

AMENDED AND RESTATED OFFERING MEMORANDUM

# AIG SunAmerica Global Financing X

**\$750,000,000 6.90% Senior Notes Due 2032**  
**\$31,000,000 Auction Market Equity Securities**

AIG SunAmerica Global Financing X (the "Issuer Trust") is a newly formed statutory business trust created under the laws of Delaware. Issuer Trust is offering \$750,000,000 6.90% Senior Notes due on March 15, 2032 (the "Notes") and \$31,000,000 Auction Market Equity Securities ("AMES", and together with the Notes, the "Securities"). The net proceeds from the offering of the Securities will be used by the Issuer Trust to purchase a funding agreement ("Funding Agreement") entered into by SunAmerica Life Insurance Company ("SunAmerica Life" or the "Company"). The Issuer Trust exists for the sole purpose of issuing the Securities and investing the proceeds in the Funding Agreement. Neither American International Group, Inc. ("AIG") nor SunAmerica Life has any ownership interest in or is otherwise affiliated with the Issuer Trust.

Notes:

- will be secured by the Funding Agreement;
- will bear interest at the rate shown above payable semi-annually in arrears on March 15 and September 15 of each year commencing September 15, 2002; and
- will mature on March 15, 2032.

The Issuer Trust has made an application to list the Notes on the Luxembourg Stock Exchange.

AMES:

- will be subordinated to the Notes and all other creditors of the Issuer Trust and will not be guaranteed by, or secured by the property of, any person;
- will bear an initial distribution rate of 2.00% from March 20, 2002 to but excluding the first Business Day following April 17, 2002; from the first Business Day following April 17, 2002, the AMES will bear a distribution rate, reset monthly, determined through an auction on the 17th day of each month, (except in March 2032, in which case such auction will be brought forward and held on March 14, 2032) or if such day is not a Business Day, on the next preceding Business Day, pursuant to the auction procedures described under "Description of AMES — Auction Procedures";
- will be issued and will trade only in whole (not partial) lots of 1,000 AMES (initial liquidation amount of \$1,000,000) per lot (each an "AMES Trading Block");
- will not be listed on any securities exchange or quoted on any quotation system;
- will be redeemed in certain circumstances only after the maturity or redemption of the Funding Agreement and the repayment of the Notes; and
- may not be resold except to Qualified Institutional Buyers who are U.S. persons (as defined by the Internal Revenue Code of 1986, as amended, the "Code").

The Securities:

- are *not* insurance contracts, insurance policies or funding agreements;
- are *not* obligations of AIG, SunAmerica Life or any of their affiliates; and
- will *not* benefit from any insurance guaranty fund coverage or any similar protection.

See "Risk Factors" beginning on page 15 for a discussion of factors relating to credit support, certain insurance regulatory issues and other factors that should be considered in evaluating an investment in the Securities.

The Securities have not been registered under the Securities Act of 1933 (the "Securities Act"), or any state securities laws and, unless so registered, may not be offered or sold, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, (a) the Notes and the AMES are being offered and sold to "qualified institutional buyers" (as defined in Rule 144A under the Securities Act) and (b) the Notes only are being offered and sold to professional or institutional investors outside the United States within the meaning of Regulation S under the Securities Act. See "Purchase and Transfer Restrictions".

	<u>Price to Investors(1)</u>	<u>Initial Purchasers' Discount</u>	<u>Proceeds, before Expenses, to the Issuer Trust</u>
Per Note .....	99.775%	.750%	99.025%
Total .....	\$748,312,500	\$5,625,000	\$742,687,500
Per AMES .....	\$1,000	\$6.75	\$993.25
Total .....	\$31,000,000	\$209,250	\$30,790,750

(1) Plus accrued interest or distributions from March 20, 2002.

It is expected that delivery of the Securities will be made in book-entry form through the facilities of The Depository Trust Company ("DTC") and delivery of certain of the Notes through Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking SA ("Clearstream"), all against payment therefore in immediately available funds on March 20, 2002.

*Joint Book-Running Managers and Initial Purchasers*

**Deutsche Banc Alex. Brown**

**Merrill Lynch & Co.**

**Morgan Stanley**

*Initial Purchasers*

**Banc of America Securities LLC**

**Bear, Stearns & Co. Inc.**

**HSBC**

**JPMorgan**

**Salomon Smith Barney**

**Wachovia Securities**

**ABN AMRO Incorporated**

**BNP PARIBAS**

**Banc One Capital Markets, Inc.**

**Lehman Brothers**

**SG**

**Tokyo-Mitsubishi International plc**

**UBS Warburg**

<http://www.oblible.com>

The date of this amended and restated offering memorandum is October 11, 2002.

The Issuer Trust reserves the right, at any time prior to March 20, 2004, from time to time and without the consent of any holders of any of the Notes, to reopen the offering of the Notes and issue up to \$250,000,000 aggregate principal amount of additional Notes on terms identical in all respects to the outstanding Notes (except the date of issuance), so that such additional Notes shall be consolidated with, form a single issue with and increase the aggregate principal amount of the Notes. The net proceeds from the offering of such additional Notes will be used by Issuer Trust to increase the face amount of the Funding Agreement by the aggregate principal amount of such additional Notes. The period of the resale restrictions applicable to any Notes previously offered and sold in reliance on Rule 144A shall automatically be extended to the last day of the period of any resale restrictions imposed on any such additional Notes.

The Issuer Trust reserves the right from time to time and without the consent of any holders of any of the AMES to issue up to 81,000 additional AMES (initial liquidation amount of \$81,000,000) on terms identical in all respects to the outstanding AMES (including the then-current distribution rate on the outstanding AMES), so that such additional AMES shall be consolidated with, form a single series with and increase the outstanding amount of the AMES. The net proceeds from the offering of such additional AMES will be used by Issuer Trust to increase the face amount of the Funding Agreement by the initial liquidation amount of such additional AMES.

Certain persons participating in this offering by the Issuer Trust may engage in transactions that stabilize, maintain or otherwise affect the price of any of the Securities, including over-allotment, stabilizing and short-covering transactions in such Securities, and the imposition of a penalty bid, in connection with the offering of such Securities. For a description of these activities, see “Plan of Distribution of the Issuer Trust”.

The offering of the Securities is being made in reliance upon an exemption from registration under the Securities Act for an offer and sale of securities that does not involve a public offering. Each purchaser of any Securities offered hereby in making its purchase will be deemed to have made certain acknowledgments, representations, warranties, and agreements as set forth under “Purchase and Transfer Restrictions”. The Securities have not been registered under the Securities Act or any state securities laws and, unless so registered, may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. In addition, the AMES may not be transferred except to qualified institutional buyers pursuant to Rule 144A, and, in particular, may not be transferred outside of the United States pursuant to Regulation S. This restriction will apply to the AMES for so long as any AMES remain outstanding.

Because the primary asset of the Issuer Trust is a funding agreement issued by a life insurance company, there is a risk that the transfer of the Securities could subject the parties to the transfer to regulation under the insurance laws of jurisdictions implicated by the transfer. See “Risk Factors—Insurance Regulatory Risks”.

The Initial Purchasers are not under any obligation to make a market in any of the Securities and, to the extent that such market making is commenced by the Initial Purchasers, it may be discontinued at any time. Notes sold pursuant to Rule 144A are subject to substantial restrictions on transfer as set forth under “Purchase and Transfer Restrictions”. AMES may be transferred only through an auction or through a participating broker-dealer and, except for the single AMES to be issued to the Administrative Trustee in connection with certain of its duties under the Trust Agreement (the “AT AMES”), the AMES will be issued and will trade only in AMES Trading Blocks. In addition, AMES may not be transferred if, as a result of such transfer, there would be more than 99 owners of AMES. Given the restrictions on and risks related to transfer, there is no assurance that a secondary market will develop or, if it does develop, that it will provide securityholders with liquidity or that it will be sustained. Prospective investors should proceed on the assumption that they may have to bear the economic risk of an investment in the Notes until maturity and in the AMES until they are redeemed, if ever.

No person is authorized in connection with the offering made hereby to give any information or to make any representation other than as contained in this Offering Memorandum and, if given or made, such information or representation must not be relied upon as having been authorized by the Issuer Trust or any of the Initial Purchasers. This Offering Memorandum does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Securities offered hereby, nor does it constitute an offer to sell, or a solicitation of an offer to buy, any of the Securities offered hereby to any person in any jurisdiction in which it is unlawful to make such an offer or solicitation to such purchase.

This Offering Memorandum is being furnished solely for the purpose of enabling prospective investors to consider the purchase of the Securities. Its use for any other purpose is not authorized. The information contained in this Offering Memorandum has been provided by the Issuer Trust and other sources as identified. No representation or warranty, express or implied, is made by the Issuer Trust or any of the Initial Purchasers as to the accuracy or completeness of such information as of any date after the date of this Offering Memorandum.

The Securities have not been recommended by any federal or state securities commission or securities regulatory authority or any insurance or other regulatory body. Furthermore, the foregoing authorities have not reviewed this document nor confirmed or determined the adequacy or accuracy of this document. Any representation to the contrary may be a criminal offense.

The Issuer Trust accepts responsibility for the information contained in this Offering Memorandum and confirms that this Offering Memorandum contains all information which is material in the context of the issue and offering of the Securities, that the information contained in this document is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed herein are honestly held and that there are no other facts, the omission of which would make this document or any of such information or the expression of any such opinions or intentions materially misleading, except that the statements relating to SunAmerica Life and its affiliates and the information set forth under the heading “Summary of Significant Differences between Arizona Statutory Accounting Principles and GAAP” are based on information provided to the Issuer Trust by SunAmerica Life specifically for use herein. The Issuer Trust accepts responsibility for correctly reproducing such information received by it.

### **DOCUMENTS AVAILABLE**

The Issuer Trust will, at the specified offices of the Luxembourg Notes Paying Agents (as identified in the Indenture) and the AMES Paying Agent (as identified in the Trust Agreement, and together with the Luxembourg Notes Paying Agents, the “Paying Agents”) for so long as any of the Securities are outstanding, make available, free of charge, a copy of this Offering Memorandum, the Indenture, the Notes, the AMES certificate, the Funding Agreement, the Trust Agreement and certificate of trust of the Issuer Trust and the annual audited and quarterly unaudited statutory financial statements of SunAmerica Life.

SunAmerica Life is required to file detailed annual reports with the supervisory agencies in each of the jurisdictions in the United States in which it does insurance business and its accounts are subject to examination by such agencies at any time. SunAmerica Life submits on a quarterly basis to the State of Arizona Department of Insurance (the “Arizona Department”) certain reports regarding its statutory financial condition. Certain information and reports that SunAmerica Life has filed with the Arizona Department can be inspected or obtained at the Arizona Department, 2910 North 44th Street, Suite 210, Phoenix, Arizona 85018.

**FOR NEW HAMPSHIRE RESIDENTS ONLY**

Neither the fact that a registration statement or an application for a license has been filed under N.H. Rev. Stat. Ann. Section 421-B with the State of New Hampshire nor the fact that a security is effectively registered or a person is licensed in the State of New Hampshire constitutes a finding by the Secretary of the State of New Hampshire that any document filed under N.H. Rev. Stat. Ann. Section 421-B is true, complete and not misleading. Neither any such fact nor the fact that an exemption or exception is available for a security or a transaction means that the Secretary of the State of New Hampshire has passed in any way upon the merits or qualifications of, or recommended or given approval to, any person, security or transaction. It is unlawful to make, or cause to be made, to any prospective investor, customer or client any representation inconsistent with the provisions of this paragraph.

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**FOR NORTH CAROLINA RESIDENTS ONLY**

None of the Securities has been approved or disapproved by the Commissioner of Insurance for the State of North Carolina, nor has the Commissioner of Insurance ruled upon the accuracy or adequacy of this Offering Memorandum. The investor in North Carolina understands that the Issuer Trust is not licensed in North Carolina pursuant to Chapter 58 of the North Carolina General Statutes, nor could it meet the basic admission requirements imposed by such chapter at the present time.

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**FOR ARKANSAS RESIDENTS ONLY**

The Securities may not be purchased by, offered, resold, pledged or otherwise transferred to an insurer domiciled in the State of Arkansas, a health maintenance organization, farmers' mutual aid association or other Arkansas domestic company regulated by the Arkansas insurance department.

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**FORWARD LOOKING STATEMENTS MAY PROVE INACCURATE**

This Offering Memorandum contains forward looking statements. Those statements appear in a number of places including, but not limited to, under the headings "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "SunAmerica Life Description of Business". Such statements include statements regarding the belief or current expectations of the Issuer Trust or SunAmerica Life concerning their respective future financial condition and results of operations, including expected operating and non-operating relationships, ability to meet debt service obligations and financing plans. Prospective investors are cautioned that any such forward looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those in the forward looking statements as a result of various factors. The accompanying information contained in this Offering Memorandum, including without limitation the information set forth under the heading "Risk Factors", identifies important factors that could cause such differences.

## PRESENTATION OF FINANCIAL INFORMATION

The financial information contained in this Offering Memorandum is based on the unaudited statutory financial statements of SunAmerica Life at and for the three months ended March 31, 2002 (including the notes thereto, the “Interim Statutory Financial Statements”) and the audited Statutory Financial Statements of SunAmerica Life at December 31, 2001 and 2000 and for the years ended December 31, 2001, 2000 and 1999 (including the notes thereto, the “Statutory Financial Statements”). The discussions in Management’s Discussion and Analysis of Financial Condition and Results of Operations and Recent Developments are based on the Company’s Statutory Financial Statements and the Interim Statutory Financial Statements which have been prepared in conformity with the accounting practices prescribed or permitted by the Insurance Department of the State of Arizona (the “Arizona SAP”). The presentation for 2001 reflects certain changes in accounting principles resulting from Codification that went into effect on January 1, 2001. (For a discussion of these changes, see the discussion under “Codification of Statutory Accounting Principles” and “Summary of Significant Differences Between Arizona SAP and GAAP”). To facilitate the comparison of the 2001 figures with 2000 and 1999 figures, the figures for 2000 and 1999 included in the Statutory Financial Statements, and in the discussion under “Results of Operations – Year Ended December 31, 2001 compared to Year Ended December 31, 2000”, “Results of Operations – Year Ended December 31, 2000 compared to Year Ended December 31, 1999” and “Financial Condition and Liquidity at December 31, 2001 Compared to 2000” have been reclassified to conform to the 2001 presentation.

As disclosed in Note 2 to the Statutory Financial Statements and under “Summary of Significant Differences Between Arizona SAP and GAAP”, Arizona SAP differ in certain significant respects from accounting principles generally accepted in the United States of America (“GAAP”). In particular and among others things, instead of accounting for controlling investments in subsidiaries on a consolidated basis, the Statutory Financial Statements account for controlling investments in subsidiaries using the equity method. In addition and among others things, certain acquisition costs, in excess of fair value acquired, (including what would be deemed deferred acquisition costs under GAAP) are expensed immediately and, if related to the acquisition of a company, are charged directly to unassigned surplus without any income statement effect; and, prior to Codification (as defined below), premiums on annuities, guaranteed investment contracts and similar investment-oriented products are accounted for as income and on a cash basis, offset by changes to benefits or increases or decreases to reserves or liabilities for future benefits on the expense portion of the income statement (Codification requires that such items no longer be reflected in the income statement).

Effective January 1, 2001, the State of Arizona requires that insurance companies domiciled in the State of Arizona prepare their statutory basis financial statements in accordance with the revised NAIC Accounting Practices and Procedures manual which became effective as of January 1, 2001, subject to deviations prescribed or permitted by the State of Arizona insurance commissioner (“Codification”). Information in the Statutory Financial Statements relating to the year 2001 has been prepared in accordance with the Codification, and certain items in those statements relating to the years 2000 and 1999 have been reclassified to aid in comparability in accordance with NAIC guidance. Such preparation and reclassifications limit the comparability of such information to information prepared on a pre-Codification basis.

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**You should rely only on the information contained in this Offering Memorandum. We have not authorized anyone to provide you with any information beyond that contained in this Offering Memorandum, including any information relating to SunAmerica Life and its affiliates. This Offering Memorandum may only be used where it is legal to sell the Securities. The information in this Offering Memorandum may only be accurate on the date of this Offering Memorandum.**

## SUMMARY

*The following summary is qualified by the more detailed information and financial statements (including the notes) appearing elsewhere in this Offering Memorandum.*

### SUNAMERICA LIFE

SunAmerica Life is a life insurance company that conducts financial services specializing in retirement savings and investment products and services. At December 31, 2001, SunAmerica Life had unconsolidated assets of \$32.73 billion. Together with its two life insurance subsidiaries, which, at December 31, 2001, had additional unconsolidated assets of \$26.80 billion on a combined basis, SunAmerica Life is among the largest U.S. issuers of fixed and variable annuities and guaranteed investment contracts (“GICs”). Complementing these annuity and GIC operations are the Company’s asset management operations, SunAmerica Asset Management Corp., which managed approximately \$9.45 billion of assets at December 31, 2001 and the Company’s broker-dealer, Royal Alliance Associates, Inc.

The Company believes demographic trends have produced strong consumer demand for long-term, investment-oriented products. According to U.S. Census Bureau projections, one in four Americans will have entered their savings-intensive pre-retirement years, ages 45-64, by 2006. This represents a 20% increase from the number of individuals in that age group today.

Benefiting from continued strong growth of the retirement savings market, industry sales of tax-deferred savings products have represented, for a number of years, a significantly larger source of new premiums for the U.S. life insurance industry than have traditional life insurance products. Recognizing the growth potential of this market, the Company focuses its life insurance operations on the sale of annuities and GICs.

SunAmerica Life distributes its products through the approximately 9,000 independent registered representatives of its six affiliated broker-dealers, as well as an extensive network of independent broker-dealers, full-service securities firms, independent general insurance agents, major financial institutions and, in the case of its GICs, by marketing directly to banks, municipalities, asset management firms and direct plan sponsors and through intermediaries, such as managers or consultants servicing these groups.

SunAmerica Life has made significant investments in technology over the past several years in order to lower operating costs and enhance its marketing efforts. Its use of optical disk imaging and artificial intelligence has substantially reduced the more traditional paper-intensive life insurance processing procedures, reducing annuity processing and servicing costs and improving customer service. This has also enabled the Company to more efficiently assimilate acquired business. The Company has also implemented technology to interface with its wholly owned broker-dealers, which enables the Company to more effectively market its products and help the affiliated financial professionals to better service their clients.

### AIG SUNAMERICA GLOBAL FINANCING X

The Issuer Trust is a statutory business trust formed under Delaware law. U.S. Bank, N.A., Phoenix, Arizona office, in its capacity as a trustee of the Issuer Trust, will act as the Administrative Trustee with respect to the Issuer Trust and will conduct the business and affairs of the Issuer Trust. Wilmington Trust Company is the Delaware trustee of the Issuer Trust. The Issuer Trust exists for the exclusive purposes of (i) issuing and selling the Securities, (ii) using the proceeds from the sale of Securities to acquire the Funding Agreement entered into by SunAmerica Life from Merrill Lynch, Pierce, Fenner & Smith Incorporated (in such capacity, the “Depositor”) and (iii) engaging in only those other activities necessary or incidental thereto (described under “AIG SunAmerica Global Financing—Principal Assets” below). Accordingly, the Funding Agreement will be the primary asset of the Issuer Trust, and payments under the Funding Agreement will be the sole sources of revenue of the Issuer Trust.



## The Offerings

<b>Issuer Trust</b> .....	AIG SunAmerica Global Financing X, a Delaware business trust. The Issuer Trust was created pursuant to an original Trust Agreement dated March 11, 2002 among the Administrative Trustee, the Delaware Trustee and the Depositor (as amended and restated from time to time, the “Trust Agreement”). In connection with the closing of the sale of the Securities, the parties to the original Trust Agreement expect to enter into an amended and restated Trust Agreement more fully described under “AIG SunAmerica Global Financing X—Trust Agreement”.
<b>Assets</b> .....	<p>The primary asset of the Issuer Trust will be the Funding Agreement.</p> <p>Payments on the Securities will be made solely from the proceeds of the Funding Agreement and Eligible Assets (as defined below), if any. As a result, the credit with respect to the Securities is based mainly on the creditworthiness of SunAmerica Life.</p> <p>The Issuer Trust believes that Funding Agreement payments will be sufficient to cover expected costs and expenses of the Issuer Trust. In addition, the Depositor has agreed to pay any other expenses of the Issuer Trust, other than the Issuer Trust’s payment obligations on the Securities.</p> <p>Special Arizona insurance insolvency counsel for SunAmerica Life has opined that the Funding Agreement should be accorded class three priority under Arizona law. However, under Arizona law, the Funding Agreement will not benefit from any insurance guaranty fund coverage or any similar protection.</p> <p>The Funding Agreement will be held in the state of Arizona by the Collateral Agent on behalf of the Indenture Trustee (each as defined below).</p>
<b>Expenses Agreement</b> .....	The Issuer Trust will enter into an agreement with the Depositor pursuant to which the Depositor will reimburse the Issuer Trust for any costs, expenses or liabilities of the Issuer Trust as provided therein other than the Issuer Trust’s payment obligations under the Securities.
<b>Administrative Trustee</b> .....	U.S. Bank, N.A., Phoenix, Arizona office.
<b>Delaware Trustee</b> .....	Wilmington Trust Company.
<b>Depositor</b> .....	Merrill Lynch, Pierce, Fenner & Smith Incorporated, as initial purchaser of the Funding Agreement.
<b>The Notes:</b>	
<b>Notes</b> .....	\$750,000,000 6.90% senior notes due on March 15, 2032.
<b>Interest</b> .....	<p>The Notes will bear interest payable semi-annually in arrears on March 15 and September 15 of each year commencing September 15, 2002, up to maturity (each an “Interest Payment Date”).</p> <p>Interest will be calculated on the basis of a 360-day year of twelve 30-day months and, in the case of an incomplete month, the actual number of days elapsed.</p>

<b>Form and Denomination</b> .....	<p>The Notes will be denominated and payable in U.S. dollars and issued in fully registered form, without coupons.</p> <p>Notes sold in reliance on Rule 144A under the Securities Act will be represented by one or more global certificates deposited with a custodian for and registered in the name of DTC or its nominee.</p> <p>Notes sold in reliance on Regulation S under the Securities Act will be represented by one or more global certificates, initially in temporary global form, deposited with a custodian for and registered in the name of DTC or its nominee for clearance through DTC and its direct and indirect participants, including Euroclear and Clearstream.</p> <p>Except in limited circumstances, certificates for individual Notes will not be issued in exchange for interests in the global certificates.</p>
<b>Acceleration rights</b> .....	The Notes are subject to acceleration on the occurrence of certain events of default.
<b>Governing Law</b> .....	The Indenture and the Notes will be governed by and construed in accordance with the laws of New York.
<b>Listing</b> .....	Application has been made to list the Notes on the Luxembourg Stock Exchange.
<b>Indenture Trustee</b> .....	Bank One, National Association, pursuant to an indenture to be dated on or about March 20, 2002 between the Issuer Trust and the Indenture Trustee (the "Indenture").
<b>Collateral Agent</b> .....	Bank One, National Association, Phoenix, Arizona office.
<b>Further Issues and Reopenings</b> .....	The Issuer Trust reserves the right, at any time prior to March 20, 2004, from time to time and without the consent of any holders of any of the Notes, to reopen the offering of the Notes and issue up to \$250,000,000 aggregate principal amount of additional Notes on terms identical in all respects to the outstanding Notes (except the date of issuance), so that such additional Notes shall be consolidated with, form a single issue with and increase the aggregate principal amount of the Notes. The net proceeds from the offering of such additional Notes will be used by Issuer Trust to increase the face amount of the Funding Agreement by the aggregate principal amount of such additional Notes. The period of the resale restrictions applicable to any Notes previously offered and sold in reliance on Rule 144A shall automatically be extended to the last day of the period of any resale restrictions imposed on any such additional Notes.
<b>The AMES:</b>	
<b>AMES</b> .....	\$31,001,000 aggregate initial liquidation amount of Auction Market Equity Securities with no stated maturity; the AMES will be redeemed only in certain circumstances.
<b>AT AMES</b> .....	The single AMES, with an initial liquidation amount of \$1,000, issued to and held by the Administrative Trustee in connection with certain of its duties under the Trust Agreement.
<b>Form and Denomination</b> .....	The AMES will be denominated and payable in U.S. dollars in registered form only to QIBs who are U.S. persons (as defined in the Code). AMES (i) will be represented by one or more global certificates deposited with a custodian for and registered in the name of DTC or its nominee and (ii) except for the AT AMES, will be issued and traded only in AMES Trading Blocks, which are whole (not partial) lots of 1,000 AMES (initial liquidation amount of \$1,000,000).

<b>Distributions</b> .....	AMES holders will be entitled to receive when, as and if declared by the Administrative Trustee, out of funds legally available therefor and subject to the terms of the Trust Agreement (see “Description of the AMES—Distributions”) cumulative cash distributions, at the applicable distribution rate, payable in respect of the distribution periods and on the respective dates as described below. Under the Trust Agreement, the Issuer Trust will not be permitted to declare Distributions unless the Issuer Trust has paid or made provision for payment of all principal and interest due on all Notes outstanding, and of other currently outstanding expenses or claims against the Issuer Trust, the Administrative Trustee or the Delaware Trustee, if such payments have become due prior to such declaration. Distributions on the AMES will be subordinated to all claims of creditors of the Issuer Trust, including, without limitation, claims of holders of Notes.
<b>Distribution Periods</b> .....	The initial distribution period will end on but exclude the Business Day following April 17, 2002. Subsequent distribution periods will end on but exclude the Business Day following the 17th day of the month in each subsequent month except that the distribution period ending in March 2032 will be brought forward and end on but exclude the Business Day following March 14, 2032. Distributions for each distribution period will be payable in arrears on the last day of such period, <i>provided, however,</i> that for each distribution period which commences in one calendar year and ends in the next, an interim distribution will be made on the last Business Day of the first such year in respect of the period commencing on the first day of such distribution period and ending on and including December 31 of such year and a final distribution will be made on the distribution date for such distribution period in respect of the period commencing on and including January 1 of the subsequent year and ending on the last day of such distribution period.
<b>Distribution Rate</b> .....	The distribution rate for the initial distribution period will be 2.00%. For each subsequent distribution period the distribution rate on the AMES will be set through a Dutch auction conducted by the Auction Agent (as defined below). The distribution rate will apply to the distribution period following the auction. Distributions will be calculated on the basis of the actual number of days in the distribution period and a 360-day year.
<b>The Auctions</b> .....	The Auction Agent will conduct the auctions on the 17th day of each month (except in March 2032, in which case such auction will be brought forward and held on March 14, 2032), or, if such day is not a Business Day, the next preceding Business Day, based on bids placed through participating Broker-Dealers (as defined below), and will announce auction results on the date of each Auction.
<b>Default Rate</b> .....	In no case will the distribution rate set in an auction exceed the Default Rate, which will be a percentage of the Applicable Determining Rate, determined by reference to the prevailing rate of the AMES. The distribution rate will (i) equal the Default Rate if there are insufficient clearing bids in an auction (i.e., if there are more orders to sell AMES than there are bids to purchase AMES) and (ii) equal 275% of the Applicable Determining Rate in the event that auctions are suspended as a result of the Issuer Trust’s failure to pay all Distributions which have accumulated during any distribution period by no later than the third Business Day following the last day of such distribution period.
<b>Applicable Determining Rate</b> .....	Generally, the money market yield of the rate for commercial paper with a maturity of 30 days as published in H.15(519) under the heading “Commercial Paper—Nonfinancial”. See “Description of the AMES—Distributions—Default Rate”.
<b>Voting Rights</b> .....	Owners of a majority of the outstanding AMES may vote to remove the Administrative Trustee or the Delaware Trustee for cause, provided that a qualified replacement trustee has been appointed, has accepted such appointment and has been approved by the Indenture Trustee. The AMES will not provide for any other voting rights.

<b>Liquidation</b> .....	Owners of the AMES will be entitled to receive, upon the liquidation of the Issuer Trust and after payment of all principal and interest due on the Notes and satisfaction (whether by payment or reasonable provision for payment) of any other claims against the Issuer Trust, out of available assets of the Issuer Trust or proceeds thereof, \$1,000 per AMES plus all accumulated and unpaid distributions (whether or not declared) and a pro rata share of any remaining assets.
<b>Auction Agent and AMES Paying Agent</b> .....	The Bank of New York.
<b>Participating Broker-Dealer</b> .....	Initially, Merrill Lynch, Pierce, Fenner & Smith Incorporated (the “Broker-Dealer”).
<b>Further Issues</b> .....	The Issuer Trust reserves the right from time to time and without the consent of any holders of any of the AMES to issue up to 81,000 additional AMES (initial liquidation amount of \$81,000,000) on terms identical in all respects to the outstanding AMES (including the then-current distribution rate on the outstanding AMES), so that such additional AMES shall be consolidated with, form a single series with and increase the outstanding amount of the AMES. The net proceeds from the offering of such additional AMES will be used by Issuer Trust to increase the face amount of the Funding Agreement by the initial liquidation amount of such additional AMES.
<b>Governing Law</b> .....	The AMES will be governed by and construed in accordance with the laws of Delaware.
<b>The Notes and the AMES:</b>	
<b>Changes in Taxation</b> .....	All payments under the Securities will be made without deduction or withholding for any present or future taxes, duties, assessments or governmental charges of any nature, unless such withholding or deduction is required by law, regulation or official interpretation.  Any withholding or deduction so required will be made without the payment of any additional amounts to securityholders, and the imposition of a requirement to make such withholdings or deductions will not give rise to any independent right or obligation to redeem the Securities.
<b>Transfer Restrictions</b> .....	The Securities have not been registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except as described under “Purchase and Transfer Restrictions”. In addition, because the primary asset of the Issuer Trust is a funding agreement issued by a life insurance company, there is a risk that the transfer of the Securities could subject the parties to the transfer to regulation under the insurance laws of the jurisdictions implicated by the transfer. See “Risk Factors—Insurance Regulatory Risks”.
<b>ERISA Considerations</b> .....	Prospective purchasers of the Notes must carefully consider the restrictions on purchase set forth under “Purchase and Transfer Restrictions” and “ERISA Considerations”. Investors subject to ERISA may not purchase AMES.
<b>Absence of Market for the Securities</b> .....	The Notes and the AMES are new issues of securities with no established trading market, although application is intended to be made for the Notes to be listed on the Luxemburg Stock Exchange. The AMES may be transferred only through an auction or through a participating broker-dealer, and AMES will be issued and will trade only in AMES Trading Blocks.
<b>Use of Proceeds</b> .....	The net proceeds to the Issuer Trust from the sale of the Securities, amounting to \$773,478,250 (after expenses), will be invested by the Issuer Trust in the Funding Agreement.

## SUMMARY FINANCIAL DATA OF SUNAMERICA LIFE

The summary financial information of SunAmerica Life below was selected from, should be read in connection with, and is qualified in its entirety by reference to, the Interim Statutory Financial Statements and the Statutory Financial Statements. Effective January 1, 2001, the State of Arizona required that insurance companies domiciled in the State of Arizona prepare their statutory basis financial statements in accordance with the Codification. Certain December 31, 2000 and 1999 items presented here have been reclassified to conform to the 2001 presentation, which reflects Codification. The Statutory Financial Statements were prepared in accordance with Arizona SAP, which differ in certain significant respects from GAAP. See "Summary of Significant Differences Between Arizona SAP and GAAP", "Presentation of Financial Information" and Note 2 to the Statutory Financial Statements.

	Year Ended December 31,			Six Months Ended June 30,	
	1999	2000	2001	2001	2002
				(Unaudited)	(Unaudited)
	(in millions of dollars)				
<b>Unconsolidated summary of operations:</b>					
<b>Revenues:</b>					
Premiums and annuity considerations(1) .....	170.4	104.1	156.1	44.9	145.4
Net investment income(2) .....	1,476.5	1,711.1	2,059.1	1,050.4	1,057.1
Amortization of Interest Maintenance Reserve .....	(8.0)	17.9	76.1	11.2	11.5
Other .....	25.8	18.7	37.4	12.2	32.5
<b>Total Revenues</b> .....	<b>1,664.7</b>	<b>1,851.8</b>	<b>2,328.7</b>	<b>1,118.7</b>	<b>1,246.5</b>
<b>Benefits and Expenses:</b>					
Annuity benefits(1) .....	(310.8)	(212.8)	(168.5)	(89.3)	(75.3)
Surrender benefits(1).....	(1,613.3)	(1,741.1)	(689.7)	(423.3)	(230.2)
Interest and adjustments on policy or deposit-type contract funds .....	(473.3)	(906.3)	(1,037.3)	(435.7)	(424.1)
Decrease in reserves for fixed annuities and supplementary contracts with life contingencies.....	1,385.8	1,617.7	624.9	377.1	53.2
Net transfers to separate accounts.....	(80.8)	(55.6)	(30.6)	(32.1)	(7.2)
Other .....	(92.8)	(102.2)	(193.7)	(56.7)	(135.2)
<b>Total Benefits and Expenses</b> ....	<b>(1,185.2)</b>	<b>(1,400.3)</b>	<b>(1,494.9)</b>	<b>(660.0)</b>	<b>(818.8)</b>
Net gain from operations before dividends and federal income taxes.....	479.5	451.5	833.8	458.7	427.7
Dividends paid to policyholders .....	(1.8)	(1.9)	(1.2)	—	—
Federal income tax expense .....	(52.0)	(48.6)	(156.6)	(53.6)	(108.3)
Net realized capital losses(3) .....	(8.5)	(32.4)	(205.1)	(124.2)	(68.7)
<b>Net Income</b> .....	<b>417.2</b>	<b>368.6</b>	<b>470.9</b>	<b>280.9</b>	<b>250.7</b>

	At December 31,			At June 30,	
	1999	2000	2001	2001	2002
				(Unaudited)	(Unaudited)
	(in millions of dollars)				
<b>Unconsolidated Balance Sheet Data:</b>					
<b>Admitted Assets:</b>					
<b>Invested Assets (cash and investments):</b>					
Bonds .....	14,845.8	18,409.9	24,565.8	22,757.1	28,318.8
Common stock(4) .....	885.5	1,186.9	1,172.0	1,222.1	1,115
Mortgage loans .....	3,245.6	3,564.5	3,803.2	3,795.5	4,038
Cash and short-term investments .....	1,113.1	575.3	202.5	312.6	339.4
Other .....	420.2	403.7	480.6	520.6	3,633
<b>Total invested assets .....</b>	<b>20,510.2</b>	<b>24,140.3</b>	<b>30,224.1</b>	<b>28,607.9</b>	<b>37,444.6</b>
Separate account assets .....	2,036.3	2,114.8	1,970.2	2,088.4	1,859
Other .....	378.5	369.1	537.2	427.6	1,473
<b>Total admitted assets .....</b>	<b>22,925.0</b>	<b>26,624.2</b>	<b>32,731.5</b>	<b>31,123.9</b>	<b>40,777.3</b>
<b>Liabilities:</b>					
Reserves for life policies and contracts .....	6,961.5	5,352.8	4,727.9	4,975.7	4,674
Liabilities for deposit - type contracts .....	11,573.4	16,617.9	23,514.4	21,417.2	27,870.2
Interest maintenance reserve(3) .....	85.1	59.8	82.5	92.6	58
Asset valuation reserve .....	199.4	190.8	123.5	173.4	153.0
Separate account liabilities .....	2,025.7	2,100.5	1,955.5	2,054.2	1,834
Other .....	276.7	285.3	300.7	549.5	3,902
<b>Total liabilities .....</b>	<b>21,121.8</b>	<b>24,607.1</b>	<b>30,704.5</b>	<b>29,262.6</b>	<b>38,492.9</b>
<b>Capital and Surplus:</b>					
Capital and surplus (except unassigned surplus) .....	791.7	1,131.8	1,145.6	1,303.6	1,138
Unassigned surplus(5) .....	1,011.5	885.3	881.4	557.7	1,145
<b>Total capital and surplus .....</b>	<b>1,803.2</b>	<b>2,017.1</b>	<b>2,027.0</b>	<b>1,861.3</b>	<b>2,284</b>
<b>Total liabilities and capital and surplus .....</b>	<b>22,925.0</b>	<b>26,624.2</b>	<b>32,731.5</b>	<b>31,123.9</b>	<b>40,777.3</b>

(1) Accounted for on a cash basis.

(2) Accounted for on an accrual basis, except as otherwise stated.

(3) Net of income tax expense (benefit) on net realized capital gains (losses) of \$(38.5) million, \$(11.0) million and \$(34.5) million for the years ended December 31, 1999, 2000 and 2001, respectively, as well as \$25.8 million for the six months ended June 30, 2001 and net realized capital gains (losses) transferred to (deducted from) the interest maintenance reserve of \$(15.4) million, \$(7.4) million and \$98.7 million for the years ended December 31, 1999, 2000 and 2001, as well as \$44.0 million and \$(12.7) million for the six months ended June 30, 2001 (unaudited) and 2002 (unaudited), respectively.

(4) Includes \$846.7 million, \$1.15 billion and \$1.14 billion of investments in the common stock of subsidiaries, which are accounted for by the equity method, at December 31, 1999, 2000 and 2001, respectively as well as \$1.19 billion and \$1.08 billion for the six months ended June 30, 2001 (unaudited) and 2002 (unaudited), respectively.

- (5) Certain acquisition costs, in excess of the fair value acquired (including what would be deemed deferred acquisition costs under GAAP), if related to the acquisition of a company, changes in unrealized capital gains and losses on equity investments, changes in the book value of non-admitted assets and changes in the asset valuation reserve are recorded directly to unassigned surplus without any income statement effect.

## RISK FACTORS

*Prospective purchasers of the Securities should carefully review the information contained elsewhere in this Offering Memorandum and should particularly consider the following matters.*

### **No Representation about Credit Support**

It is a condition to closing of the Notes and the AMES that the Notes will receive credit ratings of AAA from Standard Poor's and Aaa from Moody's and the AMES will receive credit ratings of AAA from Standard Poor's and Aaa from Moody's. It is expected that the ratings of the Notes will be based on the financial strength ratings of the Company and the ratings of the AMES will be based on the financial strength ratings of the Company.

The Company's current financial strength and counterparty credit ratings from Standard Poor's are based on a guarantee (the "Guarantee") of the Company's insurance policy obligations by American Home Assurance Company ("American Home"), a subsidiary of AIG, and a member of an AIG intercompany pool, and the belief that SunAmerica Life is viewed as a strategically important member of AIG. The Guarantee is unconditional and irrevocable, and policyholders, including the Issuer Trust with respect to the Funding Agreement have the right to enforce the Guarantee directly against American Home.

The Company's current financial strength rating from Moody's is based in part on a support agreement between the Company and AIG (the "Support Agreement"), pursuant to which AIG has agreed that AIG will cause the Company to maintain a policyholders' surplus of not less than \$1 million or such greater amount as shall be sufficient to enable the Company to perform its obligations under any policy issued by it. The Support Agreement also provides that if the Company needs funds not otherwise available to it to make timely payment of its obligations under policies issued by it, AIG will provide such funds at the request of the Company. The Support Agreement is not a direct or indirect guarantee by AIG to any person of any obligation of the Company. AIG may terminate the Support Agreement with respect to outstanding obligations of the Company only under circumstances where the Company attains, without the benefit of the Support Agreement, a financial strength rating equivalent to that held by the Company with the benefit of the support agreement. Policyholders, including the Issuer Trust with respect to the Funding Agreement have the right to cause the Company to enforce its rights against AIG and, if the Company fails or refuses to take timely action to enforce the Support Agreement or if the Company defaults in any claim or payment owed to such policyholder when due, have the right to enforce the Support Agreement directly against AIG.

American Home does not publish financial statements, although it files statutory annual and quarterly reports with the New York State Insurance Department, where such reports are available to the public. AIG is a reporting company under the Securities Exchange Act of 1934, and publishes annual reports on Form 10-K and quarterly reports on Form 10-Q, which are available from the Securities and Exchange Commission. However, neither the Issuer Trust nor any of the Initial Purchasers have been given an opportunity to discuss those statutory reports or annual or quarterly reports with American Home or AIG or to perform any investigation of American Home or AIG.

*Accordingly, neither the Issuer Trust nor the Initial Purchasers makes any representations or takes any responsibility for any statement or omission about (i) American Home or AIG, (ii) the AIG intercompany pool, (iii) any financial strength or counterparty credit ratings of the Company or (iv) any credit rating of any of the Securities, including to the extent such ratings of such Securities are based in whole or in part on the Guarantee, the AIG intercompany pool or the Support Agreement. Investors should not rely on Issuer Trust or any of the Initial Purchasers for any of these issues.*

### **Insurance Regulatory Risks**

The laws and regulations of the states of the United States and the District of Columbia (the "Covered Jurisdictions") contain broad definitions of the activities that may constitute the conduct of the insurance business in the Covered Jurisdictions. Because the primary asset of the Issuer Trust is a funding agreement issued by a life insurance company, it is possible that the distribution of the Securities by the Issuer Trust or the purchase, resale or assignment of the Securities by any investor or any person who acquires the Securities directly or indirectly from such investor (i) could be characterized by one or more jurisdictions as the conduct of the business of insurance by the Issuer Trust, such investor or such other person or (ii) could otherwise subject the Issuer Trust, such investor or such other person to regulation under the insurance laws of one or more Covered Jurisdictions.

There can be no assurance that the purchase, resale or assignment any of the Securities will not subject the parties to such transaction to regulation under the insurance laws of one or more Covered Jurisdictions.



### **AMES Liquidity Risk**

Investors may transfer AMES only through an auction or through a participating broker-dealer, and will be issued and will be traded in AMES Trading Blocks. As a result, the ability of an investor to dispose of AMES may be largely dependent on the success of the auction. If there are insufficient clearing bids in an auction, then investors that have submitted sell orders will not be able to sell in the auction all, and may not be able to sell in the auction any, AMES subject to the submitted sell orders. There is no assurance that any particular auction will be successful and neither the Issuer Trust nor any broker-dealer is obligated to take any action to ensure that an auction will be successful. In the absence of successful auctions, there is no assurance that a secondary market for the AMES will develop or that in the event such a market does develop, the AMES will trade at or close to par.

### **USE OF PROCEEDS**

The net proceeds to the Issuer Trust from the offering of the Securities will be \$773,478,250 (after expenses). The proceeds from the sale of Securities will be invested by the Issuer Trust in the Funding Agreement.

## AIG SUNAMERICA GLOBAL FINANCING X

The Issuer Trust is a statutory business trust created under Delaware law pursuant to a declaration of trust and the filing of a certificate of trust with the Delaware Secretary of State on March 11, 2002. U.S. Bank, N.A., Phoenix, Arizona office, in its capacity as a trustee of the Issuer Trust, will act as the Administrative Trustee with respect to the Issuer Trust and will conduct the business and affairs of the Issuer Trust. Wilmington Trust Company is the Delaware Trustee of the Issuer Trust. The Issuer Trust will exist for the exclusive purposes of (i) issuing and selling the Securities, (ii) using the proceeds from the sale of Securities to acquire the Funding Agreement entered into by SunAmerica Life from the Depositor and (iii) engaging in only those other activities necessary or incidental thereto. Accordingly, the Funding Agreement will be the primary asset of the Issuer Trust, and payments under the Funding Agreement will be the sole sources of revenue of the Issuer Trust.

The Issuer Trust may be liquidated in certain circumstances related to the final maturity or acceleration of the Funding Agreement. See “Description of the AMES—Liquidation”.

In no event will the holders of the Notes have any right to appoint, remove or replace the Issuer Trustees, and the holders of AMES will have the right to replace the Issuer Trustees only in limited circumstances as described under “Description of the AMES—Voting Rights”. The duties and obligations of each trustee of the Issuer Trust are governed by the Trust Agreement.

The Administrative Trustee will own one AMES which will not be transferable (except to a successor Administrative Trustee) and will not carry voting rights. The principal executive office of the Issuer Trust is c/o U.S. Bank, N.A., 7310 N. 16th Street, Ste. 275, Phoenix, AZ 85020; Attention: Corporate Trust Administration.

### Principal Assets

The principal asset of the Issuer Trust will be the Funding Agreement, more fully described under “Description of the Funding Agreement” below.

### Expenses Agreement

The Issuer Trust will enter into an agreement with the Depositor pursuant to which the Depositor will reimburse the Issuer Trust for any costs, expenses or liabilities of the Issuer Trust as provided therein other than the Issuer Trust’s payment obligations under the Securities.

### Certain Provisions of the Trust Agreement

*Limitations on Permitted Activities.* Under the Trust Agreement, neither the Issuer Trust nor either of the Issuer Trustees may undertake any business, activity or transaction except as expressly provided for or contemplated by the Trust Agreement or the Indenture. In particular, the Issuer Trustees may not, except as contemplated by the Trust Agreement or the Indenture:

- (i) acquire any investments or engage in any activities not authorized by the Trust Agreement;
- (ii) sell, assign, transfer, exchange, mortgage, pledge, set-off or otherwise dispose of any of the assets of the Issuer Trust or interests therein, including to the Indenture Trustee or any holder of Securities, except as expressly provided herein or in the Indenture;
- (iii) take any action that would cause the Issuer Trust to fail or cease to qualify as a partnership that is not a “publicly traded partnership” within the meaning of Section 7704(a) of the Code or as another nontaxable entity for U.S. federal income tax purposes;
- (iv) incur any indebtedness for borrowed money or issue any other debt (other than the Notes);
- (v) take or consent to any action that would result in the placement of a lien on any of the assets of the Issuer Trust (other than the security interest in favor of the Indenture Trustee on behalf of the holders of the Notes as contemplated by the Indenture); or
- (vi) to the fullest extent permitted by law, so long as any Notes are outstanding (unless pursuant to an affirmative vote of the holders of the Notes): have the right, power, authority or authorization (a) to institute proceedings for any Issuer Trustee (in such capacity) or the Issuer Trust to be adjudicated bankrupt or insolvent or subject to receivership, (b) to consent to the institution of bankruptcy, insolvency, receivership, reorganization or relief proceedings under any applicable federal or state law relating to bankruptcy or receivership against any Issuer Trustee (in such capacity), the Issuer Trust or a substantial part of the assets of the Issuer Trust, (c) to admit in writing any Issuer Trustee’s (in such capacity) or the Issuer Trust’s inability to pay its debts generally as they become due or (d) to take action in furtherance of any such action; *provided, however*, that no provision of the Trust Agreement is intended to restrict or otherwise affect in any way any right, power, authority or authorization of an Issuer Trustee under Delaware law.

The Issuer Trustees may not, and to the best of their ability may not allow any other person to, exercise any annuity or similar option contained in the Funding Agreement.

*Defense of claims.* Pursuant to the Trust Agreement, the Administrative Trustee must defend all claims and demands of all persons at any time claiming any lien on any of the assets of the Issuer Trust adverse to the interest of the Issuer Trust or any holder of Securities, other than the security interest granted in favor of the Indenture Trustee on behalf of each holder of Notes pursuant to the Indenture.

*Limitation on Liability of Issuer Trustees.* None of the Issuer Trustees will be liable for any action or failure to act, except (i) for its own willful misconduct or gross negligence, (ii) for the inaccuracy of its own representation or warranty contained in the Trust Agreement or (iii) for taxes (other than income taxes of such Issuer Trustee), fees or other charges on, based on or measured by, any fees, commissions or compensation received by such Issuer Trustee in connection with any of the transactions contemplated by the Trust Agreement.

*Eligibility Requirements for Trustees.* Each Issuer Trustee must at all times be a corporation or Banking Association (i) authorized to exercise corporate trust powers; (ii) having a combined capital and surplus of at least \$50,000,000 and subject to supervision or examination by Federal or State authorities; and (iii) having (or having a parent which has) a rating of at least Baa3 by Moody's or A-1 by Standard Poor's. In addition, the Delaware Trustee must at all times be a corporation satisfying the provisions of Section 3807(a) of the Delaware Business Trust Act and at least one Issuer Trustee acting as administrative trustee must be an entity with its principal place of business and its corporate trust office in the State of Arizona.

*Amendments to the Trust Agreement.* The Trust Agreement may be amended from time to time by the Administrative Trustee without the consent of holder of Securities or the Delaware Trustee, (i) to cure any ambiguity, (ii) to correct, supplement or modify any provision in the Trust Agreement that is inconsistent with another provision therein or (iii) to modify, eliminate or add to any provisions of the Trust Agreement to the extent necessary (A) to ensure that the Issuer Trust will be classified for U.S. federal income tax purposes as a partnership that is not a "publicly traded partnership" within the meaning of Section 7704(a) of the Code or as another nontaxable entity at all times or (B) to ensure that the Issuer Trust will not be required to register as an investment company under the Investment Company Act; provided, however, that in the case of clause (i) and clause (ii), such action would not adversely affect in any material respect the interests of any holder of Securities.

Without the consent of each affected holder of Securities, the Trust Agreement may not be amended to (i) change the amount or timing of any payments on the Securities or otherwise adversely affect the terms of any Securities or (ii) impair the right of any holder of Securities to institute suit for the enforcement of any right to receive principal, interest or any other distribution with respect to such Security.

## Capitalization

The following table sets forth the capitalization of the Issuer Trust as anticipated as at March 20, 2002, immediately following the closing of the sale of the Securities (the "Closing"). The Issuer Trust does not anticipate engaging in any business activities prior to the issuance of the Notes and the AMES on March 20, 2002. There has been no material change in the capitalization of the Issuer Trust as of the date of this Amended and Restated Offering Memorandum.

	<b>Unaudited as anticipated immediately following the Closing</b>
<b>Borrowings:</b>	
Notes .....	\$750,000,000
<b>Capital and Surplus:</b>	
AMES* .....	31,001,000
Additional paid reserves and retained earnings .....	<u>0</u>
Total capitalization .....	<u>\$781,001,000</u>

\* Includes the AT AMES held by the Administrative Trustee in connection with its role as "tax matters partner" under the Trust Agreement in addition to the AMES offered hereby.

Substantially all of the capitalization (excluding any reopening of the Notes) of the Issuer Trust will occur at the Closing.

## SUNAMERICA LIFE DESCRIPTION OF BUSINESS

### General Description

SunAmerica Life sells fixed annuities and guaranteed investment contracts (“GICs”) to the retirement savings market and other markets. At December 31, 2001, SunAmerica Life had unconsolidated assets of \$32.73 billion. Together with its life insurance subsidiaries, which, at December 31, 2001, had additional unconsolidated assets of \$26.80 billion on a combined basis, SunAmerica Life is among the largest U.S. issuers of fixed and variable annuities and GICs in terms of combined unconsolidated assets. SunAmerica Life was incorporated with unlimited duration on January 12, 1987. Its statutory home office is at 2999 N. 44th Street, Suite 250, Phoenix, Arizona 85018 and its main administrative office is at 1 SunAmerica Center, Los Angeles, California 90067.

On January 1, 1999, SunAmerica Inc., a Maryland corporation which was the sole owner of SunAmerica Life, merged with and into AIG. Immediately following the merger, the stock of SunAmerica Life was contributed by AIG to SunAmerica Inc., a newly formed Delaware corporation (which has changed its name to AIG SunAmerica Inc.). SunAmerica Life has been a wholly-owned indirect subsidiary of AIG since that date.

Together with its two life insurance company subsidiaries, SunAmerica Life offers a full complement of fixed and variable annuities. AIG SunAmerica Life Assurance Company (formerly known as and currently doing business as Anchor National Life Insurance Company) (“ANLIC”) and First SunAmerica Life Insurance Company (“FSA”) offer variable annuity products that provide investors a broad spectrum of fund alternatives, with a choice of investment managers, as well as guaranteed fixed-rate account options. These two companies earn fee income through the sale, administration and management of their variable annuity products. They also earn investment income on monies allocated to the fixed-rate account options of these products. Variable annuities offer retirement planning features similar to those offered by fixed annuities, but differ in that the contractholder’s rate of return is generally dependent upon the investment performance of the particular equity, fixed-income, money market or asset allocation fund selected by the contractholder. Because the investment risk is borne by the customer in all but the fixed-rate account options, these products require significantly less capital support than fixed annuities. At December 31, 2001, ANLIC and FSA had unconsolidated assets of \$24.91 billion and \$1.89 billion, respectively.

On October 31, 2000, the Company sold SunAmerica National Life Insurance Company (“SunAmerica National”), a wholly-owned subsidiary, to SBLI Mutual Life Insurance Company, Inc., a New York mutual insurance corporation, for the sale price of \$10,167,000. The Company realized a gain of \$2,656,000 from the sale of its subsidiary.

The Company is the indirect parent of a registered investment advisor, SunAmerica Asset Management Corp., and its related distributor (“SunAmerica Asset Management”). SunAmerica Asset Management earns fee income by distributing and managing a diversified family of mutual funds and by providing professional management of individual, corporate and pension plan portfolios. The SunAmerica Asset Management mutual funds offer investors an array of equity, fixed-income, money market and tax-exempt mutual funds. The SunAmerica mutual funds are distributed nationally through a network of approximately 500 financial institutions and unaffiliated broker-dealers, as well as by the Company’s affiliated broker-dealers.

The Company also indirectly owns two broker-dealers, Royal Alliance Associates, Inc. (“Royal”) and SunAmerica Capital Services, Inc. Royal was acquired in January 1990. SunAmerica Life is affiliated with six other broker-dealers: SunAmerica Securities, Inc.; Advantage Capital Corporation; FSC Securities Corporation; Sentra Securities Corporation; Spelman & Co., Inc.; and VALIC Financial Advisors. Together, these affiliated broker-dealers comprise the largest network of independent registered representatives in the nation and the fifth-largest securities sales force, based on industry data.

### Strategy

SunAmerica Life believes demographic trends have produced strong consumer demand for long-term, investment-oriented products. According to U.S. Census Bureau projections, one in four Americans will have entered their savings-intensive pre-retirement years, ages 45-64, by 2006. This represents a 20% increase from the number of individuals in that age group today. Industry sales of tax-deferred savings products have benefited from continued strong growth of the retirement savings market and have represented, for a number of years, a significantly larger source of new premiums for the U.S. life insurance industry than traditional life insurance products. Recognizing the growth potential of this market, SunAmerica Life focuses its life insurance operations on the sale of annuities and GICs.

SunAmerica Life distributes its products through its affiliated broker-dealers, as well as an extensive network of independent broker-dealers, full-service securities firms, independent general insurance agents, major financial institutions and, in the case of its GICs, by marketing directly to banks, municipalities, asset management firms and direct plan sponsors and through intermediaries, such as managers or consultants servicing these groups.

SunAmerica Life has made significant investments in technology over the past several years in order to lower operating costs and enhance marketing efforts. The use of optical disk imaging and artificial intelligence has substantially reduced the more

traditional paper-intensive life insurance processing procedures, reducing annuity processing and servicing costs and improving customer service. The Company has also implemented technology to interface with its affiliated broker-dealers, which enables it to market its products more effectively and to help the affiliated financial professionals to provide better service to their clients.

### **Competition**

The insurance industry is highly competitive. The Company competes with other life insurers, and also competes for customers' funds with a variety of investment products offered by financial services companies other than life insurance companies, such as banks, investment advisors, mutual fund companies and other financial institutions. During 2000, net annuity premiums written among the top 100 life insurance companies ranged from approximately \$50 million to approximately \$23 billion annually. The Company together with its life insurance affiliates was the largest of this group based on net premiums.

The Company believes the primary competitive factors among life insurance companies for investment-oriented insurance products, such as annuities and GICs, include product flexibility, net return after fees, innovation in product design, the insurer's financial strength rating and the name recognition of the issuing company, the availability of distribution channels and service rendered to the customer before and after a contract is issued. Other factors affecting the annuity business include the benefits (including before-tax and after-tax investment returns) and guarantees provided to the customer and the commissions paid.

### **Products**

SunAmerica Life offers single-premium and flexible-premium deferred annuities that provide one-, three-, five-, seven-, or ten-year fixed interest rate guarantees. Although the contracts remain in force or are renewed for an average of seven to ten years, a majority (approximately 74% at December 31, 2001) are one-year contracts that reprice annually at discretionary rates determined by the Company, subject to contractual minimums. In repricing, the Company takes into account yield characteristics of its investment portfolio, annuity surrender assumptions, and competitive industry pricing, among other factors.

The Company's fixed annuity products offer many of the same features as conventional certificates of deposit sold by financial institutions (but do not benefit from FDIC insurance). Its products give investors a choice of interest period and yield as well as additional advantages particularly applicable to retirement planning, such as tax-deferred accumulation and flexible payout options (including the option of payout over the life of the annuitant). The average size of a new single-premium fixed annuity contract sold by the Company during 2001 was approximately \$34,000.

SunAmerica Life complements its retail annuity business with the sale of institutional products. At December 31, 2001, the Company had \$23.18 billion of GIC obligations, approximately 48% of which were fixed-rate and the remainder of which were variable-rate obligations that reprice periodically based upon certain defined indexes. Of the total GIC portfolio at December 31, 2001, approximately 77% was sold to special purpose entities that issue GIC-backed notes in the international market, 17% was sold to state and local governmental and other entities and 6% was sold to pension plans. The average size of a new GIC contract sold by the Company during 2001 was approximately \$200.4 million.

The Company seeks to design its fixed annuity and GIC products and conduct its investment operations in order to approximately match the duration of the assets in its investment portfolio to its fixed annuity and GIC obligations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations and Recent Developments — Financial Condition and Liquidity at December 31, 2001 Compared to 2000—Asset-Liability Matching". The Company seeks to achieve a predictable spread between what it earns on its assets and what it pays on its liabilities by investing principally in fixed income securities. See "—Investment Operations—Average Volumes and Yields." The Company's fixed annuity and GIC products incorporate surrender charges or other restrictions in order to encourage persistency.

### **Investment Operations**

SunAmerica Life believes that a portfolio principally composed of fixed-rate investments that generate predictable rates of return should back its fixed-rate liabilities. The Company does not have a specific target rate of return on its fixed rate investments. Instead, its rates of return vary over time depending on the current interest rate environment, the slope of the yield curve, the spread at which fixed-rate investments are priced over the yield curve, and general economic conditions. The Company manages most of its invested assets internally. Its portfolio strategy is constructed with a view to achieve adequate risk-adjusted returns consistent with its investment objectives of effective asset-liability matching, liquidity and safety. See "Management's Discussion and Analysis of Financial Condition and Results of Operations and Recent Developments — Financial Condition and Liquidity at December 31, 2001 Compared to 2000—Asset-Liability Matching".

*Average Volumes and Yields.* The following table shows the Company's investment results for the years ended December 31, 1999, 2000 and 2001.

	<u>Year Ended December 31,</u>		
	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(in millions, except percentages)		
Average invested assets.....	\$17,847	\$22,170	\$28,009
Average annuities, GICs and borrowed money.....	16,355	20,229	25,415
Average yield on average invested assets.....	8.37%	7.85%	7.45%
Weighted average rate paid on fixed annuities, GICs and borrowed money.....	5.43%	5.94%	5.29%
Yield spread.....	<u>2.94%</u>	<u>1.91%</u>	<u>2.16%</u>

The following table summarizes the Company's investment portfolio at December 31, 1999, 2000 and 2001:

	<u>At December 31,</u>					
	<u>1999</u>		<u>2000</u>		<u>2001</u>	
	<u>Carrying Value</u>	<u>Percent- age of Portfolio</u>	<u>Carrying Value</u>	<u>Percent- age of Portfolio</u>	<u>Carrying Value</u>	<u>Percent- age of Portfolio</u>
	(in thousands, except for percentages)					
<b>Bond Portfolio:</b>						
U.S. government securities .....	\$ 312,423	1.5%	\$ 99,642	0.4%	\$ 108,207	0.4%
Mortgage-backed securities .....	6,015,219	29.3	7,547,381	31.3	9,376,169	31.0
Other bonds, notes and redeemable preferred stocks.....	<u>8,521,635</u>	<u>41.6</u>	<u>10,764,046</u>	<u>44.6</u>	<u>15,108,093</u>	<u>50.0</u>
Total Bond Portfolio.....	14,849,277	72.4	18,411,069	76.3	24,592,469	81.4
Mortgage loans.....	3,245,638	15.8	3,564,516	14.8	3,803,170	12.5
Common stocks (excluding investments in affiliates) .....	38,853	0.2	36,131	0.1	31,800	0.1
Cash and short-term investments.....	1,113,086	5.5	575,285	2.4	202,489	0.7
Other .....	<u>416,648</u>	<u>2.0</u>	<u>402,513</u>	<u>1.6</u>	<u>453,947</u>	<u>1.5</u>
Total before investments in affiliates.....	19,663,502	95.9	22,989,514	95.2	29,083,875	96.2
Investments in affiliates .....	<u>846,685</u>	<u>4.1</u>	<u>1,150,765</u>	<u>4.8</u>	<u>1,140,210</u>	<u>3.8</u>
Total investments .....	<u>\$20,510,187</u>	<u>100.0%</u>	<u>\$24,140,279</u>	<u>100.0%</u>	<u>\$30,224,085</u>	<u>100.0%</u>

The Company's general investment philosophy is to hold fixed-rate assets for long-term investment. Thus, it does not have a trading portfolio. However, the Company has determined that all of its portfolio of bonds, notes and redeemable preferred stocks (the "Bond Portfolio") is available to be sold in response to changes in market interest rates, changes in relative value of asset sectors and individual securities, changes in prepayment risk, changes in credit quality outlook for certain securities, and the Company's need for liquidity and other similar factors.

At December 31, 2001, the Bond Portfolio (excluding \$26.7 million of redeemable preferred stocks) had an aggregate carrying value of \$24.57 billion and an aggregate market value of \$24.35 billion. At December 31, 2001, the Bond Portfolio included \$24.26 billion of bonds that were rated by Standard & Poor's, Moody's, Duff & Phelps Credit Rating Co. ("DCR"), Fitch Investors Service, L.P. ("Fitch") or the National Association of Insurance Commissioners ("NAIC"), and \$306.4 million of bonds that were rated by the Company pursuant to statutory ratings guidelines established by the NAIC. At December 31, 2001, approximately \$22.67 billion of the Bond Portfolio was rated investment grade, including \$9.48 billion of U.S. government/agency securities and mortgage-backed securities.

At December 31, 2001, the Bond Portfolio included \$2.32 billion of bonds that were not rated investment grade. These non-investment-grade bonds accounted for 7.1% of the Company's total assets and 7.7% of its invested assets. Non-investment-

grade securities generally provide higher yields and involve greater risks than investment-grade securities because their issuers typically are more highly leveraged and more vulnerable to adverse economic conditions than investment grade issuers. In addition, the trading market for these securities is usually more limited than for investment grade securities. An economic downturn could produce higher than average issuer defaults, which could cause the Company's investment returns and net income to decline. At December 31, 2001, the Company's non-investment grade portfolio consisted of 317 issues with no single issuer representing more than 5% of the total.

Senior secured loans ("Secured Loans") are included in the bond portfolio and aggregated \$1.63 billion at December 31, 2001. Secured loans are senior to subordinated debt and equity, and are secured by assets of the issuer. At December 31, 2001, Secured Loans consisted of \$1.35 billion of privately traded securities and \$273.4 million of publicly traded securities. These Secured Loans are composed of loans to 154 borrowers spanning 32 industries, with 16% of these assets concentrated in public utilities, 11% concentrated in energy and 7% concentrated in each airlines and telecommunications. No other industry concentration constituted more than 6% of these assets.

Mortgage loans aggregated \$3.80 billion at December 31, 2001, and consisted of 780 commercial first mortgage loans with an average loan balance of approximately \$4.9 million, collateralized by properties located in 43 states and the District of Columbia. Approximately 31% of this portfolio was office, 20% was multifamily residential, 12% was retail, 12% was industrial, 11% was manufactured housing, 5% was hotel and 8% was other types. At December 31, 2001, approximately 29% of this portfolio was secured by properties located in California, approximately 10% by properties located in New York, approximately 6% by properties located in Texas, Florida, Pennsylvania, New Jersey and no more than 5% of this portfolio was secured by properties in any other single state. At December 31, 2001, there were 69 mortgage loans with outstanding balances of \$10.0 million or more, which loans collectively aggregated approximately 52% of the portfolio. At the time of their origination or purchase by the Company, virtually all mortgage loans had loan-to-value ratios of 80% or less. At December 31, 2001, approximately 26% of the mortgage loan portfolio consisted of loans with balloon payments due before January 1, 2005. During 2001 and 2000, loans delinquent by more than 90 days, foreclosed loans and restructured loans have not been significant in relation to the total mortgage loan portfolio.

Other invested assets aggregated \$380.0 million at December 31, 2001, and consisted primarily of \$347.5 million of limited partnership interests and \$44.2 million of leveraged lease investments. The Company's limited partnership interests are accounted for primarily by using the equity method of accounting, and are invested in real estate, debt securities and equity securities in the amounts of \$196.0 million, \$133.3 million and \$17.6 million, respectively.

At December 31, 2001, the Company's investment in affiliates amounted to \$1.14 billion and primarily represented the capital and surplus of its life insurance subsidiaries at that time.

At December 31, 2001, the carrying value (after impairment writedowns) of all investments in default as to the payment of principal or interest totaled \$223.4 million, which constituted less than 0.7% of total invested assets.

For more information concerning the Company's investments, including the risks inherent in such investments, see "Management's Discussion and Analysis of Financial Condition and Results of Operations and Recent Developments — Financial Condition and Liquidity at December 31, 2001 Compared to 2000".

## **Insurance Regulation**

SunAmerica Life, in common with other insurers, is subject to regulation and supervision by the states and by other jurisdictions in which it does business. Within the United States, the method of such regulation varies but generally has its source in statutes that delegate regulatory and supervisory powers to an insurance official. The regulation and supervision relate primarily to approval of policy forms and rates, the standards of solvency that must be met and maintained, including risk based capital measurements, the licensing of insurers and their agents, the nature of and limitations on investments, restrictions on the size of risks which may be insured under a single policy, deposits of securities for the benefit of policyholders, methods of accounting, periodic examinations of the affairs of insurance companies, the form and content of reports of financial condition required to be filed, and reserves for unearned premiums, losses and other purposes. In general, such regulation is for the protection of policyholders rather than security holders.

Risk-based capital ("RBC") standards are designed to measure the adequacy of an insurer's statutory capital and surplus in relation to the risks inherent in its business. The RBC standards consist of formulas that establish capital requirements relating to asset, insurance, interest rate risks and business. The standards are intended to help identify companies which are under-capitalized and require specific regulatory actions in the event an insurer's RBC is deficient.

The RBC formula develops a risk adjusted target level of adjusted statutory capital and surplus by applying certain factors to various asset, premium and reserve items. Higher factors are applied to more risky items and lower factors are applied to less risky items. Thus, the target level of statutory surplus varies not only as a result of the insurer's size, but also on the risk profile of the insurer's operations.

The RBC Model Law provides four incremental levels of regulatory attention for insurers whose surplus is below the calculated RBC target. These levels of attention range in severity from requiring the insurer to submit a plan for corrective action to actually placing the insurer under regulatory control.

The statutory capital and surplus of SunAmerica Life and each of its life insurance subsidiaries exceeded their RBC requirements by considerable margins as of December 31, 2001.

Privacy provisions of the Gramm-Leach-Bliley Act went into full effect in 2001 and establish new consumer protections regarding the security, confidentiality, and uses of nonpublic personal information of individuals. The law also requires financial institutions to disclose their privacy policies to their customers. Additional privacy legislation pending in the United States Congress and several states is designed to provide further privacy protections to consumers of financial products and services. These statutes and regulations may result in additional regulatory compliance costs, may limit SunAmerica Life's ability to market its products, and may otherwise constrain the nature or scope of SunAmerica Life's insurance and financial services operations.

The Gramm-Leach-Bliley Act also allows combinations between insurance companies, banks and other entities. It is not yet known what effect this legislation will have on insurance companies. In addition, from time to time, federal initiatives are proposed that could affect the Company's businesses. Such initiatives include employee benefit plan regulations and tax law changes affecting the taxation of insurance companies and the tax treatment of insurance and other investment products. Proposals made in recent years to limit the tax deferral of annuities or otherwise modify the tax rules related to the treatment of annuities have not been enacted. While certain of such proposals, if implemented, could have an adverse effect on the Company's sales of affected products, and, consequently, on its results of operations, the Company believes these proposals have a small likelihood of being enacted, because they would discourage retirement savings and there is strong public and industry opposition to them.

SunAmerica Asset Management is registered with the Securities and Exchange Commission ("SEC") as an investment adviser under the Investment Advisers Act of 1940. The mutual funds that it markets are subject to regulations under the Investment Company Act of 1940. SunAmerica Asset Management and the mutual funds are also subject to regulation and examination by the SEC.

SunAmerica Life's broker-dealer subsidiaries are subject to regulation and supervision by the states in which they transact business, as well as by the SEC and the National Association of Securities Dealers ("NASD"). The SEC and the NASD have broad administrative and supervisory powers relative to all aspects of business and may examine each subsidiary's business and accounts at any time. The SEC also has broad jurisdiction to oversee various activities of SunAmerica Life and its other subsidiaries.

### **Legal Proceedings**

SunAmerica Life and its subsidiaries, in common with the insurance industry in general, are subject to litigation in the normal course of their business. SunAmerica Life does not believe that such litigation will have a material adverse effect on its financial condition, future operating results or liquidity.



## Directors, Principal Officers and Employees

The directors and principal officers of SunAmerica Life are listed below, together with information as to their ages, dates of election and principal business occupation during the last five years (if other than their present business occupation).

Name	Present Age	Year Assumed Position(s)	Position(s)	Other Positions and Other Business Experience Within Last Five Years	From-To
Jay S. Wintrob*	45	2001	President and Chief Executive Officer of the Company	President and Chief Executive Officer, AIG SunAmerica Inc. (formerly SunAmerica Inc.) ("SAI") President, SAI Chief Operating Officer, SAI Vice Chairman, SAI (Joined SAI in 1987)	2001-  2000- 1998-2000 1995-2000
James R. Belardi*	45	2002	President of the Company	Senior Vice President of the Company Executive Vice President, SAI (Joined SAI in 1986)	1992-2002 1995-2002
Marc H. Gamsin*	46	1999	Senior Vice President of the Company	Executive Vice President, SAI  Senior Vice President, SAI Executive Vice President SunAmerica Investments, Inc. (GA) Executive Vice President SunAmerica Investments, Inc. (DE)	2001-  1998-2000 1998- 1997-1998
N. Scott Gillis*	49	2000	Senior Vice President of the Company	Senior Vice President, SAI Controller, SAI Vice President, SAI Senior Vice President and Controller of SunAmerica Life Companies ("SLC") (Joined SAI in 1985)	2002- 2000- 1998-2002 1994-1999
Jana W. Greer*	49	1994	Senior Vice President of the Company	Executive Vice President, SAI  Senior Vice President, SAI President, SunAmerica Retirement Markets, Inc. (Joined SAI in 1974)	2001-  1992-2000 1996-
Gregory M. Outcalt	40	2000	Senior Vice President of the Company	Vice President, SLC (Joined SAI in 1986)	1993-1999
Edwin R. Raquel	45	1995	Senior Vice President and Chief Actuary of the Company	Vice President and Actuary, SLC	1990-1995
Lawrence M. Goldman	41	2002	Vice President, General Counsel and Assistant Secretary of the Company	Vice President and Assistant Secretary, SAI Co-General Counsel, SAI Associate General Counsel, SAI Senior Vice President and General Counsel, Imperial Premium Finance, Inc.	2000-  2000-2002 1998-2000 1995-1998
J. Franklin Grey	50	1994	Vice President of the Company	Vice President, Anchor National Life Insurance Company	1994-
Maurice S. Hebert	39	2000	Vice President and Controller of the Company	Vice President and Assistant Controller, Sun America Financial Director, Investment Accounting, SAI	1998-2000 1997-1998
Christine A. Nixon	37	2002	Vice President and Secretary of the Company	Vice President and Secretary, SAI Co-General Counsel, SAI  Associate General Counsel, SAI	2000- 2000-2002  1997-2000

<b>Name</b>	<b>Present Age</b>	<b>Year Assumed Position(s)</b>	<b>Position(s)</b>	<b>Other Positions and Other Business Experience Within Last Five Years</b>	<b>From-To</b>
Stewart R. Polakov .....	43	2000	Vice President of the Company	Vice President, SunAmerica Financial Director, Investment Accounting, SAI (Joined SAI in 1991)	1997- 1994-1997
Scott H. Richland.....	40	1994	Vice President of the Company	Senior Vice President, SAI	1997-
Mark A. Zaeske .....	35	2001	Treasurer of the Company	Vice President and Treasurer, SAI Treasurer, SAI Assistant Treasurer, Citigroup Associate Director, Citigroup	2002- 2000- 1999-2000 1996-1999
Ron H. Tani .....	40	2000	Vice President of the Company	Vice President, SunAmerica Financial Director, Product Development, SLC	2000- 1995-2000

\* Also serves as a director.

At December 31, 2001, SunAmerica Life and its subsidiaries had approximately 2,300 employees.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AND RECENT DEVELOPMENTS

### Recent Developments

The recent developments discussion which follows is based on the Company's Interim Statutory Financial Statements which have been prepared in conformity with Arizona SAP.

NET INCOME for the six months ended June 30, 2002 and 2001 amounted to \$250.7 million and \$280.9 million, respectively. The decrease in net income was primarily due to a \$30.9 million decrease in net gain from operations before dividends and a \$54.7 million increase in federal income tax expense, partially offset by a \$55.4 million decrease in net realized capital losses.

NET INVESTMENT INCOME, which is gross income earned on invested assets reduced by investment expenses and interest paid on borrowed money, increased to \$1,057.1 million for the six months ended June 30, 2002 from \$1,050.4 million for the same period in 2001, primarily due to an increase in average invested assets from increased sales of GICs. Excluding the dividend distributions of \$1.5 million received from Saamsun Holding Company, the investment yield amounted to 6.48% on average invested assets of \$32.56 billion for the six months ended June 30, 2002, compared with 7.41% on average invested assets of \$25.47 billion, excluding the dividend distributions of \$94.1 million received from AIG SunAmerica Life Assurance Company and \$12.9 million received from First SunAmerica Life Insurance Company for the same period in 2001. The decrease in the investment yield in 2002 is due principally to a decline in the interest rate environment during 2002.

PREMIUM AND ANNUITY CONSIDERATIONS totaled \$145.4 million for the six months ended June 30, 2002 compared to \$44.9 million for the same period in 2001 primarily due to a sales promotion on a certain fixed annuity product during the six months ended June 30, 2002, which resulted in increased annuity deposits.

SURRENDER BENEFITS decreased to \$230.2 million for the six months ended June 30, 2002, from \$423.3 million for the same period in 2001, primarily due to a decline in surrenders on certain blocks of annuities acquired in prior years.

INTEREST AND ADJUSTMENTS ON POLICY OR DEPOSIT-TYPE CONTRACT FUNDS decreased to \$424.1 million for the six months ended June 30, 2002 from \$435.7 million for the same period of 2001, principally due to a decrease in the average interest rate credited to GICs, which amounted to 4.18% for the six months ended June 30, 2002, compared with 5.82% for the same period in 2001. The reduction in the average credited rate is due to the impact of resets on variable rate GICs, which currently account for approximately 30% of total GIC liabilities, amidst a generally lower interest rate environment.

DECREASE IN RESERVES FOR FIXED ANNUITIES AND SUPPLEMENTARY CONTRACTS aggregated \$53.2 million for the six months ended June 30, 2002, compared with a \$377.1 million decrease for the same period in 2001. The \$323.9 million decrease reflects the impact of both the increase in premiums and the decrease in annuity surrenders.

FEDERAL INCOME TAX EXPENSE totaled \$108.3 million for the six months ended June 30, 2002, compared with \$53.6 million for the same period in 2001. Such expense is computed on taxable income rather than on statutory income. Taxable income and statutory income differences are caused by variances between tax accounting methods and statutory accounting methods for such items as reserves, acquisition costs, bond discount accretion and estimated expenses. The increase in 2002 compared to 2001 reflects differences in taxable income between the two periods and adjustments relating to the differences between tax returns as filed and estimated income tax expense computed for the statutory statements.

NET REALIZED CAPITAL LOSSES totaled \$68.7 million for the six months ended June 30, 2002, compared with \$124.2 million for the same period in 2001. Net realized capital losses in 2002 included \$68.7 million of net capital losses and no related income tax expense, while net realized capital losses in 2001 included \$98.4 million of net capital losses and \$25.8 million of related income tax expense. The net realized capital losses for the six months ended June 30, 2002 included \$44.6 million compared to \$115.6 million for the same period in 2001 of impairment write-downs due to "other than temporary declines". Continued unfavorable economic and market conditions could result in further net realized capital losses and impairment write-downs and otherwise adversely affect net income and capital and surplus in future periods.

CAPITAL AND SURPLUS increased to \$2.28 billion at June 30, 2002 compared to \$2.03 billion at December 31, 2001. The increase was primarily due to a net income of \$250.7 million and a \$102.6 million decrease in non-admitted assets, partially offset by \$29.5 million increase in the asset valuation reserve, \$51.4 million increase in net unrealized losses and change in deferred income tax of \$8.0 million.

TOTAL ADMITTED ASSETS were \$40.78 billion at June 30, 2002 compared to \$32.73 billion at December 31, 2001. The \$8.05 billion increase was primarily due to the increase in cash and invested assets.

CASH AND INVESTED ASSETS at June 30, 2002 totaled \$37.44 billion, compared with \$30.22 billion at December 31, 2001. The \$7.22 billion increase primarily resulted from the growth in GIC deposits relative to GIC withdrawals, partially offset by surrenders on fixed annuities.

LIABILITIES FOR DEPOSIT-TYPE CONTRACTS amounted to \$27.87 billion at June 30, 2002 and \$23.51 billion at December 31, 2001. The \$4.36 billion increase was primarily due to sales of GICs to special purpose entities that issue GIC-backed notes, including \$3.50 billion issued in the domestic and international markets and \$2.07 billion issued exclusively in the international markets.

## **Management's Discussion and Analysis**

Management's discussion and analysis of the financial condition and results of operations of SunAmerica Life (the "Company") for the three years in the period ended December 31, 2001 follows. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company cautions readers regarding certain forward-looking statements contained in this report and in any other statements made by, or on behalf of, the Company, whether or not in future filings with the SEC. Forward-looking statements are statements not based on historical information and which relate to future operations, strategies, financial results, or other developments. Statements using verbs such as "expect", "anticipate", "believe" or words of similar import generally involve forward-looking statements. Without limiting the foregoing, forward-looking statements include statements which represent the Company's beliefs concerning future levels of sales and redemptions of the Company's products, investment spreads and yields, or the earnings and profitability of the Company's activities.

Forward-looking statements are necessarily based on estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the Company's control and many of which are subject to change. These uncertainties and contingencies could cause actual results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Company. Whether or not actual results differ materially from forward-looking statements may depend on numerous foreseeable and unforeseeable developments. Some may be national in scope, such as general economic conditions, changes in tax law and changes in interest rates. Some may be related to the insurance industry generally, such as pricing competition, regulatory developments and industry consolidation. Others may relate to the Company specifically, such as credit, volatility and other risks associated with the Company's investment portfolio. The Company disclaims any obligation to update forward-looking information.

The discussions in this section are based on, should read in conjunction with, and are qualified in their entirety by the Company's Statutory Financial Statements which have been prepared in conformity with Arizona SAP. The presentation for 2001 reflects certain changes in accounting principles resulting from Codification that went into effect on January 1, 2001. (For a discussion of these changes, see the discussion under "Codification of Statutory Accounting Principles" and "Summary of Significant Differences Between Arizona SAP and GAAP"). To facilitate the comparison of the 2001 figures with 2000 and 1999 figures, the figures for 2000 and 1999 included in the Statutory Financial Statements at December 31, 2001 and 2000 and for the years ended December 31, 2001, 2000 and 1999, and in the discussion below under "Results of Operations – Year Ended December 31, 2001 compared to Year Ended December 31, 2000", "Results of Operations – Year Ended December 31, 2000 compared to Year Ended December 31, 1999" and "Financial Condition and Liquidity at December 31, 2001 Compared to 2000" have been reclassified to conform to the 2001 presentation.

Arizona SAP differ in certain significant respects from accounting principles generally accepted in the United States of America. Principal among these differences is that the accounts of the Company's wholly-owned subsidiaries are not consolidated in the Statutory Financial Statements. In addition, certain acquisition expenses, in excess of the fair value acquired, (including what would be deemed deferred acquisition costs under GAAP) are expensed immediately and if related to the acquisition of a company are charged directly to unassigned surplus without any income statement effect; and, prior to Codification, premiums on annuities, guaranteed investment contracts and similar investment oriented products are accounted for as income on a cash basis, offset by changes to benefits or increases or decreases to reserves or liabilities for future benefits on the expense portion expense portion of the income statement. (Codification requires that such items no longer be reflected in the income statement). See Note 2 to the Statutory Financial Statements for a description of the accounting principles used to compile the Statutory Financial Statements and "Summary of Significant Difference between Arizona Practices and GAAP" and for a summary of material differences between such principles and accounting principles generally accepted in the United States of America.

Effective August 1, 2000, the Company received from AIG SunAmerica Inc. ("SunAmerica") a capital contribution representing 100% of SunAmerica's equity interest in SA Affordable Housing, LLC ("SAAH LLC"), valued at \$252.7 million on the date of the contribution.

Effective January 1, 2001, SunAmerica delivered \$167.6 million of affordable housing limited partnership interests to the Company in partial satisfaction of SunAmerica's obligation to deliver certain assets with an aggregate value of \$400.0 million to the Company in exchange for a \$400.0 million purchase price. These interests were subsequently contributed to SAAH LLC,

then a subsidiary of the Company. Immediately thereafter, the Company contributed 100% of its interest in SAAH LLC, which amounted to a book value of \$432.7 million, to ANLIC. ANLIC in turn contributed its interest in the SAAH LLC to its subsidiary Saamsun Holding Corp., which in turn contributed its interest to its subsidiary SAM Holdings Corporation, which in turn contributed its interest to its subsidiary, SunAmerica Asset Management Corp., an investment advisor that manages a family of mutual funds and certain subaccounts of variable annuity products offered by ANLIC and its affiliates.

On October 31, 2000, the Company sold SunAmerica National Life Insurance Company (“SANLIC”), a wholly owned subsidiary, to SBLI Mutual Life Insurance Company, Inc., a New York mutual insurance corporation, for the sale price of \$10.2 million. The Company realized a gain of \$2.7 million on the sale, which is included in total Net Realized Capital Losses.

On December 31, 1998, ANLIC acquired the individual life business and the individual and group annuity business of Mutual Benefit Life Insurance Company (“MBL”), via a 100% coinsurance transaction for a cash purchase price of \$128.4 million. As part of the Acquisition, the Company, ANLIC and First SunAmerica Life Insurance Company (“FSA”) received a total of \$242.5 million from MBL to pay policy enhancements guaranteed by the MBL Life rehabilitation agreement to policyholders meeting certain requirements. A primary requirement was that annuity policyholders must have converted their MBL Life policy to a policy type currently offered by the Company or one of its affiliates by December 31, 1999. Of this amount, ANLIC was required to transfer \$20.1 million to the Company for enhancements on policies which customers elected to convert to fixed annuity policies offered by the Company. The enhancements were scheduled to be paid in four installments beginning on January 1, 2000, with the remaining amounts paid on June 30, 2001, June 30, 2002 and June 30, 2003. The Company’s portion of the payments due on January 1, 2000 and June 30, 2001 each amounted to \$5.1 million and were credited to these policyholders or paid as benefits through withdrawals or accelerated death benefits during 2001 and 2000. The Company’s reserve for the remaining payments amounted to \$8.5 million at December 31, 2001.

#### **Results of Operations—Year Ended December 31, 2001 Compared to Year Ended December 31, 2000**

Effective January 1, 2001, Arizona SAP have been amended pursuant to the adoption of Codification, and the financial statements at and for the year ended December 31, 2001 have been prepared on this basis. Certain items for the prior year have been reclassified to conform to the current year’s presentation, which reflects Codification.

NET INCOME for the years ended December 31, 2001 and 2000 amounted to \$470.9 million and \$368.6 million, respectively. The increase in net income in 2001 was primarily due to a \$382.3 million increase in net gain from operations before dividends and federal income taxes, partially offset by a \$172.7 million increase in net realized capital losses and a \$108.0 million increase in federal income tax expense.

NET GAIN FROM OPERATIONS BEFORE DIVIDENDS TO POLICYHOLDERS AND FEDERAL INCOME TAXES totaled \$833.8 million in 2001, compared with \$451.5 million in 2000. The \$382.3 million increase was primarily due to an increase in net investment income of \$348.0 million, an increase in amortization of interest maintenance reserve of \$58.2 million and a reduction in the average interest crediting rate on GICs, partially offset by a \$60.0 million increase in net loss on GICs contract hedges and an increase in general insurance and other expenses.

PREMIUMS AND ANNUITY CONSIDERATIONS amounted to \$156.1 million in 2001 compared with \$104.1 million in 2000. The increase in 2001 primarily reflects consumers’ growing preference for fixed annuities relative to other investment options in light of the recent decline in the equity markets.

NET INVESTMENT INCOME, which is gross income earned on invested assets reduced by investment expenses and interest paid on borrowed money, increased to \$2.06 billion in 2001 from \$1.71 billion in 2000 primarily due to an increase in average invested assets from increased sales of GICs. This increase in 2001 was due to a \$346.2 million increase in gross investment income and a decrease of \$1.8 million in investment expenses and interest paid on borrowed money.

Gross income earned on invested assets, which includes dividends from subsidiaries for 2001 and equity in earnings of subsidiaries in 2000, totaled \$2.09 billion in 2001, compared with \$1.74 billion in 2000. Excluding the dividend distributions of \$94.1 million received from ANLIC, \$21.5 million received from UG Corporation, \$12.9 million received from FSA and \$2.3 million received from Export Leasing in 2001, gross investment income totaled \$1.95 billion. Excluding the equity in earnings during 2000 of \$94.3 million for ANLIC, \$20.9 million for FSA, \$2.6 million for Export Leasing and \$1.07 million for UG Corporation and SA Affordable Housing, gross investment income totaled \$1.58 billion. Excluding the impact of dividends and equity in earnings of subsidiaries, the resulting yield earned on average invested assets amounted to 6.98% in 2001 on average invested assets of \$28.01 billion, compared with 7.15% on average invested assets of \$22.17 billion in 2000. The decline in investment yield in 2001 primarily relates to a lower interest rate environment.

As mentioned above, gross income earned on invested assets included dividends totaling \$130.8 million from subsidiaries in 2001 and equity in earnings of subsidiaries totaling \$154.9 million in 2000. Pursuant to the adoption of Codification on January 1, 2001, dividends received from subsidiaries are now recorded in gross investment income instead of a reduction in the carrying value of subsidiaries, and equity in earnings of subsidiaries are now recorded as a component of

unrealized gains or losses in capital and surplus. During 2000, \$71.6 million of dividends were received from subsidiaries, but were treated as a reduction in the book value of common stock in subsidiaries.

AMORTIZATION OF INTEREST MAINTENANCE RESERVE amounted to \$76.1 million in 2001 compared with \$17.9 million in 2000. The increase was due to \$53.8 million recovery of interest maintenance reserve amortization of losses on certain investments that mature over longer time periods.

ANNUITY BENEFITS, which include annuitizations and death benefits on annuities, decreased to \$168.5 million in 2001 from \$212.8 million in 2000, principally reflecting an overall decrease in the level of average annuity and supplementary contract with life contingencies reserves.

SURRENDER BENEFITS, which include surrender benefits and partial withdrawals on fixed annuities amounted to \$689.7 million in 2001 compared to \$1.74 billion in 2000. Pursuant to the adoption of Codification, surrender benefits and withdrawals for GIC's and Supplementary Contracts Without Life Contingencies are not reported in the Statement of Operations but are recorded as increases or decreases in the liability for deposit-type funds. Fixed annuity withdrawals represented 14.3% and 30.5% of average fixed annuity reserves in 2001 and 2000, respectively. The decrease in withdrawal rates is primarily due to lower surrender rates on certain blocks of annuities acquired in prior years.

INTEREST AND ADJUSTMENTS ON POLICY OR DEPOSIT-TYPE CONTRACT FUNDS increased to \$1.04 billion for the year ended December 31, 2001 from \$906.3 million for the same period of 2000, principally due to the increase in average GIC contract reserves in 2001, partially offset by a decrease in the average interest rate credited to GICs. Average GIC contract reserves increased in 2001 mainly due to the increase in GIC deposits relative to GIC withdrawals. Interest rates credited to GICs amounted to 5.29% for the year ended December 31, 2001, compared with 6.39% for 2000. The reduction in the average credited rate is due primarily to a generally lower interest rate environment and the resulting impact on variable rate GICs, which currently account for approximately 52% of total GIC liabilities. In addition, an approximate benefit totaling \$194.2 million was realized during 2001, as compared to \$6.4 million in 2000, related to the difference between the average rate credited on GIC contracts and the statutory rate used to calculate statutory reserve requirements.

DECREASE IN RESERVES FOR FIXED ANNUITIES AND SUPPLEMENTARY CONTRACTS WITH LIFE CONTINGENCIES aggregated \$624.9 million for the year ended December 31, 2001, compared with \$1.62 billion for 2000. Pursuant to the adoption of Codification, changes in reserves for supplementary contracts without life contingencies are not reported in the statement of operations because deposits and withdrawals on such contracts are reported as increases or decreases in the liability for deposit-type funds. The \$992.8 million smaller decrease was primarily attributable to a decrease in annuity surrenders of \$1.05 billion on acquired and closed blocks of business. The average interest rate credited to fixed annuities equaled 4.84% for both years, 2001 and 2000.

COMMISSIONS totaled \$8.3 million in 2001, compared with \$8.7 million in 2000. These totals include \$5.8 million, \$1.9 million and \$0.6 million of commissions paid on annuities, GICs and life insurance policies, respectively, in 2001 and \$6.1 million, \$2.0 million and \$0.6 million of commissions paid on annuities and GICs, respectively, in 2000. Fixed annuity commissions include trail commission payments of \$0.9 million in 2001 and \$1.0 million in 2000. Fixed annuity commissions, excluding trail commission payments, represented 3.1% and 4.8% of fixed annuity sales in 2001 and 2000, respectively and reflects reduced commissions rates on the Company's five and seven year "Sterling Select" products and GIC commissions represented .025% and .034% of GIC sales in 2001 and 2000, respectively.

GENERAL INSURANCE AND OTHER EXPENSES increased to \$72.6 million in 2001 from \$54.7 million in 2000. The increase in 2001 primarily reflects the increased costs related to the Company's growing block of GIC contracts. Expenses remain closely controlled through a company-wide cost containment program and continue to represent less than 1% of average total assets.

NET LOSS ON ANNUITY AND GIC CONTRACT HEDGES amounted to \$67.9 million in 2001 and \$7.9 million for 2000, consisting of \$60.6 million of net payments on GIC-related hedges and \$7.3 million of net payments on Index America-related hedges in 2001. In 2000, there were \$1.6 million of net payments on GIC-related hedges and \$6.3 million of net payments on Index America-related hedges. The net payments on the GIC-related hedges are directly impacted by the direction of certain interest rate indices, which declined throughout much of 2001. The net payments on the Index America-related hedges are directly impacted by the direction of the equity market. Both hedges were primarily used to effectively convert variable-rate contract liabilities to fixed-rate liabilities. (See Swap Agreements in the Asset-Liability Matching section).

FEDERAL INCOME TAX BENEFIT on operations totaled \$156.6 million in 2001, compared to \$48.6 million in 2000, reflecting differences in taxable income between the two years and adjustments relating to the differences between the tax returns as filed and estimated income tax expense as computed for the statutory statements. Income tax expense is computed on taxable income rather than on statutory income. Taxable income and statutory income differences are caused by variances

between tax accounting methods and statutory accounting methods for such items as reserves, acquisition costs, bond discount accretion and estimated expenses.

NET REALIZED CAPITAL LOSSES totaled \$205.1 million in 2001, compared with \$32.4 million in 2000. Net realized capital losses in 2001 included \$292.6 million of net capital losses partially offset by \$87.6 million of related income tax benefit, while net realized capital losses in 2000 included \$39.5 million of net capital losses and \$7.1 million of related income tax benefits. The net realized capital losses in 2001 included \$271.1 million of impairment write-downs due to “other than temporary declines”, which was related to various high yield bonds. The net realized capital losses in 2000 included \$39.1 million of impairment write-downs due to “other than temporary declines”, of which \$33.6 million related to various high yield bonds, and \$5.5 million related to other invested assets.

Net realized capital gains of \$98.7 million in 2001 and net realized capital losses of \$7.4 million in 2000 (net of tax expense of \$53.2 million and income tax benefit of \$4.0 million, respectively) were deferred to the interest maintenance reserve (“IMR”) and will be amortized into income over a 30-year period. At December 31, 2001 and 2000, the IMR totaled \$82.5 million and \$59.8 million, respectively.

### **Results of Operations—Year Ended December 31, 2000 Compared to Year Ended December 31, 1999**

Effective January 1, 2001, Arizona SAP have been amended pursuant to the adoption of Codification, and the financial statements at and for the year ended December 31, 2001 have been prepared on this basis. Certain items for the prior years have been reclassified to conform to the current year’s presentation, which reflects Codification.

NET INCOME totaled \$368.6 million in 2000, compared with \$417.2 million in 1999. The decrease in net income is primarily due to a \$28.0 million decrease in the net gain from operations before dividends and federal income taxes and a \$23.9 million increase in net realized capital losses, partially offset by a \$3.4 million decrease in federal income tax expense.

NET GAIN FROM OPERATIONS BEFORE DIVIDENDS AND FEDERAL INCOME TAXES totaled \$451.5 million in 2000, compared with \$479.5 million in 1999. The \$28.0 million decrease was primarily due to an increase in net investment income of \$260.5 million which was offset by an increase in the average interest rate credited to the annuities, a decrease in underwriting income and a \$3.0 million increase in expenses.

NET INVESTMENT INCOME, which is gross income earned on invested assets reduced by investment expenses and interest paid on borrowed money, increased to \$1.71 billion in 2000 from \$1.48 billion in 1999.

Gross income earned on invested assets, which includes equity in earnings of subsidiaries, totaled \$1.74 billion in 2000, compared with \$1.49 billion in 1999. The increase in income was primarily due to an increase in average invested assets, offset by a decrease in equity in earnings of subsidiaries. The yield earned on average invested assets equaled 7.85% on average invested assets of \$22.17 billion in 2000, compared with 8.37% on average invested assets of \$17.85 billion in 1999. The decrease in investment yield in 2000 was primarily due to a \$86.1 million decrease in equity in earnings of subsidiaries. Excluding the impact of equity in earnings of subsidiaries, the yield on average invested assets equaled 7.15% in 2000 and 7.02% in 1999. The increase in yield is due to a generally higher interest rate environment during 2000.

Equity in earnings of subsidiaries totaled \$154.9 million in 2000, compared with \$241.0 million in 1999. The 2000 amount included \$130.3 million of equity in earnings income from ANLIC, \$20.9 million of equity in earnings income from First SunAmerica, \$2.6 million of equity in earnings income from Export Leasing FSC, Inc., \$0.2 million of equity in earnings income from UG Corporation and \$0.9 million of equity in earnings income from SA Affordable Housing, LLC. The 1999 amount included \$215.6 million of equity in earnings income from ANLIC, \$14.9 million of equity in earnings income from First SunAmerica, \$9.0 million of equity in earnings income from Export Leasing, \$3.1 million of equity in earnings from UG Corporation, \$0.8 million of equity in earnings income from SunAmerica National, and offset slightly by \$2.4 million of equity in earnings loss from Anchor Insurance Company (Cayman). The decrease in equity of earnings of ANLIC was due primarily to a decline in statutory net income of \$93.1 million, which was principally due to the impact of a \$70.0 million reduction in MBL Life guaranteed policy enhancement reserves in 1999.

PREMIUMS AND ANNUITY CONSIDERATIONS amounted to \$104.1 million in 2000 compared with \$170.4 million in 1999. The decrease was primarily due to the decrease in the level of subsequent premiums received from its existing annuity policyholder base.

SURRENDER BENEFITS, which include surrender benefits and partial withdrawals on fixed annuities amounted to \$1.74 billion in 2000 compared to \$1.61 billion in 1999. Pursuant to the adoption of Codification, surrender benefits and withdrawals for GIC’s and Supplementary Contracts Without Life Contingencies are not reported in the Statement of Operations but are recorded as increases or decreases in the liability for deposit-type funds. Fixed annuity withdrawals represented 28.00% and 19.97% of average fixed annuity reserves in 2000 and 1999, respectively. The increase in withdrawal rates is primarily due to higher surrender rates on certain blocks of annuities acquired in prior years.

ANNUITY BENEFITS, which include annuitizations and death benefits on annuities, decreased to \$212.8 million in 2000 from \$310.8 million in 1999, principally reflecting an overall decrease in the level of average annuity and supplementary contract reserves.

DECREASE IN RESERVES FOR FIXED ANNUITIES AND SUPPLEMENTARY CONTRACTS WITH LIFE CONTINGENCIES aggregated \$1.62 billion for the year ended December 31, 2000, compared with \$1.39 billion for 1999. Pursuant to the adoption of Codification, changes in reserves for supplementary contracts without life contingencies are not reported in the statement of operations because deposits and withdrawals on such contracts are reported as increases or decreases in the liability for deposit-type funds. The increase of \$231.8 million was primarily attributable to an increase of \$127.8 million in annuity surrenders and a decrease in the average interest rate credited to annuities during 2000, partially offset by a decrease of \$98.0 million in annuity benefits. The average interest rate credited to fixed annuities equaled 4.84% in 2000, compared with 5.05% in 1999.

INTEREST AND ADJUSTMENTS ON POLICY OR DEPOSIT-TYPE CONTRACT FUNDS increased to \$906.3 million for the year ended December 31, 2000 from \$473.3 million for the same period of 1999, principally due to the increase in GIC premiums relative to GIC withdrawals and an increase in the average interest rate credited to GICs during 2000. The average interest rate credited to GICs was 6.39% in 2000 and 5.76% in 1999.

NET LOSS ON ANNUITY AND GIC CONTRACT HEDGES amounted to \$7.9 million in 2000 and \$1.5 million for 1999, consisting of \$6.3 million of net payments on Index America-related hedges and \$1.6 million of net payments on GIC-related hedges in 2000. In 1999 there were \$7.4 million of net payments on GIC-related hedges, offset by \$5.9 million of net receipts on Index America-related hedges. The net receipts or payments on the Index America-related hedges are directly impacted by the direction of the option market. An increase in option values, during 1999, resulted in net receipts to the Company, were as a decline in option values, during 2000, resulted in net payments by the Company. Both hedges were primarily used to effectively convert variable-rate contract liabilities to fixed-rate liabilities. (See the discussion of certain Swap Agreements under “—Financial Condition and Liquidity at December 31, 2001 Compared to 2000—Asset-Liability Matching”).

COMMISSIONS totaled \$8.7 million in 2000, compared with \$8.6 million in 1999. These totals include \$6.1 million, \$2.0 million and \$0.6 million of commissions paid on annuities, GICs and life insurance policies, respectively, in 2000 and \$7.1 million and \$1.5 million of commissions paid on annuities and GICs, respectively, in 1999. There were no commissions paid for life insurance policies in 1999. Fixed annuity commissions include trail commission payments of \$1.0 million in 2000 and 1999. Fixed annuity commissions, excluding trail commission payments, represented 4.8% and 3.5% of fixed annuity sales in 2000 and 1999, respectively, and GIC commissions represented 0.034% and 0.026% of GIC sales in 2000 and 1999, respectively. The increase in the rate paid on fixed annuity sales resulted primarily from the lengthening in the average maturity sold for the Sterling Select annuities sold in 2000, as compared to the average maturity sold in 1999. Annuity contracts with guarantee periods of 2 to 3 years pay commission rates of 2.5% and commission rates increase to 5.5% for contracts with guarantee periods of 10 years.

GENERAL INSURANCE AND OTHER EXPENSES decreased to \$54.7 million in 2000 from \$58.2 million in 1999. Expenses remain closely controlled through a company-wide cost containment program and continue to represent less than 1% of average total assets.

FEDERAL INCOME TAX EXPENSE totaled \$48.6 million in 2000, compared with \$52.0 million in 1999. Such expense is computed on taxable income rather than on statutory income. Taxable income and statutory income differences are caused by variances between tax accounting methods and statutory accounting methods for such items as reserves, acquisition costs, bond discount accretion and estimated expenses. The decrease in 2000 compared to 1999 reflects differences in taxable income between two years and adjustments relating to the differences between tax returns as filed and estimated income tax expense computed for the statutory statements.

NET REALIZED CAPITAL LOSSES totaled \$32.4 million in 2000, compared with \$8.5 million in 1999. Net realized capital losses in 2000 include \$39.4 million of net capital losses and \$7.0 million of related income tax benefit, while net realized capital losses in 1999 include \$38.7 million of net capital losses and \$30.2 million of related income tax benefits. The net realized capital losses in 2000 include \$89.2 million of impairment write-downs, including \$80.4 million related to various high yield bonds, \$5.8 million related to real estate and \$3.0 million related to mortgage loans. The net realized capital losses in 1999 include \$49.7 million of impairment write-downs, including \$48.0 million related to various high yield bonds and \$1.7 million related to limited partnerships.

Net realized capital losses of \$7.4 million in 2000 and \$15.4 million in 1999 (net of income tax benefits of \$4.0 million and \$8.3 million, respectively) were deferred to the interest maintenance reserve and will be amortized into income over a thirty-year period. At December 31, 2000 and 1999, the interest maintenance reserve totaled \$59.8 million and \$85.1 million, respectively.



## Financial Condition and Liquidity at December 31, 2001 Compared to December 31, 2000

CAPITAL AND SURPLUS totaled \$2.03 billion at December 31, 2001, compared to \$2.02 billion at December 31, 2000. The increase of \$9.9 million mainly reflected \$470.9 million of net income recorded during 2001, a \$25.3 million decrease in the asset valuation reserve, partially offset by a \$22.5 million dividend payment made to SunAmerica, a \$106.8 million increase in unrealized losses, \$315.3 million in combined increases in non-admitted assets and deferred income tax, \$25.6 million in ANLIC's Modsec-related surplus amortization and a \$35.4 million charge to surplus from the adoption of Codification.

Codification of statutory accounting principles, adopted by the NAIC in 1998, became effective January 1, 2001 and resulted in changes to prescribed statutory accounting practices. Codification has been adopted in all 50 states, including Arizona, as the prescribed basis of statutory accounting and the Company, as mentioned above, recognized a \$35.4 million charge to statutory surplus resulting from the adoption. The components of this adjustment included a \$102.4 million decrease in the valuation of invested assets, a \$4.1 million decrease for the recognition of deferred income taxes and a \$7.1 million decrease for the deferment of unearned bond commitment fees offset by \$78.2 million increase in the carrying value of the investments in subsidiaries.

NET UNREALIZED CAPITAL LOSSES, which represent the difference between book and admitted statement values of invested assets, increased by \$106.8 million in 2001, compared to a \$66.8 million decrease during 2000, primarily due to a \$230.6 million net decrease in the statement value of investments in subsidiaries, offset by \$72.0 million in unrealized gain on other invested assets, and \$51.8 million of unrealized gains for bonds, preferred stocks and common stocks.

TOTAL ADMITTED ASSETS increased to \$32.73 billion at December 31, 2001 from \$26.62 billion at December 31, 2000. The \$6.11 billion increase was primarily due to the increase in cash and invested assets.

CASH AND INVESTED ASSETS at December 31, 2001 totaled \$30.22 billion, compared with \$24.14 billion at December 31, 2000. The \$6.08 billion increase primarily resulted from the growth in GIC deposits relative to GIC withdrawals, partially offset by surrenders on fixed annuities.

BONDS aggregated \$24.57 billion at December 31, 2001, compared with \$18.41 billion at December 31, 2000. The bond portfolio, which constituted 81% of the Company's total investment portfolio, had a carrying value that exceeded its aggregate fair value by \$220.1 million at December 31, 2001, compared with a carrying value that exceeded its fair value by \$326.9 million at December 31, 2000.

At December 31, 2001, \$2.31 billion of bonds, representing 7.7% of total invested assets, were rated below investment grade by the NAIC, compared with \$1.71 billion, or 7.1% of total invested assets, at December 31, 2000. Non-investment-grade securities generally provide higher yields and involve greater risks than investment-grade securities because their issuers typically are more highly leveraged and more vulnerable to adverse economic conditions than investment-grade issuers. In addition, the trading market for these securities is usually more limited than for investment-grade securities. These non-investment grade securities are comprised of bonds spanning 46 industries with 13% of these assets concentrated in telecommunications, 8% concentrated in the media cable, 7% in the airline industry and 6% concentrated in environmental. No other industry concentration constituted more than 5% of these assets.

SENIOR SECURED LOANS ("Secured Loans") are included in the bond portfolio and aggregated \$1.63 billion at December 31, 2001. Secured Loans are senior to subordinated debt and equity, and are secured by assets of the issuer. At December 31, 2001, Secured Loans consisted of \$1.35 billion of privately traded securities and \$273.4 million of publicly traded securities. These Secured Loans are composed of loans to 154 borrowers spanning 32 industries, with 16% of these assets concentrated in public utilities, 11% concentrated in energy and 7% concentrated in each airlines and telecommunications. No other industry concentration constituted more than 6% of these assets.

While the trading market for the Company's privately traded Secured Loans is more limited than for publicly traded issues, management believes that participation in these transactions has enabled the Company to improve its investment yield. As a result of restrictive financial covenants, these secured loans involve greater risk of technical default than do publicly traded investment-grade securities. However, management believes that the risk of loss upon default for these Secured Loans is mitigated by such financial covenants and the collateral values underlying the Secured Loans. Approximately 76% of Secured Loans were rated in NAIC categories 1 and 2 at December 31, 2001.

MORTGAGE LOANS aggregated \$3.80 billion at December 31, 2001, and consisted of 780 commercial first mortgage loans with an average loan balance of approximately \$4.9 million, collateralized by properties located in 43 states and the District of Columbia. Approximately 31% of this portfolio was office, 20% was multifamily residential, 12% was retail, 12% was industrial, 11% was manufactured housing, 5% was hotel and 8% was other types. At December 31, 2001, approximately 29% of this portfolio was secured by properties located in California, approximately 10% by properties located in New York, approximately 6% by properties located in Texas, Florida, Pennsylvania, New Jersey and no more than 5% of this portfolio was

secured by properties in any other single state. At December 31, 2001, there were 69 mortgage loans with outstanding balances of \$10.0 million or more, which loans collectively aggregated approximately 52% of the portfolio. At the time of their origination or purchase by the Company, virtually all mortgage loans had loan-to-value ratios of 80% or less. At December 31, 2001, approximately 26% of the mortgage loan portfolio consisted of loans with balloon payments due before January 1, 2005. During 2001 and 2000, loans delinquent by more than 180 days, foreclosed loans and restructured loans have not been significant in relation to the total mortgage loan portfolio.

Substantially all of the mortgage loan portfolio has been originated by the Company under strict underwriting standards. Commercial mortgage loans on properties such as offices, hotels and shopping centers generally represent a higher level of risk than do mortgage loans secured by multifamily residences. This greater risk is due to several factors, including the larger size of such loans and the more immediate effects of general economic conditions on these commercial property types. However, due to the Company's strict underwriting standards, the Company believes that it has prudently managed the risk attributable to its mortgage loan portfolio while maintaining attractive yields.

OTHER INVESTED ASSETS aggregated \$380.0 million at December 31, 2001, compared to \$289.9 million at December 31, 2000, and consisted primarily of \$347.5 million of limited partnership interests and \$44.2 million in leveraged lease investments. The Company's limited partnership interests were accounted for primarily by using the equity method of accounting, pursuant to the adoption of Codification, and were invested in real estate, debt securities and equity securities in the amounts of \$196.0 million, \$133.3 million and \$17.6 million, respectively at December 31, 2001.

Classified with invested assets are \$5.6 million of receivables from brokers for the sales and redemption of securities at December 31, 2001. There were \$25.8 million of receivables from brokers for the sale and redemption of securities at December 31, 2000.

SEPARATE ACCOUNT ASSETS amounted to \$1.97 billion at December 31, 2001 compared to \$2.11 billion at December 31, 2000 and mainly represent assets held in non-unitized separate accounts related to certain GIC contracts containing investment restrictions and certain market value adjusted fixed annuity contracts. Assets supporting GIC contracts totaled \$1.67 billion and are reported at book value and assets supporting market value adjusted fixed annuity totaled \$302.5 million are reported at market value.

ASSET-LIABILITY MATCHING is utilized by the Company in an effort to minimize the risks of interest rate fluctuations and disintermediation consistent with its risk-reward objectives. The Company believes that its fixed-rate liabilities should be backed by a portfolio principally composed of fixed-rate investments that generate predictable rates of return. The Company does not have a specific target rate of return. Instead, its rates of return vary over time depending on the current interest rate environment, the slope of the yield curve, the spread at which fixed-rate investments are priced over the yield curve, and general economic conditions. Its portfolio strategy is constructed with a view toward achieving adequate risk-adjusted returns consistent with its investment objectives of effective asset-liability matching, liquidity and safety. The Company's fixed-rate products incorporate surrender charges, two-tiered interest rate structures or other restrictions in order to encourage persistency. Approximately 90% of the Company's fixed annuity and GIC reserves had surrender penalties or other restrictions at December 31, 2001.

As part of its asset-liability matching discipline, the Company conducts detailed computer simulations that model its fixed-rate assets and liabilities under stress-test interest rate scenarios. With the results of these computer simulations, the Company can measure the potential gain or loss in fair value of its interest-rate sensitive instruments and seek to protect its economic value and achieve a predictable spread between what it earns on its invested assets and what it pays on its liabilities by designing its fixed-rate products and conducting its investment operations to closely match the duration of the fixed-rate assets to that of its fixed-rate liabilities. The Company's fixed-rate assets include bonds; preferred stocks; mortgage loans; policy loans; cash and short-term investments; and investments in limited partnerships that invest primarily in fixed-rate securities and are accounted for by using the cost method. At December 31, 2001, these assets had an aggregate fair value of \$32.55 billion with duration of 3.4. The Company's fixed-rate liabilities include fixed annuities and GICs. At December 31, 2001, these liabilities had an aggregate fair value (determined by discounting future contractual cash flows by related market rates of interest) of \$32.40 billion with a duration of 1.9. The Company's potential exposure due to a 10% increase in prevailing interest rates from their December 31, 2001 levels is a loss of approximately \$222.0 million, representing the decrease in the fair value of its fixed-rate assets that is not offset by a decrease in the fair value of its fixed-rate liabilities. Because the Company actively manages its assets and liabilities and has strategies in place to minimize its exposure to loss as interest rate changes occur, it expects that actual losses would be less than the estimated potential loss.

Duration is a common option-adjusted measure for the price of sensitivity of a fixed-maturity portfolio to changes in interest rates. It measures the approximate percentage change in the market value of a portfolio if interest rates change by 100 basis points, recognizing the changes in cash flows resulting from embedded options such as policy surrenders, investment prepayments and bond calls. It also incorporates the assumption that the Company will continue to utilize its existing strategies of pricing fixed annuity and GIC products, allocating its available cash flow amongst its various investment portfolio sectors and

maintaining sufficient levels of liquidity. Because the calculation of duration involves estimation and incorporates assumptions, potential changes in portfolio value indicated by the portfolio's duration will likely be different from the actual changes experienced under given interest rate scenarios, and the differences may be material.

As a component of its asset and liability management strategy, the Company utilizes interest rate swap agreements ("Swap Agreements") to match assets more closely to liabilities. Swap Agreements are agreements to exchange with a counterparty interest rate payments of differing character (for example, variable-rate payments exchanged for fixed-rate payments) based on an underlying principal balance (notional principal) to hedge against interest rate changes. The Company typically utilizes Swap Agreements to create a hedge that effectively converts floating-rate assets and liabilities into fixed-rate instruments. At December 31, 2001, the Company had 289 outstanding Swap Agreements with an aggregate notional principal amount of \$27.40 billion. These agreements mature in various years through 2031 and have average remaining maturities between 33 and 61 months.

The Company also seeks to provide liquidity from time to time by using reverse repurchase agreements ("Reverse Repos") and by investing in mortgage backed securities ("MBSs"). It also seeks to enhance its spread income by using Reverse Repos. Reverse Repos involve a sale of securities and an agreement to repurchase the same securities at a later date at an agreed upon price and are generally over-collateralized. MBSs are generally investment-grade securities collateralized by large pools of mortgage loans. MBSs generally pay principal and interest monthly. The amount of principal and interest payments may fluctuate as a result of prepayments of the underlying mortgage loans.

There are risks associated with some of the techniques the Company uses to provide liquidity, enhance its spread income and match its assets and liabilities. The primary risk associated with the Company's Reverse Repos and Swap Agreements is counterparty risk. The Company believes, however, that the counterparties to its Reverse Repos and Swap Agreements are financially responsible and that the counterparty risk associated with those transactions is minimal. It is the Company's policy that these agreements are entered into with counterparties who have a debt rating of A/A2 or better from both Standard & Poors' and Moody's. The Company continually monitors its credit exposure with respect to these agreements. In addition to counter party risk, Swap Agreements also have interest rate risk. However, the Company's Swap Agreements typically hedge variable-rate assets or liabilities, and interest rate fluctuations that adversely affect the net cash received or paid under the terms of a Swap Agreement would be offset by increased interest income earned on the variable-rate assets or reduced interest expense paid on the variable-rate liabilities. The primary risk associated with MBSs is that a changing interest rate environment might cause prepayment of the underlying obligations at speeds slower or faster than anticipated at the time of their purchase. As part of its decision to purchase an MBS, the Company assesses the risk of prepayment by analyzing the security's projected performance over an array of interest-rate scenarios. Once an MBS is purchased, the Company monitors its actual prepayment experience monthly to reassess the relative attractiveness of the security with the intent to maximize total return.

INVESTED ASSETS EVALUATION is regularly conducted by the Company. Management identifies monthly those investments that require additional monitoring and carefully reviews the carrying value of such investments at least quarterly to determine whether specific investments should be placed on a nonaccrual basis and to determine declines in value that may be other than temporary. In making these reviews for bonds, management principally considers the adequacy of any collateral, compliance with contractual covenants, and the borrower's recent financial performance, news reports and other externally generated information concerning the creditor's affairs. In the case of publicly traded bonds, management also considers market value quotations, if available. For mortgage loans, management generally considers information concerning the mortgaged property and, among other things, factors impacting the current and expected payment status of the loan and, if available, the current fair value of the underlying collateral. For investments in partnerships, management reviews the financial statements and other information provided by the general partners.

The carrying values of investments that are determined to have declined in value other than a temporary decline are reduced to net realizable value and, in the case of bonds, no further accruals of interest are made. The provisions for impairment on mortgage loans are based on losses expected by management to be realized on transfers of mortgage loans to real estate, on the disposition and settlement of mortgage loans and on mortgage loans that management believes may not be collectible in full. Accrual of interest is suspended when principal and interest payments on mortgage loans are past due more than 90 days.

DEFAULTED INVESTMENTS, comprising all investments that are in default as to the payment of principal or interest, totaled \$223.4 million at December 31, 2001, including \$202.2 million of bonds and notes and \$21.2 million of mortgage loans. At December 31, 2001, defaulted investments constituted less than 0.7% of total invested assets. At December 31, 2000, defaulted investments totaled \$116.2 million, and constituted less than 0.5% of total invested assets.

SOURCES OF LIQUIDITY are readily available to the Company in the form of the Company's existing portfolio of cash and short-term investments, Reverse Repo capacity on invested assets and, if required, proceeds from invested asset sales. At December 31, 2001, approximately \$14.15 billion of the Company's bond and preferred stock portfolio had an aggregate unrealized gain of \$319.9 million, while approximately \$10.44 billion of the bond portfolio had an aggregate unrealized loss of \$540.0 million. In addition, the Company's investment portfolio currently provides approximately \$282.4 million of monthly cash

flow from scheduled principal and interest payments. Historically, cash flows from operations and from the sale of the Company's annuity and GIC products have been more than sufficient in amount to satisfy the Company's liquidity needs.

Management is aware that prevailing market interest rates may shift significantly and has strategies in place to manage either an increase or decrease in prevailing rates. In a rising interest rate environment, the Company's average cost of funds would increase over time as it prices its new and renewing annuities and GICs to maintain a generally competitive market rate. Management would seek to place new funds in investments that were matched in duration to, and higher yielding than, the liabilities assumed. The Company believes that liquidity to fund withdrawals would be available through incoming cash flow, the sale of short-term or floating-rate instruments or Reverse Repos on the Company's substantial MBS segment of the bond portfolio, thereby avoiding the sale of fixed-rate assets in an unfavorable bond market.

In a declining rate environment, the Company's cost of funds would decrease over time, reflecting lower interest crediting rates on its fixed annuities and GICs. Should increased liquidity be required for withdrawals, the Company believes that a significant portion of its investments could be sold without adverse consequences in light of the general strengthening that would be expected in the bond market.

If a substantial portion of the Company's Bond portfolio diminished significantly in value and/or defaulted, the Company would need to liquidate other portions of its investment portfolio and/or arrange financing. Such events that may cause such a liquidity strain could be the result of economic collapse or terrorist acts.

#### **Codification of Statutory Accounting Principles**

In 1998, the NAIC adopted, and later amended, the Codification of Statutory Accounting Principles, which replaced the previous primary guidance on statutory accounting effective, January 1, 2001. Codification changed prescribed statutory accounting practices and has resulted in changes to the accounting practices that the Company uses to prepare its statutory basis financial statements. Codification has been adopted by all fifty states as the prescribed basis of accounting, including Arizona. The impact of such changes amounted to a \$35.4 million charge to statutory surplus and was reported as a cumulative effect of a change in accounting principles for the year ended December 31, 2001.

## CAPITALIZATION OF SUNAMERICA LIFE

	As of December 31, 2000	As of December 31, 2001
	(In thousands, except share data)	
<b>Borrowings:</b>		
Indebtedness .....	\$ —	\$ —
<b>Total Capital and Surplus:</b>		
Common Stock, \$2.50 par value, 2,354,560 shares authorized, 2,254,560 shares issued and outstanding .....	5,636	5,636
Paid In and Contributed Surplus .....	1,126,169	1,139,955
Unassigned Surplus .....	885,287	881,369
Total Capital and Surplus .....	2,017,092	2,026,960
Total Capitalization .....	\$2,017,092	\$2,026,960

There has been no material change in the capitalization of SunAmerica Life since December 31, 2001.

## DESCRIPTION OF THE NOTES

The following description of the terms and conditions of the Notes sets forth certain general provisions. It does not purport to be complete and is subject to the detailed provisions of the Notes and the Indenture, copies of which will be available from the Indenture Trustee and the Luxembourg Notes Paying Agent. Capitalized terms used herein have the same meanings as those used in the Indenture unless the context otherwise requires.

### General

*Indenture.* The Notes will be issued under, subject to and entitled to the benefits of an Indenture to be executed on or about March 20, 2002 (as amended, modified or supplemented from time to time, the “Indenture”) between the Issuer Trust and Bank One, National Association, as indenture trustee (in such capacity, together with any successors, the “Indenture Trustee”).

*Size; Maturity; Ranking; Security Interest; Denominations.* The Notes will be issued in \$750,000,000 aggregate principal amount and will mature on March 15, 2032. The Notes will be issued in denominations of \$1,000. The Notes will be secured and unsubordinated limited-recourse obligations of the Issuer Trust, and rank equally among themselves and with respect to all other present and future unsubordinated obligations of the Issuer Trust, except for certain categories of other obligations which are preferred by mandatory provisions of law. The Notes will be secured by the Funding Agreement and all other property that composes the Pledged Estate (as described below). The Notes are solely obligations of the Issuer Trust, and will not be guaranteed by any person, including but not limited to the Depositor or SunAmerica Life or any of their respective affiliates. The Notes will be denominated and payable in U.S. dollars and issued in fully registered form without coupons. Notes sold in reliance on Rule 144A under the Securities Act will be represented by one or more global certificates deposited with a custodian for and registered in the name of DTC or its nominee. Notes sold in reliance on Regulation S under the Securities Act will be represented by one or more global certificates, initially in temporary global form, deposited with a custodian for and registered in the name of DTC or its nominee for clearance through DTC and its direct and indirect participants, including Euroclear and Clearstream.

*Listing.* Application has been made to list the Notes on the Luxembourg Stock Exchange.

### Payments

*Principal.* The principal amount of the Notes will be payable at par on March 15, 2032 or if such day is not a Business Day on the next succeeding Business Day.

*Interest.* The Notes will bear interest payable in arrears semi-annually at the annual rate of 6.90% and on March 15 and September 15 of each year commencing September 15, 2002. The interest payable on each interest payment date will be the interest accrued from and including the later of (1) the issue date and (2) the most recent prior interest payment date to which interest on the Notes has been fully paid or duly provided for, to but excluding such interest payment date. The interest will be computed on the basis of a 360-day year of twelve 30-day months and, in the case of an incomplete month, the actual number of days elapsed.

*Payment Date not a Business Day.* If any Interest Payment Date other than the Maturity Date would otherwise be a day that is not a Business Day, such Interest Payment Date will be postponed to the next succeeding Business Day. If the Maturity Date falls on a day that is not a Business Day, the required payment of principal and interest will be made on the next succeeding Business Day as if made on the date such payment was due, and no interest will accrue on such payment for the period from and after the Maturity Date to the date of such payment on the next succeeding Business Day.

*Payment Procedures.* Except as otherwise provided in the Indenture, the Issuer Trust will discharge each of its payment obligations under the Notes and the Indenture by paying the Notes Paying Agent, and causing the Notes Paying Agent to tender to the holder of any Note, on or before the due date thereof, the payment amount in immediately available funds. All amounts payable to any holder of any Note will be paid to such account at such bank or other financial institution as the holder of such Note shall notify the Notes Paying Agent in accordance with the terms of the Indenture. All payments under the Securities will be made without deduction or withholding for any present or future taxes, duties, assessments or governmental charges of any nature, unless such withholding or deduction is required by law, regulation or official interpretation. Any withholding or deduction so required will be made without the payment of any additional amounts to securityholders, and the imposition of a requirement to make such withholdings or deductions will not give rise to any independent right or obligation to redeem the Securities.

*Luxembourg Notes Paying Agent.* For so long as the Notes are listed on the Luxembourg Stock Exchange, and to the extent required by the rules of such exchange, the Issuer Trust will maintain a Luxembourg Notes Paying Agent in Luxembourg.

*Definitions.* The following terms have the following meanings:

“Business Day” means any day except a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required to close.

“Issue Date” means March 20, 2002.

“Maturity Date” means March 15, 2032.

### **Pledged Estate**

Under the Indenture, the Notes will be secured by the “Pledged Estate”, which is:

- (i) the Funding Agreement, including all benefits, rights, privileges and options thereunder;
- (ii) all proceeds of the Funding Agreement; and
- (iii) books and records (including without limitation, computer programs, printouts and other computer materials and files) of the Issuer Trust pertaining to the foregoing.

### **Redemption**

The Notes are not redeemable except at maturity, when all Notes will be redeemed. The redemption price at final maturity date is 100%.

### **Covenants**

Under the Indenture, the Issuer Trust has made certain covenants regarding payment of principal and interest, maintenance of offices or agencies, money for Notes payments to be held in trust, protection of the Pledged Estate, delivery of an opinion and annual statement as to compliance, performance of obligations, existence, reports, financial information, notices of defaults and payment of taxes and other claims. Among other covenants, the Issuer Trust has agreed that it will not, so long as any Notes are outstanding, without the consent of the Indenture Trustee except as permitted by the Indenture:

- (i) sell, transfer, exchange, assign, lease, convey or otherwise dispose of any of its assets (now owned or hereafter acquired), including, without limitation, any portion of the Pledged Estate, except as expressly permitted by the Indenture;
- (ii) engage in any business or activity other than in connection with, or relating to, the execution, delivery and performance of the Trust Agreement, the AMES, the Funding Agreement and the transactions contemplated thereby, and the issuance of the Securities;
- (iii) incur or otherwise become liable, directly or indirectly, for any Indebtedness or Contingent Obligation (as defined in the Indenture) except for the Notes or as contemplated under the Indenture, the Trust Agreement or the AMES;
- (iv) dissolve or liquidate itself in whole or in part;
- (v) (a) permit the validity or effectiveness of the Indenture or any security interest in or assignment for collateral purposes of the Pledged Estate to be impaired, or permit the lien arising under the Indenture (the “Lien of the Indenture”) to be amended, hypothecated, subordinated, terminated or discharged, or permit any person to be released from any covenants or obligations under the Funding Agreement, except as may be expressly permitted by the Indenture or the Funding Agreement, (b) create, incur, assume, or permit any lien or other encumbrance (other than the Lien of the Indenture) on any of its properties or assets now owned or hereafter acquired, or any interest therein or the proceeds thereof, or (c) permit the Lien of the Indenture not to constitute a valid first priority security interest in the Pledged Estate;
- (vi) amend, modify or fail to comply with any material provision of the Trust Agreement except for any amendment or modification of the Trust Agreement permitted thereunder;
- (vii) own any subsidiary or lend or advance any monies to, or make any investment in, any Person, except for the investment of any funds of the Issuer Trust held by the Indenture Trustee, a Notes Paying Agent or the Administrative Trustee as provided in the Indenture or the Trust Agreement;

(viii) directly or indirectly declare or make any distribution or other payment on the AMES or redeem or otherwise acquire or retire for value any AMES; *provided* that the Issuer Trust may declare or pay a distribution on the AMES if all amounts due to be paid on the Notes prior to the next scheduled payment under the Funding Agreement have been paid;

(ix) exercise any rights to foreclose or realize on its security interest in or assignment for collateral purposes of the Pledged Estate except at the direction of, or with the prior written approval of, the Indenture Trustee;

(x) become required to register as an “investment company” under and as such term is defined in the Investment Company Act of 1940, as amended;

(xi) enter into any transaction of merger or consolidation or liquidate or dissolve itself (or suffer any liquidation or dissolution), or acquire by purchase or otherwise all or substantially all the business or assets of, or any stock or other evidence of beneficial ownership of, any Person;

(xii) have any employees other than the Issuer Trustees or other trustees necessary to conduct its business and enter into transactions contemplated under the Indenture and the Trust Agreement;

(xiii) have an interest in any bank account other than (1) the Collection Account (as defined in the Indenture), (2) an account or accounts from which the expenses relating to the issuance of the Notes or the organizational and operating expenses of the Issuer Trust are paid and (3) those accounts expressly permitted by the Indenture Trustee; *provided* that any accounts referred to in (2) or (3) above or the Issuer Trust’s interest therein shall be charged or otherwise secured in favor of the Indenture Trustee on terms acceptable to the Indenture Trustee;

(xiv) permit any affiliate, employee or officer of SunAmerica Life to be a trustee of the Issuer Trust; or

(xv) issue the Notes under the Indenture unless SunAmerica Life has affirmed in writing to the Issuer Trust that it has made changes to its books and records to reflect the assignment of the Funding Agreement from the Depositor to the Issuer Trust and the further granting of a security interest in, and the making of an assignment for collateral purposes of, the Funding Agreement by the Issuer Trust to the Indenture Trustee in accordance with the terms of the Funding Agreement and unless the Issuer Trust has taken such other steps as may be necessary to cause the Indenture Trustee’s security interest in or assignment for collateral purposes of the Pledged Estate to be perfected for purposes of the UCC or effective against the Issuer Trust’s creditors and subsequent purchasers of the Pledged Estate pursuant to insurance or other State Law.

## Events of Default

The following will be Events of Default under the Notes:

(i) default in the payment of any interest on any Note when such interest becomes due and payable, and continuance of such default for a period of five Business Days;

(ii) default in the payment of the principal of any Note at its maturity;

(iii) any “Event of Default” (as defined in the Funding Agreement) by SunAmerica Life under the Funding Agreement;

(iv) default in the performance, or breach, of any one or more of the other covenants of the Issuer Trust in the Indenture (other than a covenant a default in whose performance or whose breach is elsewhere in this section specifically dealt with), and continuance of such default or breach for a period of 60 days after there shall have been given notice thereof to the Issuer Trust by the Indenture Trustee or to the Issuer Trust and the Indenture Trustee by the holders of Notes representing at least 25% of the aggregate principal amount of the outstanding Notes, which notice shall specify such default or breach and require it to be remedied and which notice shall state that it is a “Notice of Default”; *provided* that the Indenture Trustee may, without the consent of the holders of Notes and without prejudice to its rights in respect of any subsequent breach, from time to time and at any time, if in its opinion the interests of the holders of Notes will not be materially prejudiced thereby, waive or authorize, on such terms as seem expedient to it, any breach by the Issuer Trust; *provided, further*, that the Indenture Trustee shall not so waive or authorize any breach in contravention of any express notice given by the holders of Notes representing at least 25% of the aggregate principal amount of the outstanding Notes; *provided, still further*, that no such express notice shall affect any previous waiver or authorization and any such waiver or authorization shall be binding on the holders of the Notes, and if the Indenture Trustee deems appropriate, such waiver or authorization shall be provided to the holders of the Notes as soon as practicable;



(v) the Indenture for any reason shall cease to be in full force and effect (other than in accordance with its terms) or shall be declared null and void, or the Indenture Trustee shall cease to have a valid and perfected security interest subject to no prior liens or security interests in the Pledged Estate and proceeds thereof except as expressly permitted by the Indenture; or any Person shall successfully claim as finally determined by a court of competent jurisdiction (1) that any material provision of the Indenture is void or unenforceable or (2) that any of the liens granted to the Indenture Trustee with respect to any of the Pledged Estate is void or that the enforcement thereof or any other recourse by the Indenture Trustee against any of the Pledged Estate is materially limited because of any preference, fraudulent transfer or similar law;

(vi) (1) a court having jurisdiction in the premises shall enter a decree or order for relief in respect of the Issuer Trust in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect of the State of Delaware or any other applicable jurisdiction, which decree or order is not stayed; or any other similar relief shall be granted under any applicable law; or (2) an involuntary case shall be commenced against the Issuer Trust under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect in the State of Delaware or any other applicable jurisdiction; or a decree or order of a court having jurisdiction in the premises for the appointment of a receiver, liquidator, sequestrator, trustee, custodian or other officer having similar powers over the Issuer Trust, or over all or a substantial part of its property, shall have been entered; or there shall have occurred the involuntary appointment of an interim receiver, trustee or other custodian of the Issuer Trust for all or a substantial part of its property; or a court having jurisdiction in the premises shall enter a decree or order declaring the dissolution of the Issuer Trust; or a warrant of attachment, execution or similar process shall have been issued against any substantial part of the property of the Issuer Trust and any such event described in this clause (2) shall continue for 60 days unless dismissed, bonded or discharged; or

(vii) (1) the Issuer Trust shall have an order for relief entered with respect to it or shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect of the State of Delaware or any other applicable jurisdiction, or shall consent to the entry of an order for relief in an involuntary case, or to the conversion of an involuntary case to a voluntary case, under any such law, or shall consent to the appointment of or taking possession by a receiver, trustee or other custodian for all or a substantial part of its property; or the Issuer shall make any assignment for the benefit of creditors; or (2) the Issuer Trust shall fail or be unable, or the Issuer Trust shall admit in writing its inability, to pay its debts as such debts become due; or the Trustees of the Issuer Trust shall adopt any resolution or otherwise authorize any action to approve or for the purpose of effecting any of the actions referred to in this paragraph (vii).

Whenever an Event of Default shall have occurred and be continuing (other than an Event of Default specified in clause (vi) or (vii) above or in Section 2.06(c) of the Funding Agreement, which relates to delinquency or other proceedings, for the purpose of liquidating, rehabilitating, reorganizing or conserving SunAmerica Life), the Indenture Trustee or the holder or holders of more than 25% in aggregate principal amount of the Notes at the time outstanding may, by written notice to the Issuer Trust and the Indenture Trustee, declare the principal of and all accrued interest on the Notes to be due and payable and such amounts shall become due and payable on the date the written declaration is received by or on behalf of the Issuer Trust. This provision, however, is subject to the condition that if, at any time after the principal of the Notes shall have been so declared due and payable, and before any judgment or decree for the payment of the monies due shall have been obtained or entered, the holder or holders of 66<sup>2</sup>/<sub>3</sub> percent in aggregate principal amount of the Notes then outstanding by written notice to the Issuer Trust and the Indenture Trustee may rescind and annul such declaration and its consequences, subject to certain conditions, but no such rescission and annulment shall affect any subsequent default or shall impair any right consequent thereon.

If an Event of Default specified in clause (vi) or (vii) above or in Section 2.06(c) of the Funding Agreement occurs, the Notes will be automatically and immediately due and payable without any declaration or other act on the part of any holder of any Note. Nothing in the Notes or the Indenture will restrict the right of the holder of any Note, which is absolute and unconditional, to receive payment of the principal of, and any interest on, such Note when due and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such holder, provided that any Person holding a security entitlement with respect to any Note through an account with a securities intermediary shall be subject to the laws and contractual provisions referred to under "Securities Holding Structure" below or in the Indenture.

## **Certain Rights of Holders**

The holder or holders of Notes representing at least 66 <sup>2</sup>/<sub>3</sub> percent of the aggregate principal amount of the outstanding Notes have the right to direct the time, method and place of conducting any proceedings for any remedy available to the Indenture Trustee or exercising any trust or power conferred on the Indenture Trustee with respect to the Notes and the Pledged Estate, subject to certain conditions set forth in the Indenture.

No holder of a Note shall have any right to institute any proceedings, judicial or otherwise, with respect to the Indenture or any agreement or instrument included in the Pledged Estate or for the appointment of a receiver or trustee, or for any other remedy under the Indenture, unless;

- (i) such holder has previously given written notice to the Indenture Trustee of a continuing Event of Default;
- (ii) the holder or holders of Notes representing not less than 25 percent of the aggregate principal amount of the outstanding Notes shall have made written request to the Indenture Trustee to institute proceedings in respect of such Event of Default in its own name as the Indenture Trustee;
- (iii) such holder or holders have offered to the Indenture Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request;
- (iv) the Indenture Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and
- (v) no direction inconsistent with such written request has been given to the Indenture Trustee during such 60-day period by the holder or holders of Notes representing at least 66 <sup>2</sup>/<sub>3</sub> percent of the aggregate principal amount of the outstanding Notes; it being understood and intended that no holder or holders of the Notes shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Indenture to affect, disturb or prejudice the rights of any other holder of any Note or to obtain or to seek to obtain priority or preference over any other holder of any Note or to enforce any right under the Indenture, except in the manner therein provided and for the equal and ratable benefit of all the holders of the Notes.

## **Meetings**

The Indenture Trustee may at any time call a meeting of holders of Notes to take any action as provided for in the Indenture to be held at such time and at such place in the City of New York or such other place as the Indenture Trustee shall determine. Notice of every meeting of holders of Notes, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting, will be given not less than 21 nor more than 180 days prior to the date fixed for the meeting. Subject to certain conditions, holders of at least ten percent in principal amount of the outstanding Notes may arrange to have a meeting called for any of the purposes specified in the Indenture.

Any resolution passed or decision taken at any meeting of holders of Notes duly held in accordance with the Indenture will be binding on all holders of Notes, whether or not such holders were present or represented at the meeting.

## **Nonrecourse Enforcement**

Notwithstanding anything to the contrary contained in the Indenture or the Notes, other than as described below, none of SunAmerica Life, any of the Issuer Trustees, the Depositor, any of their affiliates or the AMES holders (the "Nonrecourse Parties") will be liable (personally or otherwise) for the payment of any principal, interest or any other sums owing under the terms of the Notes. If any Event of Default shall occur with respect to the Notes, the right of the holders of the Notes and the Indenture Trustee on behalf of such holders in connection with a claim on the Notes will be limited solely to a proceeding against the Pledged Estate or any other assets of the Issuer Trust. None of such holders nor the Indenture Trustee on behalf of such holders will have the right to proceed against the Nonrecourse Parties to enforce the Notes (except that to the extent they exercise their rights, if any, to seize the Funding Agreement, they may enforce the Funding Agreement against SunAmerica Life) or for any deficiency judgment remaining after foreclosure of any property included in the Pledged Estate and the other assets of the Issuer Trust. However, this will not in any manner or way constitute or be deemed a release of the debt or other obligations evidenced by the Notes or otherwise affect or impair the enforceability against the Issuer Trust of the liens, assignments, rights and security interests created by the Indenture, the Funding Agreement, the Pledged Estate or any other instrument or agreement evidencing, securing or relating to the indebtedness or the obligations evidenced by the Notes. The holders of Notes are not precluded from foreclosing upon any property included in the Pledged Estate or from any other rights or remedies in law or in equity against the Issuer Trust or its assets.

## **Modifications and Amendments**

### *Modifications and Amendments Without Consent of the Holders of Notes*

The Issuer Trust and the Indenture Trustee may enter into an agreement or agreements supplemental to the Indenture at any time and from time to time, and without notice to or the consent of any holder of Notes, for the purpose of:

- (i) conveying, transferring, assigning, mortgaging or pledging to the Indenture Trustee, as security for the Notes, any property or assets in addition to the Pledged Estate;
- (ii) adding to the covenants of the Issuer Trust such further covenants, restrictions or conditions as the Issuer Trust and the Indenture Trustee shall consider to be for the benefit of all holders of Notes, and making the occurrence, or the occurrence and continuance, of a default in any such additional covenants, restrictions or conditions a Default or an Event of Default;
- (iii) curing any ambiguity or correcting or supplementing any provision contained in the Indenture, the Notes or any supplemental agreement which may be defective or inconsistent with any other provision contained in the Indenture, the Notes, the Funding Agreement or any supplemental agreement, or making such other provisions in regard to matters or questions arising under the Indenture which shall not adversely affect the interests of any holder of Notes in any material respect; or
- (iv) evidencing and providing for the acceptance of appointment under the Indenture of a successor Indenture Trustee with respect to the Notes.

### *Modifications and Amendments With Consent of Holders of Notes*

The Issuer Trust and the Indenture Trustee may enter into an agreement or agreements supplemental to the Indenture for the purpose of making any amendment or modification to the Notes or the Indenture or modifying in any manner the rights of any holder of Notes with the consent of the holder of Notes or holders of Notes representing at least a majority in aggregate principal amount of the Notes at the time outstanding, provided that no such modification, amendment or waiver may, without the consent of the holders of all the Notes at the time outstanding:

- (i) extend the stated maturity of the principal of or the time of payment of interest on any Note;
- (ii) reduce the principal amount of or the interest on any Note;
- (iii) change any place of payment where, or the coin or currency in which the principal of or interest on, any Note is payable;
- (iv) impair or affect the right of any holder to institute suit for the enforcement of any payment on or with respect to the Notes;
- (v) reduce the percentage of the aggregate principal amount of the outstanding Notes, the consent of the holders of which is required for any such supplemental indenture, or the consent of the holders of which is required for any waiver of compliance with provisions of the Indenture or defaults hereunder and their consequences provided for in the Indenture;
- (vi) modify any of the provisions of the Indenture respecting modifications and amendments, except to increase any percentage specified therein or to provide that additional provisions of the Indenture cannot be modified or waived without the consent of the holder of each outstanding Note affected thereby;
- (vii) modify or alter the provisions of the Indenture's definition of the term "Outstanding" which require that Notes owned by the Issuer Trust or any affiliate of the Issuer Trust be disregarded for purposes of such definition;
- (viii) modify or affect in any manner adverse to the interest of any holder of Notes the terms and conditions of the obligations of the Issuer Trust regarding the due and punctual payment of the principal of or interest on, or any other amounts due with respect to, the Notes; or
- (ix) permit the creation of any lien ranking prior to or on a parity with the Lien of the Indenture with respect to any part of the Pledged Estate or terminate the Lien of the Indenture on any property held for the benefit and security of holders at any time or deprive the holder of any Note of the security afforded by the Lien of the Indenture.

## **Annuity Option**

The Funding Agreement will provide for the option to acquire, purchase or otherwise obtain an annuity (the “Annuity Option”). However, each of the Issuer Trust and the Issuer Trustees has covenanted that it will not exercise or seek to exercise such Annuity Option. In addition, the holders of Notes will not have any right to cause the Annuity Option to be exercised. Therefore, the Annuity Option will not be exercised, and the payments scheduled under the relevant Funding Agreement will not be affected by the Annuity Option.

## **Indenture Trustee**

Under the Indenture, if an Event of Default has occurred and is continuing, the Indenture Trustee is obligated to exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

Except during the continuance of an Event of Default, the Indenture provides that the Indenture Trustee need perform only those duties that are specifically set forth therein and no others, and no implied covenants or obligations of the Indenture Trustee will be read into the Indenture. In addition, in the absence of bad faith on its part, the Indenture Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Indenture Trustee and conforming to the requirements of the Indenture unless a Responsible Officer (as defined in the Indenture) of the Indenture Trustee has actual knowledge that such statements or opinions are false. The Indenture Trustee must examine such certificates and opinions to determine whether they conform to the requirements of the Indenture.

No provision of the Indenture will be construed to relieve the Indenture Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that: (a) this paragraph does not limit the effect of the immediately preceding paragraph; (b) the Indenture Trustee will not be liable for any error of judgment made in good faith by a Responsible Officer, unless it is proved that the Indenture Trustee was negligent in ascertaining the pertinent facts; (c) the Indenture Trustee will not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction of holders representing at least 66<sup>2</sup>/<sub>3</sub> percent of the aggregate principal amount of the Notes then outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Indenture Trustee, or exercising any trust or power conferred upon the Indenture Trustee, under the Indenture with respect to the Notes; and (d) no provision of the Indenture requires the Indenture Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties thereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

The Indenture Trustee may resign at any time by giving not less than 90 days' prior written notice thereof to the Issuer Trust. If an instrument of acceptance by a successor Indenture Trustee shall not have been delivered to the Indenture Trustee within 30 days after the giving of such notice of resignation, the resigning Indenture Trustee may petition any court of competent jurisdiction for the appointment of a successor Indenture Trustee.

The Indenture Trustee may be removed at any time by holders representing at least 66<sup>2</sup>/<sub>3</sub> percent of the aggregate principal amount of the Notes then outstanding, delivered to the Indenture Trustee and the Issuer Trust.

If at any time the Indenture Trustee shall cease to be eligible to serve as Indenture Trustee under the requirements of the Indenture or shall become incapable of acting or shall be adjudged as bankrupt or insolvent, or a receiver of the Indenture Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Indenture Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, then, (i) the Issuer Trust (except during the existence of an Event of Default) may remove the Indenture Trustee, or (ii) subject to certain obligations to pay costs of a suit, any holder of Notes who has been a holder of Notes for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Indenture Trustee and the appointment of a successor Indenture Trustee.

If the Indenture Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of the Indenture Trustee for any reason, the Issuer Trust shall promptly appoint a Successor Indenture Trustee. If within one year after such resignation, removal or incapability or the occurrence of such vacancy a successor Indenture Trustee shall be appointed by act of holders of Notes representing at least 66<sup>2</sup>/<sub>3</sub> percent of the aggregate principal amount of the Notes then outstanding delivered to the Issuer Trust and the retiring Indenture Trustee, the successor Indenture Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Indenture Trustee and supersede the successor Indenture Trustee appointed by the Issuer Trust. If no successor Indenture Trustee shall have been so appointed by the Issuer Trust or the holders of the Notes and shall have accepted appointment in the manner provided in the Indenture, any holder of Notes who has been a holder of Notes for at least six months may on behalf of himself, herself or itself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Indenture Trustee.

## Securities Holding Structure

*Form and Custody of Notes.* The entire issue of the Notes will be initially evidenced by one or more global certificates in fully registered form, deposited with DTC and registered in the name of Cede & Co., DTC's nominee, or its successors. DTC will credit positions in the Notes to its participants. Euroclear and Clearstream (together with DTC and any of such entities' respective successors, the "Clearing Systems") will hold positions in the Notes on behalf of their respective participants either directly or indirectly through DTC.

*Multi-Tiered Holding System.* As long as a certificate representing any Notes is on deposit with any Clearing System, then:

(i) any Person wishing to acquire, hold or transfer a security entitlement (as defined by Section 8-102 of the UCC) in respect of such Notes must do so through an account with such Clearing System or its successors or with another securities intermediary holding a security entitlement in respect of such Notes directly or indirectly through such Clearing System or any of its successors;

(ii) there will be one or more securities intermediaries standing between each such accountholder and the underlying Notes;

(iii) the Issuer Trust, the Indenture Trustee and the Notes Paying Agents will have the right to treat such Clearing System or its successors as the holder or Person exclusively entitled to receive interest and other payments or property in respect of such Notes, and otherwise to exercise all the rights and powers with respect to such Notes;

(iv) the obligation of the Issuer Trust to make payments of interest and principal and other amounts with respect to such Notes will be discharged at the time payment in the appropriate amount is made in accordance with the Indenture to such Clearing System or its successors; and

(v) any Person that acquires, holds or transfers security entitlements in respect of such Notes through accounts with a Clearing System or with any other securities intermediary will be subject to the laws and contractual provisions governing such Person's relationship with its securities intermediary, as well as the laws (including Article 8 of the UCC) and contractual provisions governing the relationship between its securities intermediary and each other financial intermediary, if any, standing between itself and each certificate evidencing the underlying Notes and the Notes register to determine (A) the legal nature of its security entitlement in respect of any Note and whether such security entitlement is protected against the insolvency of its securities intermediary or any securities intermediary standing between such investor and the underlying Notes and the Notes Register, (B) whether such Clearing System or its successors, and each other securities intermediary, if any, standing between such Person and the underlying Notes and the Notes Register, is required to enforce the payment and other terms of such Notes against the Issuer Trust or to put its accountholders in a position to do so directly and (C) whether such Person's securities intermediary and each securities intermediary, if any, standing between such Person and the underlying Notes and the Notes Register, is required to pass on to such Person the benefits of ownership of such Notes.

*Right to Obtain Definitive Individual Certificates in Exchange for a Global Certificate.* Except as described in this paragraph, no global certificate evidencing any of the Notes and deposited in any Clearing System or any of its successors will be exchangeable for definitive individual certificates each evidencing a single Note or less than the entire issue of the Notes. Subject to the foregoing sentence, if (A) a Clearing System notifies the Issuer Trust that it is unwilling or unable to continue as a depository and a successor depository is not appointed within 90 days, (B) an Event of Default shall have occurred and the maturity of the Notes shall have been accelerated in accordance with the terms of the Indenture and the Notes or (C) the Issuer Trust shall have decided in its sole discretion that the Notes should no longer be evidenced solely by one or more global certificates, then, upon having prepared a deed or deeds with a fixed date, governed by New York law, between such Clearing System and its accountholders with an interest in such Notes:

(i) with respect to each global certificate evidencing such Notes, the Issuer Trust will promptly, and in any event not later than 10 Business Days thereafter, cause definitive individual certificates each evidencing a single Note or such other number of Notes as specified by such Clearing System or its successors to be duly executed, authenticated and delivered to such Clearing System or its successors and registered in the name of such Clearing System or its nominee, against surrender by such Clearing System or its successors of such global certificate, which shall thereupon be canceled by the Issuer Trust;

(ii) notwithstanding any other provision of the Notes or the Indenture, the definitive individual certificates so delivered to such Clearing System or its successors may be delivered by it to its accountholders in such amounts as shall correspond to the amount of Notes credited to the accounts of such accountholders on the records of the relevant Clearing System or its successors at the time of such delivery, and the Issuer Trust is obligated to register the Notes evidenced by such definitive individual certificates in such names and amounts as such Clearing System or its successors shall specify to the Issuer Trust or the Indenture Trustee, which specification shall serve as notification of transfer; and

(iii) if for any reason definitive individual certificates are not issued, authenticated and delivered to such Clearing System or its successors in accordance with paragraphs (i) and (ii) above:

(A) such Clearing System or its successors may provide to each of its accountholders a statement of such accountholder's interest in the Notes evidenced by each global certificate held by such Clearing System or its successors, together with a copy of such global certificate; and

(B) subject to the limitations on individual action by a holder of Notes contained in the Notes or the Indenture, each such accountholder or its successors and assigns (x) will have a claim directly against the Issuer Trust, for the payment of any amount due or to become due in respect of such accountholder's interest in the Notes evidenced by such global certificate, and will be empowered to bring any claim, to the extent of such accountholder's interest in the Notes evidenced by such global certificate and to the exclusion of such Clearing System or its successors, that as a matter of law could be brought by the holder of such global certificate and the Person in whose name the Notes are registered and (y) may, without the consent and to the exclusion of such Clearing System or its successors, file any claim, take any action or institute any proceeding, directly against the issuer Trust, to compel the payment of such amount or enforce any such rights, as fully as though the interest of such accountholder in the Notes evidenced by such global certificate were evidenced by a definitive individual certificate in such accountholder's actual possession and as if an amount of Notes equal to such accountholder's stated interest were registered in such accountholder's name and without the need to produce such global certificate in its original form.

The account records of any Clearing System or its successor will, in the absence of manifest error, be conclusive evidence of the identity of each accountholder that has any interest in the Notes evidenced by the global certificate held by such Clearing System or its successor and the amount of such interest. Definitive individual certificates will be issued only in denominations permissible under the global certificate and will be issued in registered form without coupons and, when delivered against surrender of a global certificate with a Securities Act Legend on it, shall be issued with such a legend.

In the event that definitive individual certificates are issued and for so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, the Issuer Trust will appoint and maintain a transfer agent in Luxembourg where definitive notes may be transferred by presentation along with a written form of transfer, which will be available at the offices of such transfer agent in Luxembourg. If definitive individual certificates are issued and the rules of the Luxembourg Stock Exchange require it, payment of interest, other than interest at maturity or upon redemption, may be made by check mailed to the address of the person entitled to such interest as it appears on the security register at the close of business on the applicable regular record date. Principal and interest payable at maturity or upon redemption will be paid by wire transfer of immediately available funds to the person or persons to whom principal is payable against presentation of certificates at the office of the Luxembourg Notes Paying Agent or elsewhere. Notice of appointment of a transfer agent in Luxembourg will be given in accordance with "—Miscellaneous—Notices" below.

*Direct Holding System.* Subject to the Indenture, if any global certificate is exchanged for definitive individual certificates each evidencing a single Note or less than the entire issue of Notes, then:

(i) The Issuer Trust, the Indenture Trustee and the Notes Paying Agents will have the right to treat each holder of Notes as the holder and the Person exclusively entitled to receive interest and other payments or property in respect of or in exchange for the Notes, and otherwise to exercise all the rights and powers with respect to any Note; and

(ii) the obligation of the Issuer Trust to make payments of principal, interest and other amounts with respect to the Notes shall be discharged at the time payment in the appropriate amount is made in accordance with the Indenture to each holder of Notes.

*Mutilated, Destroyed, Lost or Stolen Certificates.* If (i) any mutilated Note is surrendered to the Indenture Trustee directly or through any Notes Paying Agent or (ii) in the case of an alleged destroyed, lost or stolen Note, the Indenture Trustee receives evidence to its satisfaction of the destruction, loss or theft of the Note and there is delivered to the Indenture Trustee such security or indemnity as may be required by the Indenture Trustee and the Issuer Trust to save the Indenture Trustee and the Issuer Trust harmless, then, in the absence of notice to the Issuer Trust and the Indenture Trustee that such Note has been acquired by a *bona fide* purchaser, the Issuer Trust will execute and the Indenture Trustee will authenticate and deliver, in exchange for or in lieu of such mutilated, destroyed, lost or stolen Note, a new Note or Notes of the same maturity, tenor and principal amount bearing a number not contemporaneously outstanding: *provided, however*, that if any such mutilated, destroyed, lost and stolen Note shall have become or shall be about to become due and payable, instead of issuing a new Note, the Issuer Trust may pay such Note without surrender thereof, except that any mutilated Note shall be surrendered. Upon the issuance of any new Note, the Indenture Trustee or the Issuer Trust may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other reasonable expenses (including the fees and expenses of the Indenture Trustee or any Notes Paying Agent) connected therewith.

Every new Note issued pursuant to the immediately preceding paragraph in lieu of any destroyed, lost or stolen Note will constitute a separate obligation of the Issuer Trust, whether or not the destroyed, lost or stolen Note shall be at any time enforceable by anyone, and will be entitled to all the benefits of the Indenture equally and proportionately with any and all other Notes duly issued under the Indenture.

### **Securities Act Restrictions on Transfer**

*Securities Act Legend.* Each certificate evidencing any Notes sold to investors in the United States in reliance on Rule 144A under the Securities Act (each a “Restricted Note”) will bear a legend (the “Securities Act Legend”) stating that none of the Notes evidenced thereby has been or will be registered under the Securities Act or any state securities laws and that any purchaser of such Notes agrees that the Notes may be offered, sold, pledged or otherwise transferred only (i) to the Initial Purchasers or any affiliate thereof, (ii) in compliance with Rule 144A to a Person that the owner of the Notes reasonably believes is a qualified institutional buyer (“QIB”) within the meaning of Rule 144A purchasing for its own account or for the account of another QIB whom the seller has informed, in each case, that the resale or other transfer is being made in reliance on Rule 144A, (iii) in an offshore transaction complying with Rule 903 or 904 of Regulation S under the Securities Act, (iv) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), or (v) pursuant to any other exemption from the registration requirements of the Securities Act, subject in the case of clauses (iv) and (v) to the receipt by the Issuer Trust of an opinion of counsel or such other evidence which it may reasonably require that such resale is being made in compliance with the Securities Act. Each certificate evidencing any Notes sold in offshore transactions in reliance on Regulation S under the Securities Act (each an “Unrestricted Note”) will not bear the Securities Act Legend.

*Procedures.* Upon the registered transfer of any Restricted Notes, the Registrar will only deliver certificates evidencing Restricted Notes that bear the Securities Act Legend unless the Registrar and the Issuer Trust receive satisfactory evidence that neither the Securities Act Legend nor the restrictions on transfer set forth in it are required to ensure compliance with the provisions of the Securities Act.

From the Issue Date until the passage of forty days after the distribution of the Notes is complete (the “Restriction Date”), no one will be permitted to transfer an interest in Unrestricted Notes to a Person who would only be allowed to take Restricted Notes, unless the Person to receive the Notes supplies the Registrar with a written certification (in the form provided in the Indenture) to the effect that it is purchasing such interest for its own account and that it is a QIB within the meaning of Rule 144A, or that it is purchasing such interest for an account or accounts over which it exercises sole investment discretion and that each such account is a QIB. Such written certificate must also certify that the transaction complies in all respects with the requirements of Rule 144A and any applicable securities laws of any State of the United States or any other jurisdiction. After the Restriction Date, such restrictions and certification requirements will no longer apply to transfers of Unrestricted Notes.

No one will be permitted to transfer an interest in Restricted Notes before, on or after the Restriction Date to a Person who would only be allowed to take Unrestricted Notes, unless the Person to receive the Notes supplies the Registrar with a written certification (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Rule 903 or 904 of Regulation S. Such written certification must also certify that, if such transfer occurs on or prior to the Restriction Date, such interest in the Unrestricted Note will be held immediately thereafter through Euroclear or Clearstream.

Transfers of Restricted Notes and interests therein are also subject to compliance with the restrictions set forth in “Purchase and Transfer Restrictions” found elsewhere in this Offering Memorandum.

If any certificate evidencing any Notes bears a legend stating that the Notes are subject to any restrictions on transfer, then the holder of such certificate will not be permitted to transfer an interest in such Notes except in accordance with such restrictions on transfer, and each Person holding an interest in respect of such Notes through an account with a securities intermediary will not be permitted to transfer such interest, except in accordance with such restrictions on transfer.

### **Further Issues / Reopenings**

Issuer Trust reserves the right, at any time prior to March 20, 2004, from time to time and without the consent of any holders of any of the Notes, to reopen the offering of the Notes and issue \$250,000,000 aggregate principal amount of additional Notes on terms identical in all respects to the outstanding Notes (except the date of issuance), so that such additional Notes shall be consolidated with, form a single fungible issue with and increase the aggregate principal amount of the Notes. The period of the resale restrictions applicable to any Notes previously offered and sold in reliance on Rule 144A shall automatically be extended to the last day of the period of any resale restrictions imposed on any such additional Notes. Each such further issuance shall be supported by either a further Funding Agreement or an amendment to the existing Funding Agreement, such Funding Agreement or Amended Funding Agreement having terms and conditions such that it would be fungible with the existing Funding Agreement.

### **Miscellaneous**

*Notices.* Notices required under the Notes shall be sufficiently given upon (i) the mailing by first class mail, postage prepaid, of such notices to each holder of the Notes at their registered addresses as recorded in the Notes Register and (ii) so long as the Notes are listed on the Luxembourg Stock Exchange and it is required by the rules of the Luxembourg Stock Exchange, publication of such notice to each holder of the Notes in English in a leading newspaper having general circulation in Luxembourg (which is expected to be the Luxemburger Wort).

Neither the failure to give notice, nor any defect in any notice given, to any particular holder of a Note will affect the sufficiency of any notice with respect to any other holder of any Note.

Such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by holders of Notes shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

*Governing Law; Submission to Jurisdiction.* The Indenture and the Notes shall be governed by, and construed in accordance with, the laws of the State of New York, except as required by mandatory provisions of law and except to the extent that the validity or perfection of the Issuer Trust ownership of and security interest in the Funding Agreement or remedies under the Indenture in respect thereof may be governed by the laws of a jurisdiction other than the State of New York. All judicial proceedings brought against the Issuer Trust or the Indenture Trustee arising out of or relating to the Indenture, any Note or any portion of the Pledged Estate or other assets of the Issuer Trust may be brought in any state or federal court in the State of New York.



## DESCRIPTION OF THE AMES

### General

The following description of the terms of the AMES sets forth certain general provisions. It does not purport to be complete and is subject to and qualified by reference to the Trust Agreement. Capitalized terms used herein have the same meanings as those used in the Trust Agreement unless the context otherwise requires.

The AMES are undivided beneficial interests in the assets of the Issuer Trust and will entitle the holders thereof to receive distributions when, as and if declared by the Issuer Trust, out of funds legally available therefor, at a rate per annum that may vary from distribution period to distribution period. The initial distribution rate for the AMES offered hereby will be 2.00% per annum. The distribution rate for each subsequent distribution period will be determined by an auction conducted on the 17th day of the month in which such distribution period begins (except in March 2032, in which case such procedures will be brought forward to and implemented on March 14, 2032), or, if such day is not a Business Day, on the next preceding Business Day. Under the Trust Agreement, the Issuer Trust will not be permitted to declare distributions unless the Issuer Trust has paid or made provision for payment of all principal and interest due on the Notes outstanding, and of other currently outstanding expenses or claims against the Issuer Trust, the Administrative Trustee or the Delaware Trustee, if such payments have become due prior to such declaration. Distributions on the AMES will be subordinate to all claims of creditors of the Issuer Trust, including, without limitation, claims of holders of Notes.

An “AMES Owner” is (i) a person who has AMES credited to an account with a Broker-Dealer, has signed a AMES Purchasers’ Letter and is listed as a security entitlement holder in respect of AMES on the AMES Owners’ List maintained by the Auction Agent and (ii) with respect to the AT AMES, the Administrative Trustee. An “Existing AMES Owner” is, as of any particular time, a person who is listed as a AMES Owner on the AMES Owner’s List at such time. A “Potential AMES Owner” is a person who has signed a AMES Purchasers’ Letter and has submitted a Bid (as described below) in an auction to acquire AMES (including Existing AMES Owners who have submitted a Bid to acquire additional AMES, but only with respect to such additional AMES). Existing AMES Owners and Potential AMES Owners may participate in Auctions with respect to such AMES, although Existing AMES Owners desiring to continue to own all of their AMES regardless of the distribution rate need not participate.

When issued in the manner described herein, the AMES will be fully paid and non-assessable beneficial interests in the assets of the Issuer Trust and will have a liquidation amount of \$1,000 per share plus an amount equal to the sum of accumulated but unpaid distributions (whether or not declared). Notwithstanding the foregoing, upon the liquidation or winding up of the Issuer Trust, AMES holders will only receive amounts remaining after payment of all principal and interest due on the Notes.

Except for the AT AMES, the AMES will be issued and will trade only in AMES Trading Blocks. The AMES will not be convertible into any other security of or interest in the Issuer Trust and owners of AMES will have no preemptive or similar rights.

The Issuer Trust reserves the right from time to time and without the consent of any holders of any of the AMES to issue up to 81,000 additional AMES (initial liquidation amount of \$81,000,000) on terms identical in all respects to the outstanding AMES (including the then-current distribution rate on the outstanding AMES), so that such additional AMES shall be consolidated with, form a single series with and increase the outstanding amount of the AMES. The net proceeds from the offering of such additional AMES will be used by Issuer Trust to increase the face amount of the Funding Agreement by the initial liquidation amount of such additional AMES.

### Distributions

*General.* The terms of the AMES provide that owners of AMES shall be entitled to receive, when, as and if declared by the Issuer Trust, out of funds legally available therefor, cumulative distributions each consisting of cash at the applicable distribution rate, payable on the respective dates set forth below. Under the Trust Agreement, the Issuer Trust will not be permitted to declare distributions unless the Issuer Trust has paid or made provision for payment of all principal and interest due on the Notes outstanding, and of other currently outstanding expenses or claims against the Issuer Trust, the Administrative Trustee or the Delaware Trustee, if such payments have become due prior to such declaration. Notice to the Administrative Trustee of the Distribution Rate for a Distribution Period pursuant to the AMES Certificate shall constitute declaration by the Administrative Trustee on behalf of the Trust of the distribution on the AMES for such Distribution Period provided that (a) nothing in the Trust Agreement, the AMES Certificate or applicable law would prevent such a declaration and (b) the Administrative Trustee has not taken any action that would modify or nullify such constructive declaration. Subject to this restriction, distributions in arrears for any past distribution period may be declared and paid at any time, without reference to any regular distribution payment date.

Distribution periods will end on but exclude the Business Day following the 17th day of the month, except that the distribution period ending in March 2032 will be brought forward and end on but exclude the Business Day following March 14, 2032. Distributions for each distribution period will be payable in arrears on the last day of such period, *provided, however*, that for each distribution period which commences in one calendar year and ends in the next calendar year, an interim distribution will be made on the last Business Day of the first such year in respect of the period commencing on the first day of such distribution period and ending on December 31 of such year, and a final distribution will be made on the distribution date for such distribution period in respect of the period commencing on January 1 of the subsequent year and ending on the last day of such distribution period.

The distribution rate on the AMES for the initial distribution period will be 2.00% per annum. Thereafter, the distribution rate for each subsequent distribution period will be the rate per annum that the Auction Agent advises the Issuer Trust has resulted from the auction procedures.

In the event that Sufficient Clearing Bids (as defined below) have not been made in any auction, the distribution rate for the next distribution period will be equal to the Default Rate. In such event, Existing AMES Owners that have submitted Sell Orders will not be able to sell in the auction all, and may not be able to sell any, AMES subject to such Sell Orders. Thus, under certain circumstances, Existing AMES Owners may not have liquidity of investment. See “Risk Factors—AMES Liquidity Risk.”

If all Existing AMES Owners submit (or are deemed to have submitted) Hold Orders in an auction, the distribution rate for the next succeeding distribution period will equal 90% of the Applicable Determining Rate.

If in the reasonable judgment of the Broker-Dealers an auction cannot be conducted on a prescribed auction date as a result of an act of war (whether or not declared) or terrorism, an act of God or any other event or condition beyond the reasonable control of the Auction Agent and the Broker-Dealers, then the distribution rate for the subsequent distribution period shall be the distribution rate in effect on such auction date.

*Default Rate.* In no case will the distribution rate that results from the auction procedures be greater than the Default Rate, which is a percentage (determined as set forth below based on the prevailing rating of the AMES in effect at the close of business on the Business Day immediately preceding the date of the relevant auction) of the Applicable Determining Rate on the auction date, provided that during the continuance of a Payment Failure the applicable percentage will be 275%:

<b>Prevailing AMES Rating</b>		<b>Percentage</b>
<b>Standard Poor’s</b>	<b>Moody’s</b>	
AA- or above	Aa3 or above .....	150%
A+ through A-	A1 through A3.....	200%
BBB+ through BBB-	Baal through Baa3 .....	225%
BB+ or below	Bal or below .....	275%

If the AMES ratings issued by the two rating agencies differ to the extent that different percentages are indicated by this chart depending on which agency’s rating is used, the higher percentage will be applied.

The Applicable Determining Rate will be, on any date:

(a) the Money Market Yield (as defined below) of the rate for commercial paper with a maturity of 30 days as published in H.15(519) under the heading “Commercial Paper—Nonfinancial.”

(b) If the above rate is not published in H.15(519) by 3:00 p.m. on such date, then the Applicable Determining Rate will be the Money Market Yield of the rate on such date for commercial paper having such maturity as published in H.15 Daily Update under the heading “Commercial Paper—Nonfinancial.”

(c) If by 3:00 p.m. on such date such rate is not published in either H.15(519) or H.15 Daily Update, then the Auction Agent will determine the Applicable Determining Rate to be the Money Market Yield of the arithmetic mean of the offered rates as of 11:00 a.m. on such date of three leading dealers of commercial paper in New York City selected by the Auction Agent for commercial paper with a maturity of 30 days placed for an industrial issuer whose bond rating is “Aa”, or the equivalent, from a nationally recognized statistical rating agency.

(d) If the dealers selected by the Auction Agent are not quoting for maturities of 30 days, the Applicable Determining Rate with respect to such date will remain the Applicable Determining Rate then in effect on such date.

Money Market Yield means, with respect to any rate that is quoted on a bank discount basis, a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Money Market Yield} = \frac{D \times 360}{360 - (D \times M)} \times 100$$

where “D” refers to the per annum rate, quoted on a bank discount basis and expressed as a decimal rounded, if necessary, to the nearest one hundred thousandth of a decimal point (.00001); and “M” refers to 30 days, or in the case of the initial distribution period, the number of days for which such discount rate is quoted.

*Distribution Arrearage.* Notwithstanding the foregoing, in the event that the Issuer Trust fails to pay all distributions which have accumulated during any distribution period by no later than the third Business Day following the last day of such distribution period, and such failure is continuing (a “Distribution Arrearage”), then the auction procedures will be suspended and the distribution rate for the AMES will be 275% of the Applicable Determining Rate for distribution periods commencing after the last day of the distribution period with respect to which such Distribution Arrearage occurred. If there is no continuing Distribution Arrearage at the end of a distribution period, the auction procedures will be resumed.

In no event will the distribution rate for any AMES be adjusted prior to the end of a distribution period for such AMES.

*Distribution Payments.* The amount of distributions accumulated on each AMES for each distribution period will be computed by multiplying (i) the distribution rate for such distribution period by (ii) a fraction the numerator of which is the actual number of days in such period and the denominator of which is 360 and again by (iii) \$1000.

The Issuer Trust will pay or cause to be paid to the AMES Paying Agent not later than 12:00 noon, New York City time, on each distribution payment date, an aggregate amount in same-day funds in the City of New York, New York, equal to the distributions to be paid to all holders of AMES for such distribution payment date. The AMES Paying Agent shall pay such distributions in accordance with the standard procedures of DTC (together with any successor securities depository selected by the Issuer Trust, the “Securities Depository”).

### **The Auction**

The Auction Agent will implement the auction procedures on the 17th day of each month (except in March 2032, in which case such procedures will be implemented on March 14, 2032), or, if that day is not a Business Day, on the next preceding Business Day, and will announce the distribution rate that has resulted from the auction procedures on that day. If a Distribution Arrearage has occurred and is continuing, however, the distribution rate will be determined as described above under the caption “Distributions—Distribution Arrearage”. In no event will the distribution rate for any dividend period exceed the Default Rate described above under “Distributions—Distribution Arrearage”.

Each auction requires the participation of one or more broker-dealers. The Auction Agent will enter into agreements (collectively, the “Broker-Dealer Agreements”) with one or more broker-dealers (collectively, the “Broker-Dealers”) which provide for the participation of the Broker-Dealers in auctions. Initially, the Broker-Dealer will be Merrill Lynch, Pierce, Fenner & Smith Incorporated.

## Auction Procedures

*Orders by Existing AMES Owners and Potential AMES Owners.* On or prior to 1:00 p.m., New York City time, on the date of each auction or such other time on an auction date as specified by the Auction Agent (the “Submission Deadline”):

- (a) each Existing AMES Owner may submit to a Broker-Dealer by telephone or otherwise a:
- (i) Hold Order—indicating the number of AMES Trading Blocks held by such Existing AMES Owner which such Existing AMES Owner desires to continue to hold without regard to the rate determined by the auction procedures for the next succeeding distribution period;
  - (ii) Bid—indicating the number of AMES Trading Blocks held by such Existing AMES Owner which such Existing AMES Owner desires to continue to hold for the next succeeding distribution period if the rate determined by the auction procedures shall not be less than the rate specified by such Existing AMES Owner; and/or
  - (iii) Sell Order—indicating the number of AMES Trading Blocks held by such Existing AMES Owner which such Existing AMES Owner offers to sell without regard to the rate determined by the auction procedures for the next succeeding distribution period: and
- (b) Broker-Dealers will contact Potential AMES Owners, including persons that are not Existing AMES Owners, by telephone or otherwise to determine the number of outstanding AMES Trading Blocks which each such Potential AMES Owner offers to purchase, provided that the rate determined by the Auction Procedures for the next succeeding distribution period shall not be less than the rate specified by such Potential AMES Owner.

The communications to a Broker-Dealer of the foregoing information are herein referred to as “Orders”. Existing AMES Owners and Potential AMES Owners placing an Order are referred to as “Bidders”.

An Existing AMES Owner may submit different types of Orders in an auction with respect to AMES owned by such Existing AMES Owner, provided that the total number of AMES Trading Blocks covered by Hold or Sell Orders does not exceed the number of AMES Trading Blocks then owned by the Existing AMES Owner. For information concerning the priority given to different types of Orders placed by Existing AMES Owners, see “—Submission of Orders by Broker-Dealers to Auction Agent” below.

Any Bid specifying a rate higher than the Default Rate (i) will be treated as a Sell Order if submitted by an Existing AMES Owner and (ii) will not be accepted if submitted by a Potential AMES Owner. See “—Determination of Sufficient Clearing Bids, Winning Bid Rate and Distribution Rate” and “—Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of AMES” below.

Pursuant to the terms of the AMES Purchasers’ Letter (more fully described under “Purchase and Transfer Restrictions” and attached to this Offering Memorandum), a Sell Order placed by an Existing AMES Owner will constitute an irrevocable offer to sell, and if the rate specified in a Bid is greater than the rate determined in an Auction, a Bid placed by an Existing AMES Owner shall constitute an irrevocable offer to sell the number of AMES Trading Blocks subject thereto. A Bid placed by a Potential AMES Owner will constitute an irrevocable offer to purchase the number of AMES Trading Blocks specified in that Bid if the rate specified in the Bid is lower than or equal to the rate determined in the Auction. The number of AMES Trading Blocks purchased or sold may be subject to proration procedures. See “—Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of AMES Trading Blocks” below. Each purchase or sale shall be made for settlement on the Business Day following the Auction Date at a price per AMES Trading Block of \$1,000,000. See “—Notification of Auction Results; Settlement” below.

If an Order or Orders covering all of the AMES Trading Blocks owned by an Existing AMES Owner are not submitted to the Auction Agent prior to the Submission Deadline, whether or not a Broker-Dealer has contacted such Existing AMES Owner, the Auction Agent will deem a Hold Order to have been submitted on behalf of such Existing AMES Owner covering the number of AMES Trading Blocks held by such Existing AMES Owner and not subject to Orders submitted to the Auction Agent.

None of the Issuer Trust, either Issuer Trustee, SunAmerica Life or any of their affiliates may submit an Order in any auction. As discussed under “—The Broker-Dealers” below, a Broker-Dealer may submit Orders in Auctions for its own account. The Administrative Trustee shall be deemed to have submitted a Hold Order in each auction with respect to the AT AMES.

*Submission of Orders by Broker-Dealers to Auction Agent.* Prior to Submission Deadline, each Broker-Dealer will submit in writing or through the Auction Agent auction processing system to the Auction Agent all Orders obtained by such Broker-Dealer for the Auction to be conducted on such date.

If any percentage rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one-thousandth (.001 of 1%), with .0005 being rounded up to .001.

If one or more Orders on behalf of an Existing AMES Owner covering in aggregate more than the number of AMES Trading Blocks owned by such Existing AMES Owner are submitted to the Auction Agent, such Orders shall be considered valid as follows and in the following order of priority:

(i) all Hold Orders shall be considered valid, but only up to and including in the aggregate the number of AMES Trading Blocks held by such Existing AMES Owner, and, if the number of AMES Trading Blocks subject to such Hold Orders exceeds the number of AMES Trading Blocks held by such Existing AMES Owner, the number of AMES Trading Blocks subject to each such Hold Order shall be reduced pro rata to cover the number of AMES Trading Blocks held by such Existing AMES Owner;

(ii) (A) any Bid considered valid up to and including the excess of the number of AMES Trading Blocks held by such Existing AMES Owner over the number of AMES Trading Blocks subject to any Hold Order referred to in subsection (i) above;

(B) subject to subclause (A), if more than one Bid with the same rate is submitted on behalf of such Existing AMES Owner and the number of AMES Trading Blocks subject to such Bids is greater than such excess described in the preceding subclause (A), those Bids will be considered valid up to the amount of such excess, and the number of AMES Trading Blocks subject to each Bid with the same rate shall be reduced pro rata to cover the number of AMES Trading Blocks equal to such excess;

(C) subject to subclause (A), if more than one Bid with different rates is submitted on behalf of such Existing AMES Owner, such Bids shall be considered valid in the ascending order of their respective rates up to the amount of that excess; and

(D) any AMES Trading Blocks subject to Bids not valid under this clause (ii) will be treated as the subject of a Bid by a Potential AMES Owner; and

(iii) all Sell Orders shall be considered valid but only up to and including in the aggregate the excess of the number of AMES Trading Blocks held by such Existing AMES Owner over the number of AMES Trading Blocks subject to Hold Orders referred to in clause (i) and valid Bids referred to in clause (ii) above.

If more than one Bid is submitted on behalf of any Potential AMES Owner, each Bid submitted shall be a separate Bid with the rate and number of AMES Trading Blocks therein specified.

*Determination of Sufficient Clearing Bids, Winning Bid Rate and Distribution Rate.* Not earlier than the Submission Deadline on each auction date, the Auction Agent will assemble all Orders submitted or deemed submitted to it by the Broker-Dealers ("Submitted Hold Orders" "Submitted Bids" or "Submitted Sell Orders", as the case may be, or collectively, "Submitted Orders") and will determine the excess of the total number of AMES Trading Blocks over the number of AMES Trading Blocks that are the subject of Submitted Hold Orders (such excess, the "Available AMES") and whether Sufficient Clearing Bids have been made in the Auction.

Sufficient Clearing Bids will have been made if the number of AMES Trading Blocks that are the subject of Submitted Bids by Potential AMES Owners specifying one or more rates equal to or lower than the Maximum Rate equals or exceeds the number of AMES Trading Blocks that are the subject of Submitted Sell Orders (including the number of AMES Trading Blocks subject to Bids by Existing AMES Owners specifying one or more rates higher than the Default Rate).

If Sufficient Clearing Bids have been made, the Auction Agent will determine the lowest rate specified in the Submitted Bids (the "Winning Bid Rate") which when adding the number of AMES Trading Blocks which would continue to be held by Existing AMES Owners (other than pursuant to Hold Orders) to the number of AMES Trading Blocks to be purchased by Potential AMES Owners, would equal not less than the Available AMES. If Sufficient Clearing Bids have been made, the Winning Bid Rate will be the distribution rate for the next distribution period for all AMES.

If Sufficient Clearing Bids have not been made (other than because all of the AMES are the subject of Submitted Hold Orders), then the distribution rate for the next succeeding distribution period will be equal to the Default Rate. If Sufficient Clearing Bids have not been made, Existing AMES Owners that have submitted Sell Orders will be unable to sell in the Auction all AMES Trading Blocks subject to those Submitted Sell Orders. See “—Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of AMES” below.

If all of the AMES are the subject of Submitted Hold Orders, then the distribution rate for the next succeeding distribution period will be equal to 90% of the Applicable Determining Rate.

*Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of AMES.* Based on the determinations made under “—Determination of Sufficient Clearing Bids, Winning Bid Rate and Distribution Rate” above, and subject to the discretion of the Auction Agent to round as described below.

Submitted Bids and Submitted Sell Orders will be accepted or rejected in the order of priority set forth in the auction procedures with the result that Existing AMES Owners and Potential AMES Owners of AMES will sell, continue to hold and/or purchase AMES as set forth below. Existing AMES Owners that submitted or were deemed to have submitted Hold Orders will continue to own the AMES subject to those Hold Orders:

If Sufficient Clearing Bids have been made:

(a) each Existing AMES Owner that placed a Submitted Bid specifying any rate higher than the Winning Bid Rate or a Submitted Sell Order will sell the AMES Trading Blocks subject to that Submitted Bid or Submitted Sell Order;

(b) each Existing AMES Owner that placed a Submitted Bid specifying a rate lower than the Winning Bid Rate will continue to hold the AMES Trading Blocks subject to that Submitted Bid;

(c) each Potential AMES Owner that placed a Submitted Bid specifying a rate lower than the Winning Bid Rate will purchase the AMES Trading Blocks subject to that Submitted Bid;

(d) each Existing AMES Owner that placed a Submitted Bid specifying a rate equal to the Winning Bid Rate will continue to hold the AMES Trading Blocks subject to that Submitted Bid, unless the number of AMES Trading Blocks subject to such Submitted Bids is greater than the excess of the Available AMES over the number of AMES Trading Blocks accounted for in clauses (b) and (c) above, in which event each Existing AMES Owner placing such a Submitted Bid will sell a number of AMES Trading Blocks subject to that Submitted Bid determined on a pro rata basis based on the number of AMES Trading Blocks subject to all such Submitted Bids by the Existing AMES Owners; and

(e) each Potential AMES Owner that placed a Submitted Bid specifying a rate equal to the Winning Bid Rate will purchase any Available AMES not accounted for in clause (b), (c) or (d) above on a pro rata basis based on the number of AMES Trading Blocks subject to all such Submitted Bids.

If Sufficient Clearing Bids have not been made (other than because all of the AMES are subject to Submitted Hold Orders):

(a) each Existing AMES Owner that placed a Submitted Bid specifying a rate equal to or lower than the Default Rate will continue to own the AMES Trading Blocks subject to that Submitted Bid;

(b) each Potential AMES Owner that placed a Submitted Bid specifying any rate equal to or lower than the Default Rate will purchase the AMES Trading Blocks subject to that Submitted Bid; and

(c) each Existing AMES Owner that placed a Submitted Bid specifying a rate higher than the Default Rate or a Submitted Sell Order will sell a pro rata portion of the number of AMES Trading Blocks subject to all such Submitted Bids and Submitted Sell Orders (and will be required to hold all remaining AMES Trading Blocks subject to such Orders).

If, as a result of the auction procedures described above, (i) any Existing AMES Owner would be entitled or required to sell, or any Potential AMES Owner would be entitled or required to purchase, a fraction of an AMES Trading Blocks on any auction date, the Auction Agent shall, in such manner as in its sole discretion it shall determine, round up or down the number of AMES Trading Blocks to be purchased or sold by any Existing AMES Owner or Potential AMES Owner on such auction date so that the number of AMES Trading Blocks purchased or sold by each Existing AMES Owner or Potential AMES Owner on such auction date shall be whole AMES Trading Blocks and (ii) any Potential AMES Owner would be entitled or required to purchase less than a whole AMES Trading Blocks on any auction date, the Auction Agent shall, in such manner as in its sole discretion it shall determine, allocate AMES Trading Blocks for purchase among Potential AMES Owners so that only whole AMES Trading Blocks are purchased on such auction date by any Potential AMES Owner, even if such allocation results in one or more of such Potential AMES Owners not purchasing any AMES Trading Blocks on such auction date.

Based on the results of each auction, the Auction Agent shall determine, with respect to each Broker-Dealer that submitted Bids or Sell Orders on behalf of Existing AMES Owners or Potential AMES Owners, the aggregate number of AMES Trading Blocks to be purchased and the aggregate number of AMES Trading Blocks to be sold by such Potential AMES Owners and Existing AMES Owners and, to the extent that such aggregate number of AMES Trading Blocks to be purchased and such aggregate number of AMES Trading Blocks to be sold differ, the Auction Agent shall determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers such Broker-Dealer shall deliver AMES Trading Blocks, or from which other Broker-Dealer or Broker-Dealers acting for one or more sellers such Broker-Dealer shall receive AMES Trading Blocks, as the case may be.

#### **Notification of Auction Results; Settlement**

The Auction Agent will advise each Broker-Dealer that submitted a Bid or Sell Order on behalf of a Bidder, by telephone at approximately 3:00 p.m., New York City time, on each auction date, whether such Bid or Sell Order was accepted, in whole or in part, or rejected and the distribution rate for the next distribution period. Each Broker-Dealer that submitted a Bid or Sell Order on behalf of a Bidder will then advise the Bidder whether such Bid or Sell Order was accepted, in whole or in part, or rejected; will confirm purchases and sales with each Bidder purchasing or selling AMES Trading Blocks as a result of the Auction; and will advise each Bidder purchasing or selling AMES Trading Blocks subject to that Auction to instruct the member of the Securities Depository acting on its behalf (the "Agent Member") to pay the purchase price against delivery of such AMES Trading Blocks or to deliver such AMES Trading Blocks against payment therefor as appropriate. Each Broker-Dealer that submitted a Hold Order on behalf of an Existing AMES Owner will also advise such Existing AMES Owner of the distribution rate for the next distribution period. The Auction Agent will record on the registry of Existing AMES Owners to be maintained by the Auction Agent each transfer of AMES Trading Blocks subject to that Auction.

In accordance with the Securities Depository's normal procedures, on the Business Day after the Auction date, the transactions described above will be executed through the Securities Depository and the accounts of the Broker-Dealers with accounts at the Securities Depository will be debited and credited as necessary to effect the purchases and sales of AMES Trading Blocks as determined in the Auction. Purchasers will make payment to the Securities Depository through their Broker-Dealers in same-day funds against delivery; the Securities Depository will make payments in accordance with its normal procedures, including payment in same-day funds.

If any Existing AMES Owner selling AMES Trading Blocks in an auction fails to deliver those AMES Trading Blocks, the Broker-Dealer of any person that was to have purchased AMES Trading Blocks in such Auction may deliver to such person a number of whole AMES Trading Blocks that is less than the number of AMES Trading Blocks that otherwise was to be purchased by such person. In such event, the number of AMES Trading Blocks to be so delivered will be determined by such Broker-Dealer. Delivery of such lesser number of AMES Trading Blocks will constitute delivery. The Auction Agent will rescind a transfer of AMES Trading Blocks from an Existing AMES Owner to another person if the Auction Agent has been notified in writing by a Broker-Dealer or Agent Member of any person that (i) purchased such AMES Trading Blocks in an auction that the seller failed to deliver such AMES Trading Blocks or (ii) sold AMES Trading Blocks that the purchaser failed to make payment to such Person upon delivery to the purchaser of such AMES Trading Blocks.

#### **Transfer Restrictions; AMES Purchasers' Letter**

The AMES are subject to significant transfer restrictions. In particular, except for the AT AMES, AMES may only be transferred (a) (i) pursuant to a Bid or Sell Order in an auction or (ii) otherwise with the authorization of the Auction Agent, (b) to a person who has delivered an AMES Purchasers' Letter and (c) in AMES Trading Blocks. See "Purchase and Transfer Restrictions".

## **Voting Rights; Meetings**

The Securities Depository, while it or its nominee is the registered owner of the AMES, will not independently exercise any voting rights with respect thereto. Rather, the Securities Depository, in accordance with its normal procedures, will extend such voting rights to its Agent Members whose accounts are credited with such AMES. Each Agent Member will in turn extend such voting rights to the holders for whom it is Agent Member in accordance with its normal procedures.

Owners of a majority of the outstanding AMES may vote to remove the Administrative Trustee or the Delaware Trustee for cause (as defined in the Trust Agreement) provided that a replacement trustee which is qualified to act in the role of that filled by the Issuer Trustee to be removed has been appointed and has accepted such appointment and has been approved by the Indenture Trustee (which approval is not to be withheld unreasonably).

The AMES do not provide for any other voting rights, and the Administrative Trustee will not be permitted to vote any AMES it owns.

Meetings of AMES holders may be called at any time by the Administrative Trustee to consider and act on any matter on which such holders are entitled to act under the terms of the Trust Agreement. The Administrative Trustee shall call a meeting of the AMES holders if directed to do so by the holders of at least 10% of the AMES.

Whenever a vote, consent or approval of the AMES holders is permitted or required under the Trust Agreement, such vote, consent or approval may be given at a meeting of AMES holders. Any action that may be taken at a meeting of the AMES holders may be taken without a meeting and without prior notice pursuant to one or more instruments of substantially similar tenor signed by AMES holders in person or by an agent duly appointed in writing, and such action shall become effective when such instrument or instruments are delivered to the Administrative Trustee. The percentage of AMES required to be voted to approve any action by writing shall be the same percentage required for approval at a duly convened meeting of AMES holders.

No annual or other meeting of AMES holders is required to be held.

The AMES holders and their duly authorized representatives will have the right to examine the Issuer Trust's books and records during normal business hours upon reasonable demand for any purpose reasonably related to their interest in the AMES.

## **Liquidation**

Upon the involuntary or voluntary liquidation, dissolution or winding up of the Issuer Trust, owners of AMES will be entitled to receive, after payment of all amounts due on the Notes and any other claims against the Issuer Trust (but only to the extent that such claims are not covered by the Expenses Agreement), out of the assets of the Issuer Trust or proceeds thereof, \$1,000 per AMES plus all distributions accumulated and unpaid thereon (whether or not declared) (the "Liquidation Amount") and a pro rata share of any remaining assets, if any. If, in the case of any such liquidation, dissolution or winding up of the Issuer Trust the assets of the Issuer Trust or proceeds thereof shall be insufficient to make the full payment of the Liquidation Amount for each AMES, then those assets and proceeds will be distributed among the holders of the AMES ratably in accordance with the respective amounts which would be payable on such AMES if all amounts thereon were paid in full. If, in the case of any such liquidation, dissolution, or winding up of the Company, the assets of the Company or proceeds thereof shall be greater than necessary to make full payment of the Liquidation Amount for each AMES, then those surplus assets and proceeds will likewise be distributed ratably among the AMES Holders.

Upon the maturity or acceleration of the Funding Agreement, the Administrative Trustee, after making provision for payment of amounts outstanding on the Notes and any other claims against the Issuer Trust (but only to the extent that such claims are not covered by the Expenses Agreement), shall either (i) apply all remaining amounts to investments in Eligible Assets (as described below) (including to pay expenses incurred in acquiring the Eligible Assets) or, if sufficient Eligible Assets are not readily available, (ii) move to liquidate the Issuer Trust. So long as any AMES are outstanding, on the date of each AMES auction after the initial acquisition of Eligible Assets, the Administrative Trustee will, if the then-existing investment in Eligible Assets is insufficient to pay the aggregate distributions on the AMES on the next distribution date as determined in such auction, repeat these steps (i) and (ii) as appropriate in light of the new distribution rate.

For these purposes, "Eligible Assets" means securities which (i) are (A) issued or guaranteed as to principal and interest by the US government or an instrumentality of the US government; (B) commercial paper of issuers whose senior unsecured long term debt carries the highest investment rating granted by each of Moody's and Standard Poor's or (C) certain deposits with financial institutions whose senior unsecured long term debt carries the highest investment rating granted by each of Moody's and Standard Poor's which are insured by the Federal Deposit Insurance Corporation; (ii) are due to mature no later than the next auction date; (iii) provide a rate of return sufficient to pay the aggregate distribution due on the AMES on the next distribution payment date and (iv) otherwise may be acquired by the Administrative Trustee in accordance with applicable rules under the Investment Company Act of 1940.



By accepting interests in the AMES, investors are deemed to represent and warrant that they have irrevocably waived any right or interest they may have under the Trust Agreement, by operation of law or equity, to direct or otherwise require any Issuer Trustee to initiate or consent to any bankruptcy, insolvency or receivership proceedings, it being expressly understood that, to the fullest extent permitted by law, any such action by an Issuer Trustee shall be undertaken or refrained from without regard to any rights or interests of the AMES holders.

### **No Recourse**

Each AMES holder, by accepting an interest in an AMES certificate, will be deemed to acknowledge that such AMES certificate constitutes an undivided interest in the assets of the Issuer Trust only and does not represent an interest in the Funding Agreement or an obligation of the Depositor. SunAmerica Life, the Issuer Trustees, the Indenture Trustee or any of their affiliates and that no recourse may be had against such parties or their assets, except as may be expressly set forth or contemplated in the Trust Agreement, the Indenture or the Securities. The AMES are the personal property of the AMES Holders.

In accordance with Delaware law, the AMES Holder shall not have any rights or remedies against the Trust, the Administrative Trustee or any other person to enforce the payment of any distributions on the AMES until such distributions on the AMES have been declared by the Administrative Trustee on behalf of the Trust in accordance with the Trust Agreement.

### **The Auction Agent**

Initially, the Auction Agent will be The Bank of New York. The Issuer Trust will enter into an Auction Agent Agreement, to be dated on or about March 20, 2002 (the "Auction Agent Agreement"), with the Auction Agent, which provides, among other things, that the Auction Agent will follow the auction procedures for the purpose of determining the distribution rates for the AMES. The Issuer Trust will pay the Auction Agent compensation for its services under the Auction Agent Agreement.

The Auction Agent is acting as agent for the Issuer Trust in connection with the auctions. In the absence of willful misconduct or gross negligence on its part, the Auction Agent will not be liable for any action taken, suffered or omitted or for any error of judgment made by it in the performance of its duties under the Auction Agent Agreement and will not be liable for any error of judgment made in good faith unless the Auction Agent shall have been grossly negligent in ascertaining the pertinent facts.

The Auction Agent may upon notice to the Issuer Trust terminate the Auction Agent Agreement on a date no earlier than the first to occur of (i) the first Business Day after the date occurring 90 days after the giving of such notice or (ii) the date on which the Issuer Trust has entered into an agreement containing substantially the same terms and conditions as the Auction Agent Agreement with a successor Auction Agent. If the Auction Agent resigns or is removed or dissolved, or if the property or affairs of the Auction Agent are taken under control of any state or federal court for any reason, the Issuer Trust will use its best efforts to enter into an agreement with a successor Auction Agent containing substantially the same terms and conditions as the Auction Agent Agreement. The Issuer Trust may terminate the Auction Agent Agreement at any time, provided that prior to the termination, the Issuer Trust shall have entered into an agreement containing substantially the same terms and conditions with a successor Auction Agent.

## **The Broker-Dealers**

The Auction Agent will pay a monthly service charge in advance, from funds provided by the Issuer Trust, to each Broker-Dealer which initially will be at the annual rate of  $\frac{1}{4}$  of 1% of the initial liquidation amount of AMES placed by such Broker-Dealer at the relevant auction. For the purposes of the preceding sentence, AMES will be considered as placed by a Broker-Dealer if the AMES were (i) the subject of Hold Orders deemed to have been made by Existing AMES Owners and were acquired by such Existing AMES Owners through that Broker-Dealer or (ii) the subject of the following Orders submitted by that Broker-Dealer: (A) a Submitted Bid of an Existing AMES Owner that was accepted so that such Existing AMES Owner continues to hold those AMES as a result of the auction, (B) a Submitted Bid of a Potential AMES Owner that was accepted so that the Potential AMES Owner purchases those AMES as a result of the auction, (C) a valid Hold Order or (D) with respect to an auction in which Sufficient Clearing Bids do not exist, a Submitted Sell Order of an Existing AMES Owner that was rejected.

The Broker-Dealer Agreements provide that a Broker-Dealer may submit Orders in auctions for its own account. Any Broker-Dealer submitting an Order for its own account in any auction might have an advantage over other Bidders in that it would have knowledge of other Orders placed through it in that auction, but it would not have knowledge of Orders submitted by other Broker-Dealers. In the Broker-Dealer Agreements, Broker-Dealers agree to handle customer orders in accordance with their respective duties under applicable securities laws and rules.

## **The Securities Depository**

DTC will act as Securities Depository for the Agent Members. One or more certificates for all of the AMES shall be issued to the Securities Depository and registered in the name of Cede & Co. as nominee of the Securities Depository. Each such certificate shall bear a legend to the effect that such certificate is issued subject to the provisions restricting the transfer of AMES contained in the Trust Agreement and each AMES Purchasers' Letter. As long as the distribution rate is based upon the results of any auction, Cede & Co. will be the holder of record of all AMES, and Existing AMES Owners of AMES will not receive certificates representing their ownership interest in such AMES. DTC, which is a New York-chartered limited purpose trust company, performs services for its participants (including the Agent Members), some of whom (and/or their representatives) own shares of common stock of DTC. DTC will maintain lists of its participants and the AMES held by each Agent Member whether as an Existing AMES Owner for its own account or as a nominee for another Existing AMES Owner.

## DESCRIPTION OF THE FUNDING AGREEMENT

The following description of the terms and conditions of the Funding Agreement sets forth certain general provisions. It does not purport to be complete and is subject to the detailed provisions of the Funding Agreement, copies of which will be on file with the Indenture Trustee and the Paying Agents. Capitalized terms used herein have the same meanings as those used in the Funding Agreement unless the context otherwise requires.

### General

The Funding Agreement will be entered into by SunAmerica Life and the Depositor in an initial aggregate principal amount of \$781,001,000. Under the Funding Agreement, SunAmerica Life will make payments in the amounts calculated to permit the Issuer Trust to meet in full its scheduled payment obligations under the Notes and the AMES. SunAmerica Life may issue additional funding agreement, guaranteed investment contracts or other agreements, including funding agreements intended to be transferred to special purpose vehicles similar to the Issuer Trust. The Funding Agreement does not impose any restrictions on such additional issuances.

The Issuer Trust may be liquidated in certain circumstances related to the final maturity or acceleration of the Funding Agreement. See “Description of the AMES—Liquidation”.

Under Arizona law, the Funding Agreement is a GIC, or a guaranteed investment contract. GICs have been specifically defined in the Arizona Insurance Code to mean any unsolicited unallocated group contract, investment contract, funding agreement, guaranteed interest contract or other similar instrument by whatever name in which an insurance company agrees to guarantee a fixed or variable rate of interest or a future payment that is based on an index or any other similar criteria, that is payable at a predetermined date on monies that are deposited with the insurance company and that is not dependent on the continuance of human life. It is a condition to closing that Arizona counsel to SunAmerica Life will render an opinion in connection with the issuance of Notes to the effect that the Funding Agreement constitutes a guaranteed investment contract under Arizona law and as a consequence would be accorded a class three priority under Arizona law as further discussed below.

GICs are unsecured obligations of insurance companies that have a priority over claims of certain other general creditors under certain state insurance laws, including the insurance laws of the State of Arizona. Generally, the holder of a guaranteed investment contract makes a deposit with the insurance company issuing the guaranteed investment contract, and receives an investment contract that provides for a predetermined market interest rate and, at maturity, the repayment of non-fluctuating principal value. In other words, the insurance company promises to pay a specified fixed rate of interest (the interest can be payable periodically or compounded) and, at a specified maturity date, the principal and accrued and unpaid interest will be paid in a lump sum. However, GICs can be issued with different features, for instance in the form of floating rate contracts. Generally, at maturity a holder of a guaranteed investment contract chooses to withdraw the invested cash.

While SunAmerica Life has its headquarters in California, it is domiciled in Arizona. Arizona law would therefore apply to any insolvency, delinquency or receivership proceedings of SunAmerica Life, should SunAmerica Life ever default. Pursuant to Section 20-629 of the Arizona Revised Statutes, in the event of a finding of delinquency or impairment of an Arizona domestic insurer, claims under the insurance policies and contracts, guaranteed investment contracts, and annuities are given class three priority with respect to the general assets of the insurer. Thus, in the event of the insolvency of SunAmerica Life, guaranteed investment contracts of SunAmerica Life would be ranked *pari passu* with most insurance policy claims and annuities of SunAmerica Life, and therefore ahead of any unsecured debt obligations of SunAmerica Life. However, although insurance policies and contracts receive guaranty fund coverage under Arizona Law, guaranteed investment contracts are not provided guaranty fund coverage under Arizona law unless an annuity option, if any, thereunder is exercised prior to the time the insurer has been found delinquent.

Pursuant to the Trust Agreement and the Indenture, none of the Issuer Trust, the Indenture Trustee, the Collateral Agent or any of their successors may exercise any right to acquire, purchase or otherwise obtain an annuity under the Funding Agreement.

## Payments

*Principal.* The principal amount of the Funding Agreement will be payable at par on March 14, 2032, or if such day is not a Relevant Business Day on the next preceding Business Day.

*Interest.* The Funding Agreement will provide for three types of interest payments, which are designed to enable the Issuer Trust to pay when due all amounts due and payable under the Notes and the AMES and to pay when due its anticipated expenses.

The Cash Flow A Interest will be calculated on the Cash Flow A Deposit Amount, which initially will be \$750,000,000. The Cash Flow B Interest will be calculated on the Cash Flow B Deposit Amount, which initially will be \$31,001,000. The Cash Flow C Interest will be calculated as described below.

The Cash Flow A Deposit Amount will bear interest at the Cash Flow A Interest Rate, which is 6.90%. The Cash Flow A Interest will be due and payable on each Cash Flow A Interest Payment Date, which will be each March 14 and September 14, commencing on September 14, 2002 and ending on March 14, 2032; *provided* that if any Cash Flow A Interest Payment Date would otherwise fall on a day other than a Relevant Business Day, it shall be the immediately preceding Relevant Business Day.

The Cash Flow B Deposit Amount will bear interest at the Cash Flow B Interest Rate. The Cash Flow B Interest will be due and payable in arrears on each Cash Flow B Interest Payment Date (as defined below). Commencing on the initial Cash Flow B Interest Payment Date, the rate at which interest on the Cash Flow B Deposit Amount shall be payable shall be reset as of the Relevant Business Day following each Cash Flow B Interest Payment Date (the “Cash Flow B Interest Reset Date”); *provided* that the interest rate in effect for the period from March 20, 2002 to the initial Cash Flow B Interest Reset Date will be 2.00% (the “Initial Cash Flow B Interest Rate”). The interest rate in effect on each day shall be (i) if such day is before the initial Cash Flow B Interest Reset Date, the Initial Cash Flow B Interest Rate, (ii) if such day is a Cash Flow B Interest Reset Date, the interest rate determined as of such Cash Flow B Interest Reset Date or (iii) if such day does not fall within clause (i) or (ii), the interest rate determined as of the immediately preceding Cash Flow B Interest Reset Date.

“Cash Flow B Interest Period” will be defined to mean each successive period beginning on, and including the Relevant Business Day following the 17th day of any month and ending on, but excluding the Relevant Business Day following the 17th day of the following month; *provided* that the Cash Flow B Interest Period ending in March 2032 will end on but exclude the Relevant Business Day next succeeding March 14, 2032.

“Cash Flow B Interest Payment Date” will be defined to mean (i) the 17th day of each month commencing on April 17, 2002 and ending on February 17, 2032 and (ii) March 14, 2032, or if any such day is not a Relevant Business Day, the next preceding Relevant Business Day, *provided* that with respect to each Cash Flow B Interest Period which commenced in one calendar year and ends in the next calendar year, the first interim distribution will be made on the last Relevant Business Day of the first such year in respect of the period commencing the first day of such Cash Flow B Interest Period and ending on December 31 of such year, and a second final distribution will be made on the distribution date for such Cash Flow B Interest Period in respect of the period commencing on January 1 of the subsequent year and ending on the last day of such Cash Flow B Interest Period.

“Cash Flow B Interest Rate” will be defined to mean (i) with respect to the initial Cash Flow B Interest Period, 2.00% and (ii) with respect to each subsequent Cash Flow B Interest Period, the Distribution Rate as reported by the Auction Agent for the AMES on the AMES Auction Date immediately preceding the first day of such Cash Flow B Interest Period. See “Description of the AMES”.

The “Cash Flow C Interest” on any given Cash Flow B Interest Payment Date is the product of (i) a fraction the numerator of which is the number of days in the Cash Flow B Interest Period which begins and includes such Cash Flow B Interest Payment Date and the denominator of which is 360 and (ii) .25% (or such other percentage as may be notified by the Issuer Trust to the relevant Broker-Dealer (as defined in the AMES Certificate) at least seven days prior to the Relevant Auction Date), times (iii) the Cash Flow B Deposit Amount payable in advance on each Cash Flow B Interest Payment Date.

“Relevant Business Day” means any day except a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required to close.

## **No Withholding or Deduction for Taxes**

All payments of principal, interest and other amounts made by SunAmerica Life under the Funding Agreement will be made without deduction or withholding for, or an account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied, collected, withheld or assessed by or on behalf of any taxing jurisdiction, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law or regulation or by the official interpretation thereof. Any withholding or deduction so required will be made without the payment of any additional amounts, and the imposition of a requirement to make such withholdings or deductions will not give rise to any independent right or obligation to redeem the Funding Agreement.

## **Representations of SunAmerica Life and the Depositor**

SunAmerica Life will represent in the Funding Agreement that, as of the date of the Funding Agreement, it holds a Standard Poor's financial strength rating of AAA and a Moody's financial strength rating of Aaa. SunAmerica Life and the Depositor also will each represent and warrant to the other that

(i) the Funding Agreement has been duly authorized, executed and delivered by it;

(ii) assuming the due authorization, execution and delivery thereof by the other party thereto, constitutes a legal, valid and binding obligation of it enforceable against it in accordance with the terms thereof, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights, subject, as to enforceability, to general principles of equity, regardless of whether enforcement is sought in a proceeding in equity or at law; and

(iii) the execution and delivery of the Funding Agreement and the performance of its obligations thereunder (a) do not and will not constitute or result in a default, breach, violation, or the creation of any lien or encumbrance on any of its property under its certificate, articles or charter of incorporation, by-laws, or any agreement, instrument, judgment, injunction or order by which it is bound, or by which its respective properties may be bound or affected and (b) will not conflict with or result in a violation of, in any material respect, any law or regulation or require the consent of any person or other entity that has not been obtained.

In addition, the Depositor and the Indenture Trustee will represent that they will acquire and hold the Funding Agreement in Arizona at all times prior to the occurrence and continuance of an Event of Default under the Funding Agreement.

## **Events of Default**

The following will be Events of Default under the Funding Agreement:

(i) *Payment Default.* SunAmerica Life shall fail to pay when due any payment of principal due or of interest accrued with respect thereto pursuant to the terms of the Funding Agreement provided that in the case of interest such failure continues for five Business Days without cure;

(ii) *Breach of Covenant.* SunAmerica Life shall fail to comply with any of its other covenants or agreements contained in the Funding Agreement in any material respect for 60 calendar days after the Owner shall have given notice thereof in writing to SunAmerica; and

(iii) *Bankruptcy.* A court or agency of supervisory authority having jurisdiction in respect of SunAmerica Life shall have commenced a delinquency or other proceeding for the purpose of liquidating, rehabilitating, reorganizing or conserving SunAmerica Life or entered a decree or order for the appointment of a receiver or liquidator in any insolvency, rehabilitation, readjustment of debt, marshalling of assets and liabilities or similar arrangements involving SunAmerica Life or all or substantially all of its property, or for the winding up or liquidation of its affairs, and such proceeding, decree or order shall not have been vacated or shall have remained in force undischarged or unstayed for a period of 60 days.

Whenever an Event of Default shall have occurred and be continuing (other than an Event of Default specified in clause (iii) above), the Owner may, by written notice to SunAmerica Life, declare the principal amount and all accrued interest thereon under the Funding Agreement to be due and payable and such amounts shall become due and payable on the date the written declaration is given to SunAmerica Life. If an Event of Default specified in clause (iii) above occurs, the principal amount and accrued interest thereon under the Funding Agreement will be immediately due and payable without any declaration or other act on the part of the Owner.

**Restrictions on Transfer**

The Funding Agreement will contain provisions prohibiting the Owner from transferring or assigning the Funding Agreement or any right to receive payments under the Funding Agreement to any other person without the express written consent of SunAmerica Life and the written affirmation of SunAmerica Life that it has changed its books and records to reflect the transfer or assignment or right to receive payments under the Funding Agreement.

**Governing Law**

The Funding Agreement will be governed by, and construed in accordance with, the laws of the State of Arizona.

**Option to Increase Face Amount of Funding Agreement**

The Owner shall have the option to cause the face amount of the Funding Agreement to be increased by an amount equal to the aggregate principal amount of any Securities (the "Increased Amount") offered and sold by the Issuer Trust after the initial closing of the offer and sale of the Securities by causing the net proceeds of such additional Securities to be paid to SunAmerica Life, and to cause all or any portion of the Increased Amount to be allocated by SunAmerica Life to the Cash Flow A Deposit Amount, the Cash Flow B Deposit Amount or the Cash Flow C Deposit Amount. The Owner, the Issuer Trust and SunAmerica Life will enter into an agreement requiring the Owner to exercise such option at the request and subject to the direction of the Issuer Trust.

## **ERISA CONSIDERATIONS**

Each fiduciary of a pension, profit-sharing or other employee benefit plan (an “ERISA Plan”) subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), should consider the fiduciary standards of ERISA in the context of the ERISA Plan’s particular circumstances before authorizing an investment in the Notes. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the ERISA Plan.

Section 406 of ERISA and Section 4975 of the Code prohibit ERISA Plans, as well as individual retirement accounts and Keogh plans subject to Section 4975 of the Code (together with ERISA Plans, “Plans”), from engaging in certain transactions involving “plan assets” with persons who are “parties in interest” under ERISA or “disqualified persons” under the Code with respect to such Plan (together, “Parties in Interest”). For example, if SunAmerica Life is a Party in Interest with respect to a Plan (either directly or by reason of its ownership of its subsidiaries), the purchase of the Notes by or on behalf of the Plan would likely be a prohibited transaction under Section 406(a)(1) of ERISA and Section 4975(c)(1) of the Code, unless exemptive relief were available under an applicable administrative exemption (see below).

U.S. Department of Labor has issued five prohibited transaction class exemptions (“PTCEs”) that may provide exemptive relief for direct or indirect prohibited transactions resulting from the purchase and holding of the Notes by or on behalf of a Plan. Those class exemptions are PTCE 96-23 (for certain transactions determined by in-house asset managers), PTCE 95-60 (for certain transactions involving insurance company general accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 90-1 (for certain transactions involving insurance company separate accounts) and PTCE 84-14 (for certain transactions determined by independent qualified professional asset managers).

Accordingly, the Notes may not be purchased or held by any Plan, any entity whose underlying assets include “plan assets” by reason of any Plan’s investment in the entity (a “Plan Asset Entity”) or any person investing “plan assets” of any Plan, unless the purchase and holding of the Notes is exempt under PTCE 96-23, 95-60, 91-38, 90-1 or 84-14. Any purchaser of the Notes or any interest therein, including in the secondary market, will be deemed to have represented that, among other things, either (a) it is not a Plan or other Plan Asset Entity and is not purchasing the Notes on behalf of or with “plan assets” of any Plan or other Plan Asset Entity or (b) its purchase, holding and disposition of the Notes is exempt under PTCE 96-23, 95-60, 91-38, 90-1 or 84-14, and that such representations shall be deemed to be made each day from the date on which the purchaser purchases through and including the date on which the purchaser disposes of the Notes. See “Purchase and Transfer Restrictions” herein.

The AMES may not be purchased or held by any Plan, any Plan Asset Entity, or any person investing “plan assets” of any Plan.

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing the Notes on behalf of or with “plan assets” of any Plan consult with their counsel regarding the potential consequences under ERISA and the Code and the availability of exemptive relief under PTCE 96-23, 95-60, 91-38, 90-1 or 84-14.

## CERTAIN FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of certain United States federal income tax consequences of the ownership and disposition of AMES and the Notes by initial purchasers thereof who, in the case of purchasers of a Note, purchase the Note at its “issue price” (within the meaning of Treasury Regulations Section 1.1273-2) and who hold such Securities as capital assets within the meaning of Section 1221 of the Code. This summary does not address all of the tax consequences that may be relevant to a prospective purchaser in light of his particular circumstances or to persons subject to special rules, such as certain financial institutions, insurance companies, dealers in securities, tax-exempt entities, partnerships or other entities classified as partnerships for U.S. federal income tax purposes, certain former citizens or residents of the United States, persons who hold the Securities as part of a “straddle”, “hedging” or “conversion” transaction or who mark their securities to market for federal income tax purposes or U.S. persons whose functional currency is not the U.S. dollar.

This summary is based on the Code, the Treasury regulations promulgated thereunder and administrative and judicial pronouncements in effect as of the date hereof, changes to any of which may affect the tax consequences described herein, possibly with a retroactive effect. Prospective purchasers are advised to consult their tax advisers as to the U.S. federal income tax consequences of the ownership and disposition of the Securities, as well as the effects of any state, local or foreign tax laws.

For purposes of this discussion, a “U.S. Holder” means a beneficial owner of a Security that is, for U.S. federal income tax purposes, (i) a citizen or resident of the United States, (ii) a corporation created or organized in or under the laws of the United States or any political subdivision thereof or (iii) an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source. A “Non-U.S. Holder” means a beneficial owner of a Security that is, for U.S. federal income tax purposes, (i) a nonresident alien individual, (ii) a foreign corporation, or (iii) a nonresident alien fiduciary of a foreign estate or trust.

### **U.S. Holders**

#### *Taxation of Notes.*

The following discussion is limited to U.S. Holders of the Notes.

*Income from the Notes.* The Notes will be treated as indebtedness of the Issuer Trust for U.S. federal income tax purposes. A U.S. Holder will be required to take into account amounts paid or accrued with respect to the Notes as ordinary interest income in accordance with its method of accounting. Such income will be treated as U.S. source interest income for U.S. federal income tax purposes.

*Disposition of Notes.* A U.S. Holder will recognize gain or loss on the sale, exchange or other disposition of a Note in an amount equal to the difference between the U.S. Holder’s proceeds from the disposition of such Note (excluding any amount attributable to accrued interest that has not previously been included in income, which will be taxed as such) and the U.S. Holder’s adjusted tax basis in such Note. Such gain or loss will be capital gain or loss and will be long-term capital gain or loss if the Notes have been held for more than one year at the time of sale. The deductibility of capital losses is subject to limitations.

#### *Taxation of AMES.*

The following discussion is limited to U.S. Holders of AMES. AMES ownership will be restricted to U.S. Holders.

*Classification of the Issuer Trust.* Assuming that (i) the Issuer Trust is operated in accordance with its organizational documents and as described in this Offering Memorandum, (ii) the Issuer Trust maintains an exemption from registration under the Investment Company Act of 1940 and (iii) there are fewer than 100 members of Issuer Trust for purposes of Treasury regulations Section 1.7704-1, all of which assumptions the Issuer Trust believes are and will be satisfied throughout the term of the Issuer Trust, the Issuer Trust will be classified for U.S. federal income tax purposes as a partnership and not as a publicly traded partnership or an association taxable as a corporation.



A partnership is not a taxable entity for U.S. federal income tax purposes and incurs no U.S. federal income tax liability, but each partner will be required to take into account such partner's distributive share of the items of income, gain, deduction, loss and credit of the partnership in computing the partner's U.S. federal income tax liability, regardless of whether distributions are made to the partner. Accordingly, a U.S. Holder of AMES will be required to include in income the U.S. Holder's distributive share of each item of gain or income of the Issuer Trust as if such item were realized directly from the same source from which it is realized by the Issuer Trust, and will be treated as having incurred the U.S. Holder's distributive share of each item of deduction, loss or credit of the Issuer Trust as if such item were incurred by the U.S. Holder directly in the same manner in which it is incurred by the Issuer Trust. Regardless of when payments are actually made with respect to AMES, all amounts allocated to a U.S. Holder will be includible by the U.S. Holder for the U.S. Holder's taxable year that includes the last day of the Issuer Trust's taxable year in which such amounts are allocated (which is initially expected to be December 31, but which may change or may consist of one or more short years within such calendar year), except that if the U.S. Holder disposes of the U.S. Holder's entire holding of AMES, amounts allocated to the U.S. Holder for the taxable year of such disposition will be includible by the U.S. Holder for the U.S. Holder's taxable year that includes the date of such disposition.

A corporate U.S. Holder of AMES will not be entitled to the dividends-received deduction with respect to distributions made on such AMES.

*Expected Composition of Distributive Share of Income and Loss on AMES.* The Funding Agreement will be treated as indebtedness of SunAmerica Life for U.S. federal income tax purposes, and each U.S. Holder of AMES will accordingly be required to include in income for each taxable year its distributive share of the Issuer Trust's interest income, with respect to the Funding Agreement, for the taxable year of the Issuer Trust ending with or within such U.S. Holder's taxable year. It is possible that the Issuer Trust will recognize original issue discount ("OID") because the Funding Agreement may be treated as a contingent payment debt instrument. In that event, each U.S. Holder of AMES would be required to include in income its distributive shares of such OID for the taxable year of the Issuer Trust ending with or within such Holder's taxable year, without regard to the amount of cash paid with respect to AMES. However, because the Funding Agreement will provide that all Cash Flow B Interest accrued with respect to any calendar year will be paid before the end of such year, it is not expected that the Issuer Trust will be required to recognize OID income with respect to Funding Agreement in any calendar year in an amount significantly in excess of the amount of cash received by it during such year with respect to Funding Agreement.

The Notes will be treated as indebtedness of the Issuer Trust for U.S. federal income tax purposes. Accordingly, a U.S. Holder of AMES will be entitled to a deduction for each taxable year with respect to its distributive share of interest with respect to the Notes during the taxable year of the Issuer Trust ending with or within such U.S. Holder's taxable year. Individual U.S. persons who beneficially own any interest in AMES should consult their tax advisers regarding possible limitations on the availability of deductions with respect to interest paid or accrued by the Issuer Trust on the Notes.

Thus, a U.S. Holder of AMES will be required to take into account such U.S. Holder's distributive share of various items of income, gain, deduction and loss of the Issuer Trust. It is expected that the net income (disregarding character differences) includible by such Holder (without regard to possible limitations on deductions available to individual U.S. persons who beneficially own any interest in the AMES) with respect to any taxable year of the Issuer Trust will not differ substantially from the cash payments received from the Issuer Trust in such taxable year. While unlikely to have any material impact on Holders, special deemed distribution rules may apply if an AMES Holder is at any time a Holder of Notes.

*Disposition of AMES.* A U.S. Holder will recognize gain or loss on the sale, exchange or other disposition of an AMES in an amount equal to the difference between the Holder's proceeds therefrom and the Holder's adjusted tax basis in such AMES. Such gain or loss will generally be capital gain or loss and will be long-term capital gain or loss if the AMES has been held for more than one year at the time of sale. The deductibility of capital losses is subject to limitations. If the Funding Agreement is treated as a contingent payment debt instrument, the Internal Revenue Service may take the position that all or a portion of the gain recognized by a U.S. Holder on the sale, exchange or other disposition of an AMES is ordinary rather than capital.

A U.S. Holder's adjusted tax basis in AMES will generally equal the amount paid for such AMES, increased by the amount of net income allocated to such U.S. Holder and decreased by the amount of any cash or the value of any other property distributed to such U.S. Holder by the Issuer Trust.

*Unrelated Business Taxable Income.* A portion of each U.S. Holder's distributive share of income from AMES will constitute "unrelated business taxable income" pursuant to Section 514 of the Code. Accordingly, prospective investors in the AMES who are tax-exempt entities should consult their tax advisers before investing.

*Information Reporting with Respect to AMES.* U.S. Holders of AMES will receive an Internal Revenue Service Schedule K-1 with respect to each taxable year of the Issuer Trust as soon as practicable after the end of such year but in no event later than three months after the end of such year, setting forth such Holder's distributive share of the Issuer Trust's items of income, gain, deduction, loss and credit for such year. Copies of such Schedule will be provided to the Internal Revenue Service. In addition persons holding AMES as nominees for another person may be required to report certain information to the Issuer Trust with respect to the beneficial owner of such AMES.

### **Non-U.S. Holders of Notes**

The following discussion is limited to Non-U.S. Holders of Notes. AMES ownership will be restricted to U.S. Holders. Under present U.S. federal income tax law, and subject to the discussion below concerning backup withholding,

(a) payments of principal, interest and premium with respect to a Note held by or for a Non-U.S. Holder will not be subject to U.S. federal withholding tax, provided that (i) such non-U.S. Holder does not own, actually or constructively, 10% or more of the AMES within the meaning of Section 871(h)(3) of the Code, (ii) such Non-U.S. Holder is not a controlled foreign corporation related, directly or indirectly, to Issuer Trust, (iii) such Non-U.S. Holder is not a bank receiving interest described in Section 881(c)(A) of the Code, and (iv) the statement requirement set forth in Section 871(h) or Section 881(c) of the Code has been fulfilled with respect to such Non-U.S. Holder; and

(b) a Non-U.S. Holder of a Note will not be subject to U.S. federal income tax on gain realized on the sale, exchange or other disposition of such Note, unless (i) such Non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of disposition, and certain other conditions are met or (ii) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States.

Sections 871(h) and 881(c) of the Code require that, in order to obtain the portfolio interest exemption from withholding tax described in paragraph (a) above, either the beneficial owner of a Note or a securities clearing organization, bank or other financial institution that holds customers' securities in the ordinary course of its trade or business (a "Financial Institution") and that is holding such Note on behalf of such beneficial owner, must file a statement with the withholding agent to the effect that the beneficial owner of such Note is not a U.S. person. Such requirement will be fulfilled if the beneficial owner of a Note certifies on Internal Revenue Service Form W-8BEN (or successor form), under penalties of perjury, that it is not a U.S. person and provides its name and address, and any Financial Institution holding such Note on behalf of the beneficial owner files a statement with the withholding agent to the effect that it has received such a statement from the beneficial owner (and furnishes the withholding agent with a copy thereof).

If a Non-U.S. Holder of a Note is engaged in a trade or business in the United States, and if income with respect to such Note or gain realized on its sale, exchange or other disposition is effectively connected with the conduct of such trade or business, the Non-U.S. Holder, although exempt from the withholding tax described in paragraph (a) above, will generally be subject to regular U.S. federal income tax on such effectively connected income in the same manner as if it were a U.S. person. In lieu of the certificate described in the preceding paragraph, such a Non-U.S. Holder will be required to provide a properly executed Internal Revenue Service Form W-8ECI (or successor form) to the withholding agent in order to claim an exemption from withholding tax. In addition, if such Non-U.S. Holder is a foreign corporation, it may be subject to a branch profits tax equal to 30% (or such lower rate provided by an applicable treaty) of its effectively connected earnings and profits for the taxable year, subject to certain adjustments. For purposes of the branch profits tax, income with respect to or gain recognized on the sale, exchange or other disposition of a Note will be included in the effectively connected earnings and profits of such Non-U.S. Holder if such income or gain is effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States.

### **Backup Withholding and Information Reporting in Respect of the Notes**

Under current U.S. federal income tax law, backup withholding applies to certain payments of principal, premium, interest and other income made to, and to the proceeds of sale before maturity by, certain noncorporate U.S. persons who fail to provide their taxpayer identification number to the paying agent and comply with certain certification procedures or otherwise establish an exemption from backup withholding. Under current Treasury Regulations, backup withholding will not apply to payments with respect to a Note if the certification required by Sections 871(h) or 881(c) of the Code is received, provided in each case that the paying agent does not have actual knowledge that the payee is a U.S. person. Withholding agents must report to the Internal Revenue Service and to each U.S. or Non-U.S. Holder the amount of interest or other income paid with respect to the Notes held by each such Holder and the rate of withholding (if any) applicable to such Holder.

U.S. and Non-U.S. holders of Notes should consult their tax advisers regarding the application of information reporting and backup withholding in their particular situations, the availability of an exemption therefrom, and the procedure for obtaining such an exemption, if available. Any amounts withheld from a payment to such Holders of Notes under the backup withholding rules will be allowed as a credit against such Holders' U.S. federal income tax liability and may entitle such Holders to a refund, provided that the required information is furnished to the Internal Revenue Service.

## PLAN OF DISTRIBUTION OF THE ISSUER TRUST

Subject to the terms and conditions of a purchase agreement dated as of March 13, 2002 (the “Purchase Agreement”) by and among the Issuer Trust, and Deutsche Banc Alex. Brown Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. Incorporated, Banc of America Securities LLC, Bear, Stearns & Co. Inc., First Union Securities, Inc., HSBC Securities (USA) Inc., J.P. Morgan Securities Inc., Salomon Smith Barney Inc., ABN AMRO Incorporated, BNP Paribas Securities Corp., Banc One Capital Markets, Inc., Lehman Brothers Inc., SG Cowen Securities Corporation, Tokyo-Mitsubishi International plc and UBS Warburg LLC (the “Initial Purchasers”), the Issuer Trust has agreed to sell to each of the Initial Purchasers and each of the Initial Purchasers has severally agreed to purchase from the Issuer Trust the aggregate principal amount at maturity of the Notes set forth opposite its name below. Pursuant to the Purchase Agreement, the Issuer Trust has agreed to sell to Merrill Lynch, Pierce, Fenner & Smith Incorporated, and Merrill Lynch, Pierce, Fenner & Smith Incorporated has agreed to purchase from the Issuer Trust all of the AMES offered hereby. The Initial Purchasers will be obligated to purchase all the Securities, if any are purchased.

<u>Initial Purchasers</u>	<u>Principal Amount of Notes</u>
Deutsche Banc Alex. Brown Inc. ....	\$187,500,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated .....	187,500,000
Morgan Stanley & Co. Incorporated .....	187,500,000
Banc of America Securities LLC .....	22,500,000
Bear, Stearns & Co. Inc. ....	22,500,000
First Union Securities, Inc. ....	22,500,000
HSBC Securities (USA) Inc. ....	22,500,000
J.P. Morgan Securities Inc. ....	22,500,000
Salomon Smith Barney Inc. ....	22,500,000
ABN AMRO Incorporated .....	7,500,000
BNP Paribas Securities Corp. ....	7,500,000
Banc One Capital Markets, Inc. ....	7,500,000
Lehman Brothers Inc. ....	7,500,000
SG Cowen Securities Corporation .....	7,500,000
Tokyo-Mitsubishi International plc .....	7,500,000
UBS Warburg LLC .....	<u>7,500,000</u>
Total .....	<u>\$750,000,000</u>

The Purchase Agreement provides that the obligations of the Initial Purchasers to pay for and accept delivery of the Securities are subject to, among other conditions, the delivery of certain legal opinions by their counsel.

The Initial Purchasers propose to offer the Securities for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A under the Securities Act. The Initial Purchasers will not offer or sell the Notes except (i) to persons they reasonably believe to be QIBs or (ii) pursuant to offers and sales to non-US persons that occur outside the U.S. within the meaning of Regulation S. Notes sold pursuant to Regulation S may not be offered or resold in the U.S. or to U.S. persons (as defined in Regulation S), except pursuant to an exemption from the registration requirements of the Securities Act or pursuant to a registration statement declared effective under the Securities Act. The Initial Purchasers will not offer or sell the AMES except to persons they reasonably believe to be QIBs. Each purchaser of the Securities offered hereby in making its purchase will be deemed to have made certain acknowledgments, representations and agreements as set forth under “Purchase and Transfer Restrictions”. The Securities will initially be offered at the price indicated on the cover page hereof. After the initial offering of the Securities, the offering price and other selling terms of the Securities may from time to time be varied by the Initial Purchasers.

The Securities are being offered for sale only in jurisdictions where it is legal to make such offers, and the AMES are being offered for sale only in the United States. The Securities are not being offered to the public in the United Kingdom. Each Initial Purchaser has agreed that (a) it has not offered or sold and, prior to six months after the issue of the Notes, it will not offer or sell any Notes to persons in the United Kingdom, except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 or the Financial Services Act 1986; (b) it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and (c) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issue of the Notes to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 or is a person to whom such document may otherwise lawfully be issued or passed on.

In connection with the offering of the Securities, certain persons participating in the offering may engage in transactions that stabilize, maintain or otherwise affect the price of the Securities during and after the offering. Specifically, the Initial Purchasers may bid for and purchase the Securities in the open market to stabilize the price of the Securities. The Initial Purchasers may also overallocate the offering, creating a syndicate short position, and may bid for and purchase the Securities in the open market to cover the syndicate short position. In addition, the Initial Purchasers may bid for and purchase the Securities in market-making transactions and impose penalty bids. These activities may stabilize or maintain the market price of the Securities above market levels that may otherwise prevail. The Initial Purchasers are not required to engage in these activities and, if commenced, may end these activities at any time.

Certain of the Initial Purchasers and their affiliates engage from time to time in various general financing and banking transactions with SunAmerica Life and its affiliates. Bank One, National Association, which acts as trustee under the Indenture, is an affiliate of Banc One Capital Markets, Inc., one of the Initial Purchasers.

The Issuer Trust has made an application to list the Notes on the Luxembourg Stock Exchange. The AMES will not be listed on any securities exchange or quoted on any quotation system. None of the Initial Purchasers is under any obligation to make a market in the Securities and, to the extent that such market making is commenced by any of the Initial Purchasers, it may be discontinued at any time. AMES may be transferred only through an auction or through a participating broker-dealer, and AMES will be issued and will be traded only in AMES Trading Blocks. In addition, AMES may not be transferred if, as a result of such transfer, there would be more than 99 owners of AMES. Given the restrictions on and risks related to transfer, there is no assurance that a secondary market will develop or, if it does develop, that it will provide securityholders with liquidity or that it will be sustained. Prospective investors should proceed on the assumption that they may have to bear the economic risk of an investment in the Notes until maturity and in the AMES until they are redeemed, if ever.

It is expected that delivery of the Securities will be made through the facilities of DTC, Euroclear and Clearstream on or about the date specified in the last paragraph of the cover page of this Offering Memorandum, which is more than three Business Days following the initial sale of the Securities. Under Rule 15c6-1 of the Securities Exchange Act of 1934, trades in the secondary market generally are required to settle in three Business Days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Securities prior to the third Business Day before the delivery of the Securities will be required, by virtue of the fact that the Securities initially will settle on a delayed basis, to agree to a delayed settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of Securities who wish to make such trades should consult their own advisors.

## PURCHASE AND TRANSFER RESTRICTIONS

### The Notes

Unless the Issuer Trust determines otherwise in compliance with applicable law, the global certificates representing the Notes will bear a restrictive legend and the Notes represented by such global certificate or any interest therein may not be transferred otherwise than in accordance with the transfer restrictions set forth in such legend. The certificates representing all of the Notes will have a legend to the following effect:

“None of the Notes in respect of which this Global Certificate is issued have been registered under the Securities Act or any state securities laws. Each purchaser of a beneficial interest in the Notes represented by this Global Certificate represents and agrees that:

- It understands that the Notes have not been and will not be registered under the Securities Act and may not be transferred or sold in the United States except in accordance with the following provisions.
- The Notes may not be transferred to, or acquired or held by, or acquired with the “plan assets” of, any Plan or other Plan Asset Entity (each as defined in the Offering Memorandum under “ERISA Considerations”) unless the purchase and holding of the Notes by or on behalf of such plan or account is exempt from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code under PTCE 96-23, PTCE 95-60, PTCE 91-38, PTCE 90-1 or PTCE 84-14.
- It understands that, unless the Issuer Trust determines otherwise in accordance with applicable law, certificates representing the Notes will bear a legend reflecting these representations and agreements.”

In addition, certificates representing Notes sold pursuant to Rule 144A will have legends regarding representations and agreements of purchasers to the following effect:

- The purchaser is a Qualified Institutional Buyer within the meaning of Rule 144A and it is acquiring such Notes for its own account or for the account of a Qualified Institutional Buyer; it is aware, and each beneficial owner of such Notes has been advised that the sale of such Notes to it is being made in reliance on Rule 144A.
- The purchaser agrees that if it should sell or transfer the Notes it will only do so in compliance with the Securities Act and other applicable laws and only (i) to Merrill Lynch & Co. or any of its affiliates, (ii) in compliance with Rule 144A under the Securities Act (“Rule 144A”) to an institutional investor that the seller reasonably believes is a Qualified Institutional Buyer within the meaning of Rule 144A purchasing for its own account or for the account of a Qualified Institutional Buyer, whom the seller has informed, in each case, that the resale or transfer is being made in reliance on Rule 144A, (iii) in an off-shore transaction in accordance with Rule 903 or 904 of Regulation S under the Securities Act, (iv) pursuant to an exemption from registration under the Securities Act provided by Rule 144 (if available), or (v) pursuant any other registration requirements of the Securities Act, subject in the case of paragraphs (iv) and (v) to the receipt by the Issuer Trust or the Indenture Trustee of an opinion of counsel or such other evidence which they may reasonably require that such resale or transfer is in compliance with the Securities Act.
- Either (i) the purchaser is not a Plan or a Plan Asset Entity and is not purchasing the Notes on behalf of or with “plan assets” of any Plan or other Plan Asset Entity or (ii) its purchase, holding and disposition of the Notes is exempt under PTCE 96-23, PTCE 95-60, PTCE 91-38, PTCE 90-1 OR PTCE 84-14. This representation shall be deemed made on each day from the date on which the purchaser acquires the Notes through and including the date on which the purchaser disposes of the Notes.
- The Notes may not be transferred to, or acquired or held by, an insurer domiciled in the State of Arkansas, a health maintenance organization, farmers’ mutual aid association or other Arkansas domestic company regulated by the Arkansas Insurance Department.
- The purchaser acknowledges that the Issuer Trust, the Initial Purchasers and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements. If it is acquiring any Notes for the account of one or more Qualified Institutional Buyers, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations, and agreements on behalf of each such account.

For 40 days following the distribution of the Notes, certificates representing Notes sold pursuant to Regulation S will have legends regarding agreements of purchasers to the following effect:

- If, prior to 40 days after the distribution of the Notes is complete, it decides to offer, sell, pledge or otherwise transfer such Notes, such Notes may be offered, sold, pledged or otherwise transferred only (a)(i) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (ii) in compliance with Rule 144A under the Securities Act to an institutional buyer that the seller reasonably believes is a Qualified Institutional Buyer within the meaning of Rule 144A purchasing for its own account or for the account of a Qualified Institutional Buyer, whom the seller has informed that the resale or transfer is being made in reliance on Rule 144A, and (b) in accordance with all applicable securities laws of the states of the United States.

#### **AMES Purchasers' Letter**

Each prospective purchaser of the AMES will be required to sign and deliver to a Broker-Dealer, as a condition to participating in any auction or to purchasing the AMES outside of an auction, a AMES Purchasers' Letter, an execution copy of which is attached to this Offering Memorandum (the "AMES Purchasers' Letter"). By signing a AMES Purchasers' Letter, such prospective purchaser agrees, among other things:

(a) to sell, transfer, pledge or hypothecate or otherwise dispose of AMES only pursuant to a Bid or a Sell Order in an auction, to or through a Broker-Dealer or to a person that has delivered or caused to be delivered on its behalf a signed copy of an AMES Purchasers' Letter to the Auction Agent and only in AMES Trading Blocks, provided that in the case of all transfers other than those pursuant to auctions, the Existing AMES Owner of the AMES so transferred, its Agent Member or its Broker-Dealer advised the Auction Agent of such transfer and the Auction Agent authorized such transfer;

(b) so long as no Distribution Arrearage has occurred, to have the ownership of the AMES as to which such purchaser is the Existing AMES Owner maintained in book entry form by the Securities Depository for the account of its Agent Member, which in turn will maintain records of such purchaser's beneficial ownership, and to authorize such Agent Member to disclose to the Auction Agent such information with respect to such purchaser's beneficial ownership as the Auction Agent or Securities Depository may require;

(c) that AMES may not be sold or otherwise transferred pursuant to Bids in an Auction or otherwise, if, as a result of such sale or other transfer there would be more than 99 owners of AMES;

(d) that such purchaser is, and at the time of any acquisition of AMES, will be, a "qualified institutional buyer" within the meaning of Rule 144A of the Securities Act;

(e) that such purchaser is, and at the time of any acquisition of AMES, will be, a U.S. person, as defined in Section 7701(a)(30) of the Code;

(f) that AMES may not be transferred to, or acquired or held by, an insurer domiciled in the State of Arkansas, a health maintenance organization, farmers' mutual aid association or other Arkansas domestic company regulated by the Arkansas Insurance Department;

(g) that AMES may not be transferred to, or acquired or held by, any Plan, any Plan Asset Entity, or any person investing in any "plan assets" of any Plan; and

(h) that a restrictive legend will be placed on the certificates representing the AMES reflecting these restrictions, and stop-transfer instructions will be issued to the transfer agent for the AMES.

The Issuer Trust, the Broker-Dealers and others will rely upon the truth and accuracy of the representations and agreements made in an AMES Purchasers' Letter, and each acquisition of AMES shall be deemed to constitute the concurrence in such representations and agreements being binding on the relevant Existing AMES Owner. If any of the representations or warranties made by the Existing AMES Owner in an AMES Purchasers' Letter are no longer accurate (or if any such representation or warranty as to a prospective purchaser ceases to be accurate), the Existing AMES Owner (or prospective purchaser) must promptly notify the Issuer Trust, the Auction Agent and its relevant Agent Member. Each Existing AMES Owner will be required to supply promptly any documentation, including any opinions of counsel, requested by the Issuer Trust or the Auction Agent at any time to confirm any of the representations and warranties or other agreements made in such AMES Purchasers' Letter. If the relevant Existing AMES Owner fails to comply with the foregoing restrictions, or if at any time any representations or warranties contained in Existing AMES Owners' AMES Purchasers' Letter cease to be accurate, that Issuer Trust or the relevant Auction Agent may require such Existing AMES Owner to submit a Sell Order with respect to some or all of the AMES owned by such Existing AMES Owner at the next auction.

Potential AMES Owners who are not also Existing AMES Owners and who intend to submit a bid in an auction must deliver an executed copy of a AMES Purchasers' Letter to a Broker-Dealer prior to submitting such bid. The Broker-Dealer will deliver copies to the Auction Agent and the Issuer Trust. Execution of a AMES Purchasers' Letter is not a commitment to purchase AMES in the offering being made hereby or in any relevant Auction, but is a condition precedent to purchasing AMES.

The Auction Agent may rely upon, as evidence of the identities of the Existing AMES Owners of AMES, a list of the initial owners of the AMES provided by the Issuer Trust, the results of Auctions and notices from any Existing AMES Owner, the Agent Member of such Existing AMES Owner or the Broker-Dealer of such Existing AMES Owner with respect to such Existing AMES Owner's transfer of AMES to another person. The Auction Agent will register a transfer of AMES from Existing AMES Owner to another person only if the Auction Agent determines that such transfer is made to a person that has delivered a signed AMES Purchasers' Letter to the Auction Agent and if the Auction Agent determines that (i) such transfer is (A) pursuant to an auction, or (B) made other than pursuant to an auction and Auction Agent has been notified in writing by such Existing AMES Owner, the Agent Member of such Existing AMES Owner or a Broker-Dealer of such Existing AMES Owner of such transfer, (ii) in either case, such transfer is otherwise in compliance with the terms of the AMES Purchasers' Letter and (iii) such transfer is made in one or more AMES Trading Blocks. The Auction Agent will rescind a transfer of AMES from an Existing AMES Owner to another person if the relevant, Auction Agent has been notified in writing by a Broker-Dealer or Agent Member of any person that (i) purchased such AMES in an auction that the seller failed to deliver such AMES or (ii) sold AMES that the purchaser failed to make payment to such person upon delivery to the purchaser of such AMES. The Auction Agent is not required to accept any notice of transfer referred to in (i)(B) above for an auction unless it is received by the Auction Agent by 3:00 p.m., New York City time, on the Business Day preceding such auction.

## **LEGAL MATTERS**

Certain matters regarding the Securities and their offering will be passed on for the Issuer Trust and the Initial Purchasers by Davis Polk & Wardwell (as to New York and United States Federal law) and by Richards, Layton & Finger, P.A. (as to Delaware law) and for SunAmerica Life by O'Melveny Myers LLP (as to California law and United States Federal law) and by Low & Childers, P.C. and Greenberg Traurig LLP (as to Arizona law).



## GENERAL INFORMATION

### **Luxembourg Listing**

Application has been made to list the Notes on the Luxembourg Stock Exchange. Prior to the listing of the Notes, the constitutional documents of the Issuer Trust along with the legal notice relating to the issue of the Notes will be deposited with the Chief Registrar of the District Court in Luxembourg ("*Greffier en Chef de Tribunal d'Arrondissement de et a Luxembourg*") where such documents may be examined and copies obtained. In addition, copies of the Funding Agreements and the Indenture will be available for inspection at the offices of the Luxembourg Notes Paying Agent.

### **Consents**

The Issuer Trust's participation in this matter is authorized by the Trust Agreement of Issuer Trust, which is dated March 11, 2002.

### **No Material Change**

Except as disclosed in this Offering Memorandum, there has been no material adverse change in the financial position of SunAmerica Life since December 31, 2001 and no material adverse change in the financial portion of the Issuer Trust since its creation and formation on March 11, 2002.

### **Litigation**

None of the Issuer Trust or SunAmerica Life is involved in any litigation or arbitration proceedings relating to claims or amounts which are material in the context of the issue of the Notes, so far as any of Issuer Trust or SunAmerica Life is aware, is any such litigation or arbitration pending or threatened.

### **Independent Accountants; Financial Statements**

PricewaterhouseCoopers LLP serves as independent accountants for SunAmerica Life. The statutory financial statements of SunAmerica Life as of December 31, 2000 and 1999 and as of December 31, 1999 and 1998 and for the years then ended included in this Offering Memorandum have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their reports appearing herein. Such financial statements and its future annual and quarterly interim financial statements will be available at the offices of the Listing Agent in Luxembourg. SunAmerica Life does not publish audited quarterly financial statements. The fiscal years of SunAmerica Life and the Issuer Trust run from January 1 to December 31. It is not anticipated that the Issuer Trust will publish any consolidated financial statements. However, any financial statements of the Issuer Trust, if and when published, will be available for collection at the office of the Paying Agent in Luxembourg. No financial statements have yet been prepared in relation to the Issuer Trust and it is not currently intended that it will publish financial statements because it exists for the exclusive purpose of (i) issuing and selling the Securities, (ii) using the proceeds from the sale of Securities to acquire the funding agreement entered into by the Company and the Depositor and (iii) engaging in only those other activities necessary or incidental thereto. It is therefore not currently intended that separate financial statements for the Issuer Trust will be published. In the event that such financial statements are published, the Issuer Trust will make the financial statements available free of charge at the office of the Luxembourg Notes Paying Agent. The Issuer Trust will make available, free of charge at the office of the Luxembourg Notes Paying Agent the quarterly unaudited statutory financial statements of SunAmerica Life. SunAmerica Life will make available, on a quarterly basis, free of charge, at the office of the Luxembourg Notes Paying Agent, the report regarding its statutory financial condition.

## Clearing Systems and Settlement

The AMES have been accepted for clearance through the facilities of DTC. The CUSIP number for the AMES is 00139P207. The Notes have been accepted for clearance through the facilities of DTC, Euroclear and Clearstream. The following codes are applicable to the Notes,

<u>Notes</u>	<u>CUSIP</u>	<u>ISIN</u>	<u>Common Code</u>
Regulation S .....	U0088T AA6	USU0088TAA61	014521003
Rule 144A .....	00139P AA6	US00139PAA66	014521267

The Issuer Trust accepts responsibility for the information contained in this Offering Memorandum and confirms that this Offering Memorandum contains all information which is material in the context of the issue and offering of the Securities, that the information contained in this document is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed herein are honestly held and that there are no other facts, the omission of which would make this document or any of such information or the expression of any such opinions or intentions materially misleading, except that the statements relating to SunAmerica Life and its affiliates and the information set forth under the heading “Summary of Significant Differences between Arizona Statutory Accounting Principles and GAAP” are based on information provided to the Issuer Trust by SunAmerica Life specifically for use herein and the Issuer Trust accepts responsibility for correctly reproducing such information received by the issue trust.

## Notices

All notices shall be deemed to have been given upon (i) the mailing by first class mail, postage prepaid, of such notices to each holder of the Securities at their registered addresses as recorded in the applicable securities register and, in addition, (ii) so long as the Notes are listed on the Luxembourg Stock Exchange and it is required by the rules of the Luxembourg Stock Exchange, publication of such notice to holders of Notes, in English in a leading newspaper having general circulation in Luxembourg (which is expected to be the Luxemburger Wort) or, if such publication is not practicable, in one other leading English language daily newspaper with general circulation in Europe, such newspaper being published on each business day in morning editions. The Issuer will maintain a Luxembourg Paying Agent so long as the Notes are listed on the Luxembourg Stock Exchange.

## **SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ARIZONA STATUTORY ACCOUNTING PRACTICES AND GAAP**

Arizona Statutory Accounting Practices (“Arizona SAP”) attempt to determine as of the financial statement date an insurer’s ability to satisfy its obligations to its policyholders and creditors.

The objectives of GAAP reporting differ from the objectives of Arizona SAP. GAAP is designed to produce general purpose financial statements in order to meet the varying needs of the different users of financial statements. Arizona SAP is designed to address the concerns of regulators, who are the primary users of statutory financial statements and whose primary concern is solvency. As a result, GAAP stresses measurement of emerging earnings of a business from period to period (i.e., matching revenue to expense), while SAP stresses measurement of the ability of each insurer to pay claims in the future. Effective January 1, 2001, the State of Arizona requires that insurance companies domiciled in the State of Arizona prepare their statutory basis financial statements in accordance with the Codification. The principal differences between Arizona SAP and GAAP prior to and upon adoption of Codification are as follows:

(i) *Consolidation.* Under Arizona SAP, majority-owned subsidiaries are not consolidated, but instead are accounted for on the equity method. Under GAAP, majority-owned subsidiaries are fully consolidated for financial reporting purposes.

Under Codification, majority-owned subsidiaries will continue not to be consolidated and will continue to be accounted for by the equity method. However, Codification requires that equity gains and losses from subsidiaries be recorded directly to unassigned surplus as opposed to net investment income. In addition, dividends received from subsidiaries will be recorded directly to net investment income as opposed to a direct reduction in the value of the investment.

(ii) *Reserves for Fixed Annuities, GICs and Supplementary Contracts.* Under Arizona SAP, reserves and liabilities for fixed annuities, GICs and supplementary contracts are determined using statutorily prescribed assumptions regarding discount rates and mortality which may not reflect a company’s actual experience. Under GAAP, reserves and liabilities for fixed annuities and GICs equal the accumulated value of a contract on the date of valuation, whereas for supplementary contracts, such reserves are determined based on the present value of future benefits discounted using the pricing assumptions of each contract.

(iii) *Acquisition and Origination Costs.* Certain acquisition and origination costs associated with acquiring or originating annuity contracts, GICs or similar insurance contracts, in excess of the fair value acquired (including what would be deemed deferred acquisition costs under GAAP), are expensed immediately and if related to the acquisition of a company are charged directly to unassigned surplus without any income statement effect under Arizona SAP. Under GAAP, these costs are deferred and amortized over the lives of the contracts in relation to the incidence of estimated gross profits, which are composed of net investment income, net realized investment gains and losses, surrender charges and direct administrative expenses.

(iv) *Deferred Income Taxes.* The provision for income taxes under Arizona SAP is based solely on currently taxable income and, accordingly, does not include deferred federal income taxes. Deferred income taxes are recorded for GAAP and 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.

Codification requires that deferred federal income taxes be recorded. The deferred income tax asset admitted is equal to the portion of the deferred tax asset that will be realized within one year of the balance sheet date plus the remainder of the deferred tax asset to the extent of deferred tax liabilities. In addition, Codification requires that the change in deferred income taxes be recorded directly to unassigned surplus, whereas GAAP requires income statement treatment.

(v) *Non-admitted Assets.* Under Arizona SAP, certain assets designated as “nonadmitted” assets, such as prepaid expenses, agents balances over ninety days, furniture, fixtures, leasehold improvements and purchased software, are excluded from the statutory balance sheet, and the change in nonadmitted assets is recorded directly to unassigned surplus. These same assets are reported in the GAAP balance sheet, net of an allowance for uncollectible amounts or depreciation, as appropriate.

(vi) *Interest Maintenance Reserve.* Under Arizona SAP, an additional liability line item, the Interest Maintenance Reserve (“IMR”) is calculated based on methods prescribed by the NAIC. The IMR requirement was established to prevent large fluctuations in investment gains and losses resulting from sales of interest-sensitive securities. Realized gains and losses, which result from changes in interest rates, on fixed income investments (such as notes, bonds, preferred stock and mortgages) sold prior to maturity are deferred into the IMR and amortized into income using the group method over the remaining contractual lives of the securities sold. GAAP does not provide for IMR.

(vii) *Asset Valuation Reserve.* Under Arizona SAP, the Asset Valuation Reserve (“AVR”) provides a standardized reserve process for realized and unrealized losses due to the default and equity risks associated with invested assets. The AVR is recorded as a liability and is provided for all invested assets, including mortgage loans, real estate and other invested assets, based on methods prescribed by the NAIC. Changes in the AVR are reflected in unassigned surplus. GAAP does not provide for AVR.

(viii) *Recognition of Premiums.* Under Arizona SAP, premiums for annuities, interest-sensitive life insurance products and deposit-type funds are reported on a cash basis and treated as revenue. Under GAAP the receipt of premiums and the related increase in reserves from sales of fixed annuities, GICs and other investment-oriented products are not reported as revenue. Such premium receipts are reflected as direct credits to the reserves for fixed annuities, life insurance or separate account liabilities.

Codification requires the receipt of premiums for deposit-type funds and contracts without life contingencies to be reflected as direct credits to the reserves for fixed annuities, life insurance or separate account liabilities without any direct income statement effect.

(ix) *Recognition of Benefit Payments.* Under Arizona SAP, annuity, GIC and interest-sensitive life insurance benefits, surrenders and withdrawals are reported on a cash basis and payments are treated as expenses. Under GAAP the payment of benefits and the related decrease in reserves are not treated as expenses. Such benefit payments are reflected as direct charges to the reserves for fixed annuities, life insurance or separate account liabilities.

Codification requires benefit payments for deposit-type funds and investment-oriented products to be reflected as direct charges to the reserves for fixed annuities, life insurance or separate account liabilities without any direct income statement effect.

(x) *Premium Deficiency Reserves.* Under Arizona SAP, premium deficiency reserves are established using statutorily mandated tables, without consideration of actual experience or possible withdrawals. GAAP requires a premium deficiency reserve where actual experience may indicate that existing contractual liabilities, together with the present value of future gross premiums, will not be sufficient to cover the present value of future benefits or to recover unamortized acquisition or origination costs.

(xi) *Investments.* Under Arizona SAP, bonds are carried at the lower of amortized cost or NAIC value, and preferred stocks are carried at the lower of cost or NAIC value. Unrealized net capital gains and losses on equity investments are credited or charged to unassigned surplus. Under GAAP, bonds and preferred stock available for sale are carried at their estimated fair value, and changes in unrealized net gains and losses, net of taxes, of all investments are credited or charged to shareholder’s equity.

Codification requires impairments for other than temporary declines in fair value to be recorded as realized losses. Previously, companies had the option of recording such impairment adjustments. In addition, all limited partnerships with significant control or ownership interests are to be valued based on the equity method using statutory accounting principles as opposed to utilizing either the cost or equity method.

(xii) *Separate Accounts.* Under Arizona SAP, all separate account assets and liabilities are reported separate from general account assets and liabilities. Under GAAP, non-unitized separate account assets and liabilities are combined with general account assets and liabilities for reporting purposes.

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**SUNAMERICA LIFE INSURANCE COMPANY**  
**STATUTORY STATEMENT OF ADMITTED ASSETS, LIABILITIES**  
**AND CAPITAL AND SURPLUS**  
**AT JUNE 30, 2002 AND DECEMBER 31, 2001 (UNAUDITED)**

<b>ADMITTED ASSETS</b>	<b>June 2002</b>	<b>December 2001</b>
	(In thousands, except share data)	
Cash and investments:		
Bonds.....	\$28,318,750	\$24,565,807
Preferred stocks .....	26,569	26,662
Common stocks—affiliates .....	1,076,326	1,140,210
Common stocks—non affiliates .....	38,900	31,800
Mortgage loans .....	4,037,978	3,803,170
Real estate.....	10,377	10,989
Policy loans .....	55,483	57,374
Cash and short-term investments.....	339,521	202,489
Other invested assets .....	2,854,225	379,972
Receivables for securities .....	686,474	5,612
Total cash and investments .....	<u>37,444,603</u>	<u>30,224,085</u>
Amounts recoverable from reinsurers .....	18,962	13,186
Electronic data processing equipment .....	5,102	7,291
Investment income due and accrued .....	355,898	314,860
Federal income taxes currently receivable .....	39,754	74,470
Receivable from affiliates .....	56,623	84,536
Receivable from the separate accounts .....	47,356	42,773
Other assets .....	950,023	165
Separate account assets .....	1,859,026	1,970,164
Total admitted assets.....	<u>\$40,777,347</u>	<u>\$32,731,530</u>
<b>LIABILITIES AND CAPITAL AND SURPLUS</b>		
Reserves for life policies and contracts .....	\$ 4,674,688	\$ 4,727,902
Liabilities for deposit-type contracts .....	27,870,209	23,514,376
Interest maintenance reserve .....	58,255	82,479
Accrued commissions and expenses .....	65,368	60,262
Asset valuation reserve .....	153,049	123,510
Other liabilities.....	3,791,282	186,453
Net deferred tax liability .....	45,816	54,053
Separate account liabilities.....	1,834,301	1,955,535
Total liabilities .....	<u>38,492,968</u>	<u>30,704,570</u>
Capital and surplus:		
Common stock, \$2.50 par value: 2,354,560 shares authorized; 2,254,560 shares issued and outstanding.....	5,636	5,636
Paid-in and contributed surplus (including \$14,250 in 2002 and 2001 from the separate accounts).....	1,132,869	1,139,955
Unassigned surplus.....	1,145,874	881,369
Total capital and surplus .....	<u>2,284,379</u>	<u>2,026,960</u>
Total liabilities and capital and surplus.....	<u>\$40,777,347</u>	<u>\$32,731,530</u>

The accompanying notes are an integral part of these statutory financial statements.

**SUNAMERICA LIFE INSURANCE COMPANY**  
**STATUTORY STATEMENT OF OPERATIONS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2002 AND 2001**  
**(UNAUDITED)**

	<b>2002</b>	<b>2001</b>
Revenue:	(In thousands)	
Premiums and annuity considerations .....	\$145,389	\$44,911
Considerations for supplementary contracts with life contingencies.....	3,582	5,860
Net investment income .....	1,057,106	1,050,369
Amortization of Interest Maintenance Reserve .....	11,488	11,192
Separate accounts net gains from operations excluding unrealized gains or losses .....	10,595	—
Commissions and expense allowances on reinsurance ceded.....	1	288
Other income .....	18,354	6,058
Total revenue .....	1,246,515	1,118,678
Benefits and expenses:		
Death benefits .....	3,577	3,079
Annuity benefits .....	75,308	89,278
Surrender benefits.....	230,229	423,288
Interest and adjustments on policy or deposit-type contract funds .....	424,123	435,654
Payments on supplementary contracts with life contingencies.....	17,872	13,375
Decrease in reserves for fixed annuities and supplementary contracts with life contingencies .....	(53,214)	(377,084)
Commissions .....	6,790	2,149
General insurance and other expenses .....	42,260	29,235
Net expense on annuity and GIC contract hedges .....	64,682	8,883
Net transfers from the separate accounts .....	7,162	32,154
Other deductions.....	—	—
Total benefits and expenses .....	818,789	660,011
Net gain from operations before dividends and federal income taxes.....	427,726	458,667
Federal income tax expense .....	(108,297)	(53,555)
Net gain from operations after taxes and before net realized capital losses .....	319,429	405,112
Net realized capital losses, net of income tax benefit of \$0 in 2002 and tax expense of \$25,780,000 for 2001 (excluding net losses transferred to the interest maintenance reserve of \$12,736,123 in 2002 and net gains of \$44,012,221 in 2001).....	(68,733)	(124,175)
Net income.....	\$ 250,696	\$ 280,937

The accompanying notes are an integral part of these statutory financial statements.

**SUNAMERICA LIFE INSURANCE COMPANY**  
**STATUTORY STATEMENT OF CASH FLOW**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2002 AND 2001**  
**(UNAUDITED)**

	2002	2001
	( In thousands)	
Premiums and annuity considerations .....	\$ 144,740	\$ 44,911
Considerations for supplementary contracts with and without life contingencies .....	3,582	5,860
Investment income received .....	1,023,321	963,960
Commissions and expense allowance on reinsurance ceded .....	1	288
	1,171,644	1,015,019
Death claims paid .....	(3,271)	(3,079)
Surrender benefits and withdrawals for life contracts .....	(230,611)	(422,197)
Interest and adjustments on policy or deposit-type contract funds .....	(525,420)	(546,315)
Net transfers from the separate accounts .....	(7,162)	102,410
Other benefits paid to policyholders .....	(97,308)	(102,653)
Commission, other expenses and taxes paid .....	(47,472)	(29,883)
Other operating expenses paid .....	(39,388)	(8,883)
Federal income taxes (paid) refund .....	(89,996)	5,601
Net cash provided by operations .....	131,016	10,020
Proceeds from investments sold .....	7,480,876	4,779,603
Net tax on capital gains (losses) .....	20,898	—
Cost of long-term investments acquired .....	(11,030,903)	(9,469,898)
Net decrease in policy loans .....	1,891	2,012
Net cash used for investments .....	(3,527,238)	(4,688,283)
Surplus contributed to separate account .....	—	20,000
Deposits on deposit-type contracts funds and other liabilities without life or disability contingencies .....	5,582,380	5,281,731
Cash provided from other sources .....	66,603	12,272
Withdrawals on deposit-type contracts funds and other liabilities without life or disability contingencies .....	(1,135,732)	(546,457)
Dividends to stockholders paid .....	—	(22,495)
Interest on indebtedness .....	(19,576)	(753)
Other cash applied .....	(960,421)	(328,699)
Net cash provided by financing and from miscellaneous sources .....	3,533,254	4,415,599
Net increase (decrease) in cash and short-term investments .....	137,032	(262,664)
Cash and short-term investments at beginning of the period .....	202,489	575,285
Cash and short-term investments at the end of the period .....	\$339,521	\$ 312,621

The accompanying notes are an integral part of these statutory financial statements.



**SUNAMERICA LIFE INSURANCE COMPANY**  
**NOTES TO STATUTORY FINANCIAL STATEMENTS**  
**JUNE 30, 2002 (UNAUDITED)**

**1. Nature of Operations and Other Matters**

SunAmerica Life Insurance Company (the “Company”) is an indirect wholly owned subsidiary of American International Group, Inc. (“AIG”), an insurance and financial services holding company. The Company is a direct subsidiary of AIG SunAmerica Inc. (“SunAmerica”).

The Company is a stock life insurance company domiciled and licensed in the State of Arizona and is subject to regulation by the Insurance Department of the State of Arizona (the “Arizona Department”). It is also subject to regulation by the states in which it transacts business. The Company is engaged in the business of writing fixed annuities directed to the market for tax-deferred, long-term savings products and guaranteed interest contracts (“GICs”) directed to the institutional marketplace. The Company is licensed in 49 states and the District of Columbia.

The Company owns 100% of the common stock of AIG SunAmerica Life Assurance Company (formerly known as and currently doing business as Anchor National Life Insurance Company) (“ANLIC”) (which is domiciled in the State of Arizona); First SunAmerica Life Insurance Company (“FSA”) (which is domiciled in the State of New York); Export Leasing FSC, Inc., an investment company; SunAmerica Virginia Properties, Inc., an investment company; UG Corporation, an investment company and Saamsun Holding Corporation (“Saamsun”) an investment company.

Effective January 1, 2002, ANLIC declared a distribution to the Company in the form of 100% of the outstanding capital stock of Saamsun. Pursuant to this distribution, Saamsun became a direct wholly owned subsidiary of the Company.

In the opinion of the Company, the accompanying unaudited statutory financial statements contain all adjustments necessary to present fairly the Company’s admitted assets, liabilities and capital and surplus as of June 30, 2002, and the results of its operations and its cash flow for the six month period ended June 30, 2002. The accompanying unaudited statutory financial statements should be read in conjunction with the audited statutory financial statements at December 31, 2001 and 2000 and for the years ended December 31, 2001, 2000 and 1999 contained within this Offering Memorandum.

**2. Summary of Significant Accounting Policies**

*Basis of Presentation:* The accompanying financial statements have been prepared in accordance with accounting principles prescribed or permitted by the Arizona Department of Insurance. Effective January 1, 2001, the State of Arizona required that insurance companies domiciled in the State of Arizona prepare their statutory basis financial statements in accordance with the NAIC *Accounting Practices and Procedures* manual—Version effective January 1, 2001, subject to any deviations prescribed or permitted by the State of Arizona insurance commissioner. These accounting practices vary in certain respects from generally accepted accounting principles, as described under the “Summary of Significant Differences between Arizona SAP and GAAP” section of the Offering Memorandum.

**SUNAMERICA LIFE INSURANCE COMPANY**

**NOTES TO STATUTORY FINANCIAL STATEMENTS—(Continued)**

*Codification of Statutory Accounting Principles:* In 1998, the NAIC adopted, and later amended, the Codification of Statutory Accounting Principles guidance, which replaces the earlier Accounting Practices and Procedures manual as the NAIC's primary guidance on statutory accounting effective, January 1, 2001. Codification changed prescribed statutory accounting practices resulted in changes to the accounting practices that the Company uses to prepare its statutory basis financial statements. Codification has been adopted by all fifty states as the prescribed basis of accounting, including Arizona. The impact of such changes amounted to an \$35,449,347 charge to statutory surplus and was reported as a cumulative effect of a change in accounting principle for the year ended December 31, 2001.

The preparation of financial statements in conformity with prescribed or permitted statutory accounting practices requires management to make estimates and assumptions that affect the reported amounts of assets liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholder of SunAmerica Life Insurance Company:

We have audited the accompanying statutory statement of admitted assets, liabilities and capital and surplus of SunAmerica Life Insurance Company (the "Company"), an indirect wholly owned subsidiary of American International Group, Inc., as of December 31, 2001 and 2000, and the related statutory statements of operations, changes in capital and surplus, and cash flow for each of the three years in the period ended December 31, 2001. 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 2 to the financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the Insurance Department of the State of Arizona, 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 are material; they are described in Note 2.

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, 2001 and 2000, or the results of its operations or its cash flows for each of the three years in the period ended December 31, 2001.

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and capital and surplus of the Company as of December 31, 2001 and 2000, and the results of its operations and its cash flow for each of the three years in the period ended December 31, 2001, on the basis of accounting described in Note 2.

As discussed in Note 3 to the financial statements, the Company adopted the accounting policies in the revised National Association of Insurance Commissioners "*Accounting Practices and Procedures Manual*" – *Effective January 1, 2001*, as required by the Insurance Department of the State of Arizona. The effect of adoption is recorded as an adjustment to unassigned surplus as of January 1, 2001.

PricewaterhouseCoopers LLP  
Los Angeles, California

May 29, 2002

**SUNAMERICA LIFE INSURANCE COMPANY**  
**STATUTORY STATEMENT OF ADMITTED ASSETS, LIABILITIES**  
**AND CAPITAL AND SURPLUS**  
**AT DECEMBER 31, 2001 AND 2000**

ADMITTED ASSETS	2001	2000
	(In thousands, except share data)	
Cash and investments:		
Bonds .....	\$ 24,565,807	\$ 18,409,947
Preferred stocks .....	26,662	1,122
Common stocks – affiliates.....	1,140,210	1,150,765
Common stocks – non affiliates.....	31,800	36,131
Mortgage loans .....	3,803,170	3,564,516
Real estate .....	10,989	26,083
Policy loans.....	57,374	60,671
Cash and short-term investments .....	202,489	575,285
Other invested assets.....	379,972	289,918
Receivables for securities .....	<u>5,612</u>	<u>25,841</u>
Total cash and investments .....	30,224,085	24,140,279
Amounts recoverable from reinsurers .....	13,186	18,400
Electronic data processing equipment .....	7,291	12,492
Investment income due and accrued .....	314,860	251,172
Federal income taxes receivable.....	74,470	42,624
Receivable from affiliates .....	84,536	8,809
Receivable from the separate accounts .....	42,773	35,244
Other assets .....	165	404
Separate account assets .....	<u>1,970,164</u>	<u>2,114,772</u>
Total admitted assets .....	<u>\$ 32,731,530</u>	<u>\$ 26,624,196</u>
 <b>LIABILITIES AND CAPITAL AND SURPLUS</b>		
Reserves for life policies and contracts .....	\$ 4,727,902	\$ 5,352,774
Liabilities for deposit-type contracts.....	23,514,376	16,617,864
Interest maintenance reserve .....	82,479	59,832
Accrued commissions and expenses .....	60,262	74,158
Net deferred tax liability .....	54,053	-
Asset valuation reserve .....	123,510	190,755
Other liabilities.....	186,453	211,199
Separate account liabilities.....	<u>1,955,535</u>	<u>2,100,522</u>
Total liabilities .....	<u>30,704,570</u>	<u>24,607,104</u>
Capital and surplus:		
Common stock, \$2.50 par value: 2,354,560 shares authorized; 2,254,560 shares issued and outstanding.....	5,636	5,636
Paid-in and contributed surplus (including \$14,250 and \$14,250 in 2001 and 2000 from the separate accounts).....	1,139,955	1,126,169
Unassigned surplus .....	<u>881,369</u>	<u>885,287</u>
Total capital and surplus .....	<u>2,026,960</u>	<u>2,017,092</u>
Total liabilities and capital and surplus .....	<u>\$ 32,731,530</u>	<u>\$ 26,624,196</u>

The accompanying notes are an integral part of these statutory financial statements.

**SUNAMERICA LIFE INSURANCE COMPANY**  
**STATUTORY STATEMENT OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999**

	2001	2000	1999
		(In thousands)	
<b>Revenue:</b>			
Premiums and annuity considerations .....	\$ 156,124	\$ 104,099	\$ 171,000
Considerations for supplementary contracts with life contingencies.....	9,311	13,902	13,902
Net investment income .....	2,059,084	1,711,079	1,711,079
Amortization of Interest Maintenance Reserve .....	76,071	17,907	(1,000)
Separate account net gains from operations .....	26,787	-	-
Commissions and expense allowances on reinsurance ceded .....	1,316	2,748	(1,000)
Other revenue .....	-	2,122	-
<b>Total revenue.....</b>	<b>2,328,693</b>	<b>1,851,857</b>	<b>3,424,009</b>
<b>Benefits and expenses:</b>			
Death benefits .....	7,301	6,825	(1,000)
Annuity benefits .....	168,473	212,764	312,000
Surrender benefits.....	689,658	1,741,091	1,741,091
Interest and adjustments on policy or deposit-type contract funds.....	1,037,317	906,345	470,000
Payments on supplementary contracts with life contingencies .....	37,590	24,016	13,902
Decrease in reserves for fixed annuities and supplementary contracts with life contingencies .....	(624,872)	(1,617,655)	(1,617,655)
Commissions .....	8,290	8,705	(1,000)
General insurance and other expenses .....	72,627	54,713	54,713
Net transfers to the separate accounts.....	30,600	55,642	80,000
Net expenses on asset and liability contract hedges.....	67,889	7,889	(1,000)
<b>Total benefits and expenses.....</b>	<b>1,494,873</b>	<b>1,400,335</b>	<b>2,616,000</b>
<b>Net gain from operations before dividends and federal income taxes .....</b>	<b>833,820</b>	<b>451,522</b>	<b>808,009</b>
Dividends paid to policyholders.....	(1,224)	(1,953)	(1,000)
Federal income tax expense .....	(156,607)	(48,624)	(50,000)
<b>Net gain from operations after taxes and before net realized capital losses .....</b>	<b>675,989</b>	<b>400,945</b>	<b>757,009</b>
Net realized capital losses, net of income tax benefit of \$34,472 for 2001, \$11,053 for 2000 and \$38,497 for 1999 (excluding net gains (losses) transferred to the interest maintenance reserve of \$98,718 in 2001, (\$7,366) in 2000 and (\$15,428) in 1999) .....	(205,045)	(32,356)	(1,000)
<b>Net income .....</b>	<b>\$ 470,944</b>	<b>\$ 368,589</b>	<b>\$ 756,009</b>

The accompanying notes are an integral part of these statutory financial statements.

**SUNAMERICA LIFE INSURANCE COMPANY**  
**STATUTORY STATEMENT OF CHANGES IN CAPITAL AND SURPLUS**  
**FOR THE YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999**

	Common Stock	Paid-In and Contributed Surplus	Surplus Note & Unassigned Surplus	Total
	(In thousands)			
Balances at				
December 31, 1998.....	\$ 5,636	\$ 592,451	\$ 666,616	\$ 1,264,703
Net income, 1999 .....	-	-	417,163	417,163
Change in net unrealized capital gains and losses .....	-	-	10,688	10,688
Increase in nonadmitted assets .....	-	-	(19,085)	(19,085)
Decrease in asset valuation reserve .....	-	-	(24,651)	(24,651)
Return of capital to Parent.....	-	(116,250)	-	(116,250)
Surplus note cancelled by Parent .....	-	-	(170,436)	(170,436)
Transfer of cancelled surplus note to contributed surplus .....	-	170,436	-	170,436
Surplus contributed to separate account.....	-	-	4,425	4,425
Surplus impact of tax benefit from exercise of employee stock options .....	-	139,471	-	139,471
Surplus impact for reduction of subsidiary's additional asset adequacy reserves .....	-	-	35,000	35,000
Surplus impact of subsidiary's modified coinsurance transaction .....	-	-	91,732	91,732
Balances at				
December 31, 1999.....	5,636	786,108	1,011,452	1,803,196
Net income, 2000 .....	-	-	368,589	368,589
Change in net unrealized capital gains and losses .....	-	-	(66,808)	(66,808)
Increase in nonadmitted assets .....	-	-	(25,246)	(25,246)
Decrease in asset valuation reserve .....	-	-	8,609	8,609
Surplus contributed by Parent .....	-	252,673	-	252,673
Dividend paid to Parent.....	-	-	(379,000)	(379,000)
Surplus contributed to separate account.....	-	-	3,700	3,700
Surplus impact of tax benefit from exercise of employee stock options .....	-	87,388	-	87,388
Surplus impact of subsidiary's modified coinsurance transaction.....	-	-	(36,009)	(36,009)
Balances at December 31, 2000 .....	\$ 5,636	\$ 1,126,169	\$ 885,287	\$ 2,017,092

The accompanying notes are an integral part of these statutory financial statements.

**SUNAMERICA LIFE INSURANCE COMPANY**  
**STATUTORY STATEMENT OF CHANGES IN CAPITAL AND SURPLUS (Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999**

	Common Stock	Paid-In and Contributed Surplus	Surplus Note & Unassigned Surplus	Total
	(In thousands)			
Balances at December 31, 2000.....	\$ 5,636	\$ 1,126,169	\$ 885,287	\$ 2,017,092
Net income, 2001 .....	-	-	470,944	470,944
Change in net unrealized capital gains or losses .....	-	-	(106,798)	(106,798)
Change in net deferred income tax.....	-	-	(49,899)	(49,899)
Increase in non-admitted assets.....	-	-	(265,402)	(265,402)
Decrease in asset valuation reserve .....	-	-	25,289	25,289
Other changes in surplus in Separate Accounts Statement .....	-	-	5,501	5,501
Cumulative effect of changes in accounting principles .....	-	-	(35,449)	(35,449)
Surplus impact of subsidiary's modified coinsurance transaction .....	-	-	(25,619)	(25,619)
Dividend paid to Parent.....	-	-	(22,495)	(22,495)
Surplus impact of tax benefit from exercise of employee stock options .....	-	13,786	-	13,786
Balances at December 31, 2001 .....	<u>\$ 5,636</u>	<u>\$ 1,139,955</u>	<u>\$ 881,369</u>	<u>\$ 2,026,960</u>

The accompanying notes are an integral part  
of these statutory financial statements.

**SUNAMERICA LIFE INSURANCE COMPANY**  
**STATUTORY STATEMENT OF CASH FLOW**  
**FOR THE YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999**

	2001	2000	1999
		(In thousands)	
Premiums and annuity considerations for life and A&H contracts.....		\$ 104,09	\$ 170,4
Considerations for supplementary contracts with life contingencies.....	9,310	13,902	14,757
Investment income received.....	1,918,779	1,365,427	1,197,952
Commissions and expense allowance on reinsurance ceded .....	1,316	2,748	3,151
	<u>2,085,529</u>	<u>1,486,176</u>	<u>1,386,309</u>
Death benefits paid.....	(7,301)	(6,653)	(5,221)
Surrender benefits and withdrawals for life contracts.....	(687,987)	(1,741,091)	(1,612,658)
Interest and adjustments on policy or deposit-type contract funds .....	(1,059,848)	(790,312)	(412,545)
Net transfers from (to) the separate account.....	228,089	35,531	(546,289)
Other benefits paid to policyholders .....	(206,064)	(236,779)	(330,204)
Commissions and other expenses paid .....	(85,530)	(36,800)	(79,921)
Dividends paid to policyholders.....	(1,224)	(1,953)	(1,867)
Other operating expenses paid .....	(37,890)	(4,135)	(10,542)
Federal income taxes (paid) refunded .....	(127,654)	24,942	(34,070)
Net cash provided by (used for) operations.....	<u>100,120</u>	<u>(1,271,074)</u>	<u>(1,647,008)</u>
Proceeds from investments sold matured or repaid.....	10,451,597	4,053,577	6,400,355
Costs of investments acquired.....	(17,237,775)	(7,748,330)	(8,131,093)
Taxes refunded (paid) on capital gains .....	-	56,184	(79,239)
Net decrease in policy loans.....	3,297	1,750	2,236
Net cash used for investments.....	<u>(6,782,881)</u>	<u>(3,636,819)</u>	<u>(1,807,741)</u>
Contributed surplus returned to Parent.....	-	-	(116,250)
Surplus contributed to a Separate Account .....	-	3,700	4,425
Deposits on deposit-type contracts.....	7,762,191	5,951,162	5,805,084
Cash provided from other sources.....	23,997	52,677	181,347
Withdrawals on deposit-type contracts .....	(1,149,218)	(1,124,393)	(1,579,794)
Dividends paid to Parent .....	(22,495)	(379,000)	-
Interest on indebtedness .....	(2,260)	-	-
Other cash applied .....	(302,250)	(134,054)	(6,708)
Net cash provided by financing and from miscellaneous sources.....	<u>6,309,965</u>	<u>4,370,092</u>	<u>4,288,104</u>
Net (decrease) increase in cash and short-term equivalent .....	(372,796)	(537,801)	833,355
Cash and short-term investments at beginning of year .....	575,285	1,113,086	279,731
Cash and short-term investments at end of year .....	<u>\$202,489</u>	<u>\$575,285</u>	<u>\$1,113,086</u>

The accompanying notes are an integral part of these statutory financial statements.



**SUNAMERICA LIFE INSURANCE COMPANY**  
**NOTES TO STATUTORY FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001, 2000 AND 1999**

**1. Nature of Operations**

SunAmerica Life Insurance Company (the "Company") is a direct subsidiary of SunAmerica Inc. (the "Parent"), which is wholly owned subsidiary of American International Group, Inc. ("AIG"), a holding company, which through its subsidiaries is engaged in a broad range of insurance and insurance-related activities, financial services, retirement services and asset management.

The Company is a stock life insurance company domiciled and licensed in the State of Arizona and is subject to regulation by the Insurance Department of the State of Arizona (the "Arizona Department"). It is also subject to regulation by the states in which it transacts business. The Company is engaged in the business of writing fixed annuities directed to the market for tax-deferred, long-term savings products and guaranteed interest contracts ("GICs") directed to the institutional marketplace. The Company is licensed in 49 states and the District of Columbia. Sales of fixed annuities are primarily made through a broad spectrum of financial services distribution channels, including independent registered representatives of the Company's broker-dealer affiliates and unaffiliated broker-dealers, banks and other financial institutions, and independent general insurance agents. No single broker-dealer accounted for more than 5%, 1%, and 7% of the Company's fixed annuity sales in 2001, 2000, and 1999, respectively.

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, strength, weakness and volatility of equity markets, and terms and conditions of competing financial products. The Company is exposed to the typical 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 of its assets and liabilities, monitoring and limiting prepaying 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 owns 100% of the common stock of AIG SunAmerica Life Assurance Company (formerly, Anchor National Life Insurance Company) ("ANLIC") (which is domiciled in the State of Arizona); First SunAmerica Life Insurance Company ("FSA") (which is domiciled in the State of New York); Export Leasing FSC, Inc., an investment company; SunAmerica Virginia Properties, Inc., an investment company; UG Corporation, an investment company and SAL Investment Group, Inc., an investment company.

On October 31, 2000, the Company sold SunAmerica National Life Insurance Company ("SANLIC"), a wholly-owned subsidiary, to SBLI Mutual Life Insurance Company, Inc., a New York mutual insurance corporation, for the sale price of \$10,167,000. The Company realized a gain of \$2,656,000 on the sale, which is included in total Net Realized Capital Losses.

**2. Summary of Significant Accounting Policies**

**BASIS OF PRESENTATION**

The accompanying financial statements have been prepared in accordance with accounting practices prescribed or permitted by the Arizona Department. The Arizona Department recognizes only statutory accounting practices prescribed or permitted by the State of Arizona for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under the Arizona Insurance Law. The National Association of Insurance Commissioners ("NAIC") *Accounting Practices and Procedures* manual - version effective January 1, 2001 ("NAIC SAP") has been adopted as a component of prescribed or permitted practices by the State of Arizona. Accounting changes adopted to conform to the provisions of NAIC SAP are reported as changes in accounting principles as described in Note 3. The Commissioner of Insurance has the right to permit other specific practices that deviate from prescribed practices.

SUNAMERICA LIFE INSURANCE COMPANY  
NOTES TO STATUTORY FINANCIAL STATEMENTS  
DECEMBER 31, 2001, 2000 AND 1999

The preparation of financial statements in conformity with accounting practices prescribed or permitted by the Arizona Department requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

SIGNIFICANT STATUTORY ACCOUNTING PRACTICES

The following is a summary of the Company's significant statutory accounting practices:

**INVESTMENTS:** Investments are valued in accordance with the requirements of the NAIC. Bonds not backed by other loans are carried at amortized cost, except for those with an NAIC designation of "6", which are carried at the lower of amortized cost or fair value. If the decline in fair value of a bond is considered to be other than temporary, the cost basis is written down to net realizable value and the amount of the write down is recognized as a realized loss. Estimates of net realizable value are subjective and actual realization will be dependent upon future events. The discount or premium on bonds is amortized using the effective yield method.

Preferred stocks with NAIC designations of "1" to "3" are carried at amortized cost, all other preferred stocks are stated at the lower of cost or fair value. Unaffiliated common stocks are carried at market value, with unrealized investment gains and losses credited or charged directly to Unassigned Surplus.

Investments in insurance affiliates are recorded based on the underlying statutory equity of the respective entity. Investments in non-insurance affiliates are recorded based on the underlying equity of the respective entity, adjusted to a statutory basis of accounting. Undistributed equity in earnings of affiliates is included in Unassigned Surplus as a component of unrealized investment gains or losses. Dividends received from such affiliates are recorded as investment income when received.

Loan-backed securities are stated at amortized cost, except for those with a NAIC designation of "6", which are carried at the lower of amortized cost or fair value. Income recognition for loan-backed bonds and structured securities is determined using the effective yield method and contractual maturities. The prospective adjustment method is used to account for the effect of unscheduled payments. The Company elected to use the book value as of January 1, 1994, where historical cash flows are not readily available, as the cost for applying the retrospective adjustment method to loan-backed securities purchased prior to that date. Prepayment assumptions for single-class and multi-class mortgage-backed and asset-backed securities were obtained from broker dealer survey values or internal estimates.

Short-term investments are stated at cost and are defined as investments with remaining maturities of one year or less at the time of acquisition. Such investments with original maturities of three months or less are classified as cash equivalents and reported as cash.

Mortgage loans are carried at the lower of aggregate amortized unpaid balances or fair value of collateral with temporary impairments (or any changes thereof) recognized with a charge or credit to unrealized gain or loss. Impairments on mortgage loans that are considered to be other than temporary, including those for foreclosed loans, are recognized as realized losses.

Due and accrued income is excluded from investment income for bonds and other invested assets when collection of interest is overdue by more than three months or is uncertain, and for mortgage loans when loans are foreclosed or delinquent in payment for greater than three months or where collection of interest is uncertain. The total amount excluded from due and accrued investment income at December 31, 2001 amounted to \$19,106,000 for bonds and \$1,381,000 for mortgage loans.

Real estate acquired through foreclosure and properties held for sale are carried at the lower of depreciated cost or fair value less encumbrances and less estimated costs to sell the property.

SUNAMERICA LIFE INSURANCE COMPANY  
NOTES TO STATUTORY FINANCIAL STATEMENTS  
DECEMBER 31, 2001, 2000 AND 1999

Policy loans are carried at unpaid balances, which include unpaid principal plus accrued interest 90 days or more past due. All loan amounts in excess of the policy cash surrender value are considered non-admitted assets.

Other invested assets are principally composed of investments in limited partnerships and leveraged leases. Investments in limited partnerships and limited liability companies are accounted for by the equity method, where the GAAP equity is adjusted to a statutory basis for any entities for which the ownership percentage is 10% or greater. Undistributed accumulated earnings of such entities is included in Unassigned Surplus as a component of unrealized investment gains or losses. Distributions received that are not in excess of the undistributed accumulated earnings are recognized as investment income.

Realized investment gains and losses, which are determined by using the specific identification method, are reflected in income net of applicable federal income taxes and transfers to the interest maintenance reserve.

**ELECTRONIC DATA PROCESSING ("EDP") EQUIPMENT AND OPERATING SYSTEM SOFTWARE:** EDP equipment and operating system software are capitalized and depreciated over the estimated three-year life of the equipment or software using the straight-line method, with a portion of the depreciation allocated to ANLIC. At December 31, 2001, EDP Equipment had a carrying value of \$7,291,000 net of accumulated depreciation of \$37,623,000. The December 31, 2001 carrying value takes into account the non-admitted EDP equipment. At December 31, 2000, EDP equipment had a carrying value of \$12,492,000 net of accumulated depreciation of \$28,959,000. At December 31, 2001 and 2000, the Company did not have any capitalized operating system software.

**DERIVATIVE FINANCIAL INSTRUMENTS:** As discussed in Note 17, the Company has entered into various interest rate swaps, foreign currency swaps and equity options to create hedges against interest rate changes, foreign currency fluctuations and changes in the Standard & Poor's 500 equity index for various floating rate assets, GIC liabilities and indexed annuity products. Under interest rate and foreign currency swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed rate and floating rate interest amounts calculated by reference to an agreed notional principal amount.

The net differential to be paid or received on swap agreements is recognized as incurred as a component of net expenses on asset and liability contract hedges in the statement of operations. The outstanding swap agreements have been designated as hedges, and, accordingly, are not marked to market. However, the portion of the swap agreements hedging assets that have been sold or annuity contracts that are surrendered are declassified as a hedge and are marked to market. The mark to market gains and losses are also recorded in operations as a component of net expenses on asset and liability contract hedges in the statement of operations. For equity options, the contracts are marked to market and the resulting gains or losses are also recorded as part of net expenses on asset and liability contract hedges in the statutory Statement of Operations.

**INTEREST MAINTENANCE RESERVE:** The Company's Interest Maintenance Reserve ("IMR") was \$82,479,000 (net of \$96,108,000 of accumulated amortization) at December 31, 2001 and \$59,832,000 (net of \$20,037,000 of accumulated amortization) at December 31, 2000. The IMR is calculated based on methods prescribed by the NAIC and was established to prevent large fluctuations in investment gains and losses resulting from sales of interest-sensitive securities. Such gains and losses are deferred into the IMR and amortized into income using the group method over the remaining contractual lives of the securities sold.

**ASSET VALUATION RESERVE:** The Company's Asset Valuation Reserve ("AVR") was \$123,510,000 at December 31, 2001 and \$190,755,000 at December 31, 2000. The AVR provides a standardized reserve process for realized and unrealized losses due to the default and equity risks associated with invested assets. The AVR is recorded as a liability and is provided for all invested assets, including mortgage loans, real estate and other invested assets, based on methods prescribed by the NAIC. Changes in the AVR are reflected in a separate component of Unassigned Surplus.

**SEPARATE ACCOUNT ASSETS AND LIABILITIES:** Separate account liabilities are principally composed of GIC reserves. The related assets are carried principally at amortized cost (See Note 6).

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**RESERVES FOR LIFE POLICIES AND CONTRACTS:** Reserves for life policies are provided in accordance with the Commissioner's Reserve Valuation Method ("CRVM"). Reserves for fixed annuities, universal life, and supplementary contracts with life contingencies are provided in accordance with the Commissioner's Annuity Reserve Valuation Method ("CARVM") as amended by Actuarial Guideline 33.

The Company waives the deduction of deferred fractional premiums upon death of the insured, and returns any portion of the final premium paid beyond the date of death. Surrender values are not promised in excess of the legally computed reserves. The extra reserve held for those substandard lives for which an extra premium is charged is based on appropriate multiples of standard rates of mortality. Substandard annuity policies have been valued using a methodology that meets the requirements of Actuarial guideline IX-A. As of December 31, 2001 the Company had \$44,685,000 of insurance in force for which the gross premiums are less than the net premiums according to the standard valuation laws set by the State of Arizona. Reserves to cover the above insurance totaled \$250,000 at year-end. Tabular interest, tabular less actual reserves released and tabular cost have been determined by formula.

**LIABILITIES FOR DEPOSIT-TYPE CONTRACTS:** Liabilities for deposit-type contracts, which include GICs and supplementary contracts without life contingencies, are based on the accumulation of gross deposits, net of payments, discounted at an annual statutory effective rate. Tabular interest on funds not involving life contingencies is based on the interest rate at which the liability accrues.

**PREMIUMS AND RELATED EXPENSES:** Premiums for universal life, interest-sensitive life insurance products and annuity considerations are reported as revenue when received. Premiums for deposit-type products are credited directly to the respective reserves and are not recorded in the Statement of Operations. Premiums on traditional life insurance contracts are reported net of both reinsurance and the adjustment for due and deferred premiums. Acquisition costs such as commissions and other expenses related to the acquisition of new business are charged to operations as incurred.

**REINSURANCE PREMIUMS AND RELATED EXPENSES:** Premiums, policyholder liabilities and surrender benefits are reported in the statutory financial statements net of amounts ceded to reinsurers. The insurer that assumes the coverage assumes the related liability, and it is the practice of insurers to treat insured risks, to the extent of reinsurance ceded, as though they were risks for which the Company is not liable. However, the ceding of reinsurance does not discharge the Company from primary liability to its policyholders.

**ANNUITY, LIFE CONTRACT AND DEPOSIT-TYPE CONTRACT SURRENDER BENEFITS:** Annuity, universal life, interest-sensitive life benefits and supplementary contracts with life contingencies, surrenders and withdrawals are reported on a cash basis. Withdrawals from deposit-type contracts, including those for GICs, directly reduce the liability for deposit-type contracts and do not flow through the Summary of Operations.

**ALLOCATED EXPENSES:** The Company and its affiliates have an agreement to share certain marketing, investment, administrative and occupancy expenses. Such expenses are allocated by the Company to its affiliates based on relative total assets, invested assets and premiums.

**INCOME TAXES:** The Company files a consolidated federal income tax return as part of a "life insurance group" as discussed in Note 14. Income taxes are allocated pursuant to a written tax sharing agreement, and are based on a separate return calculation. Federal income tax expense reflected in the Statement of Operations represents income taxes provided on income that is currently taxable, but excludes tax on the net realized capital losses.

Income taxes on capital losses reflect differences in the recognition of capital gains or losses on a statutory book basis versus a tax accounting basis. The most significant of such differences involves the deferral of capital gains into the IMR for statutory book purposes. Capital gains and losses on certain related party transactions are recognized for statutory financial reporting purposes but are deferred for income tax reporting purposes.

As discussed in Note 13, the Parent received income tax benefits from AIG relating to stock options

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exercised by its employees, which were subsequently contributed to the Company. Such benefits are recorded as contributed surplus with a corresponding increase to federal income taxes receivable.

Effective January 1, 2001, a net deferred tax liability is included in the Statement of Admitted Assets, Liabilities and Capital and Surplus, which reflects the expected future tax consequences of temporary differences between the carrying values of assets and liabilities for statutory financial reporting purposes and the amounts used for income tax reporting purposes. The change in the net deferred tax assets and liabilities are reflected in a separate component of Unassigned Surplus. Net deferred tax assets are limited to their admissible amount according to a prescribed formula. Prior to 2001, deferred income taxes were not prescribed.

**NONADMITTED ASSETS:** All assets specifically designated as nonadmitted and assets not designated as admitted, such as a certain portion of deferred tax assets, furniture, fixtures, leasehold improvements, prepaid assets, agents balances or other note receivables over ninety days and non-operating system software, are excluded from the statutory Statement of Admitted Assets, Liabilities and Capital and Surplus, and the change in the aggregate amount of such assets is reflected in a separate component of Unassigned Surplus. Depreciation and amortization for furniture, fixtures and EDP equipment was \$5,604,000, \$5,102,000 and \$4,692,000 for 2001, 2000 and 1999, respectively. Nonadmitted assets amounted to \$333,779,000 and \$68,377,000 at December 31, 2001 and 2000, respectively.

Statutory accounting practices vary in some respects from accounting principles generally accepted in the United States of America ("GAAP"). The following GAAP practices differ from the statutory accounting practices used in the accompanying financial statements:

- a. The accounts of the Company's majority-owned subsidiaries are consolidated with the Company's accounts in the presentation of financial statements. Equity in earnings of subsidiaries are recorded as income. Dividends received from subsidiaries are recorded as a reduction in the carrying value of the subsidiary.
- b. Reserves and liabilities for fixed annuities, interest-sensitive life products and deposit-type contracts are recorded at their accumulated values.
- c. Acquisition costs which vary with and are directly related to the production of new business or the purchase of annuity blocks of business are deferred and amortized with interest over the lives of the contracts in relation to the incidence of estimated gross profits, which are composed of net investment income, net realized investment gains and losses, surrender charges and direct administrative expenses.
- d. "Nonadmitted" assets less applicable allowance accounts are reflected in the Balance Sheet.
- e. The IMR and AVR are not provided.
- f. Premium receipts and the related increase in reserves from sales of fixed annuities, universal life products and supplementary contracts with life contingencies are not reported as revenues and expenses. Such premium receipts are reflected as direct credits to the reserves for fixed annuities, universal life insurance or separate account liabilities.
- g. Benefit payments for fixed annuities, universal life products and supplementary contracts with life contingencies and the related decrease in reserves are not reported as expenses. Such payments are reflected as direct charges to the reserves for fixed annuities, universal life contracts or separate account liabilities.
- h. Investments available for sale are carried at estimated fair value, and changes in unrealized net gains or losses, net of tax, are credited or charged directly to shareholder's equity.

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- i. Non-unitized separate account assets and liabilities are combined with general account assets and liabilities for reporting purposes.
- j. The change in deferred income tax amounts are reflected in the income statement and deferred tax assets are subject to a valuation allowance, as necessary.
- k. Collateral received pursuant to securities lending transactions not available for the general use of the Company is presented as an asset on the balance sheet along with a corresponding liability, representing the obligation to return such collateral once loaned securities are returned.

A reconciliation of the Company's statutory net income to GAAP net income and statutory capital and surplus to GAAP shareholder's equity for the year ended December 31, 2001 is as follows:

	<u>Net Income</u>	<u>Capital and Surplus</u>
As reported on a statutory basis .....	\$ 470,944	\$ 2,026,960
Deferred acquisition costs .....	(16,077)	1,757,361
Reserves .....	(185,372)	(481,823)
Separate Account CARVM adjustment .....	-	(488,435)
Amortization of Goodwill .....	-	4,603
Amortization of IMR .....	(76,071)	(108,732)
Realized gains transferred to IMR to IMR .....	98,718	187,334
Realized investment losses .....	42,615	162,232
Deferred income taxes .....	(8,840)	(211,502)
Income taxes .....	69,190	(48,112)
Investment income .....	18,041	(29,035)
Derivatives .....	33,702	33,702
Equity income from limited partnership .....	59,683	-
Distribution received from subsidiaries .....	(130,271)	-
Earnings of subsidiaries .....	97,243	-
Asset valuation reserve .....	-	158,925
Non-admitted assets .....	-	344,437
Surplus adjustment as a result of reinsurance .....	-	(30,005)
FAS 115 adjustment (unrealized losses on debt and equity securities) .....	-	(403,749)
Other .....	18,799	(35,105)
Total adjustments .....	<u>21,360</u>	<u>812,096</u>
As reported on a GAAP basis .....	<u>\$ 492,304</u>	<u>\$ 2,839,056</u>

### 3. Codification Adoption – Changes in Accounting Principles

As discussed in Note 2, the State of Arizona required that insurance companies domiciled in the State of Arizona prepare their statutory basis financial statements in accordance with the NAIC Accounting Practices and Procedures Manual - version effective January 1, 2001, also known as the Codification of Statutory Accounting Principles, or "Codification", subject to any deviations prescribed or permitted by the State of Arizona insurance commissioner. Codification has been adopted in all 50 states, including Arizona, as the prescribed basis of statutory accounting, and also resulted in changes to prescribed statutory accounting practices.

Accounting changes adopted to conform to the provisions of Codification are reported as a change in accounting principle. The cumulative effect of such change, which is the difference between the amount of capital and surplus at January 1, 2001 and the amount of capital and surplus that would have been reported at that date if the new accounting principles had been applied retroactively for all periods to 2001, is reported as a separate component of Unassigned Surplus for the period ended December 31, 2001. The Company recognized a

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\$35,449,000 net charge to statutory surplus resulting from the adoption. The components of this adjustment included a \$102,362,000 decrease in the valuation of invested assets, a \$4,142,000 decrease for the recognition of deferred income taxes and a \$7,100,000 decrease for the deferment of unearned bond commitment fees, offset by \$78,154,000 increase in the carrying value of the investments in subsidiaries.

Certain items for the prior year have been reclassified to conform to the current year's presentation, which reflects Codification. In particular, "deposit-type funds", GIC surrender benefits and withdrawals, "interest on policy or contract funds" and "increase in liability for premium and other deposit funds", which had been reported as separate line items in the Statement of Operations prior to Codification, have been reclassified to "interest and adjustments on policy or deposit-type contract funds" in the Statement of Operations. In addition, "considerations for supplementary contracts without life contingencies and dividend accumulations", "payments on supplementary contracts without life contingencies and of dividend accumulations", interest on policy or contract funds" and "increase in reserve for supplementary contracts without life contingencies and for dividend and coupon accumulations", which had been reported as separate line items in the Statement of Operations prior to Codification, have also been reclassified to "interest and adjustments on policy or deposit-type contract funds" in the Statement of Operations.

#### **4. Investments**

The estimated fair value of bonds was \$24,345,668,000 and \$18,083,071,000 at December 31, 2001 and 2000, respectively. The estimated fair value of preferred stocks was \$26,709,000 and \$1,170,000 at December 31, 2001 and 2000, respectively. The cost of unaffiliated common stocks was \$19,300,000 and \$10,647,000 at December 31, 2001 and 2000, respectively. The cost of affiliate common stocks was \$464,168,000 and \$728,410,000 at December 31, 2001, respectively.

At December 31, 2001, bonds carried at \$11,634,000 were on deposit with regulatory authorities in accordance with statutory requirements.

The statement value and the estimated fair value of bonds by major security type at December 31, 2001 are shown below.

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	<u>Statement Value</u>	Estimated <u>Fair Value</u>
		(In thousands)
U.S. Governments .....	\$ 108,207	\$ 108,206
All Other Governments .....	1,504	1,300
States, Territories and Possessions .....	9,216	9,631
Special Revenue & Special Assessment		
Obligations, etc. Non-Guaranteed .....	1,545,601	1,537,986
Public Utilities .....	611,019	619,237
Industrial & Miscellaneous .....	22,220,182	21,999,166
Credit Tenant Loans .....	<u>70,078</u>	<u>70,142</u>
Totals.....	<u>\$24,565,807</u>	<u>\$24,345,668</u>

The statement value and the estimated fair value of bonds by major security type at December 31, 2000 are shown below.

	<u>Statement Value</u>	Estimated <u>Fair Value</u>
		(In thousands)
U.S. Governments .....	\$ 99,642	\$ 96,574
All Other Governments .....	104	101
States, Territories and Possessions .....	25,100	24,592
Special Revenue & Special Assessment		
Obligations, etc. Non-Guaranteed .....	1,294,323	1,281,149
Public Utilities .....	590,063	586,431
Industrial & Miscellaneous .....	16,327,520	16,021,026
Credit Tenant Loans .....	<u>73,195</u>	<u>73,198</u>
Totals.....	<u>\$18,409,947</u>	<u>\$18,083,071</u>

At December 31, 2001, the statement value of bonds exceeded their estimated fair value by \$220,139,000 as follows:

	<u>Gross Unrealized Gains</u>	Gross <u>Unrealized Losses</u>
		(In thousands)
U.S. Governments .....	\$ 73	\$ (74)
All Other Governments .....	-	(204)
States, Territories and Possessions .....	416	-
Special Revenue & Special Assessment		
Obligations, etc. Non-Guaranteed .....	3,401	(11,017)
Public Utilities .....	15,872	(7,654)
Industrial & Miscellaneous .....	300,076	(521,092)
Credit Tenant Loans .....	<u>64</u>	<u>-</u>
Totals.....	<u>\$ 319,902</u>	<u>\$ (540,041)</u>



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At December 31, 2000, the statement value of bonds exceeded their estimated fair value by \$326,876,000 as follows:

	Gross Unrealized Gains	Gross Unrealized Losses
	(In thousands)	
U.S. Governments .....	\$ 38	\$ (3,106)
All Other Governments .....	-	(3)
States, Territories and Possessions .....	51	(559)
Special Revenue & Special Assessment		
Obligations, etc. Non-Guaranteed .....	8,588	(21,762)
Public Utilities .....	8,319	(11,951)
Industrial & Miscellaneous .....	259,593	(566,087)
Credit Tenant Loans .....	3	-
Totals.....	\$ 276,592	\$ (603,468)

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At December 31, 2001, the statement value and estimated fair value of bonds by contractual maturity are shown below. Expected maturities may differ from contractual maturities because certain borrowers have the right to call or repay obligations with or without call or prepayment penalties.

	<u>Statement Value</u>	<u>Estimated Fair Value</u>
	(In thousands)	
Due in one year or less .....	\$ 436,863	\$ 438,240
Due after one year through five years .....	3,703,334	3,717,630
Due after five years through ten years.....	6,961,783	6,746,986
Due after ten years.....	4,251,116	4,159,996
Mortgage-backed securities .....	9,212,711	9,282,816
Total bonds .....	\$24,565,807	\$24,345,668

At December 31, 2001, Other Invested Assets included \$347,506,000 of investments in limited partnerships. Other Invested Assets also included \$44,221,000 of investments in leveraged leases.

At December 31, 2001, mortgage loans were collateralized by properties located in 43 states and the District of Columbia, with loans totaling approximately 29% of the carrying value of the portfolio secured by properties located in California, approximately 10% by properties located in New York, approximately 6% by properties located in Pennsylvania and no more than 6% by properties in any other single state.

At December 31, 2001, there were 69 mortgage loans with outstanding balances of \$10.0 million or more, which loans collectively aggregated approximately 52% of the portfolio. At the time of their origination or purchase by the Company, virtually all mortgage loans had loan-to-value ratios of 80% or less. At December 31, 2001, approximately 26% of the mortgage loan portfolio consisted of loans with balloon payments due before January 1, 2005. During 2001, 2000, and 1999 loans delinquent by more than 180 days, foreclosed loans and restructured loans have not been significant in relation to the total mortgage loan portfolio.

Substantially all of the mortgage loan portfolio has been originated by the Company under strict underwriting standards. Commercial mortgage loans on properties such as offices, hotels and shopping centers generally represent a higher level of risk than do mortgage loans secured by multifamily residences. This greater risk is due to several factors, including the larger size of such loans and the more immediate effects of general economic conditions on these commercial property types. However, due to the Company's strict underwriting standards, the Company believes that it has prudently managed the risk attributable to its mortgage loan portfolio while maintaining attractive yields.

Mortgage loans have a face value of \$3,816,483,000 and \$3,577,680,000 at December 31, 2001 and 2000, respectively. Contractual interest rates principally ranged from 4% to 11%. The weighted average contractual interest rate on these mortgage loans at December 31, 2001 was approximately 7.1% with maturity dates ranging from 2002 to 2023.

The Company held mortgages of \$13,539,000 and \$437,000 with interest of \$1,111,000 and \$119,000 which was more than 180 days past due as of December 31, 2001 and 2000, respectively. The Company held impaired mortgage loans totaling \$21,170,000 and \$1,213,000 as of December 31, 2001 and 2000, respectively. The Company's average recorded investment in impaired loans was \$4,581,000 during 2001. The Company did not recognize interest income during the period the loans were impaired.

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The maximum and minimum lending rates for mortgage loans during 2001 were as follows: apartment loans 8.38% and 4.24%, mobile home park loans 8.09% and 7.15%, retail loans 7.35% and 7.35%, industrial loans 7.65% and 6.75%, office loans 7.83% and 6.51%, other loans 7.44% and 6.95%. During 2001, the maximum percentage of any one loan to the value of security at the time of the loan, exclusive of insured or guaranteed or purchase money mortgage was 79.61%.

The Company had \$8,506,000 and \$23,549,000 at December 31, 2001 and 2000, respectively in restructured loans. There were no realized capital losses, no credit extended, or allowance for credit losses associated with these restructured loans. Accrued interest income for such loans amounted to \$67,000 at December 31, 2001.

With respect to mortgage loans acquired prior to the Company's redomestication to the State of Arizona in 1994, the Company has received permission from the Arizona Department to carry as admitted assets those loans that are not supported by an appraisal of the underlying property as of the loan acquisition date or do not have loan-to-value ratios of 75% or less as of the loan acquisition date as required by Arizona regulations. As of December 31, 2001, the carrying value of such mortgage loans totaled \$152,819,000.

Policy loans represent borrowing against the cash value of in force policies and comprise \$41,158,000 at December 31, 2001 and \$41,104,000 at December 31, 2000 of policy loans taken against life insurance policies and \$16,216,000 and \$19,567,000 at December 31, 2001 and 2000, respectively, of policy loans taken against annuities.

At December 31, 2001, the Company held no investment with a carrying value exceeding 10% of the Company's total capital and surplus except for the common stock of ANLIC with a statement value of \$1,009,267,000. At December 31, 2001, the Company had no investment in subsidiaries, controlled, and affiliated entities, ("SCAs") that exceeded 10% of admitted assets.

At December 31, 2001, the Company's bond portfolio included \$2,311,755,000 (estimated fair value \$2,104,506,000) of bonds not rated investment grade by the NAIC guidelines (categories 3-6). These bonds accounted for 7.1% of total assets and 7.7% of invested assets. These non-investment grade securities are comprised of bonds spanning 46 industries with 13% of these assets concentrated in telecommunications, 8% concentrated in the media cable, 7% in the airline industry and 6% concentrated in environmental. No other industry concentration constituted more than 5% of these assets.

At December 31, 2001, bonds in or near default as to payment of principal or interest had a carrying value of \$202,238,000, which is the NAIC fair value.

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For the years ended December 31, 2001, 2000 and 1999, net investment income earned, after allocation of investment-related expenses and interest expense, consist of the following categories:

	<u>2001</u>	<u>2000</u> (In thousands)	<u>1999</u>
Bonds.....	\$1,576,833	\$1,239,116	\$ 938,731
Preferred stocks .....	692	241	436
Common stocks .....	130,765	154,939	240,998
Mortgage loans .....	292,485	291,166	255,020
Real estate .....	90	6	60
Policy loans .....	4,428	6,657	5,305
Cash and short-term investments.....	24,771	37,287	37,405
Other invested assets .....	<u>55,477</u>	<u>9,964</u>	<u>15,363</u>
Gross investment income .....	2,085,541	1,739,376	1,493,318
Investment expenses.....	(23,172)	(27,050)	(13,722)
Investment taxes, licenses and fees .....	(1,025)	(1,235)	(158)
Interest expense .....	<u>(2,260)</u>	<u>(12)</u>	<u>(2,905)</u>
Net investment income .....	<u>\$2,059,084</u>	<u>\$1,711,079</u>	<u>\$1,476,533</u>

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For the years ended December 31, 2001, 2000 and 1999, gross realized investment gains and losses before allocation of income taxes and amounts transferred to the IMR, consist of the following:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
		(In thousands)	
Bonds			
Realized gains .....	\$ 244,907	\$ 24,697	\$ 48,574
Realized losses .....	(118,197)	(35,368)	(63,847)
Preferred stocks			
Realized gains .....	921	625	412
Realized losses .....	-	(13)	-
Common stocks (unaffiliated)			
Realized gains .....	1,553	626	3,810
Realized losses .....	(3)	-	(79)
Common stocks (affiliated)			
Realized gains .....	-	2,657	-
Realized losses .....	-	-	-
Mortgage loans			
Realized gains .....	250	-	-
Realized losses .....	-	(1,719)	-
Real estate			
Realized gains .....	1,298	6	-
Realized losses .....	-	(3,227)	(747)
Short-term investments			
Realized gains .....	21	17	2
Realized losses .....	-	-	(875)
Other invested assets			
Realized gains .....	-	-	-
Realized losses .....	(475)	-	-
Impairment writedowns.....	<u>(271,073)</u>	<u>(39,076)</u>	<u>(49,669)</u>
Realized investment losses.....	<u>\$ (140,798)</u>	<u>\$ (50,775)</u>	<u>\$ (62,419)</u>

The total proceeds from the sales of bonds, notes and redeemable preferred stock amounted to \$8,424,714,000 in 2001, \$2,919,477,000 in 2000 and \$5,371,888,000 in 1999.

The net changes in unrealized investment gains and losses for the years ended December 31, 2001, 2000 and 1999 related to the following investment categories:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
		(In thousands)	
<b>Bonds</b> .....	<b>\$ 56,153</b>	<b>\$ (78,282)</b>	<b>\$ 462</b>
<b>Preferred stocks</b> .....	<b>(1,332)</b>	<b>-</b>	<b>-</b>
<b>Common stocks (unaffiliated)</b> .....	<b>(3,018)</b>	<b>(5,175)</b>	<b>(11,678)</b>
<b>Common stocks (affiliated)</b> .....	<b>(230,653)</b>	<b>-</b>	<b>-</b>
Other invested assets.....	72,030	16,649	21,904
Tax benefit on unrealized losses .....	<u>22</u>	<u>-</u>	<u>-</u>
Net change in unrealized gains (losses).....	<u>\$ (106,798)</u>	<u>\$ (66,808)</u>	<u>\$ 10,688</u>

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**5. Withdrawal Characteristics of Annuity Reserves and Deposit-Type Contracts**

The withdrawal characteristics of general account fixed annuity reserves, supplementary contracts without life contingencies, and deposit-type liabilities (including GICs) as of December 31, 2001 are as follows:

	Amount	% of Total
	(In thousands)	
<b>Reserves subject to discretionary withdrawal:</b>		
Reserves subject to market value adjustment .....	\$ 2,177,223	7.65%
Reserves subject to surrender charge (of 5% or more) .....	828,293	2.90%
Reserves subject to minimal or no surrender charge.....	3,010,730	10.57%
Total reserves subject to discretionary withdrawal.....	6,016,246	21.12%
Reserves not subject to discretionary withdrawal.....	22,455,417	78.88%
Gross reserves for fixed annuities, supplementary contracts without life contingencies and GIC liabilities .....	28,471,663	100.00%
Less: Reinsurance ceded – fixed annuities and supplementary contracts without life contingencies.....	(460,973)	
Net reserves for fixed annuities, supplementary contracts without life contingencies and GIC liabilities.....	\$ 28,010,690	

**6. Separate Accounts**

Non-unitized separate accounts held by the Company represent segregated funds. The smaller of the Company's non-unitized separate accounts supports certain market value-adjusted fixed annuity contracts. The related assets, totaling \$302,467,000, are carried at market value at December 31, 2001.

The remaining three non-unitized separate accounts support certain GICs and the first, the related assets of which totals \$332,622,000, carries a secondary guarantee by MBIA (formerly known as CAPMAC), an Aaa/AAA rated surety company, in which the assets are carried at current amortized costs. The Company is required by the terms of the MBIA guarantee to invest only in certain approved securities and to maintain a level of assets equal to 102% of the statutory carrying value of the reserves. The second GIC separate account, which totals \$1,044,745,000, issues contracts with a "stand alone" guarantee from the Company which also requires investments only in certain approved securities and to maintain a level of assets equal to the statutory carrying value of the reserves. The assets are carried at current amortized costs. The third GIC separate account, which totals \$290,330,000, supports certain guaranteed interest contracts paying a return equivalent to the S&P 500 index in which the assets are carried at current amortized costs. The Company has employed an investment strategy, with the assistance of a non-affiliated investment management firm, to achieve this return.

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Total premiums and considerations received by the Company in the separate accounts for the year ended December 31, 2001 are as follows:

	(In thousands)
Indexed .....	\$ 65,336
Non-indexed guaranteed, less than or equal to 4% .....	\$ <u>54,660</u>
Total separate account premiums .....	\$ <u>119,996</u>

The Company's separate account reserves at fair value are classified in the following category:

	(In thousands)
Non-indexed guaranteed, less than or equal to 4% .....	\$ 302,876

The Company's separate account reserves at amortized cost are classified in the following categories:

	(In thousands)
Indexed.....	\$ 1,316,308
Non-indexed guaranteed, more than 4% .....	<u>291,072</u>
Total separate account reserves at amortized cost.....	\$ <u>1,607,380</u>
 Total separate account reserves.....	 \$ <u>1,910,256</u>

The Company's separate account reserves by withdrawal characteristics are classified in the following categories:

	(In thousands)
Indexed with market value adjustment, subject to discretionary withdrawal provisions .....	\$ 26,175
Non-indexed guaranteed, less than or equal to 4% with market value adjustment, subject to discretionary withdrawal provisions .....	302,876
Non-indexed guaranteed, more than 4% with market value adjustment, subject to discretionary withdrawal provisions .....	290,733
Indexed at market value, subject to discretionary withdrawal provisions.....	286,606
Indexed not subject to discretionary withdrawal provisions .....	1,003,528
Non-indexed guaranteed, more than 4% not subject to discretionary withdrawal provisions .....	<u>338</u>
Total separate accounts reserves .....	\$ <u>1,910,256</u>

Net transfers from the separate accounts for the year ended December 31, 2001 are summarized as follows:

	(In thousands)
Transfers to the separate accounts.....	\$ 54,660
Transfers from the separate accounts .....	<u>(22,511)</u>
Net transfers to the separate accounts .....	32,149
 Less:	
Net loss from operations of the non-unitized separate accounts .....	<u>(1,549)</u>
 Net transfers to the separate accounts .....	 \$ <u>30,600</u>

**7. Fair Value of Financial Instruments**

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The following estimated fair value disclosures are limited to the reasonable estimates of the fair value of only the Company's financial instruments. The disclosures do not address the value of the Company's recognized and unrecognized nonfinancial assets (including its partnerships accounted for by using the equity method, real estate investments, and other invested assets) and liabilities or the value of anticipated future business. The Company does not plan to sell most of its assets or settle most of its liabilities at these estimated fair values.

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Selling expenses and potential taxes are not included. The estimated fair value amounts were determined using available market information, current pricing information and various valuation methodologies. If quoted market prices were not readily available for a financial instrument, management determined an estimated fair value. Accordingly, the estimates may not be indicative of the amounts for which the financial instruments could be exchanged for in a current or future market transaction.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

**Bonds:** Fair value is based principally on values determined by the Securities Valuation Office of the NAIC ("SVO") if available, or from independent pricing services, broker quotes and other independent information.

**Common and Preferred Stocks:** Fair value is principally determined by the SVO if available, or from independent pricing services, broker quotes and other independent information.

**Mortgage Loans:** Fair values are primarily determined by discounting future cash flows to the present at current market interest rates, using expected prepayment rates.

**Policy Loans:** Carrying value is considered to be a reasonable estimate of fair value, as such loans are fully secured by underlying fixed annuity and universal life insurance contract reserves.

**Cash and Short-Term Investments:** Carrying value is considered to be a reasonable estimate of fair value.

**Receivables/Payables for Securities:** Such amounts represent transactions of a short-term nature for which the carrying value is considered a reasonable estimate of fair value.

**Separate Account Assets:** Separate account assets are carried at the market value of the underlying securities.

**Reserves for Life Policies and Contracts:** Deferred annuities and single premium life contracts are assigned a fair value equal to the current net surrender value. Supplementary contracts with life contingencies are valued based on the present value of future cash flows at current pricing rates.

**Liabilities for Deposit-Type Contracts:** Carrying value is considered to be a reasonable estimate of the fair value of the Company's fixed-maturity, variable-rate GIC obligations that reprice periodically based upon certain defined indexes. The fair value of the fixed-maturity, fixed-rate GICs is based on the present value of future cash flows at current pricing rates. Supplementary contracts without life contingencies are valued based on the present value of future cash flows at current pricing rates.

**Derivative Financial Instruments:** Fair value is based principally on independent pricing services, broker quotes and other independent information.



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Separate Account Liabilities: Separate account liabilities are principally composed of GIC liabilities, the fair value of which is based on the present value of future cash flows using current pricing rates.

The estimated fair value of the Company's financial instruments compared to their statement values at December 31, 2001 and 2000 are as follows:

	<u>Statement Value</u>	<u>Estimated Fair Value</u>
		(In thousands)
December 31, 2001:		
Assets:		
Bonds .....	\$24,565,807	\$24,345,668
Preferred stock .....	26,662	26,709
Common stock (unaffiliated) .....	31,800	31,800
Mortgage loans.....	3,803,170	3,958,603
Policy loans .....	57,374	57,374
Cash and short-term investments .....	202,489	202,489
Receivable for securities .....	5,612	5,612
Separate account assets .....	<u>1,970,164</u>	<u>1,974,409</u>
Liabilities:		
Reserves for life policies and contracts (including A&H).....	\$ 4,727,902	\$ 4,751,159
Liabilities for deposit-type contracts .....	23,514,376	24,509,007
Derivative financial instruments .....	4,429	575,425
Separate account liabilities.....	<u>1,955,535</u>	<u>1,940,951</u>
	<u>Statement Value</u>	<u>Estimated Fair Value</u>
		(In thousands)
December 31, 2000:		
Assets:		
Bonds .....	\$18,409,947	\$18,083,071
Preferred stock .....	1,122	1,170
Common stock (unaffiliated) .....	36,131	36,131
Mortgage loans.....	3,564,516	3,670,001
Policy loans .....	60,671	60,671
Cash and short-term investments .....	575,285	575,285
Cost-method partnerships.....	83,326	89,596
Receivable for securities .....	25,841	25,841
Derivative financial instruments .....	14,602	39,771
Separate account assets .....	<u>2,114,772</u>	<u>2,102,911</u>
Liabilities:		
Reserves for life policies and contracts (including A&H).....	\$ 5,352,774	\$ 5,274,630
Liabilities for deposit-type contracts .....	16,617,864	16,975,766
Separate account liabilities.....	<u>2,100,522</u>	<u>2,073,099</u>

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**8. Guaranty Fund Assessments**

Guaranty associations of the states in which the Company sells annuities assess the Company to pay policyholder claims relating to insurer insolvencies. At December 31, 2001 and 2000, the Company had a liability for accrued assessments of \$26,396,000 and \$26,433,000, respectively, representing management's best estimate, based on available industry data, of the Company's exposure to future assessments. These assessments are anticipated to be paid over a period of five years or greater. Net assessments of \$34,000 were refunded and \$50,000 and \$1,209,000 were paid in 2001, 2000 and 1999, respectively. At December 31, 2001 and 2000 the Company had unused premium tax credits of \$165,000 and \$404,000, respectively. These credits are generally anticipated to be utilized over five years.

**9. Reserves For Guaranteed Policy Enhancements**

On December 31, 1998, ANLIC acquired the individual life business and the individual and group annuity business of MBL Life Assurance Corporation ("MBL"), via a 100% coinsurance transaction.

As part of the transaction, the Company, ANLIC and FSA received a total of \$242,473,000 from MBL to pay policy enhancements guaranteed by the MBL Life rehabilitation agreement to policyholders meeting certain requirements. A primary requirement was that annuity policyholders must have converted their MBL Life policy to a policy type currently offered by the Company or one of its affiliates by December 31, 1999. Of this amount, ANLIC transferred \$20,055,000 to the Company for enhancements on policies which customers elected to convert to fixed annuity policies offered by the Company. The enhancements were scheduled to be paid in four installments beginning on January 1, 2000, with the remaining amounts paid on June 30, 2001, June 30, 2002 and June 30, 2003. The Company's portion of the payment due on June 30, 2001 amounted to \$5,051,000 and was credited to these policyholders. The Company's reserve for the remaining payments amounted to \$8,549,000 at December 31, 2001.

**10. Borrowed Money**

Short-term borrowings, which include short-term bank notes, commercial paper and reverse repurchase agreements, averaged \$229,218,000 during 2001, \$187,000 during 2000 and \$106,703,000 during 1999. The highest level of short-term borrowings at any month-end was \$1,670,452,000 during 2001, \$1,761,000 during 2000 and \$753,469,000 during 1999. Interest expense on borrowed money and surplus notes amounted to \$2,260,000 in 2001, \$12,000 in 2000 and \$2,905,000 in 1999. There were no short-term borrowings outstanding at December 31, 2001, or December 31, 2000.

**11. Reinsurance**

The in-force value of reinsurance ceded on life insurance totaled \$2,213,251,000 at December 31, 2001. The Company has ceded all of its life insurance mortality risk. Reinsurance ceded for which a reserve credit was taken for life insurance, fixed annuities, and accident and health insurance, could become a liability of the Company in the event the reinsurers should be unable to meet the obligations assumed under the 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.

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Significant reinsurance amounts reflected in these statutory financial statements are as follows:

	2001	2000
	(In thousands)	
Ceded life insurance premiums netted against total premiums .....	\$ 20,204	\$ 21,181
Ceded accident and health reinsurance netted against premiums.....	\$ 249	\$ 308
Contingent liability with respect to reinsurance ceded at December 31 .....	\$ 719,274	\$ 752,083
Life insurance in force ceded at December 31 .....	\$ 2,213,251	\$ 2,458,313

## 12. Commitments and Contingent Liabilities

Various lawsuits against the Company have arisen in the ordinary course of business. Contingent liabilities arising from litigation, income taxes and other matters are not considered material in relation to the financial position of the Company.

Based upon information available at this time, management believes that the Company has not incurred material losses associated with the terrorist attacks of September 11, 2001.

The Company has entered into fee arrangements with California and Florida disaster relief authorities wherein the Company is obligated to lend up to \$45,000,000, in the aggregate, in the event of certain specified natural disasters. The commitments ultimately expire in 2002 and, if funded, the loans will bear interest at 75 to 125 basis points over the three-month LIBOR rate.

In the ordinary course of business, the Company has entered into funding commitments to purchase approximately \$456,676,000 of various asset-backed securities in future periods. The commitments ultimately expire in 2013, and, if funded, \$444,026,000 of the purchases will be made at various prices based on spreads over the three-month LIBOR rate at the dates of purchase and \$12,650,000 of the purchases will be based upon a fixed rate interest of 12%.

The Company has entered into eight participation agreements with ANLIC, in which it guarantees the liquidity of certain short-term securities of municipalities and non-profit organizations by agreeing to purchase such securities in the event there is no other buyer in the short-term marketplace. The maximum liability under these guarantees at December 31, 2001 is \$1,031,000,000. The Company's share of the maximum liability under these agreements is \$497,850,000 at December 31, 2001 and, in exchange for providing these guarantees, it receives a proportionate percentage of the fees on these agreements. Management does not anticipate any material losses with respect to these commitments.

The Company has also entered into a Receivables Purchase and Sale Agreement for the sale of certain lease receivables wherein the Company has agreed to repurchase any defaulted receivables up to a maximum cumulative amount of \$13,200,000. These lease receivables are secured by the leased equipment and represent investment grade securities.

The Company has various lease agreements for its primary and secondary office locations. These facilities are also occupied by other affiliates, which are allocated approximately 50% of the net costs, in accordance with cost sharing agreements. These lease obligations ultimately expire in 2006 with remaining commitments over this term amounting to approximately \$15,435,000 at December 31, 2001.

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The minimum rental commitments for the next five years are as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Operating</u> <u>Leases</u>
	(In thousands)
2002.....	\$ 8,000
2003.....	6,295
2004.....	518
2005.....	511
2006.....	111
Total .....	<u>\$ 15,435</u>

The Company is a party to leases also entered into by two of its broker-dealer affiliates for office space used by such affiliates. The Company could become liable for up to approximately \$18,502,848 of payments over six years should the affiliates fail to meet their obligations.

The Company is contingently liable for life insurance ceded to other companies (Note 11).

The Company has entered into a securities lending agreement with an affiliated lending agent, which authorizes the agent to lend securities held in the Company's portfolio to a list of authorized borrowers. The Company receives cash collateral in an amount in excess of the market value of the securities loaned. Other collateral received also exceeds the market value of the securities loaned. The Company monitors the daily market value of securities loaned with respect to the collateral value and obtains additional collateral when necessary to ensure that collateral is maintained at a minimum of 102% of the value of the loaned securities. At December 31, 2001, \$1,640,458,000 of such collateral was on deposit related to the program. Such collateral is not available for the general use of the Company.

### 13. Capital and Surplus

Under applicable Arizona insurance laws and regulations, the Company is required to maintain minimum capital and surplus of \$500,000.

Risk-based capital ("RBC") standards are designed to measure the adequacy of an insurer's statutory capital and surplus in relation to the risks inherent in its business. The RBC standards consist of formulas that establish capital requirements relating to asset, insurance, business and interest rate risks. The standards are intended to help identify companies which are under-capitalized and require specific regulatory actions in the event an insurer's RBC is deficient. The RBC formula develops a risk-adjusted target level of adjusted statutory capital and surplus by applying certain factors to various asset, premium and reserve items. Higher factors are applied to more risky items and lower factors are applied to less risky items. Thus, the target level of statutory surplus varies not only as a result of the insurer's size, but also on the risk profile of the insurer's operations. The statutory capital and surplus of the Company exceeded its RBC requirements (unaudited) by a considerable margin as of December 31, 2001.

The Company is subject to insurance regulatory restrictions that limit cash dividends, loans and advances. The maximum amount of dividends which can be paid to stockholders of insurance companies domiciled in the State of Arizona without obtaining the prior consent of the Director of Insurance is limited to the lesser of the Company's net gain from operations or 10% of the preceding year's statutory surplus if, after paying the dividend, the Company's capital and surplus would be adequate in the opinion of the Director of Insurance. Accordingly, the maximum amount of dividends which can be paid to stockholders in the year 2002, without the prior consent of the department, would be 10% of the Company's surplus at December 31, 2001, or \$202,132,000.

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The Company declared and paid an extraordinary distribution of \$22,495,000 on April 2, 2001 to its Parent. Such distribution was approved in advance by the Arizona Department of Insurance.

The Parent received significant income tax benefits from AIG relating to stock options exercised by its employees which were subsequently contributed to the Company. Such benefits, totaled \$13,786,000 in 2001, \$87,388,000 in 2000 and \$139,471,000 in 1999, have been recorded as contributed surplus.

Unassigned Surplus has been increased or (reduced) by the following:

	December 31, 2001	December 31, 2000
	(In thousands)	
Unrealized (losses) gains .....	\$ (39,865)	\$ 66,956
Non-admitted asset values .....	(333,779)	(68,377)
Separate account business .....	14,630	1,573
Asset valuation reserve .....	(123,510)	(190,755)

**14. Federal Income Taxes**

The Company and its life subsidiaries, ANLIC and FSA, file a consolidated federal income tax return. Income taxes are allocated pursuant to a written tax sharing agreement, and are based on a separate return calculation.

Prior to January 1, 1999, the Company was included in the consolidated federal income tax return of SunAmerica. The tax years ended November 30, 1988, and September 30, 1989 through 1992 have been closed. Revenue Agent's Reports for the tax years ended September 30, 1993 through 1996 have been received and the assessments are being protested through the Internal Revenue Service Appeals Offices. SunAmerica is currently under examination by the Internal Revenue Service for tax years ended September 30, 1997, 1998, short period ended December 31, 1998 and tax year ended December 31, 1999. Management believes that the adjustments resulting from these examinations will not have a material effect on the financial position of the Company.

As discussed in Note 2, effective January 1, 2001, a net deferred tax liability is included in the Statement of Admitted Assets, Liabilities and Capital and Surplus, which reflects the expected future tax consequences of temporary differences between the carrying values of assets and liabilities for financial reporting purposes and the amounts used for income tax reporting purposes. The change in the net deferred tax liability is reflected in a separate component of Unassigned Surplus.

The components of the deferred tax assets, deferred tax liabilities and net deferred tax liabilities recognized in the Statutory Statement of Admitted Assets, Liabilities and Capital and Surplus are as follows:

	Dec. 31, 2001	Jan. 1, 2001
	(In thousands)	
Total of gross deferred tax assets .....	\$ 125,432	\$ 120,288
Total of deferred tax liabilities .....	(179,485)	(124,430)
Net deferred tax liabilities .....	\$ (54,053)	\$ (4,142)
Deferred tax asset nonadmitted .....	-	-
Net admitted deferred tax liabilities .....	\$ (54,053)	\$ (4,142)
Change in nonadmitted assets .....	\$ -	\$ -

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Current income taxes incurred consist of the following major components:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
		(In thousands)	
Income tax expense on the net gain from operations.....	\$ 156,607	\$ 48,624	\$ 51,950
Income tax benefit on net realized capital losses .....	(34,472)	(11,053)	(38,497)
Current income tax expense recognized .....	<u>\$ 122,135</u>	<u>\$ 37,571</u>	<u>\$ 13,453</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

	<u>Dec. 31, 2001</u>	<u>Jan. 1, 2001</u>
	(In thousands)	
Deferred Tax Assets:		
Tax deferred acquisition costs.....	\$ 17,884	\$ 22,192
Securities reserve .....	68,687	71,172
Estimated expense.....	31,099	20,897
Other .....	3,957	3,935
Unrealized losses .....	3,805	2,092
Gross deferred tax assets .....	<u>125,432</u>	<u>120,288</u>
Non-admitted deferred tax assets .....	-	-
Admitted deferred tax assets.....	<u>125,432</u>	<u>120,288</u>
Deferred tax liabilities		
Bond discount .....	(31,871)	(29,804)
Policy reserves .....	(92,570)	(19,595)
Deferred income .....	(20,944)	(49,084)
Other .....	(34,100)	(25,947)
Total deferred tax liabilities.....	<u>(179,485)</u>	<u>(124,430)</u>
Net admitted deferred tax liabilities .....	<u>\$ (54,053)</u>	<u>\$ (4,142)</u>

The change in net deferred income taxes is comprised of the following (this analysis is exclusive of non-admitted assets as the change in nonadmitted assets, and the change in net deferred income taxes are reported in separate components of capital and surplus):

	<u>Dec. 31, 2001</u>	<u>Jan. 1, 2001</u>	<u>Change</u>
	(In thousands)		
Total deferred tax assets .....	\$ 125,432	\$ 120,288	\$ 5,144
Total deferred tax liabilities.....	(179,485)	(124,430)	(55,055)
Net deferred tax liabilities .....	<u>\$ (54,053)</u>	<u>\$ (4,142)</u>	<u>\$ (49,911)</u>
Tax effect of unrealized losses .....			22
Change in net deferred income tax liability.....			<u>\$ (49,889)</u>

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The provision for federal income taxes is different from that which would be obtained by applying the statutory federal income tax rate to income before taxes (including net gain from operations and net realized capital losses). Such difference includes temporary items such as reserves, acquisition costs and bond discount accretions. The significant items causing the difference are as follows:

	2001 (In thousands)	Effective Tax Rate
Income tax expense at applicable rate.....	\$ 242,129	35.0%
Equity in earnings in subsidiaries.....	(45,766)	(6.6)%
Other items.....	(24,339)	(3.5)%
Total.....	\$ 172,024	24.9%
Federal income taxes incurred	122,135	17.7%
Change in net deferred income taxes	49,889	7.2%
Total statutory income tax expense	\$ 172,024	24.9%

The Company had no operating loss carryforwards at December 31, 2001.

**15. Consolidated/Holding Company Benefit Plans**

The Company participates in a 401(K) Defined Contribution Plan sponsored by the Company's Parent. The Company has no legal obligation for benefits under this plan. The Parent allocates amounts to the Company based on salary ratios. The Company's share of net expense for the 401(K) Defined Contribution Plan was \$705,000, \$618,000 and \$397,000 for 2001, 2000 and 1999, respectively. Substantially all full-time employees of the Company are eligible. Matching contributions of up to 4% of each participating employee's compensation were made in 2001.

Certain former employees retain life and health insurance benefits under plans formerly offered by the Company. The Company's portion of these benefits amounted to \$100,000, \$125,000 and \$80,000 for 2001, 2000 and 1999, respectively. However, current employees are not covered by such plans.

**16. Related Party Transactions**

The Company pays commissions to seven affiliated companies: SunAmerica Securities, Inc.; Advantage Capital Corp.; Financial Services Corp.; Sentra Securities Corp.; Spelman & Co. Inc.; Royal Alliance Associates, Inc.; and VALIC Financial Advisors. Commissions paid to these broker-dealers totaled \$84,000 in 2001, \$441,000 in 2000 and \$446,000 in 1999. Fixed annuity sales made by these broker-dealers, in the aggregate, represented approximately 1% of the Company's fixed annuity premiums in 2001 and 5% in 2000 and 1999.

The Company, its subsidiaries and the Parent are all party to a cost allocation and reimbursement agreement whereby the Parent has agreed to perform general accounting, investment, legal, administrative, and other related functions and to provide space and facilities for the Company. The Company, in turn, provides these same services to its subsidiaries under this agreement. Pursuant to this agreement, the Company allocates administrative, accounting, marketing, investment management and data processing and programming services to various affiliated companies. Amounts received for such allocated services totaled \$139,846,000 in 2001, \$141,427,000 in 2000 and \$114,367,000 in 1999. The Company paid the Parent \$7,740,000 and \$9,640,000 for such services in 2001 and 2000, respectively. Amounts payable to affiliates are non-interest bearing and due on demand.

The Parent delivered \$167,623,000 of affordable housing limited partnership interests to the Company on January 1, 2001 in partial satisfaction of the Parent's obligation to deliver assets in connection with a \$400,000,000 purchase by the Company of certain assets from the Parent. The Parent delivered a \$232,377,000 note receivable, which was treated as a non-admitted asset at December 31, 2001 in lieu of the remaining assets that were to be

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received under the purchase. The note receivable was treated as non-admitted at December 31, 2001, as settlement was not within the statutory permitted period for qualifying the receivable as an admitted asset. The \$167,623,000 of limited partnership assets were subsequently contributed to SA Affordable Housing, LLC ("SAAH LLC"), then a wholly owned subsidiary of the Company. Immediately thereafter, the Company contributed its interest in SAAH LLC, with a value of \$432,743,000, to ANLIC.

At December 31, 2001, the Company reflected \$84,536,000 as net admitted amounts due from affiliates in the statutory Statement of Admitted Assets, Liabilities and Capital and Surplus, which was net of the \$232,377,000 note receivable from the Parent discussed above, and included an unrelated \$75,000,000 note receivable from the Parent and \$9,536,000 of various amounts receivable from ANLIC and FSA related to intercompany investment transactions and expense allocations. The entire amount due was collected in January 2002.

On December 19, 2001, the Company entered into a short-term financing arrangement with the Parent whereby the Parent has the right to borrow up to \$500,000,000 from the Company. Any advances made by the Company under this agreement must be repaid to the Company within 30 days. As of December 31, 2001, \$75,000,000 was due to the Company under this agreement. This receivable was subsequently collected in January 2002 and is included in receivable from affiliates in the Statutory Statement of Admitted Assets, Liabilities and Capital and Surplus.

The Company received an ordinary cash dividend of \$71,600,000 and an extraordinary distribution of \$22,495,000 from ANLIC on April 2, 2001 and an ordinary dividend of \$12,900,000 from FSA on April 2, 2001.

The Company received a distribution of \$21,500,000 from UG Corp. on September 26, 2001.

The Company received from the Parent \$56,184,000 in 2000 and paid \$118,786,000 in 1999 for net federal income tax payments, in accordance with the tax-sharing agreement discussed in Notes 2 and 14.

On September 28, 2000, the Company purchased two private placement securities from the Parent at a total market value of \$6,986,844, plus accrued interest of \$78,506.

On May 29, 2000, the Company purchased the Royal Sonesta commercial mortgage loan from ANLIC at a book value of \$6,361,530.

The Company has a \$500,000,000 revolver note agreement with the Parent that was originated on September 26, 2001. Principal amounts may be borrowed or repaid, in whole or in part, at any time and from time to time, without penalty. However, no advance made can be outstanding for more than thirty (30) calendar days. Interest on advances against the revolver note will bear interest at the daily Federal Commercial Paper rate. On September 28, 2001, the Company borrowed \$150,000,000 from the Parent pursuant to the terms of this agreement. The advance was repaid on October 9, 2001. No amounts were outstanding under the agreement as of December 31, 2001.

The Company's current financial strength and counterparty credit ratings from Standard & Poor's are based in part on a guarantee (the "Guarantee") of the Company's insurance policy obligations by American Home Assurance Company ("American Home"), a subsidiary of AIG, and a member of an AIG intercompany pool, and the belief that the Company is viewed as a strategically important member of AIG. The Guarantee is unconditional and irrevocable, and policyholders have the right to enforce the Guarantee directly against American Home.



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The Company's current financial strength rating from Moody's is based in part on a support agreement between the Company and AIG (the "Support Agreement"), pursuant to which AIG has agreed that AIG will cause the Company to maintain a policyholders' surplus of not less than \$1 million or such greater amount as shall be sufficient to enable the Company to perform its obligations under any policy issued by it. The Support Agreement also provides that if the Company needs funds not otherwise available to it to make timely payment of its obligations under policies issued by it, AIG will provide such funds at the request of the Company. The Support Agreement is not a direct or indirect guarantee by AIG to any person of any obligation of the Company. AIG may terminate the Support Agreement with respect to outstanding obligations of the Company only under circumstances where the Company attains, without the benefit of the Support Agreement, a financial strength rating equivalent to that held by the Company with the benefit of the Support Agreement. Policyholders have the right to cause the Company to enforce its rights against AIG and, if the Company fails or refuses to take timely action to enforce the Support Agreement or if the Company defaults in any claim or payment owed to such policyholder when due, have the right to enforce the Support Agreement directly against AIG.

American Home does not publish financial statements, although it files statutory annual and quarterly reports with the New York State Insurance Department, where such reports are available to the public. AIG is a reporting company under the Securities Exchange Act of 1934, and publishes annual reports on Form 10-K and quarterly reports on Form 10-Q, which are available from the Securities and Exchange Commission.

SUNAMERICA LIFE INSURANCE COMPANY  
NOTES TO STATUTORY FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000

The Company's investments in affiliates that are included in Common Stocks in the Statutory Statement of Admitted Assets, Liabilities and Capital and Surplus are summarized as follows: (In thousands)

	Balance at December 31, <u>1999</u>	<u>Contributions</u>	Equity in Earnings (Losses)	Dividends and <u>Distributions</u>	Balance at December 31, <u>2000</u>
2000:					
ANLIC .....	\$ 694,621	\$ -	\$ 94,325	\$ (69,000)	\$ 719,946
FSA .....	111,338	-	20,951	-	132,289
SunAmerica National Life Insurance Company .....	7,511	-	-	(7,511)	-
SunAmerica Virginia Properties, Inc. ....	1,631	-	(7)	-	1,624
UG Corporation .....	30,254	-	198	-	30,452
Export Leasing FSC, Inc.....	1,331	-	2,584	(2,581)	1,334
SA Affordable Housing, LLC.	<u>-</u>	<u>264,242</u>	<u>878</u>	<u>-</u>	<u>265,120</u>
Totals.....	<u>\$ 846,686</u>	<u>\$ 264,242</u>	<u>\$ 118,929</u>	<u>\$ (79,092)</u>	<u>\$ 1,150,765</u>

	Balance at December 31, <u>2000</u>	<u>Contributions</u>	Equity in Earnings (Losses)	Sales, Dividends and <u>Distributions</u>	Balance at December 31, <u>2001</u>
2001:					
ANLIC .....	\$ 719,946	\$ 432,743	\$(49,326)	\$ (94,095)	\$ 1,009,268
FSA .....	132,289	-	2,820	(12,900)	122,209
SunAmerica Virginia Properties, Inc. ....	1,624	-	(227)	-	1,397
UG Corporation .....	30,452	-	(2,275)	(21,500)	6,677
Export Leasing FSC, Inc.....	1,334	-	1,591	(2,266)	659
SA Affordable Housing, LLC.	<u>265,120</u>	<u>-</u>	<u>-</u>	<u>(265,120)</u>	<u>-</u>
Totals	<u>\$1,150,765</u>	<u>\$ 432,743</u>	<u>\$ (47,417)</u>	<u>\$ (395,881)</u>	<u>\$ 1,140,210</u>

SUNAMERICA LIFE INSURANCE COMPANY  
NOTES TO STATUTORY FINANCIAL STATEMENTS  
DECEMBER 31, 2001, 2000 AND 1999

The Company's investments in affiliates that are included in Other Invested Assets in the Statutory Statement of Admitted Assets, Liabilities and Capital and Surplus are summarized as follows (in thousands):

	Balance at December 31, <u>1999</u>	<u>Contributions</u>	Equity in Earnings (Losses) <u>(Losses)</u>	<u>Distributions</u>	Balance at December 31, <u>2000</u>
2000:					
Sun-Hechs LP .....	\$ 5,893	\$ -	\$(1,900)	\$ (3,315)	\$ 678
Mesa Hilton LLC .....	5,546	-	70	(564)	5,052
Solus Southeast LP .....	53,881	50	10,543	(11,404)	53,070
Highland Charlotte LP .....	21,611	50	2,645	(4,487)	19,819
Rossmore Tampa LP .....	8,472	1,431	718	(2,075)	8,546
Del Monte Regional Mall, LLC .....	15,516	-	222	-	15,738
Sun Dollar LP .....	4,613	-	590	(10)	5,193
Sun CRC LP .....	27,200	1,219	(3,500)	-	24,919
Wardmark Park Marriott, LLC .....	5,000	-	-	(731)	4,269
Warehouse Associates Corp. LP .....	964	-	(270)	(418)	276
Totals	<u>\$ 148,696</u>	<u>\$ 2,750</u>	<u>\$ 9,118</u>	<u>\$ (23,004)</u>	<u>\$ 137,560</u>

	Balance at December 31, <u>2000</u>	<u>Contributions</u>	Equity in Earnings (Losses) <u>(Losses)</u>	<u>Distributions</u>	<u>Codification Adjustments</u>	Balance at December 31, <u>2001</u>
2001:						
Sun-Hechs LP .....	\$ 678	\$ -	\$ -	\$ (678)	\$ -	\$ -
Mesa Hilton LLC .....	5,052	-	(686)	(172)	(37)	4,157
Solus Southeast LP .....	53,070	1,338	36,130	(15,658)	2,999	77,879
Highland Charlotte LP .....	19,819	75	2,044	(1,736)	454	20,656
Rossmore Tampa LP .....	8,546	475	233	(1,395)	(1,461)	6,398
Del Monte Regional Mall, LLC .....	15,738	-	948	-	(262)	16,424
Sun Dollar LP .....	5,193	53	751	(6,392)	395	-
Sun CRC LP .....	24,919	4,147	-	-	(2,406)	26,660
Wardmark Park Marriott, LLC .....	4,269	246	-	(719)	(615)	3,181
Warehouse Associates Corp. LP .....	276	-	32	(260)	(48)	-
Totals	<u>\$ 137,560</u>	<u>\$ 6,334</u>	<u>\$ 39,452</u>	<u>\$ (27,010)</u>	<u>\$ (981)</u>	<u>\$ 155,355</u>

SUNAMERICA LIFE INSURANCE COMPANY  
NOTES TO STATUTORY FINANCIAL STATEMENTS  
DECEMBER 31, 2001, 2000 AND 1999

**17. Information About Financial Instruments With Off-Balance Sheet Risk and Financial Instruments With Concentrations of Credit Risk**

As a component of its asset and liability management strategy, the Company utilizes swap agreements to match assets more closely to liabilities. Swap agreements are agreements to exchange with a counterparty, interest rate or foreign currency payments of differing character (for example, variable-rate payments exchanged for fixed-rate payments) based on an underlying principal balance (notional principal) to hedge against interest rate changes or foreign currency fluctuations. The Company typically utilizes swap agreements to create a hedge that effectively converts floating-rate assets and liabilities into fixed rate instruments. In addition, the Company uses equity options to effectively hedge its Standard & Poor's 500 indexed annuity product against changes in the Standard & Poor's 500 equity index.

The table below summarizes the Company's financial instruments with off-balance sheet risk at December 31, 2001: (In thousands)

<u>Assets:</u>	<u>No. of Contracts</u>	<u>Contract Amount</u>	<u>Average Remaining Maturity</u>	<u>Final Maturity Date</u>
Interest-rate swaps	11	\$ 641,092	50 months	2002
Total		<u>\$ 641,092</u>		
 <u>Liabilities:</u>				
Foreign currency swaps	183	\$ 21,962,040	60 months	2031
Interest-rate swaps	39	4,772,784	61 months	2031
Options	56	<u>26,854</u>	33 months	2004
Total		<u>\$ 26,761,678</u>		

Generally, no cash is exchanged at the outset of the contract and no principal payments are made by either party. These transactions are entered into pursuant to master agreements that provide for a single net payment to be made by one counterparty at each due date.

The Company is exposed to potential credit loss in the event of nonperformance by the investment-grade-rated counterparty with respect to any swap contract or other derivative instrument with an aggregate market value greater than zero. The current credit exposure of the Company's derivative contracts aggregated \$682,410,000 at December 31, 2001. However, because the Company has entered into such agreements with investment-grade-rated brokerage firms and many other banks, nonperformance is not anticipated, and therefore, no collateral is held or pledged.

**18. Subsequent Event**

Effective January 1, 2002, ANLIC declared a distribution to the Company amounting to \$552,385,000 in the form of 100% of the outstanding capital stock of Saamsun Holdings Corporation ("Saamsun"), a wholly-owned subsidiary of ANLIC. The distribution was approved by the Arizona Department.

**TO BE SUBMITTED TO YOUR BROKER-DEALER WHO WILL THEN DELIVER  
A COPY ON YOUR BEHALF TO THE AUCTION AGENT AND THE ISSUER TRUST**

**PURCHASERS' LETTER**

**Relating to**

**AUCTION MARKET EQUITY SECURITIES ("AMES")**

**of**

**AIG SUNAMERICA GLOBAL FINANCING Trusts**

**AIG SUNAMERICA GLOBAL FINANCING Trusts**

Auction Agent

A Broker-Dealer

An Agent Member

Other Persons

Dear Sir or Madam:

1. We may from time to time offer to purchase, purchase, offer to sell or sell Auction Market Equity Securities ("AMES"), of one or more AIG SunAmerica Global Financing trust (each, an "Issuer Trust"). The AMES will initially be evidenced by one or more certificates registered in the name of the nominee of The Depository Trust Company (the "Securities Depository"), currently Cede & Co., as described in the offering memorandum relating to the AMES (the "Offering Memorandum"). We agree that this letter shall apply to all AMES owned by us from time to time, and each representation made by us in this letter shall be deemed to be restated on the date of all purchases, sales and offers relating to any AMES. We understand that the distribution rate on the AMES will generally be based from time to time on the results of auctions or otherwise as set forth in the Offering Memorandum.

2. We agree that any Bid or Sell Order placed by us shall constitute an irrevocable offer by us to purchase or sell at auction the AMES subject to such Bid or Sell Order, or such lesser number of AMES as we shall be required to sell or purchase as a result of such auction, in each case in accordance with the terms set forth in the Offering Memorandum, and that, if on any auction date one or more Orders covering in the aggregate all of the AMES owned by us is not submitted to the Auction Agent prior to the deadline therefor for any reason (including, without limitation, the failure of a Broker-Dealer to contact us or submit Bid or Sell Orders to the Auction Agent), we shall be deemed to have placed a Hold Order with respect to the number of AMES owned by us that are not subject to Orders submitted to the Auction Agent as described in the Offering Memorandum (subject to certain circumstances, described in the Offering Memorandum, in which we will be deemed to have placed a Sell Order). We authorize any Broker-Dealer that submits a Bid or Sell Order as our agent in auctions to execute contracts for the sale or purchase of the AMES covered by such Bid or Sell Order. We acknowledge that any payment by such Broker-Dealer for shares purchased on our behalf shall not relieve us of our liability to such Broker-Dealer for payment for such AMES. We understand that none of the Issuer Trust, the Auction Agent or any Broker-Dealer (in its capacity as such) will have responsibility or liability with respect to the failure of a Potential AMES Owner, Existing AMES Owner or their respective Agent Members to deliver AMES or to pay for AMES purchased or sold pursuant to an auction or otherwise.

3. We understand and expressly acknowledge that the AMES have not been and may not be registered under the Securities Act of 1933, as amended (the "Securities Act") or any state securities laws and, accordingly, absent such registration the AMES may not be reoffered, resold or otherwise pledged, hypothecated or transferred unless an applicable exemption from the registration requirements of the Securities Act and any state securities laws is available.

4. We understand that the AMES may not be purchased or held by any Plan, any Plan Asset Entity, or any person investing in any "plan assets" of any Plan and we hereby confirm that acquisition or purchase of the AMES by us will not be deemed to be purchasing or holding by any Plan, any Plan Asset Entity, or any person investing in any "plan assets" of any Plan.

5. We agree that we will sell, transfer, pledge, or hypothecate or otherwise dispose of AMES owned by us from time to time (i) only (a) pursuant to a Bid or Sell Order placed in an auction, (b) to or through a Broker-Dealer or (c) to another person that has signed and delivered to the Auction Agent a letter substantially in the form of this letter and (ii) only in whole lots of 1,000 AMES (initial liquidation amount of \$1,000,000) ("AMES Trading Blocks"). In the case of all proposed dispositions other than pursuant to an auction, we, our Broker-Dealer or our Broker-Dealer's Agent Member shall advise the Auction Agent of such proposed disposition prior to the proposed date of disposition and shall not make such disposition unless the Auction Agent shall have confirmed in writing that such disposition will not conflict with the requirements of this letter.

6. We hereby confirm that acquisition of the AMES made by us will be for our own account, and not with a view to any public resale or distribution thereof. We represent that we will at all times prior to the transfer of the AMES by us pursuant to the terms described in the Offering Memorandum remain the sole beneficial owner of the AMES purchased by us. We are “qualified institutional buyers” within the meaning of Rule 144A under the Securities Act. We have sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of investing in and owning AMES, and we are and will be able and prepared to bear the economic risk of investing in and owning such AMES. If we are a Broker-Dealer for the AMES pursuant to a contract with the Auction Agent, this Paragraph 6 shall not apply with respect to AMES held by us for customers’ accounts and we represent that each such customer has delivered to us an executed copy of this letter, which we have attached hereto.

7. We hereby confirm that we are, and at the time of any acquisition of AMES will be, a U.S. Person, as defined in Section 7701(a)(30) of the Code.

8. We understand that the AMES may not be transferred to, or acquired or held by, an insurer domiciled in the State of Arkansas, a health maintenance organization, farmers’ mutual aid association or other Arkansas domestic company regulated by the Arkansas Insurance Department.

9. We agree that AMES may not be sold or transferred pursuant to Bids in an Auction or otherwise, if, as a result of such sale or other transfer there would be more than 99 owners of the AMES of any given Issuer Trust.

10. We acknowledge that, if we are an initial purchaser of AMES, we have received, prior to purchasing such AMES, a copy of the Offering Memorandum.

11. We agree that all outstanding AMES shall be represented by one or more certificates registered in the name of the nominee of the Securities Depository, and that, so long as there is a Securities Depository or unless otherwise required under applicable law, we shall not be entitled to receive any certificate evidencing AMES that we acquire, and that our beneficial ownership of AMES will be maintained in book-entry form by the Securities Depository for our Agent Member, which in turn will maintain records of our beneficial ownership. We authorize and instruct our Agent Member to disclose to the Auction Agent and the Securities Depository such information concerning our beneficial ownership of AMES as the Auction Agent or the Securities Depository may require. In the event that, for any reason, we shall receive a certificate evidencing AMES acquired by us, we shall comply with such procedures as the Issuer Trust, with the consent of the Purchasers, which consent shall not be unreasonably withheld, shall request in order to facilitate the operation of an auction with respect thereto.

12. We acknowledge that under certain circumstances partial delivery of AMES purchased in auctions may be made to us and such deliveries shall constitute good delivery as set forth in the Offering Memorandum.

13. We hereby confirm that we were not formed solely or primarily for the purpose of acquiring AMES.

14. We recognize that the Issuer Trusts, the Broker-Dealers and others will rely upon the truth and accuracy of the foregoing representations and agreements, and we agree that each of our acquisitions of AMES now or in the future shall be deemed to constitute our concurrence in all of the foregoing being binding on us and each party for which we are acting. We agree that, if any of the representations or warranties made by us herein are no longer accurate, we shall promptly notify the relevant Issuer Trust, the Auction Agent and our Agent Member. We agree to supply promptly any documentation, including any opinions of counsel, requested by an Issuer Trust or the Auction Agent at any time to confirm any of the representations and warranties or other agreements made herein. We acknowledge that if we fail to comply with the foregoing restrictions, or if any of our representations or warranties contained herein cease to be accurate, an Issuer Trust may require us to submit a Sell Order with respect to some or all of our AMES at the next auction or the Auction Agent to sell all of our AMES to a Broker-Dealer or another third party; provided, however, that no Broker-Dealer will be required to purchase any such AMES.

15. This letter is not a commitment by us to purchase any AMES.

16. This letter supersedes any version of this letter delivered by us and dated earlier than the date hereof.

17. The auction procedures set forth in the AMES Certificate are incorporated by reference herein and in case of any conflict between the text of this letter and any such description, such description shall control.

18. Any xerographic, facsimile or other copy of this letter shall be deemed of equal effect as a signed original.

19. This AMES Purchasers' Letter shall be governed by, and construed in accordance with, the laws of the State of New York.

20. We acknowledge and agree that the AMES will bear a legend to the following effect, unless the relevant Issuer Trust determines otherwise in compliance with applicable law:

The AMES have not been registered under the Securities Act of 1933 or any state securities laws and may not be offered, sold or otherwise transferred, except pursuant to registration under said act or in compliance with an exemption therefrom. Transfer of the AMES is subject to the restrictions specified in the AMES Purchasers' Letter, a copy of which is filed with the Auction Agent and may be examined at the office of the Auction Agent. The AMES may not be offered, sold or otherwise transferred, except (A) pursuant to a Bid or Sell Order placed in an auction, to or through a Broker-Dealer or to another person and (B ) upon execution and delivery of an AMES Purchasers' Letter to the Auction Agent.

Unless this certificate is presented by an authorized representative of the Depository Trust Company, a New York Corporation ("DTC"), to the Issuer Trust or its agent for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), any transfer, pledge, or other use hereof for value or otherwise by or to any person is wrongful inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

Capitalized terms used in this letter, unless otherwise defined herein, shall have the meanings set forth in the Offering Memorandum.

(Name of Purchaser)

By: \_\_\_\_\_

Name

Title:

Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Dated:



## ISSUER TRUSTEES

Administrative Trustee

**U.S. Bank, N.A.**  
7310 North 16th Street  
Suite 275  
Phoenix, AZ 85929

Delaware Trustee

**Wilmington Trust Company**  
Rodney Square North  
1100 North Market Street  
Wilmington, DE 19890

## LEGAL ADVISERS

To the Issuer Trust and the Initial Purchasers

*As to New York and United States  
Federal Law*

**Davis Polk & Wardwell**  
450 Lexington Avenue  
New York, NY 10017

*As to Delaware Law*

**Richards, Layton & Finger, P.A.**  
One Rodney Square  
P.O. Box 551  
Wilmington, DE 19899

### To the Company

*As to California and United States  
Federal law*

**O'Melveny Myers LLP**  
400 South Hope Street  
Los Angeles, CA 90071

*As to Arizona law*

**Low & Childers, P.C.**  
2999 North 44th Street  
Suite 250  
Phoenix, AZ 85018

*As to Arizona law*

**Greenberg Traurig, LLP**  
2375 Camelback Road  
Suite 700  
Phoenix, AZ 85016

## INDENTURE TRUSTEE AND NOTES PAYING AGENT

Bank One, National Association  
1 Bank One Plaza  
Mail Code IL1-0481  
Chicago, IL 60670-0481

## COLLATERAL AGENT

Bank One, Arizona, National Association  
201 North Central Avenue  
Mail Code AZ1-1128  
Phoenix, AZ 85004

## LUXEMBOURG LISTING AGENT

BNP Paribas Securities Services,  
Luxembourg Branch  
23, Avenue de la Porte Neuve  
L-2085 Luxembourg

## LUXEMBOURG NOTES PAYING AGENT

BNP Paribas Luxembourg  
10a Boulevard Royal  
L-2093  
Luxembourg

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**AIG SUNAMERICA GLOBAL FINANCING X**

**\$750,000,000 6.90% Senior Notes Due 2032**

**\$31,000,000 Auction Market Equity Securities**

—————  
**OFFERING MEMORANDUM**  
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**Deutsche Banc Alex. Brown  
Merrill Lynch & Co.  
Morgan Stanley  
Banc of America Securities LLC  
Bear, Stearns & Co. Inc.  
HSBC  
JPMorgan  
Salomon Smith Barney  
Wachovia Securities  
ABN AMRO Incorporated  
BNP PARIBAS  
Banc One Capital Markets, Inc.  
Lehman Brothers  
SG Tokyo-Mitsubishi International plc  
UBS Warburg**

October 11, 2002

