Amortization of deferred sales inducements	47	71	103
Policyholder benefits	119	32	196
Amortization of deferred policy acquisition costs	316	221	523
General and administrative expenses, net of deferrals	140	166	176
Commissions, net of deferrals	98	88	75
TOTAL BENEFITS AND EXPENSES	851	707	1,206

INCOME (LOSS) BEFORE INCOME TAX EXPENSE (BENEFIT)	(339)	144	(286)
INCOME TAX EXPENSE (BENEFIT)	(225)	55	(115)
NET INCOME (LOSS)	$ (114)	$ 89	$ (171)

</TABLE>

See accompanying notes to consolidated financial statements.

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SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

<TABLE>
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	Years ended December 31,		
	2011	2010	2009
	(In millions)		
<S>	<C>	<C>	<C>
NET INCOME (LOSS)	$ (114)	$ 89	$ (171)
OTHER COMPREHENSIVE INCOME (LOSS):			
Net unrealized gains of fixed maturity investments on which other-than-temporary credit impairments were taken net of reclassification adjustments	55	161	302
Deferred income tax benefit (expense) on above changes	(19)	(57)	(106)
Net unrealized gains on all other invested assets arising during the period	-	-	3
Deferred income tax expense on above changes	-	-	(1)
Adjustment to deferred policy acquisition costs and deferred sales inducements	(7)	-	-
Deferred income tax benefit on above changes	2	-	-

Foreign currency translation adjustments	-	-	2
Deferred income tax expense on above changes	-	-	(1)
Insurance loss recognition	(13)	-	-
Deferred income tax benefit on above changes	5	-	-
OTHER COMPREHENSIVE INCOME	23	104	199
COMPREHENSIVE INCOME (LOSS)	$ (91)	$ 193	$ 28

</TABLE>

See accompanying notes to consolidated financial statements.

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SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY
CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY

<TABLE>
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	Years ended December 31,		
	2011	2010	2009
	(In millions)		
<S>	<C>	<C>	<C>
COMMON STOCK:			
Balance at beginning and end of year	$ 4	$ 4	$ 4
ADDITIONAL PAID-IN CAPITAL:			
Balance at beginning of year	1,245	1,224	1,220
Capital contribution from Parent (see Note 11)	4	21	4
Balance at end of year	1,249	1,245	1,224

ACCUMULATED DEFICIT:			
Balance at beginning of year	(372)	(461)	(466)
Cumulative effect of accounting change, net of tax	-	-	176
Net income (loss)	(114)	89	(171)
Balance at end of year	(486)	(372)	(461)
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):			
Balance at beginning of year	33	(71)	(127)
Cumulative effect of accounting change, net of tax	-	-	(143)
Other comprehensive income	23	104	199
Balance at end of year	56	33	(71)
TOTAL SHAREHOLDER'S EQUITY	$ 823	$ 910	$ 696

</TABLE>

See accompanying notes to consolidated financial statements.

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SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
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	Years ended December 31,		
	2011	2010	2009
		(In millions)	
<S>	<C>	<C>	<C>
CASH FLOW FROM OPERATING ACTIVITIES			
Net income (loss)	$ (114)	$ 89	$ (171)
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			

Net realized investment (gain) loss	305	(82)	(194)
Interest credited on policyholder contract deposits	131	129	133
Amortization of deferred sales inducements	47	71	103
Amortization of deferred policy acquisition costs	316	221	523
Equity in income of partnerships	(10)	(25)	(37)
Accretion of net discount on investments	(20)	(7)	(8)
Provision for deferred income tax (benefit)	(353)	77	177
Unrealized (gains) losses in earnings - net	-	(8)	-
Capitalized interest	(8)	(9)	(9)
Change in:			
Accrued investment income	(4)	(2)	4
Deferral of deferred acquisition costs	(240)	(172)	(87)
Income taxes receivable from/payable to Parent	140	253	(370)
Due from/to related parties	(33)	(30)	6
Other assets	-	5	(7)
Future policy benefits	38	(54)	40
Other liabilities	(18)	19	21
Other, net	(6)	(9)	24
NET CASH PROVIDED BY OPERATING ACTIVITIES	171	466	148
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of:			
Fixed maturity securities	(1,461)	(983)	(249)
Mortgage and other loans receivable	(35)	(60)	(19)
Derivatives	(188)	(150)	(949)
Other investments, excluding short-term investments	(13)	-	-
Sales of:			
Fixed maturity securities	229	233	205
Equity securities	-	1	-
Partnerships	-	1	7
Derivatives	325	76	255
Other investments, excluding short-term investments	-	18	(2)
Redemptions and maturities of:			
Fixed maturity securities	321	128	302
Mortgage and other loans receivable	33	46	47
Policy loans issued	(4)	(9)	(9)
Payments received on policy loans	23	30	41
Net change in short-term investments	429	78	623
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	$ (341)	$ (591)	$ 252

</TABLE>

See accompanying notes to consolidated financial statements.

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SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

<TABLE>
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	Years ended December 31,		
	2011	2010	2009
		(In millions)	
<S>	<C>	<C>	<C>
CASH FLOWS FROM FINANCING ACTIVITIES			
Policyholder account deposits	$ 1,230	$ 850	$ 354
Policyholder account withdrawals	(353)	(346)	(475)
Net exchanges to/(from) separate accounts	(377)	(212)	(201)
Claims and annuity payments, net of reinsurance	(194)	(184)	(181)
Capital contribution	-	31	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	306	139	(503)
INCREASE (DECREASE) IN CASH	136	14	(103)
CASH AT BEGINNING OF PERIOD	76	62	165
CASH AT END OF PERIOD	$ 212	$ 76	$ 62
SUPPLEMENTAL CASH FLOW INFORMATION			
Income taxes received from (paid to) Parent	$ 12	$ 275	$ (78)
Non-cash activity:			
Bonus interest and other deferrals credited to policyholder contract deposits	$ 19	$ 14	$ 11

Capital contribution of fixed and other assets and assumption of liabilities	$ -	$ (10)	$ 4
	=============	============	=========

</TABLE>

See accompanying notes to consolidated financial statements.

<PAGE>

1. NATURE OF OPERATIONS

SunAmerica Annuity and Life Assurance Company (the "Company") is a direct wholly owned subsidiary of SunAmerica Life Insurance Company (the "Parent"), which is a wholly owned subsidiary of SAFG Retirement Services, Inc. ("SAFGRS"), a wholly owned subsidiary of American International Group, Inc. ("AIG").

The Company is an Arizona-domiciled life insurance company principally engaged in the business of writing variable annuity contracts for use within retirement savings and income market. The Company owns 100 percent of the outstanding capital stock of its consolidated subsidiary, SunAmerica Asset Management Corp. ("SAAMCo") which in turn has two wholly owned subsidiaries: SunAmerica Capital Services, Inc. ("SACS") and SunAmerica Fund Services, Inc. ("SFS").

SAAMCo and its wholly owned distributor, SACS, and its wholly owned servicing agent, SFS, represent the Company's asset management operations. These companies earn fee income by managing, distributing and administering a diversified family of mutual funds, and variable annuity subaccounts offered within the Company's variable annuity products, distributing their retail mutual funds and providing professional management of individual, corporate and pension plan portfolios.

The operations of the Company are influenced by many factors, including general economic conditions, the 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 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 financial products. The Company is exposed to the risks normally associated with a portfolio of fixed-income securities, namely interest rate, option, liquidity and credit risk. 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 prepayment and extension risk in its portfolio, maintaining a large percentage of its portfolio in highly liquid securities, and engaging in a disciplined process of underwriting, reviewing and monitoring credit risk. The Company is also 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 in the case of assets held in the separate accounts. These guaranteed benefits are sensitive to equity market conditions. The Company primarily uses capital market hedging strategies to help cover the risk of paying guaranteed living benefits in excess of account values as a result of significant downturns in equity markets and individual longevity. The Company has treaties to reinsure a majority of the guaranteed minimum income benefits and a small portion of the guaranteed death benefits for equity and mortality risk on its variable annuity contracts. Such risk mitigation may or may not reduce the volatility of net income resulting from equity market volatility.

Products for the annuity operations and asset management operations are marketed through affiliated and non-affiliated independent broker-dealers, full-service securities firms and financial institutions. From time to time, certain non-affiliated distribution firms may represent a 10 percent or greater concentration of premiums received. In each of the years ended December 31, 2011, 2010 and 2009, a different non-affiliated selling organization in the annuity operations represented 15 percent, 19 percent and 16 percent of premiums received, respectively. With respect to the annuity operations, no other non-affiliated selling organization was responsible for 10 percent or more of premiums received for any such period. One non-affiliated selling organization in the asset management operations represented 21 percent of deposits in 2011 and 2010. Two non-affiliated selling organizations in the asset management operations represented 16 percent and 11 percent of sales in 2009. With respect to the asset management operations, no other non-affiliated selling organization was responsible for 10 percent or more of sales for any such period.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 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 and its wholly owned subsidiaries and variable interest entities ("VIE") in which the Company has partial ownership interests. 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;
- 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").

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.

2.2 INSURANCE CONTRACTS

The insurance contracts accounted for in these consolidated financial statements include primarily long-duration contracts. Long-duration contracts include 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.

2.3 INVESTMENTS

FIXED MATURITY, HYBRID AND EQUITY SECURITIES

Fixed maturity and equity securities classified as available for sale are recorded at fair value. Unrealized gains and losses, net of deferred taxes and amortization of 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 earnings 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 lives, until maturity, or call date, if applicable. Dividend income on equity securities is generally recognized as income on the ex-dividend date.

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2.3 INVESTMENTS (CONTINUED)

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 securities and hybrid securities classified as trading securities are carried at fair value. Trading securities include the Company's economic interest in ML II and hybrid securities. 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.

IMPAIRMENT POLICIES

On April 1, 2009, the Company adopted prospectively a new accounting standard addressing the evaluation of fixed maturity securities for other-than-temporary impairments. These requirements 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 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 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 component of accumulated other comprehensive income (loss). The Company refers to both credit impairments and non-credit 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 - FIXED MATURITY SECURITIES - EFFECTIVE APRIL 1, 2009 AND THEREAFTER

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 if 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 capitalize on 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.

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2.3 INVESTMENTS (CONTINUED)

In periods subsequent to the recognition of an other-than-temporary impairment charge that are not foreign exchange related for available for sale fixed maturity securities, 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") and asset-backed securities ("ABS")), the Company performs evaluations of expected future cash flows. Certain critical assumptions are made with respect to the performance of these securities.

When estimating future cash flows for a structured fixed maturity security (e.g. RMBS, CMBS, CDO and ABS), 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 based upon estimates of outcomes of corporate restructurings, political and macro-economic factors, stability and financial strength of the issuer, the value of any secondary sources of repayment and the disposition of assets.

IMPAIRMENT POLICY - 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 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.

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2.3 INVESTMENTS (CONTINUED)

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, collateral, commercial and guaranteed loans. Mortgage and other loans are classified as loans held for investment.

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.

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.

POLICY LOANS

Policy loans are carried at unpaid principal amount. There is no allowance for policy loans because these loans are fully collateralized by the cash surrender value of the policy.

MUTUAL FUNDS

Mutual funds consist of seed money for mutual funds and investments in retail mutual funds used as investment vehicles for the Company's variable annuity separate accounts and are carried at market value.

PARTNERSHIPS

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 a 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 net investment income. In applying the equity method of accounting, the Company consistently uses the most recently available financial information provided by the general partners or manager of each of these investments, which is one to three months prior to the end of the Company's reporting period. The financial statements of these investees are generally audited annually.

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2.3 INVESTMENTS (CONTINUED)

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.

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 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, 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 a trader in derivative instruments. See Note 5 for additional discussion of derivatives.

The Company issues or has issued certain variable annuity products that offer optional guaranteed minimum account value ("GMAV") and guaranteed minimum withdrawal benefit ("GMWB") living benefits. The GMAV and GMWB are considered embedded policy derivatives that are required to be bifurcated from the host contract and carried at fair value. See Notes 2.7 and 8 for further discussion of GMAV and GMWB. The Company hedges a portion of the risk associated with these guarantees by utilizing both exchange traded and over-the-counter options and exchange traded futures. Exchange traded options and futures are marked to market using observable market quotes while over-the-counter options are marked to market through matrix pricing that utilizes observable market inputs.

The Company believes its hedging activities have been and remain economically effective, but do not currently qualify for hedge accounting. The reserves for GMAV and GMWB embedded policy derivatives are included in policyholder contract deposits and all other derivatives are reported in derivative assets or derivative liabilities in the consolidated balance sheets. Changes in the fair value of derivatives are reported as part of net realized investment gain (loss) in the consolidated statements of income (loss).

SHORT-TERM INVESTMENTS

Short-term investments consist of interest-bearing money market funds, investment pools and investments with original maturities within one year from the date of purchase, such as commercial paper.

2.4 CASH

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

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2.5 DEFERRED POLICY ACQUISITION COSTS AND DEFERRED SALES INDUCEMENTS

Policy acquisition costs represent those costs, including commissions and certain marketing expenses that vary with and are primarily related to the acquisition of new business. Policy acquisition costs related to investment-type products are deferred and amortized, with interest, in relation to the incidence of EGPs to be realized over the estimated lives of the annuity contracts. EGPs are composed of net investment income, net realized investment gains and losses, variable annuity fees, surrender charges, direct administrative expenses, and mortality and morbidity gains and losses. 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. A DAC unlocking is performed when management determines that key assumptions (e.g. market return, surrender rates, etc.) should be modified. The DAC asset is recalculated using the new assumptions. 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 earnings 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-type products is also adjusted with respect to EGPs as a result of changes in the net unrealized gains or losses on fixed maturity securities 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 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 or losses on fixed maturity securities and equity securities available for sale that is credited or charged directly to accumulated other comprehensive income (loss).

With respect to the Company's 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 7.5 percent.

The Company currently offers sales inducements, which include enhanced crediting rates or bonus payments to contract holders on certain annuity products. Sales inducements provided to the contract holders are primarily reflected in separate account liabilities in the consolidated balance sheet. The cost of sales inducements is deferred and amortized over the life of the contract using the same methodology and assumptions used to amortize DAC. To qualify for such accounting treatment, these bonus amounts 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 these bonus amounts, and are higher than the contract's expected ongoing crediting rates for periods after the bonus period.

The asset management operations defer distribution costs that are directly related to the sale of mutual funds that have a 12b-1 distribution plan and/or contingent deferred sales charge feature (collectively, "Distribution Fee Revenue"). The Company amortizes these deferred distribution costs on a straight-line basis, adjusted for redemptions, over a period ranging from one year to eight years depending on share class. Amortization of these deferred distribution costs is increased if at any reporting period the value of the deferred amount exceeds the projected Distribution Fee Revenue. The projected Distribution Fee Revenue is impacted by estimated future withdrawal rates and the rates of market return. Management uses historical activity to estimate future withdrawal rates and average annual performance of the equity markets to estimate the rates of market return.

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2.6 SEPARATE ACCOUNT ASSETS AND LIABILITIES

The Company issues variable annuities for which the investment risk is generally borne by the contract holder, except with respect to amounts invested in the fixed-rate account options and minimum guarantees made by the Company with respect to certain policies. The assets and liabilities resulting from the receipt of variable annuity premiums are segregated in separate accounts. The assets supporting the variable portion of variable annuities are carried at fair value and reported as separate account assets with an equivalent liability in the consolidated balance sheet. 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 (loss), and cash flows. Amounts assessed against the contract holders for mortality, administrative, other services and certain features are included in variable annuity fees in the consolidated statements of income (loss).

2.7 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 these products are not reflected as revenues in the Company's consolidated statements of income (loss), as they are recorded directly to contract holder liabilities upon receipt. Policyholder contract deposits also include the Company's liabilities for GMWB and GMAV, accounted for as embedded policy derivatives at fair value. The changes in fair value of the liability for GMWB and GMAV are reported in net realized investment gain (loss) in the consolidated statements of income (loss).

GMWB is a feature the Company began offering on certain variable annuity products in May of 2004. If available and elected by the contract holder at the time of contract issuance and depending on the provisions of the feature elected, this feature can provide a guaranteed annual withdrawal stream 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 greater than expected longevity could result in GMWB benefits being higher than the underlying contract holder account balances and that the fees collected under the contract are insufficient to cover the costs of the benefit to be provided.

GMAV is a feature that was offered on certain variable annuity products from the third quarter of 2002 to May 2009. If available and elected by the contract holder at the time of contract issuance, this feature guarantees that the account value under the contract will at least equal the amount of premiums invested during the first ninety days of the contract, adjusted for any subsequent withdrawals, at the end of a ten-year waiting period. The Company bears the risk that protracted under-performance of the financial markets could result in GMAV benefits being higher than the underlying contract holder account balance and that the fees collected under the contract are insufficient to cover the costs of the benefit to be provided.

The fair value of the liabilities for GMWB and GMAV 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 and GMAV guarantees include unobservable inputs such as management's estimate of contract holder 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 policy derivatives was modified during 2010, primarily with respect to the discount rates applied to certain projected benefits payments. See Notes 3.1 and 8 for further discussion of GMWB and GMAV.

The Company recorded an increase of approximately $3.5 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.

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2.8 FUTURE POLICY BENEFITS

Future policy benefits include the Company's liabilities for guaranteed minimum death benefits ("GMDB") and guaranteed minimum income benefits ("GMIB").

A GMDB feature is issued on substantially all of the Company's variable annuity products. This feature provides that, upon the death of a contract holder, the contract holder's beneficiary will receive the greater of (i) the contract holder's account value, or (ii) a guaranteed minimum death benefit that varies by product and type of benefit elected by the contract holder. The Company bears the risk that death claims may exceed contract holder account balances, and that the fees collected under the contract and reinsurance recoveries, if any, are insufficient to cover the costs of the benefit to be provided.

Earnings enhancement benefits ("EEB") is a feature the Company has offered on certain variable annuity products. For contract holders who elect the feature, the EEB provides an additional death benefit amount equal to a fixed percentage of earnings in the contract, subject to certain maximums. The Company bears the risk that account values following favorable performance of the financial markets will result in greater EEB death claims and that the fees collected under the contract are insufficient to cover the costs of the benefit to be provided.

GMIB is a feature the Company offered on certain variable annuity products from 1998 to 2004. 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 and reinsurance recoveries, if any, are insufficient to cover the costs of the benefit to be provided.

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. See Note 8 for discussion of certain assumptions. The EEB liability is determined each period end by estimating the expected value of the EEB and recognizing it 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 GMDB, EEB and GMIB liability balances, with a related charge or credit to Policyholder benefits in the consolidated statements of income (loss) if actual experience or other evidence suggests that earlier assumptions should be revised.

2.9 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 partnership investments in private equity and hedge fund investments accounted for under the equity method.

- Interest income on mortgage, policy and other loans.

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2.10 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), investments in private equity 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 types of invested assets for other-than-temporary impairments.

- Changes in fair value of derivative assets and liabilities.

- Exchange gains and losses resulting from foreign exchange transactions.

2.11 FEE INCOME

Fee income includes variable annuity fees, asset management fees, universal life insurance fees and surrender charges. Variable annuity fees are generally based on the market value of assets in the separate accounts supporting the variable annuity contracts. Fees for certain guarantees included in variable annuity fees are based on the amount used for determining the related guaranteed benefit (for example, a benefit base for a GMWB feature). Asset management fees include investment advisory fees and 12b-1 distribution fees and are based on the market value of assets managed in mutual funds and variable annuity portfolios by SAAMCo. Universal life insurance policy fees consist of mortality charges, up-front fees earned on premiums received and administrative fees, net of reinsurance premiums. Surrender charges are assessed on withdrawals occurring during the surrender charge period. All fee income is recorded as income when earned.

2.12 INCOME TAXES

Deferred income tax assets 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 earnings 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 earnings.

2.13 ACCOUNTING CHANGES

FUTURE APPLICATIONS 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 new standard is effective for interim and annual periods beginning on January 1, 2012 with early adoption permitted. Prospective or retrospective application is also permitted.

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2.13 ACCOUNTING CHANGES (CONTINUED)

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 $58.0 million and an after-tax decrease in the Company's shareholder's equity of approximately $37.7 million, which consists of an increase in accumulated deficit at January 1, 2012. The retrospective adoption will affect income (loss) before income taxes (benefit) by approximately $13.4 million, ($21.1) million, and $119.4 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.

COMMON FAIR VALUE MEASUREMENTS 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 new 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 new 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 (loss) 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:

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2.13 ACCOUNTING CHANGES (CONTINUED)

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 became effective for the Company beginning on January 1, 2011. See Note 3 herein.

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 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.

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 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 4.3 herein.

THE COMPANY ADOPTED THE FOLLOWING ACCOUNTING STANDARDS DURING 2010:

CONSOLIDATION OF VIES

In June 2009, the FASB issued an accounting standard that amends the guidance addressing consolidation of certain VIEs with an approach focused on identifying which enterprise has the power to direct the activities of a VIE that most significantly affect the entity's economic performance and has (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. The standard also requires enhanced financial reporting by enterprises involved with VIEs. The adoption of the standard did not have a material effect on the Company's consolidated financial condition, results of operations or cash flows.

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2.13 ACCOUNTING CHANGES (CONTINUED)

In February 2010, the FASB also issued an update to the aforementioned accounting standard that defers the revised consolidation rules for VIEs 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.

THE COMPANY ADOPTED THE FOLLOWING ACCOUNTING STANDARDS DURING 2009:

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 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 this standard on April 1, 2009 and recorded an after-tax cumulative effect adjustment to increase shareholder's equity by $33.3 million as of April 1, 2009, consisting of a decrease in accumulated deficit of $175.9 million and an increase to accumulated other comprehensive loss of $142.6 million, 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 non-credit impairment charges directly attributable to the change in accounting principle (see Note 11). The cumulative effect adjustment resulted in an increase of $221.2 million 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 was offset, in part, by a decrease in the amortization of DAC and deferred sales inducements.

This 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 this accounting standard for other-than-temporary impairments:

<PAGE>

2.13 ACCOUNTING CHANGES (CONTINUED)

<TABLE>
<CAPTION>

	(Increase) Decrease to Accumulated Deficit	(Increase) Decrease to Accumulated Other Comprehensive Loss	Net Increase (Decrease)in Shareholder's Equity
		(In millions)	
<S>	<C>	<C>	<C>
Net effect of the increase in amortized cost of available for sale fixed maturity securities	$ 221	$ (221)	$ -
Net effect of DAC and deferred sales inducements	(41)	-	(41)
Net effect on deferred income tax asset	(4)	78	74
Net increase (decrease) in the Company's shareholder's equity	$ 176	$ (143)	$ 33

</TABLE>

DETERMINING FAIR VALUE WHEN THE 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 this 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. This 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. This standard was effective beginning October 1, 2009 for the Company. The adoption of this 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 this 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. This standard applies to investment companies that do not have readily determinable fair values such as certain hedge funds and private equity funds. This standard was effective for interim and annual periods ended after December 15, 2009. 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 3 herein for disclosure.

3. FAIR VALUE MEASUREMENTS

3.1 FAIR VALUE MEASUREMENTS ON A RECURRING BASIS

The Company carries certain of its 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.

<PAGE>

3.1 FAIR VALUE MEASUREMENTS ON A RECURRING BASIS (CONTINUED)

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 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:

- 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 most 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.

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.

<PAGE>

3.1 FAIR VALUE MEASUREMENTS ON A RECURRING BASIS (CONTINUED)

- 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, HYBRID AND EQUITY 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, hybrid and equity securities at fair value in its trading and available for sale 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.

<PAGE>

3.1 FAIR VALUE MEASUREMENTS ON A RECURRING BASIS (CONTINUED)

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 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 recently 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 valuation 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 and equity 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.

<PAGE>

3.1 FAIR VALUE MEASUREMENTS ON A RECURRING BASIS (CONTINUED)

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/or 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.

RMBS, CMBS AND CDOS

Independent third-party valuation service providers also provide fair value information for the majority of the Company's investments in RMBS, CMBS and CDOs. 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, CMBS and CDOs is limited, certain inputs used to determine fair value may not be observable in the market.

MAIDEN LANE II

The fixed maturity securities, trading portfolio includes an interest in ML II. See Note 4.2 for additional background information on ML II. At inception, the Company's economic interest in ML II was valued at the transaction price of $14.9 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, structure 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. See Note 15 for further discussion of ML II.

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.

<PAGE>

3.1 FAIR VALUE MEASUREMENTS ON A RECURRING BASIS (CONTINUED)

MUTUAL FUNDS

Mutual funds consist of interests in 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.

PARTNERSHIPS

The Company initially estimates the fair value of investments in certain hedge funds, private equity funds and other partnerships by reference to the transaction price. Subsequently, the Company 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.

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 updates valuation inputs 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.

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.

<PAGE>

3.1 FAIR VALUE MEASUREMENTS ON A RECURRING BASIS (CONTINUED)

Changes in the fair value of separate account assets are completely offset in the consolidated statements of income (loss) and comprehensive income (loss) by changes in separate account liabilities, which are not carried at fair value.

EMBEDDED POLICY DERIVATIVES INCLUDED IN POLICYHOLDER CONTRACT DEPOSITS

The fair value of embedded policy derivatives contained in certain variable annuity 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.

Because of the dynamic and complex nature of the expected cash flows in the Company's variable annuity contracts, 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.

The Company also incorporates its own risk of non-performance in the valuation of the embedded policy derivatives associated with variable annuity 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 policy derivative liabilities decreased by $257 million, which is partially offset by an increase of $160 million of related DAC amortization.

3.2 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS

The following table presents information about assets and liabilities measured at fair value on a recurring basis and indicates the level of the fair value measurement based on the levels of the inputs used:

<PAGE>

SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3.2 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS (CONTINUED)

<TABLE>
<CAPTION>

<S>	Level 1 <C>	Level 2 <C>	Level 3 <C>	Counterparty Netting (1) <C>	Cash Collateral (5) <C>	Total <C>
			(In millions)			
December 31, 2011						
Assets:						
Fixed maturity securities, available for sale:						
U.S. government obligations	$ -	$ 16	$ -	$ -	$ -	$ 16
Foreign government	-	24	-	-	-	24
States, territories and political subdivisions	-	42	-	-	-	42
Corporate debt	-	2,527	12	-	-	2,539
Mortgage-backed, asset-backed and collateralized:						
Residential mortgage-backed securities	-	298	219	-	-	517
Commercial mortgage-backed securities	-	119	83	-	-	202
Collateralized debt obligation/Asset-backed securities	-	153	95	-	-	248
Total fixed maturity securities, available for sale	-	3,179	409	-	-	3,588
Fixed maturity						

securities, trading:						
Collateralized debt obligation/Asset-backed securities	-	-	20	-	-	20
Hybrid securities:						
Mortgage-backed, asset-backed and collateralized:						
Commercial mortgage-backed securities	-	7	-	-		7
Collateralized debt obligation/Asset-backed securities	-	-	5	-	-	5
Total hybrid securities	-	7	5	-	-	12
Mutual funds	1	-	-	-	-	1
Partnerships (2)	-	-	2	-	-	2
Derivative assets:						
Interest rate contracts	-	13	-	-	-	13
Foreign exchange contracts	-	2	-	-	-	2
Equity contracts	85	56	-	-	-	141
Counterparty netting and cash collateral	-	-	-	-	(25)	(25)
Total derivative assets	85	71	-	-	(25)	131
Short-term investments (3)	27	130	-	-	-	157
Separate account assets	21,039	-	-	-	-	21,039
Total	$ 21,152	$ 3,387	$ 436	$ -	$ (25)	$24,950
Liabilities:						
Policyholder contract deposits (4)	$ -	$ -	$ 607	$ -	$ -	$ 607

</TABLE>

<PAGE>

3.2 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS (CONTINUED)

<TABLE>
<CAPTION>

	Level 1	Level 2	Level 3	Counterparty Netting (1)	Cash Collateral (5)	Total
			(In millions)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
December 31, 2010						
Assets:						
Fixed maturity securities, available for sale:						
U.S. government obligations	$ 3	$ 12	$ -	$ -	$ -	$ 15
Foreign governments	-	28	-	-	-	28
States, territories and political subdivisions	-	21	-	-	-	21
Corporate debt	-	2,094	10	-	-	2,104
Mortgage-backed, asset-backed and collateralized:						
Residential mortgage-backed securities	-	60	121	-	-	181
Commercial mortgage-backed securities	-	48	85	-	-	133
Collateralized debt obligations	-	81	44	-	-	125
Other debt securities	-	13	-	-	-	13
Total fixed maturity securities, available for sale	3	2,357	260	-	-	2,620

Fixed maturity securities, trading:						
Collateralized debt obligation/Asset-backed securities	-	-	19	-	-	19
Mutual funds	1	-	-	-	-	1
Partnerships (2)	-	-	2	-	-	2
Derivative assets:						
Interest rate contracts	-	8	-	-	-	8
Foreign exchange contracts	-	3	-	-	-	3
Equity contracts	59	53	15	-	-	127
Counterparty netting and cash collateral	-	-	-	-	(7)	(7)
Total derivative assets	59	64	15	-	(7)	131
Short-term investments (3)	292	199	-	-	-	491
Separate account assets	22,685	-	-	-	-	22,685
Total	$ 23,040	$ 2,620	$ 296	$ -	$ (7)	$ 25,949
Liabilities:						
Policyholder contract deposits (4)	$ -	$ -	$ 174	$ -	$ -	$ 174

</TABLE>

<PAGE>

3.2 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS (CONTINUED)

(1) Represents netting of derivative exposures covered by a qualifying master netting agreement.

(2) Amounts presented for partnerships 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.

(3) Amounts exclude short-term investments that are carried at cost, which approximate fair value of $120 million and $215 million at December 31, 2011 and 2010, respectively.

(4) 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 and GMAV embedded policy derivatives which are measured at estimated fair value on a recurring basis.

(5) Represents cash collateral posted and received.

At December 31, 2011 and 2010, Level 3 assets were 1.6 percent and 1.1 percent of total assets and Level 3 liabilities were 2.3 percent and 0.6 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 years ended December 31, 2010 and 2011.

CHANGES IN LEVEL 3 RECURRING FAIR VALUE MEASUREMENTS

The following tables present changes during the years ended December 31, 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 the years ended December 31, 2011 and 2010 related to the Level 3 assets and liabilities that remained in the consolidated balance sheets at December 31, 2011 and 2010:

<PAGE>

SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3.2 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS (CONTINUED)

<TABLE>
<CAPTION>

	Fair Value Beginning of Period	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 Period	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Period
				(In millions)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
December 31, 2011								
Assets:								
Fixed maturity securities, available for sale:								
Corporate debt	$ 10	$ -	$ 1	$ -	$ 14	$ (13)	$ 12	$ -
Mortgage-backed, asset-backed and collateralized:								
Residential mortgage-backed securities	121	-	6	88	4	-	219	-
Commercial mortgage-backed securities	85	(4)	(8)	10	-	-	83	-

Collateralized debt obligations	44	-	1	40	21	(11)	95	-
Total fixed maturity securities, available for sale	260	(4)	-	138	39	(24)	409	-
Fixed maturity securities, trading:								
Collateralized Debt obligation/Asset-backed securities	19	1	-	-	-	-	20	1
Hybrid securities:								
Mortgage-backed, asset-backed and collateralized								
Collateralized debt obligation/Asset-backed securities	-	-	-	5	-	-	5	(1)
Total hybrid securities	-	-		5	-	-	5	(1)
Partnerships	2	-	-	-	-	-	2	-
Derivative assets - equity contracts	15	-	-	-	-	(15)	-	-
Total	$ 296	$ (3)	$ -	$ 143	$ 39	$ (39)	$ 436	$ -
Liabilities:								
Policyholder contract deposits	$ (174)	$ (422)	$ -	$ (11)	$ -	$ -	$ (607)	$ -

</TABLE>

<PAGE>

3.2 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS (CONTINUED)

	Fair Value Beginning of Period	Net Realized and Unrealized Gains (Losses) Included in Income	Accumulated Other Comprehensive Income (Loss)	Purchases, Sales, Issuances and Settlements, Net	Net Transfers	Fair Value End of Period	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Period
	(In millions)						
December 31, 2010							
Assets:							
Fixed maturity securities, available for sale:							
States, territories and political subdivisions	$ -	$ (2)	$ -	$ -	$ 2	$ -	$ -
Corporate debt	35	(1)	(1)	(2)	(21)	10	-
Residential mortgage-backed securities	82	(34)	50	(18)	41	121	-
Commercial mortgage-backed securities	69	(16)	52	(25)	5	85	-
Collateralized debt obligations	37	-	5	14	(12)	44	-

Total fixed

maturity securities, available for sale	223	(53)	106	(31)	15	260	-
Fixed maturity securities, trading	11	7	-	1	-	19	-
Partnerships	1	(1)	-	-	2	2	-
Derivative assets	-	-	-	15	-	15	-
Total	$ 235	$ (47)	$ 106	$ (15)	$ 17	$ 296	$ -
Liabilities:							
Policyholder contract deposits	$ (477)	$ 303	$ -	$ -	$ -	$ (174)	$ -

</TABLE>

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>

<S>	Net Investment Income <C>	Net Realized Investment Gains (Losses) (In millions) <C>	Total <C>
December 31, 2011			
Fixed maturity security securities, available for sale	$ 17	$ (21)	$ (4)
Fixed maturity securities, trading	1	-	1
Policyholder contract deposits	-	(422)	(422)

</TABLE>

<PAGE>

3.2 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS (CONTINUED)

	Net Investment Income	Net Realized Investment Gains (Losses)	Total
		(In millions)	
December 31, 2010			
Fixed maturity security securities, available for sale	$ 3	$ (56)	$ (53)
Fixed maturity securities, trading	7	-	7
Partnerships	-	(1)	(1)
Policyholder contract deposits	-	303	303

The following table presents the gross components of purchases, sales, issuances and settlements, net, shown above:

	Purchases	Sales	Settlements	Purchases, Sales, Issuances and Settlement, Net (1)
		(In millions)		
December 31, 2011				

ASSETS:				
Fixed maturity security securities, available for sale:				
Mortgage-backed, asset-backed and collateralized:				
Residential mortgage-backed securities	$ 132	$ -	$ (44)	$ 88
Commercial mortgage-backed securities	14	-	(4)	10
Collateralized debt obligations	58	-	(18)	40
Total fixed maturity securities, available for sale	204	-	(66)	138
Hybrid securities:				
Mortgage-backed, asset-backed and collateralized:				
Collateralized debt obligations/Asset-backed securities	5	-	-	5
Total hybrid securities	5	-	-	5
Total	$ 209	$ -	$ (66)	$ 143
LIABILITIES:				
Policyholder contract deposits	$ -	$ 16	$ (5)	$ 11
Total	$ -	$ 16	$ (5)	$ 11

</TABLE>

(1) There were no issuances during the year ended December 31, 2011.

3.2 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS (CONTINUED)

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

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 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, ABS, and private placement corporate debt. The transfers into Level 3 of investments in certain RMBS 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.

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, ABS, and certain derivatives assets. Transfers out of Level 3 for private placement corporate debt, ABS, and for certain derivative assets 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 other ABS investments were primarily due to increased observations of market transactions and price information for those securities.

The Company had no transfers of liabilities into or out of Level 3 during the year ended December 31, 2011.

INVESTMENTS IN CERTAIN ENTITIES CARRIED AT FAIR VALUE USING NET ASSET VALUE PER SHARE

The Company has one hedge fund investment that calculates net asset value per share (or its equivalent). For this investment, which is measured at fair value on a recurring basis, the Company uses the net asset value per share as a practical expedient for fair value.

At December 31, 2011 and 2010, the fair value using net asset value of this security is $1.9 million and $2.2 million, respectively, with an investment category of distressed. The distressed category includes securities of companies that are already in default, under bankruptcy protection, or troubled. This investment is redeemable annually, with a redemption notice ranging from 90 days to 180 days. This investment cannot be redeemed, in part, because the investment includes partial restrictions. The partial restrictions were put in place in 2007 and do not have stated end dates. The partial restrictions relate to 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.

<PAGE>

3.3 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.

MORTGAGE AND OTHER LOANS

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.

FAIR VALUE OPTION - FIXED MATURITY AND HYBRID 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 election to measure financial instruments at fair value is made on an instrument-by-instrument basis at the acquisition or issuance date and is irrevocable.

The Company has elected fair value accounting for its economic interest in ML II. Net unrealized gains of $0.6 million and $7.8 million in the years ended December 31, 2011 and 2010, respectively, and a net unrealized loss of $0.4 million in the year ended December 31, 2009, were recorded to reflect the change in the fair value of ML II, as a component of net investment income in the consolidated statements of income (loss).

The Company has elected fair value accounting for its hybrid securities. A net unrealized loss of $0.4 million in the year ended December 31, 2011 is included in the consolidated statements of income (loss) from hybrid securities classified as trading securities.

3.4 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 and lease 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.

<PAGE>

3.4 FAIR VALUE INFORMATION ABOUT FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE (CONTINUED)

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.

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 on a recurring basis:

<TABLE>
<CAPTION>

	2011		2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In millions)			
<S>	<C>	<C>	<C>	<C>
ASSETS:				
Mortgage and other loans receivable	$ 403	$ 448	$ 395	$ 439
Policy loans	105	105	116	116
Partnerships	201	201	192	192
Short-term investments	120	120	215	215
LIABILITIES:				
Policyholder contract deposits (1)	$ 3,936	$3,857	$ 3,475	$3,426

</TABLE>

(1) Net embedded policy derivatives within liability host contracts are presented within policyholder contract deposits.

<PAGE>

4. INVESTMENTS

4.1 FIXED MATURITY AND EQUITY SECURITIES, AVAILABLE FOR SALE

The following table presents the cost or amortized cost, gross unrealized gains and losses and fair value of fixed maturity and equity securities available for sale by major category:

<TABLE>
<CAPTION>

<S>	Cost or Amortized Cost <C>	Gross Unrealized Gains <C>	Gross Unrealized Losses <C>	Fair Value <C>	Other-Than-Temporary Impairments in AOCI (1) <C>
			(In millions)		
December 31, 2011					
Fixed maturity securities, available for sale:					
U.S. government obligations	$ 13	$ 3	$ -	$ 16	$ -
Foreign government	22	2	-	24	-
States, territories and political subdivisions	42	-	-	42	-
Corporate debt	2,401	159	(21)	2,539	4
Mortgage-backed, asset-backed and collateralized:					
Residential mortgage-backed securities	536	13	(32)	517	(16)
Commercial mortgage-backed securities	223	10	(31)	202	(13)
Collateralized debt obligations	249	3	(4)	248	-
Total fixed maturity					

securities, available for sale	$ 3,486	$ 190	$ (88)	$ 3,588	$ (25)

</TABLE>

<TABLE>
<CAPTION>

<S>	Cost or Amortized Cost <C>	Gross Unrealized Gains <C>	Gross Unrealized Losses <C>	Fair Value <C>	Other-Than-Temporary Impairments in AOCI (1) <C>
			(In millions)		
December 31, 2010					
Fixed maturity securities, available for sale:					
U.S. government obligations	$ 14	$ 1	$ -	$ 15	$ -
Foreign government	28	-	-	28	-
States, territories and political subdivisions	21	-	-	21	-
Corporate debt	2,006	119	(21)	2,104	3
Mortgage-backed, asset-backed and collateralized:					
Residential mortgage-backed securities	210	5	(34)	181	(16)
Commercial mortgage-backed securities	153	2	(22)	133	(3)
Collateralized debt obligations	128	1	(4)	125	-
Other debt securities	15	1	(3)	13	-
Total fixed maturity securities, available for sale	$ 2,575	$ 129	$ (84)	$ 2,620	$ (16)

</TABLE>

<PAGE>

SUNAMERICA ANNUITY AND LIFE ASSURANCE COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4.1 FIXED MATURITY AND EQUITY SECURITIES, AVAILABLE FOR SALE (CONTINUED)

(1) Represents the amount of other-than-temporary impairment losses recognized in accumulated other comprehensive income which were not included in earnings. 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 tables summarize the Company's gross unrealized losses and estimated fair values on fixed maturity securities available for sale, aggregated by major investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2011 and 2010:

<TABLE>
<CAPTION>

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(In millions)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
December 31, 2011:						
Corporate debt	$ 335	$ (14)	$ 46	$ (7)	$ 381	$ (21)
Mortgage-backed, asset-backed and collateralized:						
Residential mortgage-backed securities	185	(9)	82	(23)	267	(32)
Commercial mortgage-backed securities	49	(13)	41	(18)	90	(31)
Collateralized debt						

obligations	108	(3)	9	(1)	117	(4)
Total	$ 677	$ (39)	$ 178	$ (49)	$ 855	$ (88)

</TABLE>

<TABLE>
<CAPTION>

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
			(In millions)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
December 31, 2010:						
U.S. government obligations	$ 3	$ -	$ -	$ -	$ 3	$ -
Corporate debt	444	(16)	37	(5)	481	(21)
Mortgage-backed, asset-backed and collateralized:						
Residential mortgage-backed securities	39	(3)	107	(31)	146	(34)
Commercial mortgage-backed securities	28	-	77	(22)	105	(22)
Collateralized debt obligations	69	(1)	22	(3)	91	(4)
Other debt securities	-	-	13	(3)	13	(3)
Total	$ 583	$ (20)	$ 256	$ (64)	$ 839	$ (84)

</TABLE>

<PAGE>

4.1 FIXED MATURITY AND EQUITY SECURITIES, AVAILABLE FOR SALE (CONTINUED)

As of December 31, 2011, the Company held 162 individual fixed maturity securities that were in an unrealized loss position, of which 60 individual securities were in a continuous unrealized loss position for longer than twelve months.

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>	Cost or Amortized Cost <C>	Fair Value <C>
	(In millions)	
Due in one year or less	$ 61	$ 61
Due after one year through five years	639	670
Due after five years through ten years	1,622	1,711
Due after ten years	156	179
Mortgage-backed, asset-backed and collateralized securities	1,008	967
Total fixed maturity securities, available for sale	$ 3,486	$ 3,588

================= ===========
</TABLE>

Actual maturities may differ from contractual maturities, since borrowers may 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.

At December 31, 2011, the Company's investments included three investments in a single entity that exceeded 10 percent of the Company's consolidated shareholder's equity. The investments included one short-term money market pool and two partnerships. At December 31, 2010, the Company's investments included three investments in a single entity that exceeded 10 percent of the Company's consolidated shareholder's equity. The investments included one short-term money market pool, one U.S. Treasury bill and one partnership.

At December 31, 2011, $8.2 million of fixed maturity securities, at amortized cost, were on deposit with regulatory authorities in accordance with statutory requirements.

Included in the fixed maturity securities available for sale at December 31, 2011 are bonds carried at fair value of $33.8 million that were issued by affiliates.

At December 31, 2011, fixed maturity securities included $410.8 million of securities not rated investment grade.

At December 31, 2011, the carrying value, which approximates its estimated fair value, of all investments in default as to the payment of principal or interest totaled $6.7 million.

<PAGE>

4.2 FIXED MATURITY SECURITIES, TRADING

On December 12, 2008, the Company and certain other wholly owned U.S. life insurance company 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 a participation in the residual, each of which is subordinated to the repayment of a loan from the New York Fed to ML II.

Neither AIG nor the Company has 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 and 15 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 program participants.

Net unrealized gains of $0.6 million and $7.8 million in the years ended December 31, 2011 and 2010, respectively, and a net unrealized loss of $0.4 million in the year ended December 31, 2009, were recorded to reflect the change in the fair value of ML II, as a component of net investment income in the consolidated statements of income (loss).

4.3 MORTGAGE AND OTHER LOANS RECEIVABLE

At December 31, 2011, the Company had direct U.S. commercial mortgage loan exposure of $408.0 million. All of the commercial mortgages were current as to payments of principal and interest at December 31, 2011.

The commercial loan exposure by state and type of loan, at December 31, 2011, were as follows:

<TABLE>
<CAPTION>

	Number of	% of

State	Loans	Amount *	Apartments	Offices	Retails	Industrials	Hotels	Other	Total
				(Dollars in millions)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
California	10	$ 139	$ 2	$ 15	$ 5	$ 57	$ 9	$ 51	34.1
New York	7	55	25	23	-	7	-	-	13.5
Hawaii	1	45	-	-	-	-	45	-	11.0
Michigan	5	41	22	-	-	3	-	16	10.0
Indiana	2	35	-	18	-	-	-	17	8.6
All other states	10	93	2	38	1	15	27	10	22.8
Total	35	$ 408	$ 51	$ 94	$ 6	$ 82	$ 81	$ 94	100.0

</TABLE>

* Excludes portfolio valuation allowance and other loans receivable

<PAGE>

4.3 MORTGAGE AND OTHER LOANS RECEIVABLE (CONTINUED)

The following table presents the credit quality indicators for commercial mortgage loans at December 31, 2011:

<TABLE>
<CAPTION>

	Number of Loans	Class						Total	% of Total
		Apartments	Offices	Retails	Industrials	Hotels	Other		
					(Dollars in millions)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Credit Quality									

Indicator:									
In good standing	35	$ 51	$ 94	$ 6	$ 82	$ 81	$ 94	$ 408	100.0
Valuation allowance	-	$ -	$ 5	$ -	$ 7	$ -	$ 2	$ 14	-

</TABLE>

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.

The Company's mortgage and other loan valuation allowance activity are as follows:

<TABLE>
<CAPTION>

	2011	2010	2009
		(In millions)	

<S> <C> <C> <C>

Allowance, beginning of year	$ 21	$ 7	$ -
Charge offs	(1)	-	-
Additions (reductions) to allowance for losses	(6)	14	7
Allowance, end of year	$ 14	$ 21	$ 7

</TABLE>

<PAGE>

4.3 MORTGAGE AND OTHER LOANS RECEIVABLE (CONTINUED)

The Company's impaired mortgage loans are as follows:

<TABLE>
<CAPTION>

<S>	2011 (In millions) <C>
Impaired loans with valuation allowances	$ 10
Impaired loans without valuation allowances	-
Total impaired loans	10
Valuation allowance on impaired loans	(2)
Impaired loans, net	$ 8

</TABLE>

The Company did not impair any mortgage and other loans receivable during the years ended December 31, 2010 and 2009.

The Company recognized $1 million in interest income on the above impaired mortgage loans for the year ended December 31, 2011.

4.4 PARTNERSHIPS

Investments in partnerships totaled $203 million and $194 million at December 31, 2011 and 2010, respectively, and were comprised of four partnerships and five partnerships, respectively. These partnerships consist of private equity and hedge fund investments 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 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.

4.5 INVESTMENT INCOME

Investment income by type of investment was as follows for the years ended December 31:

<TABLE>
<CAPTION>

	2011	2010	2009
		(In millions)	
Investment income:			
Fixed maturity securities	$ 168	$ 151	$ 129
Mortgage and other loans receivable	28	27	27
Policy loans	9	3	10
Partnerships	10	25	37
Short-term investments	-	2	3
Other investment income	-	1	4
Gross investment income	215	209	210
Investment expenses	(4)	(3)	(2)
Net investment income	$ 211	$ 206	$ 208

</TABLE>

The carrying value of investments that produced no investment income during 2011 was $6.7 million, which is 0.1 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.

<PAGE>

4.6 NET REALIZED INVESTMENT GAIN (LOSS)

Realized gains (losses) by type of investment were as follows for the years ended December 31:

<TABLE>
<CAPTION>

	2011	2010	2009
	(In millions)		
Sales of fixed maturity securities, available for sale	$ 7	$ 6	$ -
Mortgage and other loans	5	(13)	-
Derivative asset and liabilities	139	(144)	(1,104)
Embedded policy derivatives	(433)	303	1,430
Other-than-temporary impairments	(23)	(69)	(124)
Other	-	(1)	(8)
Net realized investment gain (loss)	$ (305)	$ 82	$ 194

</TABLE>

The following table presents the gross realized gains and losses from sales or redemptions of the Company's available for sale securities 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)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Fixed maturity securities	$ 11	$ (4)	$ 6	$ -	$ 12	$ (12)
Total	$ 11	$ (4)	$ 6	$ -	$ 12	$ (12)

</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 for the years ended December 31:

<TABLE>
<CAPTION>

	2011	2010	Nine Months Ended December 31, 2009
	(In millions)		
<S>	<C>	<C>	<C>
Balance, beginning of period	$ (214)	$ (155)	$ -
Increases due to:			
Credit losses remaining in accumulated deficit related to the adoption of new other-than-temporary impairment standard	-	-	(115)
Credit impairments on new securities subject to impairment losses	(8)	(31)	(8)

Additional credit impairments on previously impaired securities	(13)	(38)	(43)
Reductions due to:			
Credit impaired securities fully disposed for which there was no prior intent or requirement to sell	8	7	9
Accretion on securities previously impaired due to credit	12	3	2
Balance, end of year	$ (215)	$ (214)	$ (155)

</TABLE>

<PAGE>

4.6 NET REALIZED INVESTMENT GAIN (LOSS) (CONTINUED)

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.

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:

	At Date of Acquisition (In millions)
Contractually required payments (principal and interest)	$ 261
Cash flows expected to be collected (a)	189
Recorded investment in acquired securities	133

(a) Represents undiscounted expected cash flows, including both principal and interest.

	December 31, 2011

(In millions)	
Outstanding principal balance	$ 188
Amortized cost	121
Fair value	115

4.6 NET REALIZED INVESTMENT GAIN (LOSS) (CONTINUED)

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	56
Accretion	(6)
Effect of changes in interest rate indices	-
Net reclassification from (to) non-accretable difference, including effects of prepayments	18
Balance, end of year	$ 68

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 and equity market risk. See

Notes 3 and 4 for further discussion on derivative financial instruments.

The following table presents the notional amount and gross fair value of derivative financial instruments, by their underlying risk exposure, excluding embedded policy derivatives, held at:

<TABLE>
<CAPTION>

	Derivative Assets		Derivative Liabilities	
	Notional Amount (1)	Fair Value (2)	Notional Amount (1)	Fair value (2)
	(In millions)			
<S>	<C>	<C>	<C>	<C>
December 31, 2011				
Derivatives not designated as hedging instruments:				
Interest rate contracts	$ 75	$ 13	$ -	$ -
Foreign exchange contracts	11	2	-	-
Equity contracts	2,853	141	-	-
Other contracts (3)	-	-	13,914	607
Total derivatives, gross	$ 2,939	156	$ 13,914	607
Counterparty netting		-		-
Cash collateral		(25)		-
Total derivatives, net		131		607
Less: Bifurcated embedded policy derivatives		-		(607)
Total derivatives on balance sheets		$ 131		$ -

</TABLE>

<PAGE>

5. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

	Derivative Assets		Derivative Liabilities	
	Notional Amount (1)	Fair Value (2)	Notional Amount (1)	Fair value (2)
	(In millions)			
December 31, 2010				
Derivatives not designated as hedging instruments:				
Interest rate contracts	$ 75	$ 8	$ -	$ -
Foreign exchange contracts	14	3	-	-
Equity contracts	2,456	127	137	-
Other contracts (3)	-	-	10,937	174
Total derivatives, gross	$ 2,545	138	$ 11,074	174
Counterparty netting		-		-
Cash collateral		(7)		-
Total derivatives, net		131		174
Less: Bifurcated embedded policy derivatives (4)		-		(174)
Total derivatives on balance sheets		$ 131		$ -

(1) Notional or contractual amounts of derivative financial instruments represent a standard of measurement of the volume of derivatives. Notional amount is not a quantification of market risk or credit risk and is not recorded in the consolidated balance sheets. Notional amounts generally represent the amounts used to calculate contractual cash flows to be exchanged and are only paid or received for certain contracts, such as currency swaps.

(2) See Note 3 for additional information regarding the Company's fair

value measurement of derivative instruments.

(3) Included in the Other contracts are bifurcated embedded policy derivatives related to living benefits which are recorded within policyholder contract deposits in the consolidated balance sheets.

(4) 2010 includes a change in valuation assumption relating to embedded policy derivatives.

The Company has taken positions in certain derivative financial instruments in order to mitigate the impact of changes in interest rates or equity markets on cash flows or certain policyholder liabilities. Financial instruments used by the Company for such purposes include interest rate swaps, index options (long and short positions) and futures contracts (short positions on U.S. treasury notes and U.S. long bonds). The Company has determined that its derivative financial instruments do not qualify for hedge accounting.

Interest rate or foreign currency swap agreements are agreements to exchange with a counterparty, at specified intervals, interest rate payments of differing character (for example, variable-rate payments exchanged for fixed-rate payments) or in different currencies, based on an underlying principal balance (notional amount). Generally, no cash is exchanged at the outset of the contract and no principal payments are made by either party. A single net payment is usually made by one counterparty at each interest payment due date, which is included in the consolidated statements of income (loss).

Index options are contracts that grant the purchaser, for a premium payment, the right, but not the obligation, either to purchase or sell a financial instrument at a specified price within a specified period of time. The Company has purchased cash settled put and call options on the S&P 500 index to offset the risk of certain guarantees of annuity policy values.

<PAGE>

5. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Futures contracts are agreements between two parties that commit one party to purchase and the other to sell a particular commodity or financial instrument at a price determined on the final settlement day of the contract. Futures contracts detail the quality and quantity of the underlying asset; they are standardized to facilitate trading on a futures exchange. Some futures contracts may call for physical delivery of the asset, while others are settled in cash. The Company uses futures contracts on U.S. treasury notes, U.S. treasury bonds to offset the risk of certain guarantees on annuity policy values.

The Company recorded the following change in value of its derivative financial instruments, including periodic net coupon settlements, change in value of its embedded policy derivatives and gains and losses on sales of derivatives in net realized investment gain (loss) in the consolidated statements of income (loss):

	2011	2010	2009
	(In millions)		
Derivatives not designated as hedging instruments:			
Interest rate contracts	$ 6	$ 6	$ (172)
Foreign exchange contracts	-	2	(1)
Equity contracts	133	(152)	(931)
Total derivatives not designated as hedging instruments	139	(144)	(1,104)
Embedded policy derivatives	(433)	303	1,430
Total derivative instruments	$ (294)	$ 159	$ 326

The Company issues certain variable annuity products which contain guaranteed provisions that are considered embedded policy derivatives. The fair value of these embedded policy derivatives is reflected in policyholder contract deposits in the consolidated balance sheets. The changes in fair value of the embedded policy derivatives are reported in net realized investment gain (loss) in the consolidated statements of income (loss).

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 $37.8 million and $36.7 million, respectively, of net derivative assets outstanding 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

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. The Company's involvement with ML II is primarily as a passive investor in debt securities (rated and unrated) and equity interests issued by ML II. See Notes 4 and 15 herein for further discussion.

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.

<PAGE>

6. VARIABLE INTEREST ENTITIES (CONTINUED)

In all instances, the Company consolidates a 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 involvements 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.

Exposure to Loss

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:

		Maximum Exposure to Loss		
	Total VIE Assets	On-Balance Sheet	Off-Balance Sheet	Total
	(In millions)			
December 31, 2011				
ML II	$ 9,254	$ 20	$ -	$ 20
Total	$ 9,254	$ 20	$ -	$ 20

Balance Sheet Classification

The Company's interest in the assets and liabilities of unconsolidated VIEs was classified in fixed maturity securities, trading on the Company's balance sheets.

7. DEFERRED POLICY ACQUISITION COSTS AND DEFERRED SALES INDUCEMENTS

The following table summarizes the activity in deferred policy acquisition costs:

<TABLE>
<CAPTION>

Years ended December 31,

	2011	2010	2009
		(In millions)	
Balance at beginning of year	$ 612	$ 671	$ 1,151
Deferrals	226	162	79
Accretion of interest/amortization	(149)	(99)	3
Effect of net unrealized (gain) loss on securities (1)	(6)	-	-
Effect of realized (gains) losses on securities	(167)	(122)	(268)
Effect of unlocking assumptions used in estimating future gross profits (2)	-	-	(294)
Balance at end of year	$ 516	$ 612	$ 671

</TABLE>

(1) In 2009, includes a decrease of $36.2 million related to the cumulative effect of adopting a new other-than-temporary impairments accounting standard.

<PAGE>

7. DEFERRED POLICY ACQUISITION COSTS AND DEFERRED SALES INDUCEMENTS (CONTINUED)

(2) The Company adjusts amortization of deferred acquisition costs when the assumptions underlying the estimates of current or future gross profits to be realized are revised. The Company reviews the assumptions at least annually. The 2009 amount was primarily the result of reductions in the long-term growth rate assumptions and deteriorating equity market conditions early in the year. In the first quarter of 2009, the long-term separate account growth rate assumption was reduced to 7.5 percent from 10 percent.

The annuity operations defer enhanced crediting rates or bonus payments to contract holders on certain of its products ("Bonus Payments"). The asset management operations defer distribution costs that are directly related to the sale of mutual funds that have a 12b-1 distribution plan and/or contingent deferred sales charge feature. The following table summarizes the activity in these deferred expenses:

	Bonus Payments	Distribution Costs	Total
		(In millions)	
AT DECEMBER 31, 2011:			
Balance at beginning of year	$ 88	$ 20	$ 108
Deferrals	19	14	33
Accretion of interest/amortization	(17)	(11)	(28)
Effect of net unrealized (gain) loss on securities	(1)	-	(1)
Effect of realized (gains) losses on securities	(19)	-	(19)
Balance at end of year	$ 70	$ 23	$ 93

	Bonus Payments	Distribution Costs	Total
		(In millions)	
AT DECEMBER 31, 2010:			
Balance at beginning of year	$ 134	$ 21	$ 155
Deferrals	14	10	24
Accretion of interest/amortization	(46)	(11)	(57)
Effect of realized (gains) losses on securities	(14)	-	(14)
Balance at end of year	$ 88	$ 20	$ 108

</TABLE>

<TABLE>
<CAPTION>

	Bonus Payments	Distribution Costs	Total
		(In millions)	
AT DECEMBER 31, 2009:			
Balance at beginning of year	$ 217	$ 28	$ 245
Deferrals	11	7	18
Accretion of interest/amortization	5	(14)	(9)
Effect of realized (gains) losses on securities (1)	(49)	-	(49)
Effect of unlocking assumptions used in estimating future gross profits (2)	(50)	-	(50)
Balance at end of year	$ 134	$ 21	$ 155

</TABLE>

(1) In 2009, includes a decrease of $5.1 million related to the cumulative effect of adopting a new other-than-temporary impairments accounting standard.

(2) The Company adjusts amortization of deferred sales inducements when the assumptions underlying the estimates of current or future gross profits to be realized are revised. The Company reviews the assumptions at least annually. The 2009 amounts were primarily the result of reductions in the long-term growth rate assumptions and deteriorating equity market conditions early in the year. In the first quarter of 2009, the long-term separate account growth rate assumption was reduced to 7.5 percent from 10 percent.

<PAGE>

8. POLICYHOLDER CONTRACT DEPOSITS AND FUTURE POLICY BENEFITS

Future policy benefits and policyholder contract deposit liabilities were as follows at December 31:

	2011	2010
	(In millions)	
Policyholder contract deposits:		
Annuities	$ 3,462	$ 2,521
Universal life	1,057	1,105
Other contract deposits	24	23
	$ 4,543	$ 3,649
Future policy benefits:		
Annuities	$ 417	$ 379

Details concerning the Company's exposure to guaranteed benefits were as follows:

	Return of Net Deposits Plus a Minimum Return	Highest Specified Anniversary Account Value Minus Withdrawals Post Anniversary
	(Dollars in millions)	
AT DECEMBER 31, 2011:		

In the event of death (GMDB and EEB):		
Net account value	$ 9,632	$ 10,597
Net amount at risk (a)	1,142	1,470
Average attained age of contract holders	66	67
Range of guaranteed minimum return rates (GMDB)	0%-5%	0%
At annuitization (GMIB):		
Net account value	$ 1,365	
Net amount at risk (b)	110	
Weighted average period remaining until earliest annuitization	0.3 years	
Range of guaranteed minimum return rates	0%-6.5%	
Accumulation at specified date (GMAV):		
Account value	$ 961	
Net amount at risk (c)	23	
Weighted average period remaining until guaranteed payment	3.0 years	
Annual withdrawals at specified date (GMWB):		
Account value	$ 10,592	
Net amount at risk (d)	1,358	
Weighted average period remaining until guaranteed payment	16.6 years	

</TABLE>

<PAGE>

8. POLICYHOLDER CONTRACT DEPOSITS AND FUTURE POLICY BENEFITS (CONTINUED)

<TABLE>
<CAPTION>

	Return of Net Deposits Plus a Minimum Return	Highest Specified Anniversary Account Value Minus Withdrawals Post Anniversary

<S> <C> <C>

	(Dollars in millions)	
AT DECEMBER 31, 2010:		
In the event of death (GMDB and EEB):		
Net account value	$ 8,982	$ 11,564
Net amount at risk (a)	909	1,073
Average attained age of contract holders	68	70
Range of guaranteed minimum return rates (GMDB)	0%-5%	0%
At annuitization (GMIB):		
Net account value	$ 1,662	
Net amount at risk (b)	79	
Weighted average period remaining until earliest annuitization	0.7 years	
Range of guaranteed minimum return rates	0%-6.5%	
Accumulation at specified date (GMAV):		
Account value	$ 1,264	
Net amount at risk (c)	14	
Weighted average period remaining until guaranteed payment	4.0 years	
Annual withdrawals at specified date (GMWB):		
Account value	$ 9,169	
Net amount at risk (d)	715	
Weighted average period remaining until guaranteed payment	18.8 years	

</TABLE>

(a) Net amount at risk represents the guaranteed benefit exposure in excess of the current account value, net of reinsurance, if all contract holders died at the same balance sheet date. The net amount at risk does not take into account the effect of caps and deductibles from the various reinsurance treaties.

(b) Net amount at risk represents the present value of the projected guaranteed benefit exposure in excess of the projected account value, net of reinsurance, if all contract holders annuitized at their respective eligibility date.

(c) Net amount at risk represents the guaranteed benefit exposure in excess of the current account value, if all contract holders reached the specified date at the same balance sheet date.

(d) Net amount at risk represents the guaranteed benefit exposure in excess of the current account value if all contract holders exercise the maximum withdrawal benefits at the same balance sheet date. If no withdrawals have been made for those policies with a waiting period, the contract holder will realize an increase in the benefit base after all other amounts guaranteed under this benefit have been paid. This increase in the benefit base increases the net amount at risk by $68.0 million and $78.9 million as of December 31, 2011 and 2010, respectively and is payable no sooner than 10 years from the end of the waiting period.

The following summarizes the activity in future policy benefits (GMDB and GMIB) on the consolidated balance sheets:

<PAGE>

8. POLICYHOLDER CONTRACT DEPOSITS AND FUTURE POLICY BENEFITS (CONTINUED)

<TABLE>
<CAPTION>

<S>	2011 <C>	2010 <C>
	(In millions)	
Balance at the beginning of the year	$ 379	$ 437
Guaranteed benefits incurred	111	25
Guaranteed benefits paid	(73)	(83)
Balance at the end of the year	$ 417	$ 379

</TABLE>

The following assumptions and methodology were used to determine future policy benefits at December 31, 2011 and 2010:

- Data used was 50 stochastically generated investment performance scenarios.

- Mean investment performance assumption was 7.5 percent in 2011 and 2010.

- Volatility assumption was 16 percent.

- Mortality was assumed to be 50 percent Male and 80 percent Female of the 1994 Variable Annuity MGDB table.

- Lapse rates vary by contract type and duration and range from 0 percent to 40 percent.

- The discount rate was approximately 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 increased reserves by $12.8 million in 2011.

9. REINSURANCE

Reinsurance contracts do not relieve the Company from its obligations to contract holders. The Company could become liable for all obligations of the reinsured policies if the reinsurers were to become unable to meet the obligations assumed under the respective reinsurance agreements. The Company monitors its credit exposure with respect to these agreements. However, due to the high credit ratings of the reinsurers, such risks are considered to be minimal. The Company has no reinsurance recoverable or related concentration of credit risk greater than 10 percent of shareholder's equity.

Variable fees are net of reinsurance premiums of $14.6 million, $17.5 million and $19.7 million in 2011, 2010 and 2009, respectively. Guaranteed benefits paid were reduced by reinsurance recoveries of $6.3 million, $13.0 million and $13.2 million in 2011, 2010 and 2009, respectively.

Universal life insurance fees are net of reinsurance premiums of $26.5 million, $27.7 million and $28.3 million in 2011, 2010 and 2009, respectively. Reinsurance recoveries recognized as a reduction of claims on universal life insurance contracts amounted to $23.6 million, $21.7 million and $28.8 million in 2011, 2010 and 2009, respectively.

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10. COMMITMENTS AND CONTINGENT LIABILITIES

10.1 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 approximately $3 million a year from 2012 through 2016 and $4.6 million thereafter. Rent expense was $2.3 million, $2.5 million and $3.1 million for the years ended December 31, 2011, 2010 and 2009, respectively.

MORTGAGE LOAN COMMITMENTS

The Company had $1.8 million in commitments relating to mortgage loans at December 31, 2011.

10.2 CONTINGENT LIABILITIES

SUPPORT AGREEMENTS

As of December 31, 2011, the Company has two agreements outstanding in which it has agreed to provide liquidity support for certain short-term securities of municipalities and non-profit organizations (collectively, the "short-term securities") by agreeing to purchase such short-term securities in the event there is no other buyer in the short-term marketplace. In return the Company receives a fee. Additionally, the Company guarantees the payment of these securities upon redemption. One of these commitments is scheduled to expire on December 1, 2012, and the other commitment is scheduled to expire on October 1, 2022. The outstanding commitments may be extended beyond their stated maturities. Related to each of these agreements are participation agreements with the Parent under which the Parent shares in a portion of these liabilities in exchange for a proportionate percentage of the fees received under these agreements.

In September and October 2008, the Company purchased all of the short-term securities then outstanding pursuant to its obligations under the above-referenced liquidity support agreements. If the Company is able to re-market these short-term securities, the Company's obligations under the liquidity support agreements referenced above will continue to inure to the benefit of the purchasers of the re-marketed securities. The short-term securities have a current estimated market value of $16.0 million at December 31, 2011 and the Company has not re-marketed any of these short-term securities. As the holder of the short term securities, the Company recorded $1.1 million as interest payments received from these securities in 2010 and an immaterial amount in 2011.

SAAMCo is the investment advisor of SunAmerica Money Market Fund (the "Fund"), a series of the SunAmerica Money Market Funds, Inc., which seeks to maintain a stable $1.00 net asset value per share. The Fund's market value NAV was negatively impacted by a loss on an asset-backed security ("Cheyne"). SAAMCo has provided certain commitments to the Board of Directors of the Fund to contribute capital to maintain a minimum market value per share up to the amount of the security loss. Management has also committed that should the realized loss carry forward from Cheyne eventually expire, SAAMCo will reimburse the Fund to the extent of the expiration. SAAMCo has recorded a contingent liability of $1.2 million for expected future capital contributions as of December 31, 2011. These amounts have been included in general and administrative expenses in the consolidated statements of income (loss).

<PAGE>

10. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

Legal and Regulatory Matters

The Company is party to various lawsuits and proceedings arising in the ordinary course of business. Contingent liabilities arising from litigation, income taxes and other matters are not considered material in relation to the consolidated financial position, results of operations or cash flows of the Company.

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, can be reasonably estimated and when the event obligating the Company to pay has occurred. 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 $1.0 million and $1.2 million for these guarantee fund assessments at December 31, 2011, and 2010, respectively, which is reported within Other liabilities in the accompanying consolidated balance sheets.

Like many other companies, including financial institutions and brokers, the Company received subpoenas for information in connection with an ongoing investigation by the Securities and Exchange Commission ("SEC") and the United States Department of Justice ("DOJ") concerning the issuance of guaranteed investment contracts in connection with tax exempt bond issuances. The Company is also responding to subpoenas concerning the same subject matter sent by or on behalf of various state attorneys general. The Company is cooperating fully with the investigation. The impact of this matter, if any, on the Company's financial position cannot be reasonably estimated at this time.

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.

11. SHAREHOLDER'S EQUITY

Capital contributions received by the Company were as follows:

<TABLE>
<CAPTION>

<S>	Years ended December 31, 2011 <C>	2010 <C>	2009 <C>
	(In millions)		
Cash contributions	$ -	$ 31	$ -
All other non-cash contributions (1)	4	(10)	4
Total capital contributions	$ 4	$ 21	$ 4

</TABLE>

(1) The Company received non-cash capital contributions of $4 million equal to certain compensation expense recognized.

<PAGE>

11. SHAREHOLDER'S EQUITY (CONTINUED)

The components of accumulated other comprehensive income (loss) at December 31 were as follows:

<TABLE>
<CAPTION>

<S>	2011 <C>	2010 <C>	2009 <C>
	(In millions)		

Fixed maturity and equity securities, available for sale and partnerships:			
Gross unrealized gains	$ 194	$ 134	$ 93
Gross unrealized losses	(86)	(81)	(201)
Adjustment to DAC and deferred sales inducements	(7)	--	--
Insurance loss recognition	(13)	--	--
Foreign currency translation adjustments	(2)	(2)	(2)
Deferred federal and state income tax (expense) benefit	(30)	(18)	39
Accumulated other comprehensive income (loss) (1)	$ 56	$ 33	$ (71)

</TABLE>

(1) The 2009 amount includes a decrease of $142.6 million related to the cumulative effect of adopting a new other-than-temporary impairments accounting standard. See Note 2.13 for additional disclosures on this standard.

Dividends that the Company may pay to the Parent in any year without prior approval of the Arizona Department of Insurance are limited by statute. The maximum amount of dividends which can be paid to shareholders of insurance companies domiciled in the State of Arizona without obtaining the prior approval of the Insurance Commissioner is limited to the lesser of either 10 percent of the preceding year's statutory surplus or the preceding year's statutory net gain from operations if, after paying the dividend, the Company's capital and surplus would be adequate in the opinion of the Arizona Department of Insurance. No dividends can be paid by the Company to its shareholder in 2011 without obtaining prior approval from the Arizona Department of Insurance.

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 Arizona Department of Insurance ("AZ DOI") has the right to permit specific practices that deviate from prescribed practices. In 2010, the Company received permission from the AZ DOI 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. This statutory restatement resulted in an increase in statutory unassigned funds in an amount equal to the contributions received from AIG of $288.0 million, that offset the Company's losses incurred on certain securities and a corresponding decrease in statutory gross paid in and contributed statutory surplus. 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.

Statutory net income (loss) and capital and surplus of the Company at December 31 were as follows:

<TABLE>
<CAPTION>

(In millions)	2011	2010	2009
Statutory net income	$ 80	$ 75	$ 122
Statutory capital and surplus	$ 814	$ 834	$ 654

</TABLE>

<PAGE>

12. INCOME TAXES

12.1 INCOME TAX EXPENSE (BENEFIT)

The components of the provisions for income taxes on pretax income consist of the following:

<TABLE>
<CAPTION>

	Years ended December 31,		
	2011	2010	2009

	(In millions)		
Current	$ 128	$ (22)	$ (292)
Deferred	(353)	77	177
Total income tax expense (benefit)	$ (225)	$ 55	$ (115)

</TABLE>

The U.S. federal 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 due to the following:

<TABLE>
<CAPTION>

	Years ended December 31, 2011	2010	2009
	(In millions)		
U.S. federal income tax expense (benefit) at statutory rate	$ (119)	$ 50	$ (100)
Adjustments:			
Valuation allowance	(164)	76	23
State income taxes (net of federal benefit)	72	(58)	(4)
Separate account dividends received deduction	(19)	(18)	(41)
Tax credits	(5)	(4)	(7)
Adjustment to prior year tax liability (a)	-	7	10
Goodwill	-	-	3
Other, net	10	2	1
Total income tax expense (benefit)	$ (225)	$ 55	$ (115)

</TABLE>

(a) In 2011, 2010 and 2009, the Company revised its estimate of tax contingency amount for prior year based on additional information that became available.

12.2 DEFERRED INCOME TAXES

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 the net deferred tax assets and liabilities at December 31 are as follows:

<PAGE>

12.2 DEFERRED INCOME TAXES (CONTINUED)

<TABLE>
<CAPTION>

	2011	2010
	(In millions)	
<S>	<C>	<C>
Deferred Tax Liabilities:		
Deferred policy acquisition costs and deferred sales inducements	$ (174)	$ (207)
Net unrealized gains on fixed maturity and equity securities available for sale	(30)	(18)
Partnership income	(8)	(3)
Other liabilities	(7)	(2)
Deferred tax liabilities	(219)	(230)
Deferred Tax Assets:		
Basis differential in investments	86	80
Policy reserves	428	200
Capital loss carryforward - Federal	140	156
State income taxes and net operating loss	9	78
Foreign tax credit	18	13
Other assets	34	22
Deferred tax assets	715	549
Valuation allowance	(148)	(312)
Total deferred tax assets	567	237

Net deferred tax asset	$ 348	$ 7

</TABLE>

The following table presents tax losses and credits carryforwards as of December 31, 2011 on a tax return basis:

<TABLE>
<CAPTION>

	Gross	Tax Effected	Expiration Periods
	(In millions)		
Federal capital loss carryforwards	$ 400	$ 140	2013 - 2014
State capital loss carryforwards	50	3	2014 - 2019
State net operating loss carryforwards	49	3	2011 - 2029
Foreign tax credit carryforwards	--	18	2018 - 2021
Total tax losses and credits carryforwards	$ 499	$ 164	

</TABLE>

The Company has recorded a full valuation allowance against the capital loss carryforwards and the state net operating loss carryforwards described in the above 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 $715 million and concluded that a $148 million 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.

<PAGE>

12.2 DEFERRED INCOME TAXES (CONTINUED)

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.

In assessing future GAAP taxable income, the Company considered its strong earnings history exclusive of the recent losses on 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 completion of its recapitalization and the wind-down of the certain financial product portfolios, 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.

12.3 ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

A reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits is as follows:

<TABLE>
<CAPTION>

<S>	2011 (In millions) <C>	2010 <C>
Gross unrecognized tax benefits at beginning of period	$ 24	$ 17
Increases in tax positions for prior years	--	7
Gross unrecognized tax benefits at end of period	$ 24	$ 24

</TABLE>

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 $24 million and $24 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 $24 million and $24 million respectively.

Interest and penalties, if any, related to unrecognized tax benefits are recognized as a component of income tax expense. At December 31, 2011 and 2010, the Company had a receivable of $1.0 million and $0.5 million, respectively, related to interest (net of federal tax). For the years ended December 31, 2011 and 2010, the Company had recognized an expense of $0.5 million and $1.4 million, respectively, of interest (net of federal tax) in the consolidated statements of income (loss).

<PAGE>

12.4 TAX EXAMINATIONS

The Company is currently under audit by the IRS for calendar year 2004 - 2005. All years prior to 2004 are no longer subject to audit. 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 financial statements.

13. RELATED PARTY TRANSACTIONS

13.1 EVENTS RELATED TO AIG

On January 14, 2011 ("Closing"), AIG completed a series of integrated transactions to recapitalize AIG 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 ("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 its regulatory filings with the 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.

13.2 OTHER RELATED PARTY TRANSACTIONS

SHORT-TERM FINANCING AGREEMENTS

On June 1, 2009, the Company amended and restated a short-term financing arrangement with the Parent, dated February 15, 2004, whereby the Parent has the right to borrow up to $500 million from the Company. This arrangement was amended and restated solely for the purpose of reflecting the name change of the Company to SunAmerica Annuity and Life Assurance Company ("SAAL"). All terms and conditions set forth in the original arrangement remain in effect, including that any advances made under this arrangement must be repaid within 30 days. There was no outstanding balance under this arrangement at December 31, 2011 and 2010.

On February 15, 2004, the Company entered into a short-term financing arrangement with the Parent whereby the Company has the right to borrow up to $500 million from the Parent. Any advances made under this arrangement must be repaid within 30 days. There was no outstanding balance under this arrangement at December 31, 2011 and 2010.

On February 15, 2004, the Company entered into a short-term financing arrangement with its affiliate, The United States Life Insurance Company in the City of New York ("USL") (as successor by the merger of First SunAmerica Life Insurance Company ("FSA") with and into USL, whereby the Company has the right to borrow up to $15 million from USL. Any advances made under this arrangement must be repaid within 30 days. There were no balances outstanding under this arrangement at December 31, 2011 and 2010.

On June 1, 2009, the Company amended and restated a short-term financing arrangement with USL (as successor by the merger of FSA with and into USL), dated February 15, 2004, whereby USL has the right to borrow up to $15 million from the Company. This arrangement was amended and restated solely for the purpose of reflecting the name change of AIG SunAmerica Life Assurance Company to SAAL. All terms and conditions set forth in the original arrangement remain in effect. There were no outstanding balances under this arrangement at December 31, 2011 and 2010.

<PAGE>

13.2 OTHER RELATED PARTY TRANSACTIONS (CONTINUED)

On June 1, 2009, the Company amended and restated a short-term financing arrangement with SAFGRS, dated September 26, 2001, whereby the Company has the right to borrow up to $500 million from SAFGRS. This arrangement was amended and restated solely for the purpose of reflecting the name changes of (i) the Company from Anchor National Life Insurance Company to SAAL, and (ii) SunAmerica Inc. to SAFGRS. All terms and conditions set forth in the original arrangement remain in effect, including that any advances made under this arrangement must be repaid within 30 days. There was no outstanding balance under this arrangement at December 31, 2011 and 2010.

On June 1, 2009, the Company amended and restated a short-term financing arrangement with SAFGRS, dated December 19, 2001, whereby SAFGRS has the right to borrow up to $500 million from the Company. This arrangement was amended and restated solely for the purpose of reflecting the name changes of (i) the Company from Anchor National Life Insurance Company to SAAL, and (ii) SunAmerica Inc. to SAFGRS. All terms and conditions set forth in the original arrangement remain in effect, including that any advances made under this arrangement must be repaid within 30 days. There was no outstanding balance under this arrangement at December 31, 2011 and 2010.

On June 1, 2009, the Company amended and restated a short-term financing arrangement with SunAmerica Investments, Inc. ("SAII"), dated December 19, 2001, whereby SAII has the right to borrow up to $500 million from the Company. This arrangement was amended and restated solely for the purpose of reflecting the name change of the Company from Anchor National Life Insurance Company to SAAL. All terms and conditions set forth in the original arrangement remain in effect, including that any advances made under this arrangement must be repaid within 30 days. There was no outstanding balance under this arrangement at December 31, 2011 and 2010.

On September 26, 2001, the Company entered into a short-term financing arrangement with SAII, whereby the Company has the right to borrow up to $500 million from SAII. Any advances made under these arrangements must be repaid within 30 days. There were no balances outstanding under these arrangements at December 31, 2011 and 2010.

OPERATING AGREEMENTS

The Company pays commissions and fees, including support fees to defray marketing and training costs, to affiliated broker-dealers for distributing its annuity products and mutual funds. Amounts paid to these broker-dealers totaled $35.5 million, $32.3 million and $29.5 million for the years ended December 31, 2011, 2010 and 2009, respectively. These broker-dealers distribute a significant portion of the Company's variable annuity products, amounting to approximately 10 percent, 15 percent and 22 percent of premiums received in 2011, 2010 and

2009, respectively. These broker-dealers also distribute a significant portion of the Company's mutual funds, amounting to approximately 14 percent, 16 percent and 18 percent of sales in 2011, 2010 and 2009, respectively.

On February 1, 2004, SAAMCo entered into an administrative services agreement with USL (as successor by merger of FSA into USL) whereby SAAMCo will pay to USL a fee based on a percentage of all assets invested through USL's variable annuity products in exchange for services performed. SAAMCo is the investment advisor for certain trusts that serve as investment options for USL's variable annuity products. Amounts incurred by the Company under this agreement totaled $2.3 million, $2.1 million and $1.8 million in 2011, 2010 and 2009, respectively, and are included in the Company's consolidated statements of income (loss).

On October 1, 2001, SAAMCo entered into two administrative services agreements with business trusts established by its affiliate, The Variable Annuity Life Insurance Company ("VALIC"), whereby the trust pays to SAAMCo a fee based on a percentage of average daily net assets invested through VALIC's annuity products in exchange for services performed. Amounts earned by SAAMCo under this agreement were $14.4 million, $13.2 million and $11.1 million in 2011, 2010 and 2009, respectively, and are net of certain administrative costs incurred by VALIC of $4.1 million, $3.8 million and $3.2 million, respectively. The net amounts earned by SAAMCo are included in other fees in the consolidated statements of income (loss).

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13.2 OTHER RELATED PARTY TRANSACTIONS (CONTINUED)

Pursuant to a Service and Expense Agreement, AIG provides, or causes to be provided, administrative, marketing, accounting, occupancy and data processing services to the Company. The Company is billed in accordance with Regulation 30 or Regulation 33, as applicable, of the New York Insurance Department, and billed amounts do not exceed the cost to AIG. Related to this agreement, the Company is currently the paymaster and payer of shared services for the SunAmerica group of companies. Amounts received for services rendered pursuant to this agreement total $2.2 million and $ 9.4 million for 2011 and 2010, respectively, and amounts paid for such services were $117.7 million for 2009. Netted in the amount for 2011 was $20.4 million paid to AIG for services in such year and allocated to affiliates. Amounts payable to affiliates are non-interest bearing and due on demand. The component of such costs that relate to the production or acquisition of new business during these periods amounted to $72.5 million, $62.8 million and $43.2 million in 2011, 2010 and 2009, respectively, and is deferred and amortized as part of DAC. The other components of such costs are included in general and administrative expenses in the consolidated statements of income (loss).

In addition to the reimbursements noted above, an affiliate is responsible for the administration of the Company's fixed annuity contracts and is reimbursed for the cost of administration. Costs charged to the Company to administer these policies were $0.4 million, $0.3 million and $0.4 million in 2011, 2010 and 2009, respectively. The Company believes these costs are less than the Company would have incurred to administer these policies internally.

Pursuant to an amended and restated Investment Advisory Agreement, the majority of the Company's invested assets are managed by an affiliate of the Company. The allocation of such costs for investment management services is based on the level of assets under management. The investment management fees incurred were $0.6 million, $1.7 million and $1.3 million for the years ended December 31, 2011, 2010 and 2009, respectively.

A separate Service and Expense Sharing Agreement, in compliance with the NASD Notice to Members 03-63, became effective January 1, 2010 for costs related to technology, advertising, payroll and accounts payable processing incurred by the Company for its broker-dealer affiliates. This agreement was entered into in connection with an internal corporate reorganization pursuant to which the Company replaced the Parent as the paymaster and payer of shared services for the SunAmerica group of companies effective as of January 1, 2010. This agreement was amended and restated, effective as of July 1, 2010, to add an additional affiliate to the agreement and update the manner in which costs for shared services would be allocated between the Company and its affiliates that are parties thereto. The amended and restated agreement was further amended on October 29, 2010, to modify the cost allocation applicable to one of the affiliated parties under the agreement.

AMERICAN HOME GUARANTEE

The Company's insurance policy obligations for individual and group contracts issued prior to December 29, 2006 at 4:00 p.m. Eastern Time are guaranteed ("the

"Guarantee") by American Home Assurance Company ("American Home"), a subsidiary of AIG. American Home files statutory annual and quarterly reports with the New York State Insurance Department, through which such reports are available to the public.

On December 29, 2006 at 4:00 p.m. Eastern Time (the "Point of Termination"), the Guarantee by American Home was terminated. The Guarantee will not cover any contracts with a date of issue later than the Point of Termination. The Guarantee will, however, continue to cover insurance obligations on contracts issued by the Company with a date of issue earlier than the Point of Termination, including obligations arising from purchase payments received with respect to these contracts after the Point of Termination. The Guarantee provides that contract owners owning contracts issued by the Company with a date of issue earlier than the Point of Termination can enforce the Guarantee directly against American Home.

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13.2 OTHER RELATED PARTY TRANSACTIONS (CONTINUED)

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.

14. 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.

15. SUBSEQUENT EVENTS

FIXED MATURITY SECURITIES, TRADING

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 a principal payment of $3.2 million on March 1, 2012 and an additional cash receipt of $20.1 million on March 15, 2012 from ML II that consisted of $11.6 million, $1.7 million, and $6.8 million in principal, contractual interest and residual cash flows, respectively, effectively monetizing the Company's interest in ML II.

The total amount received of $23.3 million by the Company from ML II was remitted as a return of capital to its Parent and ultimately remitted to AIG.

OTHER MATTERS

On December 31, 2012, the Company intends to merge with and into American General Life Insurance Company ("AGL"), 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. AGL is also an indirect, wholly owned subsidiary 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>
<CAPTION>

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

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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>
<CAPTION>

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

<PAGE>

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:

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

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>
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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

</TABLE>

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.

o 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.

- o 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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- o 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:

<TABLE>
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For the years ended December 31,	2011	2010	2009
<S>	<C>	<C>	<C>
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%

</TABLE>

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.

<PAGE>

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.

<PAGE>

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.

<PAGE>

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)	

(000'S OMITTED)

- 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)

</TABLE>

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.

<PAGE>

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>

	POLICYHOLDERS SURPLUS	TOTAL ADMITTED ASSETS	TOTAL LIABILITIES
<S>	<C>	<C>	<C>

	POLICYHOLDERS SURPLUS	TOTAL ADMITTED ASSETS	TOTAL LIABILITIES
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	-

(000'S OMITTED)

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.

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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

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</TABLE>

<TABLE>
<CAPTION>

<S>	CARRYING VALUE * <C>	GROSS UNREALIZED GAINS <C>	GROSS UNREALIZED LOSSES <C>	FAIR VALUE <C>
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

</TABLE>

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.

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(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:

<TABLE>
<CAPTION>

(000'S OMITTED)

FOR THE YEARS ENDED DECEMBER 31,	2011		2010		2009	
	BONDS	EQUITY SECURITIES	BONDS	EQUITY SECURITIES	BONDS	EQUITY SECURITIES
<S>	<C>	<C>	<C>	<C>	<C>	<C>
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					
	COST OR AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE	CARRYING VALUE
<S>	<C>	<C>	<C>	<C>	<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>

(000'S OMITTED)

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>

	LESS THAN 12 MONTHS		12 MONTHS OR LONGER		TOTAL	
DESCRIPTION OF SECURITIES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	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

(000'S OMITTED)

</TABLE>

<PAGE>

<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, 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>

AMERICAN HOME ASSURANCE COMPANY

NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS

DECEMBER 31, 2011, 2010 AND 2009

(000'S OMITTED)

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
<S>	<C>	<C>	<C>
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:

<TABLE>
<CAPTION>

	DECEMBER 31, 2011			
	Level 1	Level 2	Level 3	Total
<S>	<C>	<C>	<C>	<C>
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

</TABLE>

<TABLE>
<CAPTION>

	DECEMBER 31, 2010			
	Level 1	Level 2	Level 3	Total
<S>	<C>	<C>	<C>	<C>
Bonds	$ -	$ 3,612	$ 2,904	$ 6,516

(000'S OMITTED)

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>

<S>	Balance Beginning of Year <C>	Transfers In <C>	Transfers Out <C>	Net Realized and Unrealized Gains (Losses) Included in Net Investment Income and Realized Capital Gains (Losses) <C>	Unrealized Gains (Losses) Included in Surplus <C>	Purchases, Sales, Issuances, Settlements, Net <C>	Balance at December 31, 2011 <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.

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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>

<S>	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:

<TABLE>
<CAPTION>

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
<S>	<C>	<C>	<C>	<C>	<C>	<C>
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

</TABLE>

<TABLE>
<CAPTION>

DECEMBER 31, 2010						
	Less than 12 Months		12 Months or Longer		Total	
		Unrealized		Unrealized		Unrealized

(000'S OMITTED)

Description of Securities	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
<S>	<C>	<C>	<C>	<C>	<C>	<C>
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.

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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>

<S>	2011 <C>	2010 <C>	2009 <C>
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)

(000'S OMITTED)

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.

(000'S OMITTED)

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.

<PAGE>

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

(000'S OMITTED)

	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

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</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>

AMERICAN HOME ASSURANCE COMPANY

NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS

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
<S>	<C>	<C>
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

<PAGE>

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

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</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

(000'S OMITTED)

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
<S>	<C>	<C>	<C>
Chartis Global Claims Services, Inc.	$ 250,065	$ 245,427	$ 255,941
Chartis Global Services, Inc.	272,803	-	-
TOTAL	$ 522,868	$ 245,427	$ 255,941

</TABLE>

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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(000'S OMITTED)

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

<PAGE>

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:

FOR THE YEARS ENDED DECEMBER 31,	2011		2010		2009	
	WRITTEN	EARNED	WRITTEN	EARNED	WRITTEN	EARNED
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

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
<S>	<C>	<C>	<C>	<C>	<C>	<C>
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>

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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
<S>	<C>	<C>	<C>
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>

<PAGE>

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
<S>	<C>	<C>
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

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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>

<S>	TOTAL <C>	COMPANY'S POOLED ALLOCATION <C>
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:

<TABLE>
<CAPTION>

	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
<S>	<C>	<C>	<C>	<C>
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)

</TABLE>

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:

<TABLE>
<CAPTION>

	TOTAL	COMPANY'S POOLED ALLOCATION
<S>	<C>	<C>
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

</TABLE>

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.

(000'S OMITTED)

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

(000'S OMITTED)

<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.

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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
<S>	<C>	<C>	<C>	<C>	<C>	<C>
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>

	CHANGE		
DESCRIPTION	ORDINARY	CAPITAL	TOTAL
<S>	<C>	<C>	<C>
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
<S>	<C>	<C>	<C>	<C>	<C>	<C>
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

<CAPTION>

DESCRIPTION	CHANGE ORDINARY	CHANGE CAPITAL	CHANGE TOTAL
<S>	<C>	<C>	<C>
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

</TABLE>

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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>

	DECEMBER 31, 2011			DECEMBER 31, 2010		
DESCRIPTION	ORDINARY	CAPITAL	TOTAL	ORDINARY	CAPITAL	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>

DESCRIPTION	CHANGE 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
<S>	<C>	<C>	<C>
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.

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During 2011, 2010 and 2009, the Company's current income tax expense/(benefit) was comprised of the following:

<TABLE>
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For the years ended December 31,	2011	2010	2009
<S>	<C>	<C>	<C>
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>
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Ordinary	2011	2010	CHANGE
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)

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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>
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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

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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>

<S>	CURRENT <C>	DEFERRED <C>	TOTAL <C>
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)

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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)

</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

<TABLE>
<CAPTION>

MAJOR TAX JURISDICTIONS	OPEN TAX YEARS
<S>	<C>
UNITED STATES	2000 - 2010

</TABLE>

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%

(000'S OMITTED)

Measurement date	December 31, 2011	December 31, 2010	December 31, 2009
Medical cost trend rate	N/A	N/A	N/A

</TABLE>

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.

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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:

<TABLE>
<CAPTION>

	2011	2010
Unrealized gains	$ 198,889	$ 220,760
Non-admitted asset values	(1,224,794)	(458,968)
Provision for reinsurance	(78,525)	(99,443)

</TABLE>

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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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:

<TABLE>
<CAPTION>

Licensed in

Name of life insurer	Location	Balances	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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(000'S OMITTED)

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>
<CAPTION>

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

NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS

DECEMBER 31, 2011, 2010 AND 2009

(000'S OMITTED)

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
<S>	<C>	<C>
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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(000'S OMITTED)

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

(000'S OMITTED)

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 24. FINANCIAL STATEMENTS AND EXHIBITS

(a) Financial Statements

The following financial statements are included in Part B of this Registration Statement:

Variable Annuity Account Seven Financial Statements:

- Report of Independent Registered Public Accounting Firm
- Statements of Assets and Liabilities, December 31, 2011
- Schedules of Portfolio Investments, December 31, 2011
- Statements of Operations, for the year ended December 31, 2011
- Statements of Changes in Net Assets, for the year ended December 31, 2011
- Statements of Changes in Net Assets, for the eight months ended December 31, 2010, except as indicated
- Statements of Changes in Net Assets, for the year ended April 30, 2010
- Notes to Financial Statements

SunAmerica Annuity and Life Assurance Company Financial Statements:

- Report of Independent Registered Public Accounting Firm

- Consolidated Balance Sheets -- December 31, 2011 and 2010

- Consolidated Statements of Income (Loss) -- Years Ended December 31, 2011, 2010 and 2009

- Consolidated Statements of Comprehensive Income (Loss) -- Years Ended December 31, 2011, 2010 and 2009

- Consolidated Statements of Shareholder's Equity -- Years Ended December 31, 2011, 2010 and 2009

- Consolidated Statements of Cash Flows -- Years Ended December 31, 2011, 2010 and 2009

- Notes to Consolidated Financial Statements

American Home Assurance Company Financial Statements:

- Report of Independent Auditors

- Statutory Statements of Admitted Assets, Liabilities, Capital and Surplus as of December 31, 2011 and 2010

- Statutory Statements of Income and Changes in Capital and Surplus for the years ended December 31, 2011, 2010 and 2009

- Statutory Statements of Cash Flow for the years ended December 31, 2011, 2010 and 2009

- Notes to Statutory Basis Financial Statements

(b) Exhibits

<Table>

<S>	<C>	<C>	<C>
(1)	Resolutions Establishing Separate Account..		1
(2)	Custody Agreements..		Not applicable
(3)	(a)	Form of Distribution Contract..	2
	(b)	Form of Selling Agreement...	2
(4)	Variable Annuity Contract		
	(a)	Variable Annuity Contract...	2
	(b)	Variable Annuity Certificate..	2
	(c)	Tax Sheltered Annuity (403(b)) Endorsement............................	2
	(d)	Optional Income Benefit Endorsement...................................	6
(5)	(a)	Application for Contract..	2
(6)	Corporate Documents of Depositor		
	(a)	Amended and Restated Articles of Incorporation.......................	7
	(b)	Article of Amendment to Amended and Restated Articles of Incorporation..	7
	(c)	Amended and Restated Bylaws...	7
(7)	Reinsurance Contract..		Not Applicable
(8)	Material Contracts		
	(a)	Form of Anchor Series Trust Fund Participation Agreement..............	2
	(b)	Form of SunAmerica Series Trust Fund Participation Agreement..........	2
(9)	(a)	Opinion of Counsel and Consent of Depositor..........................	2
	(b)	Opinion of Counsel and Consent of Sullivan & Cromwell LLP, Counsel to American Home Assurance Company..	4
(10)	Consents..		Filed Herewith
(11)	Financial Statements Omitted from Item 23....................................		Not Applicable
(12)	Initial Capitalization Agreement...		Not Applicable

</Table>

<PAGE>

<Table>

<S>	<C>	<C>	<C>
(13)	Other		
	(a)	Power of Attorney	
		(1) SunAmerica Annuity and Life Assurance Company Directors...........	9
		(2) American Home Assurance Company Directors.........................	10
	(b)	General Guarantee Agreement by American Home Assurance Company........	3
	(c)	Notice of Termination of Guarantee as Published in the Wall Street	

	Journal on November 24, 2006..	5
(d)	Notice of Termination of Support Agreement...........................	8
(e)	Capital Maintenance Agreement of American International Group, Inc. ..	8

</Table>

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1 Incorporated by reference to Initial Registration Statement, File Nos. 333-63511 and 811-09003, filed on September 16, 1998, Accession No. 0000950148-98-002194.

2 Incorporated by reference to Pre-Effective Amendment No. 2 and Amendment No. 3, File Nos. 333-63511 and 811-09003, filed on December 7, 1998, Accession No. 0000950148-98-002682.

3 Incorporated by reference to Post-Effective Amendment No. 15 and Amendment No. 16, File Nos. 333-63511 and 811-09003, filed on August 29, 2005, Accession No. 0000950129-05-008795.

4 Incorporated by reference to Post-Effective Amendment No. 18 and Amendment No. 22, File Nos. 333-67685 and 811-07727, filed on October 21, 2005, Accession No. 0000950134-05-019473.

5 Incorporated by reference to Post-Effective Amendment No. 16 and Amendment No. 17, File Nos. 333-66106 and 811-07727, filed on December 12, 2006, Accession No. 0000950124-06-007496.

6 Incorporated by reference to Post-Effective Amendment No. 19 and Amendment No. 20, File Nos. 333-63511 and 811-09003, filed on April 30, 2007, Accession No. 0000950124-07-002492.

7 Incorporated by reference to Post-Effective Amendment No. 8 and Amendment No. 9, File Nos. 333-137866 and 811-07727, filed on July 21, 2009, Accession No. 0000950123-09-023939.

8 Incorporated by reference to Post-Effective Amendment No. 17 and Amendment No. 18, File Nos. 333-137867 and 811-03859, filed on April 27, 2011, Accession No. 0000950123-11-040070.

9 Incorporated by reference to Post-Effective Amendment No. 3 and Amendment No. 4, File Nos. 333-172003 and 811-03859, filed on April 26, 2012.

10 Incorporated by reference to Post-Effective Amendment No. 37 and Amendment No. 38, File Nos. 333-25473 and 811-03859, filed on April 30, 2012.

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ITEM 25. DIRECTORS AND OFFICERS OF THE DEPOSITOR

(a) The officers and directors of SunAmerica Annuity and Life Assurance Company, Depositor, are listed below. Their principal business address is 1 SunAmerica Center, Los Angeles, California 90067-6121, unless otherwise noted.

<Table>
<Caption>

NAME	POSITION
<S>	<C>
Jana W. Greer(1)	Director, President and Chief Executive Officer
Michael J. Akers(2)	Director and Senior Vice President
William J. Carr(5)	Director
N. Scott Gillis(1)	Director, Senior Vice President and Chief Financial Officer
Roger E. Hahn(2)	Director
William J. Kane(3)	Director
Scott H. Richland(4)	Director
Edwin R. Raquel(1)	Senior Vice President and Chief Actuary
Christine A. Nixon	Senior Vice President and Secretary
Stewart R. Polakov(1)	Senior Vice President and Controller
Mallary L. Reznik	Senior Vice President and General Counsel
Timothy W. Still(1)	Senior Vice President
Edward T. Texeria(1)	Senior Vice President and Chief Accounting Officer
Gavin D. Friedman	Vice President and Deputy General Counsel

William T. Devanney, Jr.(1)	Vice President
Rodney A. Haviland(1)	Vice President
Stephen J. Stone(1)	Senior Vice President
Monica F. Suryapranata(1)	Vice President and Variable Annuity Product Controller
Manda Ghaferi	Assistant Vice President
Virginia N. Puzon	Assistant Secretary

</Table>

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(1) 21650 Oxnard Street, Suite 750, Woodland Hills, CA 91367-4901

(2) 2929 Allen Parkway, Houston, TX 77019

(3) 10816 Andora Avenue, Chatsworth, CA 91311

(4) P.O. Box 297, Palos Verdes Estates, CA 90274

(5) 147 Warrenton Drive, Houston, TX 77024

ITEM 26. PERSONS CONTROLLED BY OR UNDER COMMON CONTROL WITH DEPOSITOR OR REGISTRANT

The Registrant is a separate account of SunAmerica Annuity and Life Assurance Company ("Depositor"). 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 No. 001-08787, Accession No. 0001047469-11-001369, filed on February 23, 2012. Exhibit 21 is incorporated herein by reference.

ITEM 27. NUMBER OF CONTRACT OWNERS

As of March 30, 2012, the number of Polaris Plus contracts funded by Variable Annuity Account Seven was 8,129 of which 8,123 were qualified contracts and 6 were non-qualified contracts.

ITEM 28. INDEMNIFICATION

Insofar as indemnification for liability arising under the Securities Act of 1933 ("Act") 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.

SunAmerica Annuity and Life Assurance Company

Section 10-851 of the Arizona Corporations and Associations law permits the indemnification of directors, officers, employees and agents of Arizona corporations. Article Eight of the Company's Restated Articles of Incorporation, as amended and restated

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(the "Articles") and Article Five of the Company's Bylaws ("Bylaws") authorize the indemnification of directors and officers to the full extent permitted by the laws, including the advance of expenses under the procedures set forth therein. In addition, the Company's officers and directors are covered by certain directors' and officers' liability insurance policies maintained by the Company's parent. Reference is made to Section 10-851 of the Arizona Corporations and Associations Law, Article Eight of the Articles, and Article Five of the Bylaws.

Additionally, pursuant to the Distribution Agreement filed as Exhibit 3(a) to this Registration Statement, Depositor has agreed to indemnify and hold harmless SunAmerica Capital Services, Inc. ("Distributor") for damages and expenses arising out of (1) any untrue statement or alleged untrue statement of a material fact contained in materials prepared by Depositor in conjunction with the offer and sale of the contracts, or Depositor's failure to comply with applicable law or other material breach of the Distribution Agreement. Likewise, the Distributor has agreed to indemnify and hold harmless Depositor and its affiliates, including its officers, directors and the separate account, for damages and expenses arising out of any untrue statement or alleged untrue statement of a material fact contained in materials prepared by Distributor in conjunction with the offer and sale of the contracts, or Distributor's failure to comply with applicable law or other material breach of the Distribution Agreement.

Pursuant to the Selling Agreement, a form of which was filed as Exhibit 3(b) to this Registration Statement, Depositor and Distributor are generally indemnified by selling broker/dealers firms from wrongful conduct or omissions in conjunction with the sale of the contracts.

ITEM 29. PRINCIPAL UNDERWRITER

(a) SunAmerica Capital Services, Inc. acts as distributor for the following investment companies:

SunAmerica Annuity and Life Assurance Company -- Variable Separate Account
SunAmerica Annuity and Life Assurance Company -- Variable Annuity Account One
SunAmerica Annuity and Life Assurance Company -- Variable Annuity Account Two
SunAmerica Annuity and Life Assurance Company -- Variable Annuity Account Four
SunAmerica Annuity and Life Assurance Company -- Variable Annuity Account Five
SunAmerica Annuity and Life Assurance Company -- Variable Annuity Account Seven
SunAmerica Annuity and Life Assurance Company -- Variable Annuity Account Nine

The United States Life Insurance Company in the City of New York -- FS Variable Separate Account

The United States Life Insurance Company in the City of New York -- FS Variable Annuity Account One

The United States Life Insurance Company in the City of New York -- FS Variable Annuity Account Two

The United States Life Insurance Company in the City of New York -- FS Variable Annuity Account Five

Anchor Series Trust
SunAmerica Series Trust
SunAmerica Equity Funds
SunAmerica Income Funds
SunAmerica Focused Series, Inc.
SunAmerica Money Market Funds, Inc.
SunAmerica Senior Floating Rate Fund, Inc.

(b) Directors, Officers and principal place of business:

OFFICER/DIRECTORS*	POSITION
Peter A. Harbeck	Director
James T. Nichols	Director, President & Chief Executive Officer
Stephen A. Maginn(1)	Director, Chief Distribution Officer
Frank Curran	Vice President, Controller, Financial Operation Principal and Chief Financial Officer, Treasurer
James D. Siegel	Chief Compliance Officer
John T. Genoy	Vice President
Mallary L. Reznik(2)	Vice President
Christine A. Nixon(2)	Secretary
Virginia N. Puzon(2)	Assistant Secretary

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* Unless otherwise indicated, the principal business address of SunAmerica Capital Services, Inc. and of each of the above individuals is Harborside Financial Center, 3200 Plaza 5, Jersey City, New Jersey 07311.

(1) Principal business address is 21650 Oxnard Street, Suite 750, Woodland Hills, CA 91367-4901.

(2) Principal business address is 1 SunAmerica Center, Los Angeles, California 90067-6121.

(c) SunAmerica Capital Services, Inc. retains no compensation or commissions from the Registrant.

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ITEM 30. LOCATION OF ACCOUNTS AND RECORDS

All of the accounts, books, records or other documents required to be kept by Section 31(a) of the Investment Company Act of 1940 and its rules are maintained by Depositor at 21650 Oxnard Street, Suite 750, Woodland Hills, California 91367-4901.

ITEM 31. MANAGEMENT SERVICES

Not Applicable.

ITEM 32. UNDERTAKINGS

General Representations

The Registrant and its Depositor are relying upon Rule 6c-7 of the Investment Company Act of 1940 with respect to annuity contracts offered as funding vehicles to participants in the Texas Optional Retirement Program, and the provisions of Paragraphs (a) - (d) of the Rule have been complied with.

The Registrant hereby represents that it is relying on the No-Action Letter issued by the Division of Investment Management to the American Council of Life Insurance dated November 28, 1988 (Commission Ref. No. IP-6-88). Registrant has complied with conditions one through four on the No-Action Letter.

Depositor represents that the fees and charges to be deducted under the Contracts described in the prospectus contained in this Registration Statement, in the aggregate, are reasonable in relation to the services rendered, the expenses expected to be incurred, and the risks assumed by Depositor in accordance with Section 26(f)(2)(A) of the Investment Company Act of 1940.

Undertakings of the Registrant

Registrant undertakes to: (a) file post-effective amendments to this Registration Statement as frequently as is necessary to ensure that the audited financial statements in the Registration Statement are never more than 16 months old for so long as payments under the variable annuity Contracts may be accepted; (b) include either (1) as part of any application to purchase a contract offered by the prospectus forming a part of the Registration Statement, a space that an applicant can check to request a Statement of Additional Information, or (2) a postcard or similar written communication affixed to or included in the prospectus that the Applicant can remove to send for a Statement of Additional Information; and (c) deliver any Statement of Additional Information and any financial statements required to be made available under this Form N-4 promptly upon written or oral request.

Undertakings of the Depositor Regarding Guarantor

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 effective date of this Registration Statement, and to cause Registrant to include as an exhibit to this Registration Statement the consent of the independent auditors 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 Contracts. The American Home Guarantee will not cover any Contracts with an issue date later than the Point of Termination. The American Home Guarantee will continue to cover Contracts with a date of issue earlier than the Point of Termination until all insurance obligations under such contracts are satisfied in full.

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SIGNATURES

As required by the Securities Act of 1933 and the Investment Company Act of 1940, the Registrant, Variable Annuity Account Seven certifies that it meets the requirements of Securities Act Rule 485(b) for effectiveness of this Registration Statement and has caused this Post-Effective Amendment to be signed on its behalf, in the City of Los Angeles, and State of California, on this 25th day of April, 2012.

VARIABLE ANNUITY ACCOUNT SEVEN
(Registrant)

By: SUNAMERICA ANNUITY AND LIFE
ASSURANCE COMPANY
(On behalf of Registrant and itself)

By: /s/ MALLARY L. REZNIK

MALLARY L. REZNIK,
SENIOR VICE PRESIDENT & GENERAL
COUNSEL

As required by the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<Table>
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SIGNATURE	TITLE	DATE
<S> <C>	<C>	<C>
JANA W. GREER* JANA W. GREER	Director, President & Chief Executive Officer (Principal Executive Officer)	April 25, 2012
MICHAEL J. AKERS* MICHAEL J. AKERS	Director	April 25, 2012
WILLIAM J. CARR* WILLIAM J. CARR	Director	April 25, 2012

N. SCOTT GILLIS* ------------------------------ N. SCOTT GILLIS	Director, Senior Vice President & Chief Financial Officer (Principal Financial Officer)	April 25, 2012
ROGER E. HAHN* ------------------------------ ROGER E. HAHN	Director	April 25, 2012
WILLIAM J. KANE* ------------------------------ WILLIAM J. KANE	Director	April 25, 2012
SCOTT H. RICHLAND* ------------------------------ SCOTT H. RICHLAND	Director	April 25, 2012
STEWART R. POLAKOV* ------------------------------ STEWART R. POLAKOV	Senior Vice President & Controller (Principal Accounting Officer)	April 25, 2012
/s/ MANDA GHAFERI ------------------------------ *MANDA GHAFERI	Attorney-in-Fact	April 25, 2012

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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 25th day of April, 2012.

AMERICAN HOME ASSURANCE COMPANY

BY: /s/ SEAN T. LEONARD

SEAN T. LEONARD
CHIEF FINANCIAL OFFICER AND SENIOR
VICE PRESIDENT

This amended Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.

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SIGNATURE	TITLE	DATE
*PETER D. HANCOCK ------------------------------ PETER D. HANCOCK	Chairman and Director	April 25, 2012
*PETER J. EASTWOOD ------------------------------ PETER J. EASTWOOD	Director, President and Chief Executive Officer	April 25, 2012
*SEAN T. LEONARD ------------------------------ SEAN T. LEONARD	Director, Chief Financial Officer and Senior Vice President	April 25, 2012
*JAMES BRACKEN ------------------------------ JAMES BRACKEN	Director	April 25, 2012
*JOHN Q. DOYLE ------------------------------ JOHN Q. DOYLE	Director	April 25, 2012

*DAVID NEIL FIELDS ------------------------------ DAVID NEIL FIELDS	Director	April 25, 2012
*DAVID L. HERZOG ------------------------------ DAVID L. HERZOG	Director	April 25, 2012
*MONIKA MARIA MACHON ------------------------------ MONIKA MARIA MACHON	Director	April 25, 2012
*RALPH W. MUCERINO ------------------------------ RALPH W. MUCERINO	Director	April 25, 2012
*SID SANKARAN ------------------------------ SID SANKARAN	Director	April 25, 2012
*CHRISTOPHER L. SPARRO ------------------------------ CHRISTOPHER L. SPARRO	Director	April 25, 2012
*MARK TIMOTHY WILLIS ------------------------------ MARK TIMOTHY WILLIS	Director	April 25, 2012

*BY: /s/ SEAN T. LEONARD

SEAN T. LEONARD
ATTORNEY-IN-FACT

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EXHIBIT INDEX

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<Caption>

EXHIBIT NO.	DESCRIPTION
<S>	<C>
(10)	Consents

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