

**UNITED STATES DISTRICT COURT  
FOR THE WESTERN DISTRICT OF PENNSYLVANIA**

<b>UNITED STATES OF AMERICA</b>	)	<b>CRIMINAL NO.</b>
	)	
<b>Plaintiff,</b>	)	<b>VIOLATION:</b>
	)	<b>15 U.S.C. §§ 78j and 78ff(a);</b>
<b>vs.</b>	)	<b>17 C.F.R. § 240.10b-5; and</b>
	)	<b>18 U.S.C. § 2</b>
<b>AIG-FP PAGIC EQUITY HOLDING CORP.,</b>	)	
	)	<b>(Aiding and Abetting</b>
<b>Defendant.</b>	)	<b>Securities Fraud)</b>

**DEFERRED PROSECUTION AGREEMENT**

Defendant AIG-FP PAGIC EQUITY HOLDING CORP. (“AIG-FP PAGIC”), a Delaware Corporation, by its undersigned attorneys, pursuant to authority granted by its Board of Directors, and the United States Department of Justice, Criminal Division, Fraud Section (the “Department”), enters into this Deferred Prosecution Agreement (“Agreement”).

1. AIG-FP PAGIC accepts and acknowledges that the United States will file a criminal complaint in the United States District Court for the Western District of Pennsylvania charging AIG-FP PAGIC with aiding and abetting securities fraud, in violation of Title 15, United States Code, Sections 78j and 78ff(a), Title 17, Code of Federal Regulations, Section 240.10b-5, and Title 18, United States Code, Section 2.
2. The Department is entering into a separate and concurrent Agreement with AIG Financial Products Corp. (“AIG-FP”), attached hereto as Exhibit A. The understandings, obligations and rights of AIG-FP in the separate Agreement between AIG-FP and the Department are incorporated by reference into this Deferred Prosecution Agreement and apply to AIG-FP PAGIC.
3. AIG-FP PAGIC accepts responsibility for its conduct as described in Exhibit A, including the Agreed Statement of Facts attached to Exhibit A as Appendix A to the Agreement between AIG-FP and the Department. Appendix A is also incorporated by reference into this Deferred Prosecution Agreement. AIG-FP PAGIC agrees the factual statements set forth in Appendix A are accurate and, as more fully addressed in paragraph 4 of this Agreement, AIG-FP PAGIC agrees not to contradict them. AIG-FP PAGIC does not endorse, ratify, or condone improper conduct and, as set forth below, has taken steps to prevent such conduct from occurring in the future.

4. AIG-FP PAGIC further agrees that it will not, through its present or future attorneys, board of directors, agents, affiliates, parent, officers or employees, make any public statement, including statements or positions in litigation in which any United States department or agency is a party, contradicting any statement of fact set forth in Appendix A, the criminal complaint or the affidavit in support of the criminal complaint. Any such contradictory public statement by AIG-FP PAGIC, its present or future attorneys, board of directors, agents, officers or employees shall constitute a breach of this Agreement, and AIG-FP PAGIC thereafter would be subject to prosecution as set forth in paragraph 7 of this Agreement. The decision of whether any public statement by any such person contradicting a statement of fact contained in Appendix A, the criminal complaint or the affidavit in support of the criminal complaint will be imputed to AIG-FP PAGIC for the purpose of determining whether AIG-FP PAGIC has breached this Agreement shall be at the sole reasonable discretion of the Department. Upon the Department's reaching a determination that such a contradictory statement has been made by AIG-FP PAGIC, the Department shall so notify AIG-FP PAGIC and AIG-FP PAGIC may avoid a breach of this Agreement by publicly repudiating such statement within forty-eight hours after notification by the Department. This paragraph is not intended to apply to any statement made by any individual in the course of any criminal, regulatory, or civil case initiated by the government against such individual, unless such individual is speaking on behalf of AIG-FP PAGIC. Consistent with AIG-FP PAGIC's obligation not to contradict any statement of fact set forth in Appendix A, the criminal complaint or the affidavit in support of the criminal complaint, AIG-FP PAGIC may take good faith positions in litigation involving any private party.
5. In light of AIG-FP PAGIC's remedial actions to date and its willingness to (i) acknowledge responsibility for its behavior, (ii) continue its cooperation with the Department and other governmental regulatory agencies, and (iii) demonstrate its future good conduct and full compliance with the securities laws and generally accepted accounting procedures, the Department shall recommend to the Court that prosecution of AIG-FP PAGIC on the criminal complaint filed pursuant to Paragraph 1 be deferred for a period of 12 months.
6. The Department agrees that if AIG-FP PAGIC is in full compliance with all of its obligations under this Agreement, the Department, within thirty (30) days of the expiration of 12 months from the date of this Agreement, will seek dismissal with prejudice of the criminal complaint filed against AIG-FP PAGIC pursuant to Paragraph 1.
7. It is further understood that should the Department, in its sole reasonable discretion, determine that AIG-FP PAGIC has given deliberately false, incomplete, or misleading information under this Agreement, has committed any

federal crimes subsequent to the date of this Agreement, has committed a willful and knowing material breach of any provision of this Agreement, or that AIG-FP has committed a willful and knowing material breach of any provision of the separate Agreement between AIG-FP and the Department, this Deferred Prosecution Agreement shall become null and void and AIG-FP PAGIC shall, in the Department's sole reasonable discretion, thereafter be subject to prosecution for any federal criminal violation. Any such prosecutions may be premised on information provided by AIG-FP PAGIC. Moreover, with respect to any prosecutions relating to the SPE transactions that are not time-barred by the applicable statute of limitations on the date of this Agreement, AIG-FP PAGIC agrees that the applicable statute of limitation period for any such prosecutions shall be tolled for a period of time equal to the term of this Agreement, so that such prosecutions may be commenced against AIG-FP PAGIC in accordance with this Agreement, notwithstanding the expiration of the statute of limitations between the signing of this Agreement and the expiration of this Agreement. AIG-FP PAGIC's tolling of the statute of limitations is knowing and voluntary and in express reliance on the advice of counsel.

8. It is further agreed that in the event that the Department, in its sole reasonable discretion, determines that AIG-FP PAGIC has committed a willful and knowing material breach of any provision of this Agreement, (a) AIG-FP PAGIC will not contest the admissibility into evidence or contradict the contents of Appendix A, the criminal complaint, and the affidavit in support of the criminal complaint, (b) all statements made by or on behalf of AIG-FP PAGIC, or any testimony given by AIG-FP PAGIC and any employee (current or former) before a grand jury, the United States Congress, the SEC, or elsewhere, and any leads derived from such statements and testimony, shall be admissible in evidence in any and all criminal proceedings brought by the Department against AIG-FP PAGIC, and (c) AIG-FP PAGIC shall not assert any claim under the United States Constitution, Rule 410 of the Federal Rules of Evidence, or any other rule, that statements made by or on behalf of AIG-FP PAGIC prior to or subsequent to this Agreement, or any leads therefrom, should be suppressed.
9. The decision whether conduct and statements of any individual will be imputed to AIG-FP PAGIC for the purpose of determining whether AIG-FP PAGIC has committed a willful and knowing material breach of any provision of this Agreement shall be in the sole reasonable discretion of the Department.
10. Should the Department determine that AIG-FP PAGIC has committed a willful and knowing material breach of any provision of this Agreement, the Department shall provide written notice to AIG-FP PAGIC of the alleged breach and provide AIG-FP PAGIC with a two-week period in which to make a presentation to the Assistant Attorney General in charge of the Criminal Division to demonstrate that

no breach has occurred, or, to the extent applicable, that the breach is not a willful and knowing material breach or has been cured. The parties hereto expressly understand and agree that should AIG-FP PAGIC fail to make a presentation to the Assistant Attorney General in charge of the Criminal Division within a two-week period, it shall be conclusively presumed that AIG-FP PAGIC is in willful and material breach of this Agreement. The parties further understand and agree that the Assistant Attorney General's exercise of discretion under this paragraph is not subject to review in any court or tribunal outside the Criminal Division of the Department of Justice. In the event of a breach of this Agreement that results in a prosecution of AIG-FP PAGIC, such prosecution may be premised upon any information provided by or on behalf of AIG-FP PAGIC to the Department at any time, unless otherwise agreed when the information was provided.

11. AIG-FP PAGIC agrees that if it sells or merges all or substantially all of its business operations as they exist as of the date of this Agreement to or into a single purchaser or group of affiliated purchasers during the term of this Agreement, it shall include in any contract for sale or merger a provision binding the purchaser/successor to the obligations described in this Agreement.
12. It is understood that this Agreement is binding on AIG-FP PAGIC, the Department and the United States Attorneys Office for the Western District of Pennsylvania, but specifically does not bind any other federal agencies, or any state or local law enforcement or licensing authorities, although the Department will bring the cooperation of AIG-FP PAGIC and its compliance with its other obligations under this Agreement to the attention of state and local law enforcement or licensing authorities, if requested by AIG-FP PAGIC or its attorneys. Furthermore, nothing in this agreement restricts in any way the ability of the Department or the United States Attorneys Office for the Western District of Pennsylvania from proceeding against any individuals.
13. This Agreement expires two years from the date of its execution; provided that if on such date any investigation, prosecution or proceeding relating to the subject matters is ongoing that is being conducted by the Department, the SEC or any other federal enforcement or regulatory agency with which AIG-FP PAGIC has been directed by the Department to cooperate pursuant to paragraph 4 of the Agreement between AIG-FP and the Department, then this Deferred Prosecution Agreement shall expire on the date that no such investigation, prosecution or proceeding is still being conducted. Between thirty and sixty days before the expiration of the twelve-month period specified in Paragraph 6 of this Agreement, AIG-FP PAGIC shall submit to DOJ a written certification that it is in compliance with this Agreement.

14. AIG-FP PAGIC and the Department agree that, upon filing of the criminal complaint in accordance with Paragraph 1, this Agreement shall be publicly filed in the United States District Court for the Western District of Pennsylvania.
15. AIG-FP PAGIC hereby warrants and represents that the Board of Directors of AIG-FP PAGIC has duly authorized, in a specific resolution, the execution and delivery of this Agreement by AIG-FP PAGIC, and that the person signing the Agreement has authority to bind AIG-FP PAGIC.
16. This Agreement may not be modified except in writing signed by all the parties.
17. This Agreement may be executed in counterparts.

For the United States Department of Justice  
Criminal Division, Fraud Section

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JOSHUA R. HOCHBERG  
Acting United States Attorney  
Chief, Fraud Section, Criminal Division  
United States Department of Justice

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JOHN D. ARTERBERRY  
Executive Deputy Chief

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PAUL E. PELLETIER  
Deputy Chief

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MICHAEL K. ATKINSON  
Trial Attorney

Agreed and Accepted:  
AIG-FP PAGIC EQUITY HOLDING CORP.

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By: Joseph J. Cassano  
President and Chief Executive Officer



# Department of Justice

**FOR IMMEDIATE RELEASE**  
**TUESDAY, NOVEMBER 30, 2004**  
**WWW.USDOJ.GOV**

**CRM**  
**(202) 514-2008**  
**TDD (202) 514-1888**

## **AMERICAN INTERNATIONAL GROUP, INC. ENTERS** **INTO AGREEMENTS WITH THE UNITED STATES**

**WASHINGTON, D.C.** - Deputy Attorney General James B. Comey, Assistant Attorney General Christopher A. Wray of the Criminal Division and FBI Director Robert Mueller - all members of the President's Corporate Fraud Task Force - announced today that American International Group, Inc. ("AIG") - the world's largest insurer by market value - and two of its subsidiaries have agreed to resolve the criminal liability associated with certain financial transactions by paying \$80 million in penalties to the United States and cooperating fully in the government's continuing criminal investigation of those transactions.

In a related enforcement proceeding filed earlier today by the U.S. Securities and Exchange Commission, AIG consented to the entry of a judgment requiring AIG to disgorge \$39.8 million in fees received from the PAGIC transactions and \$6.5 million in prejudgment interest. With today's joint agreements totaling \$126,366,000, coupled with an agreement reached last year between the Department and The PNC Financial Services Group, Inc. ("PNC"), in which PNC agreed to pay \$115 million in penalties and restitution, the Department of Justice and the SEC have obtained \$241,366,000 in restitution, disgorgement, penalties and prejudgment interest in connection with off-balance sheet transactions commonly known as the PAGIC transactions.

A criminal complaint filed today at U.S. District Court for the Western District of Pennsylvania charges AIG-FP PAGIC Equity Holding Corp., a subsidiary of AIG, with violating the federal securities laws, including 15 U.S.C. Sections 78j(b) and 78ff(a), 17 C.F.R. Section 240.10b-5, and 18 U.S.C. Section 2, by aiding and abetting PNC in connection with a fraudulent transaction involving a special purpose entity ("SPE"), known as a PAGIC entity. As part of an agreement, the Department of Justice will defer prosecution on the criminal complaint for 13 months, and eventually dismiss the complaint, if AIG and its subsidiaries fully comply with the obligations set forth in the deferred prosecution agreement.

The three-part agreement requires AIG to implement a series of reforms addressing the integrity of client and third-party transactions, including a retrospective review of certain transactions effected by a third party with AIG. The retrospective review will be conducted by an independent consultant, chosen by the Justice Department, the SEC and AIG. The consultant will report to DOJ, the SEC and AIG. The agreements also require AIG to establish a transaction review committee. The independent consultant will review the policies and procedures of the transaction review committee.

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As part of the agreement between AIG, the Department of Justice and the U.S. Attorney's Office for the Southern District of Indiana, AIG pledged its complete cooperation with a continuing

investigation into the PAGIC transactions and certain other transactions, including the marketing and sale of a non-traditional insurance product by a subsidiary of AIG to Brightpoint Inc.

In addition, the agreement requires an AIG subsidiary, AIG Financial Products Corp. ("AIG-FP") to pay the \$80 million in penalties to the United States for AIG-FP's involvement in the PAGIC transactions.

"Today's actions show that the Department of Justice and our partners on the President's Corporate Fraud Task Force will use the full range of the government's criminal and civil enforcement powers against corporations that promote and facilitate fraudulent financial transactions," said Deputy Attorney General Comey. "These agreements, including significant penalties and corporate reforms, will ensure AIG's compliance with the law while minimizing the collateral consequences to its employees and shareholders."

"We are pleased that AIG has accepted responsibility, committed to cooperating fully and agreed to enact these important reforms," said Assistant Attorney General Wray. "There is no place in our markets for financial transactions that lack economic substance and violate the law."

The agreements reached today with regard to the PAGIC transactions arose from the development, marketing and sale of certain structured financial transactions by AIG-FP. AIG-FP, in conjunction with a national accounting firm, developed the structured financial products used by PNC to transfer \$750 million in mostly troubled loans and venture capital investments from subsidiaries of PNC to the PAGIC entities. AIG placed the PAGIC entities on its balance sheet. The ability of PNC to account for the PAGIC entities as off-balance sheet SPEs - as if PNC no longer owned the assets transferred to those entities - depended upon whether or not the transactions complied with the requirements for nonconsolidation under generally accepted accounting principles ("GAAP"). The PAGIC transactions violated the GAAP requirements for non-consolidation because AIG-FP did not make or maintain a substantive capital investment of at least three percent in the PAGIC entities. Certain fees paid to AIG-FP in the transactions compensated AIG-FP for structuring the transaction and for taking the assets and liabilities of the PAGIC entities onto AIG's balance sheet, thereby reducing AIG-FP's investment in the PAGIC entities below three percent.

PNC's restatement on Jan. 29, 2002, following its decision to consolidate the PAGIC entities back onto PNC's balance sheet, resulted in a drop in PNC's net income for 2001 of approximately \$155 million and a drop in PNC's share price by over nine percent.

The PAGIC transactions were previously the subject of a deferred criminal disposition in *United States v. PNC ICLC Corp.*, filed on June 2, 2003 in federal court in Pittsburgh, Pennsylvania. The Department of Justice earlier this year dismissed the criminal complaint against PNC ICLC Corp., a subsidiary of PNC, after the company fulfilled its obligations under the Deferred Prosecution Agreement. PNC has also entered into a separate agreement with the Department of Justice pledging its complete cooperation in the continued investigation of the PAGIC transactions.

The case was prosecuted by Deputy Chief Paul E. Pelletier and Trial Attorney Michael K. Atkinson of the Fraud Section. The Brightpoint investigation is being handled by Assistant United States Attorney Winfield Ong.



U.S. Department of Justice

Criminal Division  
Fraud Section

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Washington, D.C. 20530

February 7, 2006

Martin Flumenbaum, Esq.  
Paul, Weiss, Rifkind, Wharton & Garrison LLP  
1285 Avenue of the Americas  
New York, NY 10019-6064

Re: American International Group, Inc.

This letter sets forth the agreement ("Agreement") between the United States Department of Justice, Fraud Section, Criminal Division (the "Department") and American International Group, Inc. ("AIG").<sup>1</sup>

The Department has notified AIG that, in the Department's view, which is based upon an investigation by the Department and the United States Postal Inspection Service, AIG, acting through some of its employees, violated federal criminal law in connection with misstatements in periodic financial reports AIG filed with the United States Securities & Exchange Commission ("SEC") between 2000 and 2004, which misstatements related to transactions known as "AIG/Gen Re LPT" and "CAPCO."

Facts Regarding AIG/Gen Re LPT and CAPCO

The parties jointly acknowledge the following factual statements regarding AIG/Gen Re LPT and CAPCO as accurate:

AIG/Gen Re LPT

AIG improperly recorded approximately \$250 million in loss reserves in the fourth quarter of 2000 and reported those additional loss reserves to the public in its earnings releases and in financial reports it filed with the SEC. It improperly recorded an additional \$250 million in loss reserves in the first quarter of 2001 and also reported those additional loss reserves in its earnings releases and SEC reports. Both increases in loss reserves resulted from the AIG/Gen RE LPT transactions.

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<sup>1</sup> This Agreement does not impact, alter or modify in any way the terms of the Deferred Prosecution Agreement dated November 30, 2004 between the Department and AIG-FP Pagic Equity Holding Corp., or the letter agreement dated November 30, 2004 between the Department, the United States Attorneys Office for the Southern District of Indiana and AIG, or any of the obligations thereunder by AIG or AIG-FP Pagic Equity Holding Corp.

AIG entered into these transactions following investment analysts' criticism of AIG's reported loss reserve reductions in the third quarter of 2000. During the fourth quarter of 2000, high-level executives at AIG solicited high-level executives at Gen Re to execute a series of transactions which were designed to enable AIG to book and improperly report an increase in loss reserves totaling \$500 million. The transaction documentation included: 1) a false "paper trail" offer letter which made it appear that AIG had been requested by Gen Re to assume certain reinsurance risk from Gen Re; and 2) contracts which falsely made it appear that AIG was assuming reinsurance risk and was being paid an up-front fee of \$10 million for doing so, when, in fact, AIG was not assuming any real risk and was paying Gen Re an undisclosed \$5 million plus interest for participating in the transactions. As a result of these sham transactions, AIG improperly reported positive loss reserve growth for each of those periods when, in fact, AIG would have reported further decreases in loss reserves for those quarters.

On or about May 31, 2005, AIG filed its 2004 Form 10-K with the SEC which reversed and restated the \$500 million increase in loss reserves relating to the AIG/Gen Re LPT transaction and stated in part: "AIG has concluded that the transaction was done to accomplish a desired accounting result and did not entail sufficient qualifying risk transfer. As a result, AIG has determined that the transaction should not have been recorded as insurance. AIG's restated financial statements recharacterize the transaction as a deposit rather than as insurance."

#### CAPCO

In 2000, AIG initiated a scheme to hide approximately \$200 million in underwriting losses in its general insurance business by improperly converting them into capital losses (*i.e.*, investment losses) that were less important to the investment community, and thus would blunt the attention of investors and analysts. As a result of the CAPCO transaction, AIG improperly failed to record and report in its earnings releases disseminated to investors and in financial reports filed with the SEC approximately \$200 million in underwriting losses for the years 2000, 2001 and 2002.

To effect that scheme, AIG structured a series of bogus transactions to convert underwriting losses to investment losses by transferring them to Capco Reinsurance Company, Ltd. ("Capco"), an offshore entity. AIG in effect capitalized Capco through an AIG subsidiary and through non-recourse loans to individuals who acted as supposed independent shareholders of Capco. AIG should have consolidated Capco's financial results into AIG's financial statements because, among other reasons, Capco lacked sufficient equity from sources other than AIG and its affiliates. In its restatement filed with the SEC in May 2005, AIG admitted that the Capco transaction "involved an improper structure created to recharacterize underwriting losses relating to auto warranty

business as capital losses. That structure . . . appears to have not been properly disclosed to appropriate AIG personnel or its independent auditors.”

The Parties' Agreement

AIG agrees:

1. to accept responsibility for its actions and the actions of its employees as set forth above;
2. to abide by the Consent and Undertakings of Defendant American International Group, Inc. in the SEC Action, a copy of which is attached hereto as Appendix B and incorporated herein;
3. to cooperate with the ongoing criminal investigation by the Department;
4. to timely and voluntarily make available to the Department all current employees that the Department requests to interview;
5. to provide in a timely way to the Department all documents and other materials, including documents and materials located outside the United States, that the Department requests;
6. to provide in a timely way truthful, complete and accurate information to the Department concerning any matter relating to the ongoing criminal investigation by the Department;
7. to acknowledge and agree that the Department can share any information, documents, materials and statements provided by AIG with other federal law enforcement entities and regulatory agencies;
8. not to make, cause others to make, or acknowledge as true any factual statement inconsistent with the factual descriptions of the AIG/Gen Re LPT and CAPCO transactions contained herein, provided, however, that nothing in this paragraph precludes AIG from taking good faith positions in litigation involving a private party; and
9. to pay \$25 million by certified check or bank cashier's check to the United States Postal Inspection Service Consumer Fraud Fund immediately upon execution of this Agreement.

The Department acknowledges: 1) AIG's cooperation in the Department's investigation to date; and 2) AIG's acceptance of its responsibility to date for its actions and the actions of its employees, as demonstrated by: a) its consent to the Final Judgment as to Defendant American International Group, Inc., in the matter styled *Securities and Exchange Commission v. American International Group, Inc.*, (the "SEC Action"), a copy of which is attached hereto as Appendix A and incorporated herein; and b) its payment of \$800 million as required by the Final Judgment as to Defendant American International Group, Inc., in the SEC Action.

In consideration of AIG's agreements as set forth above, as well as its cooperation and acceptance of responsibility as described above, the Department will not prosecute AIG for any crimes committed by AIG relating to the AIG/Gen Re LPT or CAPCO transactions, subject to the terms set forth below.

AIG understands and agrees that if AIG or any of its employees, officers and directors fail to comply with, or violate, any provision of this Agreement, the Department can prosecute AIG for crimes committed by and through its employees related to the AIG/Gen Re LPT or CAPCO transactions. Should the Department determine that AIG has committed a willful and knowing breach of any provision of this Agreement, the Department shall provide written notice to AIG of the alleged breach.

AIG further understands and agrees that the Department's exercise of discretion under the preceding paragraph is not subject to review in any court or tribunal outside the Criminal Division of the Department of Justice, and that any prosecution following such a determination may be premised on any information provided by AIG and its employees, officers and directors to the Department and any leads derived therefrom. AIG agrees that it will not seek to suppress the use of any such information, or any leads derived therefrom, and that it will stipulate to the admissibility of all such information in any prosecution by the Department.

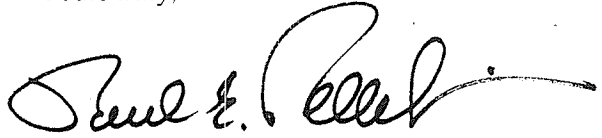
AIG understands and agrees that this Agreement expires three years from the date of its execution and that it is binding only upon AIG and the Department. AIG agrees to toll the running of the statute of limitations on all federal crimes committed by AIG acting through its employees relating in any way to the AIG/Gen Re LPT or CAPCO transactions for the three years this agreement is in effect.

AIG understands and agrees that this Agreement does not provide any protection to any individual or any entity other than AIG.

AIG hereby warrants and represents that it is authorized to enter into this Agreement and that the person signing this Agreement has the authority to bind AIG.

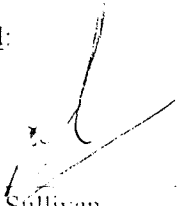
This Agreement constitutes the entire agreement between the parties and it may not be modified except in writing signed by all the parties. This Agreement may be executed in counterparts.

Yours truly,

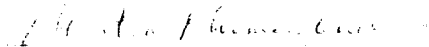


Paul E. Pelletier, Acting Chief  
Fraud Section, Criminal Division  
United States Department of Justice

Agreed:



Martin Sullivan  
President and Chief Executive Officer  
American International Group, Inc.



Martin Flumenbaum  
Counsel for American International Group, Inc.