

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

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

453M

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.

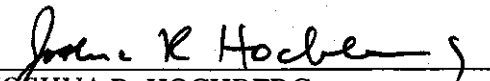
8. It is further agreed that in the event that the Department, in its sole reasonable discretion, determines that AIG-FP PAGIC has committed a willful and knowing material breach of any provision of this Agreement, (a) AIG-FP PAGIC will not contest the admissibility into evidence or contradict the contents 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

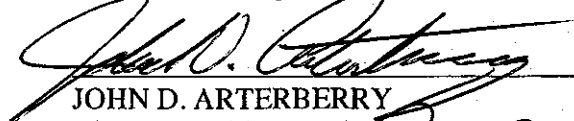
no breach has occurred, or, to the extent applicable, that the breach is not a willful and knowing material breach or has been cured. The parties hereto expressly understand and agree that should AIG-FP PAGIC fail to make a presentation to the Assistant Attorney General in charge of the Criminal Division 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.

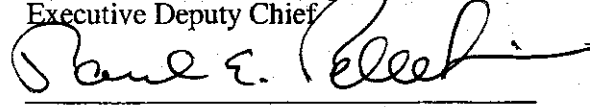
11. AIG-FP PAGIC agrees that if it sells or merges all or substantially all of its business operations as they exist as of the date of this Agreement to or into a single purchaser or group of affiliated purchasers during the term of this Agreement, it shall include in any contract for sale or merger 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.

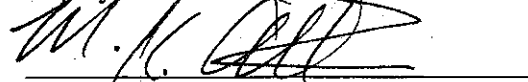
14. AIG-FP PAGIC and the Department agree that, upon filing of the criminal complaint in accordance with Paragraph 1, this Agreement shall be publicly filed in the United States District Court for the Western District of Pennsylvania.
15. AIG-FP PAGIC hereby warrants and represents that the Board of 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


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


JOHN D. ARTERBERRY
Executive Deputy Chief


PAUL E. PELLETIER
Deputy Chief


MICHAEL K. ATKINSON
Trial Attorney

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



By: Joseph J. Cassano
President and Chief Executive Officer

EXHIBIT A
AGREEMENT

This Agreement, dated November 30, 2004, is between the United States Department of Justice, Criminal Division, Fraud Section (the "Department"), and AIG Financial Products Corp. ("AIG-FP")¹ (the "Agreement").

1. During the Department's ongoing criminal investigation into matters relating to certain transactions involving special purpose entities ("SPEs") between subsidiaries of The PNC Financial Services Group, Inc. ("PNC") and AIG-FP (the "PAGIC" transactions), the Department has notified AIG-FP that, in the Department's view, AIG-FP acting through certain of its employees may have violated federal criminal law. The PAGIC transactions involved an SPE structure developed and marketed by AIG-FP known as Contributed Guaranteed Alternative Investment Trust Securities ("C-GAITS"). The PAGIC transactions, C-GAITS structure, and related matters are described in Appendix A to this Agreement.
2. AIG-FP accepts responsibility for the conduct of its employees as described in the factual statements set forth in Appendix A, which is incorporated by reference herein. AIG-FP agrees the factual statements set forth in Appendix A are accurate and, as more fully addressed in paragraph 10, AIG-FP agrees not to contradict them. AIG-FP 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.
3. Based upon AIG-FP's acceptance of responsibility as set forth in the preceding paragraph; the settlement between American International Group, Inc. ("AIG") and the United States Securities and Exchange Commission ("SEC") under which AIG consents to the entry of the Final Judgment (attached hereto as Appendix B and incorporated by reference) (the "Final Judgment"); its compliance with the Final Judgment, including, among other things, its adoption of internal compliance measures; its cooperation with the Independent Consultant described in paragraph 11; its agreement with the SEC to pay disgorgement and prejudgment interest in the amount of \$46,366,000; its agreement with the Department to pay a monetary penalty of \$80,000,000.00; and its willingness to continue to cooperate with the Department and the SEC in their investigations of the matters described herein; the Department, on the understandings specified below, agrees that the Department will not prosecute AIG-FP for any conduct committed by AIG-FP relating to the SPE transactions (as defined in paragraph 4 below), except to the extent provided in the separate Deferred Prosecution Agreement between the Department and AIG-FP PAGIC Equity Holding Corp.

¹ In this Agreement, "AIG-FP" refers to AIG-FP and all of its subsidiaries.

AIG-FP understands and agrees that if it violates this Agreement, as provided in paragraph 12 below, the Department can prosecute AIG-FP for conduct committed by it through its employees relating to the SPE transactions. This Agreement does not provide any protection to any individual or any entity other than AIG-FP. This paragraph shall survive termination of this Agreement.

The understandings on which this Agreement is premised are:

4. During the term of this Agreement, AIG-FP agrees to cooperate fully with the Department, the SEC, the Independent Consultant described in paragraph 11 below, and, as directed by the Fraud Section, with any other federal law enforcement and regulatory agency regarding any matters related to the PAGIC transactions, C-GAITS, the transactions marketed or entered into by AIG-FP involving a SPE structure known as Guaranteed Investment Trust Securities ("GAITS") (the PAGIC transactions, C-GAITS, and the GAITS transactions are hereinafter collectively referred to as the "SPE transactions") and any matters relating to any other transaction that has been or is brought to the attention of the Department or the SEC in connection with the Department's investigation pursuant to the terms of this Agreement (hereinafter referred to collectively as "the subject matters"). AIG-FP shall truthfully disclose to the Department and the SEC all information with respect to the subject matters about which the Department or the SEC shall inquire, and shall continue to fully cooperate with the Department and the SEC. This obligation of truthful disclosure includes an obligation to provide the Department and the SEC access to AIG-FP's documents and employees, whether or not located in the United States, and reasonable access to AIG-FP's facilities for that purpose.
5. AIG-FP agrees that its cooperation, as agreed to in Paragraph 4 above, shall include, but is not limited to, the following:
 - (a) Completely and truthfully disclosing all information with respect to the activities of AIG-FP, and its present and former officers, agents, and employees, concerning the subject matters inquired into by the Department or the SEC;
 - (b) Assembling, organizing and providing on request from the Department or the SEC all documents, records, or other tangible evidence related to the subject matters in AIG-FP's possession, custody, or control in such format as the Department or the SEC requests;
 - (c) Not asserting a claim of attorney-client or work-product privilege as to any documents, information, or testimony requested by the Department or the SEC related to factual internal investigations or contemporaneous advice given to AIG-FP concerning the subject matters. In making production of any such documents, AIG-FP neither expressly nor implicitly waives its right to assert any privilege that is available under law against entities

other than the Department or the SEC concerning the produced documents or the subject matters thereof.

- (d) Using its reasonable best efforts to make available its present or former officers, directors and employees to provide information and/or testimony related to the subject matters as requested by the Department or the SEC, including sworn testimony before a federal grand jury or in federal trials, as well as interviews with federal law enforcement authorities. Cooperation under this paragraph will include identification of witnesses who, to AIG-FP's knowledge, may have material information regarding the subject matters.
 - (e) Providing testimony and other information deemed necessary by the Department, the SEC or a court to identify or establish the original location, authenticity, or other evidentiary foundation necessary to admit into evidence documents in any criminal or other proceeding as requested by the Department or the SEC related to the subject matters.
6. AIG-FP shall comply with the Final Judgment.
 7. AIG-FP agrees to pay within ten days of the date of this Agreement a total of \$80,000,000.00 to the United States Treasury as a monetary penalty as directed by the Department, which may chose to direct that a portion of the monetary penalty not to exceed \$20 million may be paid to the restitution fund previously established by the Department as part of the Deferred Prosecution Agreement with a subsidiary of The PNC Financial Services Group, Inc.
 8. With respect to any information, testimony, document, record or other tangible evidence provided to the Department pursuant to this Agreement, AIG-FP consents to any and all disclosures to the SEC and other federal law enforcement and regulatory agencies of such materials as the Department, in its sole reasonable discretion, deems appropriate in furtherance of the Department's investigation of the subject matters.
 9. AIG-FP authorizes the Department and the SEC to share information from and about AIG-FP with each other and hereby waives any confidentiality accorded to that information by law, agreement or otherwise that would, absent authorization by AIG-FP, prohibit or limit such sharing. No further waivers of confidentiality shall be required in that regard.
 10. AIG-FP 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. Any such contradictory public statement by AIG-FP, its present or future attorneys, board of directors, agents, officers or employees shall constitute a breach of this Agreement, and AIG-FP thereafter would be subject to

prosecution as set forth in paragraph 12 of this Agreement. The decision of whether any public statement by any such person contradicting a statement of fact contained in Appendix A will be imputed to AIG-FP for the purpose of determining whether AIG-FP 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, the Department shall so notify AIG-FP and AIG-FP 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. Consistent with AIG-FP's obligation not to contradict any statement of fact set forth in Appendix A, AIG-FP may take good faith positions in litigation involving any private party.

11. AIG-FP agrees to cooperate with the SEC and the Independent Consultant retained by AIG pursuant to the Final Judgment, including the implementation of any determination by the SEC or recommendation by the Independent Consultant, as and to the extent provided in the Final Judgment.
12. It is further understood that should the Department, in its sole reasonable discretion, determine that AIG-FP has given deliberately false, incomplete, or misleading information under this Agreement, or has committed any federal crimes subsequent to the date of this Agreement, or that AIG-FP otherwise has committed a willful and knowing material breach of any provision of this Agreement, this Agreement shall become null and void and AIG-FP shall, in the Department's sole reasonable discretion, thereafter be subject to prosecution for any federal criminal violation, including prosecution for acts subject to the release of liability in paragraph 3 relating to the SPE transactions. Any such prosecutions may be premised on information provided by AIG-FP. 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 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 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's tolling of the statute of limitations is knowing and voluntary and in express reliance on the advice of counsel.
13. It is further agreed that in the event that the Department, in its sole reasonable discretion, determines that AIG-FP has committed a willful and knowing material breach of any provision of this Agreement, (a) AIG-FP will not contest the admissibility into evidence or contradict the contents of Appendix A or the criminal complaint and affidavit in support of the criminal complaint filed as part

of the separate agreement between the Department and AIG-FP PAGIC Equity Holding Corp. ("AIG-FP PAGIC"), (b) all statements made by or on behalf of AIG-FP, or any testimony given by AIG-FP 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, and (c) AIG-FP 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 prior to or subsequent to this Agreement, or any leads therefrom, should be suppressed.

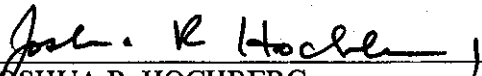
14. The decision whether conduct and statements of any individual will be imputed to AIG-FP for the purpose of determining whether AIG-FP has committed a willful and knowing material breach of any provision of this Agreement shall be in the sole reasonable discretion of the Department.
15. Should the Department determine that AIG-FP has committed a willful and knowing material breach of any provision of this Agreement, the Department shall provide written notice to AIG-FP of the alleged breach and provide AIG-FP 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 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 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, such prosecution may be premised upon any information provided by or on behalf of AIG-FP to the Department at any time, unless otherwise agreed when the information was provided.
16. AIG-FP 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.
17. It is understood that this Agreement is binding on AIG-FP, 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 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 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.

18. Except as provided in paragraph 3 above, 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 has been directed by the Department to cooperate pursuant to paragraph 4, then this 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 this Agreement, AIG-FP shall submit to DOJ a written certification that it is in compliance with this Agreement.
19. AIG-FP and the Department agree that, upon filing of the criminal complaint in the separate Deferred Prosecution Agreement between AIG-FP PAGIC and the Department, this Agreement shall be publicly filed in the United States District Court for the Western District of Pennsylvania as Exhibit A to the separate Agreement.
20. AIG-FP hereby warrants and represents that the Board of Directors of AIG-FP has duly authorized, in a specific resolution, the execution and delivery of this Agreement by AIG-FP, and that the person signing the Agreement has authority to bind AIG-FP.
21. This Agreement may not be modified except in writing signed by all the parties.
22. This Agreement may be executed in counterparts.

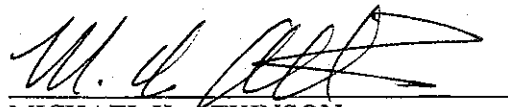
[Signature Page To Follow]

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

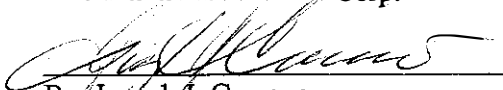

JOSHUA R. HOCHBERG
Acting United States Attorney
Chief, Fraud Section, Criminal Division
United States Department of Justice


JOHN D. ARTERBERRY
Executive Deputy Chief


PAUL E. PELLETIER
Deputy Chief


MICHAEL K. ATKINSON
Trial Attorney

Agreed and Accepted:
AIG Financial Products Corp.


By Joseph J. Cassano
President and Chief Executive Officer

APPENDIX A

APPENDIX A

AGREED STATEMENT OF FACTS

1. AIG Financial Products Corp. ("AIG-FP") is a wholly-owned direct subsidiary of American International Group, Inc. ("AIG"). AIG-FP, acting directly and through its subsidiaries (collectively, "AIG-FP"), engages as principal in standard and customized interest rate, currency, equity, commodity and credit financial products with corporations, financial institutions, governments, agencies, institutional investors and high net-worth individuals throughout the world. AIG-FP's main office is in Wilton, Connecticut. Certain of AIG's securities are registered with the United States Securities and Exchange Commission ("SEC") pursuant to Section 12(b) of the Securities Exchange Act of 1934 and listed on the New York Stock Exchange.

I. AIG-FP's Development, Marketing and Execution of Structured Financial Products

2. From at least February 2000 through January 2002, AIG-FP marketed to and entered into with publicly traded companies ("counter-parties") certain structured financial products utilizing special purpose entities ("SPEs"), some of which AIG-FP developed in consultation with a national accounting firm ("National Accounting Firm A"). During this period AIG-FP also requested and received from National Accounting Firm A opinion letters issued pursuant to Statement of Auditing Standards No. 50 ("SAS-50 letters") addressing the application of accounting principles commonly referred to as "Generally Accepted Accounting Principles" or "GAAP" to these SPE transactions.

3. The structured financial products entailed the creation of a corporation or similar limited liability entity, *i.e.*, the SPE, to hold assets that could be subject to volatility in value over their investment life. As a general matter, the counter-parties would either transfer assets to the SPE, or contribute cash to the SPE, which would, in turn, purchase the potentially volatile assets. In exchange for their contribution of cash or assets, the counter-parties received a preferred interest in the SPE that they recorded on their balance sheet as an "available for sale" security. The SPE also purchased zero coupon bonds or entered into "defeasance swaps" that provided principal protection for the preferred interest in the SPE held by the counter-party. In particular, the principal amount payable to the SPE on the zero coupon bond or the defeasance swap was equal to the amount payable by the SPE on the counter-party's preferred interest at maturity, which assured the counter-party that it received the return of its original investment amount at maturity without regard to the performance of the potentially volatile assets in the SPE. The counter-parties would not consolidate the SPE on their financial statements.

4. The counter-parties had contractual rights that permitted them to redeem their investment in the SPE or to liquidate the SPE in exchange for a distribution of the zero coupon bonds and other assets or the cash proceeds from their sale. If the value of the assets held by the SPE appreciated, the counter-parties could exercise their redemption or liquidation rights to recognize a gain on their income statement. As long as the SPE held the assets, the counter-parties' reported earnings would not be affected by variations in the value of the assets because the SPEs would not be consolidated on the counter-parties' financial statements and changes in the value of the counter-parties' preferred interest in the SPE would be recorded in the "Other

Comprehensive Income” line item within the Shareholders’ Equity section of the counter-party’s balance sheet. As a result, as marketed by AIG-FP, the counter-parties could have recognizable gains on their income statement if the SPEs’ assets appreciated in value, but no concomitant recognizable losses if those assets declined in value provided that the counter-party held its preferred interest to maturity and therefore received at maturity at a minimum the return of its original investment. Nevertheless, substantial risks of loss remained with the counter-parties if the SPEs’ assets declined in value and the counter-party did not hold its preferred interest to maturity.

5. AIG-FP claimed the deconsolidation – or off balance sheet treatment – of these SPEs was in compliance with GAAP. AIG-FP included in its marketing materials for these structured financial products summaries of the GAAP treatment for the products, which were stated to be based upon the advice of AIG-FP’s outside accounting advisors (the materials often identified that National Accounting Firm A were the advisors). The summaries of GAAP treatment stated that under GAAP the prospective counter-parties would not consolidate the SPEs. In the marketing materials, AIG-FP informed prospective counter-parties, among other things, that AIG-FP was not and did not purport to be an advisor as to accounting matters and instructed counter-parties to make an independent evaluation and judgment regarding such matters.

6. National Accounting Firm A advised AIG-FP that GAAP required three principal conditions in order for the counter-party not to consolidate the SPE on its financial statements:

(1) AIG-FP, as the majority owner of the SPE, would have to be an independent party making a

“substantive capital investment” in the SPE, which GAAP defined as at least 3% of the SPE’s capital; (2) AIG-FP would have to have control of the SPE; and (3) AIG-FP would have to have “substantive risks and rewards” of ownership of the SPE’s assets.

A. GAITS

7. One of the structured financial products sponsored by AIG-FP was known as a “Guaranteed Alternative Investment Trust Security” (“GAITS”). If the counter-parties were insurance companies, the GAITS structure provided them with, among other things, the ability to invest in equity assets while protecting their principal investment and obtaining, by virtue of the principal protection, an NAIC 1 regulatory capital classification rating approved by the Securities Valuation Office (“SVO”) of the National Association of Insurance Commissioners (“NAIC”). An NAIC 1 rating by the SVO, which is assigned to obligations of the highest quality (lowest risk of loss), would mean that the counter-parties’ investment in the GAITS transactions would be subject to the lowest capital charge or “haircut” for purposes of calculating their compliance with applicable insurance risk-based capital requirements. In contrast, if the counter-parties held the equity assets of the SPE directly, without having purchased the principal protection, the equity assets would be subject to a higher capital charge. A higher capital charge would tie up more of the counter-parties’ risk based capital.

8. Between June 2000 and March 2001, wholly-owned subsidiaries of AIG-FP entered into a total of five GAITS transactions with insurance company subsidiaries of two publicly traded companies. National Accounting Firm A was the outside auditor for one of the counter-parties of the GAITS transactions at the time those transactions closed, and National

Accounting Firm A became the outside auditor for the other counter-party to the GAITS transactions approximately a year after the transactions closed.

9. The counter-parties in the five GAITS transactions purchased Class A trust certificates issued by an SPE trust with cash or, in the case of one transaction, in exchange for the sole trust interest in a predecessor trust entity as part of a restructuring. AIG-FP received Class B Trust Certificates in exchange for contributing highly rated debt securities to the SPE. The SPE invested the purchase money in equity index mutual funds or private investment funds, defined as the "protected assets," and in the first three GAITS transactions the SPE also purchased a zero coupon bond issued by an affiliate of AIG-FP. In the other two GAITS transactions, AIG-FP entered into a "defeasance swap" with the SPE trust that would require AIG-FP to provide to the SPE trust a zero coupon bond issued by an affiliate of AIG-FP in exchange for the equity index mutual funds if the value of the equity index mutual funds held by the pertinent SPE fell below a specified level. In all five GAITS transactions, the zero coupon bond issued by an AIG-FP affiliate (which would carry the highest credit rating from nationally recognized credit rating agencies) was meant to insure that, regardless of the performance of the equity index mutual funds or private investment fund assets owned by the SPE trusts, the counter-parties would receive at maturity of the Class A Trust Certificates at a minimum an amount equal to their original investment in the trust. On the basis of the principal protection, the Class A Trust Certificates were assigned the highest credit rating from nationally recognized credit rating agencies as to repayment of the principal, which, in turn, allowed the counter-parties' investment

in the GAITS transactions to be subject to the lowest capital charge or "haircut" for purposes of calculating their compliance with applicable insurance risk-based capital requirements.

10. AIG-FP received a fee in each of the GAITS transactions based on an annual rate of 50 basis points (0.50%) of the value of the protected assets. Different designations were given to the fees in the five GAITS transactions. In the two transactions that closed on June 30, 2000, they were called "Structuring Fees." In the third transaction that closed on November 30, 2000, the fee was called a "Class B Priority Payment." In the final transactions that closed on March 1 and 21, 2001, the fee was called the "Annual Fee Amount." Notwithstanding the different terminology, in each of the GAITS transactions, the fees received by AIG-FP were in all or, in the case of two of the five transactions, substantial part payments to compensate AIG-FP for its role in structuring the transaction.

11. The counter-parties to all five GAITS transactions agreed that several years' fees would be prepaid to AIG-FP at the closing. In the first three GAITS transactions, the counter-parties prepaid three years' annual fees at closing. In the remaining two transactions, the SPE trusts prepaid five-and-one-half years' annual fees at closing.

12. The two counter-parties to the five GAITS transactions made total investments of \$231,659,000 in the SPE trusts. The SPE trusts in the five GAITS transactions were not consolidated on the financial statements of either AIG or the counter-parties to the transactions. Rather, each party recorded their investment in the SPE trust on their balance sheet as an "available for sale" security.

13. AIG-FP requested and received SAS-50 letters from National Accounting Firm A addressing the application of GAAP to the GAITS structure. AIG-FP used these SAS-50 letters to market the GAITS products to prospective and actual counter-parties.

14. A SAS-50 letter dated June 30, 2000, from National Accounting Firm A pertained to the first three GAITS transactions that closed in June and November 2000. These transactions were developed by AIG-FP with the counter-party based on a proprietary structure developed by the counter-party.

15. In the June 30, 2000 SAS-50 letter, National Accounting Firm A noted without disapproval that the SPE trust would purchase at closing of the transaction a zero coupon bond issued by an affiliate of AIG-FP. The letter did not mention that the counter-parties would pay any fees to AIG-FP and would prepay three years' fees at closing. The letter did not discuss the GAAP effect of payment of structuring fees.

16. SAS-50 letters dated January 30, 2001 and February 28, 2001, from National Accounting Firm A pertained to the final two GAITS transactions that closed in March 2001. These letters noted without disapproval that the zero coupon bond to be delivered by AIG-FP to the trust upon a trigger event would be guaranteed by AIG. These letters also referred to the fees payable to AIG-FP (which served as Administrator and Swap Provider) in a provision that stated "[e]xpenses of the Trust will include (i) the periodic fees and expenses of the Trustee, (ii) the periodic fee of the Administrator and (iii) the periodic fee to the Swap Provider." The letters did not mention that the SPE trusts would prepay five-and-one-half years' fees at closing. The letters did not discuss the GAAP effect of payment of structuring fees.

17. The GAITS transactions failed to satisfy the GAAP requirement for non-consolidation of the SPE that AIG-FP, as the independent third-party investor in the SPE, make a substantive capital investment in the SPE of at least 3% of the SPE's assets. Under GAAP, structuring fees paid by the SPE or a transaction counter-party to an investor in the SPE should be deducted from the investor's capital investment for purposes of determining compliance with the capital investment requirement for non-consolidation of the SPE. National Accounting Firm A did not address the need to deduct structuring fees paid to AIG-FP in the SAS-50 letters that were issued to AIG-FP regarding the GAITS transactions. The payment of structuring fees to AIG-FP in the GAITS transactions reduced AIG-FP's "substantive capital investment" below the minimum 3% level required by GAAP.

B. C-GAITS

18. AIG-FP also developed, marketed and sold a structure known as a "Contributed-Guaranteed Alternative Investment Trust Security" ("C-GAITS"). In the C-GAITS structure, the counter-party would receive Senior Class A Convertible Preferred securities in an SPE (a limited liability corporation created by AIG-FP), convertible into Class A Common, in exchange for its contribution of equities or other financial assets and cash to the SPE. Wholly-owned subsidiaries of AIG-FP would invest cash in the SPE and would own Junior Class B Preferred securities and all of the Class B Common voting stock in the SPE. The AIG-FP subsidiary would charge the counter-party or the SPE an annual fee. Cash in the amount invested by AIG-FP would be used by the SPE to purchase highly rated debt securities. AIG-FP initially proposed that the SPE would purchase and hold a 30-year zero coupon bond issued by an affiliate of AIG-FP which, at

maturity, would pay an amount equal to the counter-party's initial capital investment in the SPE. In its marketing materials for the C-GAITS structure, AIG-FP identified as a benefit of the transaction for the counter-party reducing earnings volatility associated with the assets being transferred to the SPE by the counter-party.

19. AIG-FP requested and received SAS-50 letters from National Accounting Firm A addressing the application of GAAP to the C-GAITS structure. AIG-FP used these SAS-50 letters to market the C-GAITS products to prospective and actual counter-parties.

20. National Accounting Firm A provided four SAS-50 letters to AIG-FP with regard to potential C-GAITS transactions. These SAS-50 letters were dated April 23, 2001, May 16, 2001, November 29, 2001, and December 4, 2001.

21. National Accounting Firm A's April 23, 2001 and May 16, 2001 SAS-50 letters did not mention any fees payable to AIG-FP or discuss the GAAP effect of payment of such fees.

22. A draft of the April 2001 SAS-50 letter, considered by National Accounting Firm A in its internal partner review, stated that the cash transferred to the SPE with other assets would be invested in a "Zero Coupon note maturing in 30 years issued by an affiliate of AIG." During internal discussions at National Accounting Firm A, partners of National Accounting Firm A expressed a concern that issuance of the zero coupon note by an affiliate of AIG-FP, which would result in the payment to an affiliate of AIG-FP of approximately 20% of the SPE's total assets, could be viewed as a return of AIG-FP's capital investment. As a result, National Accounting Firm A finalized the April 23, 2001 SAS-50 letter to state that the cash transferred to the SPE along with other assets would be invested in a "zero coupon note maturing in 30 years,"

but the SAS-50 letter no longer specified who would issue the zero coupon note or whether an affiliate of AIG-FP might issue the zero coupon note. National Accounting Firm A did not withdraw or revise the SAS-50 letters it had issued in connection with the GAITS transactions, which had contemplated that the SPE trust would purchase at closing of the transaction a zero coupon bond issued by an affiliate of AIG-FP, or would enter into a defeasance swap that could result in the SPE trust holding a zero coupon bond issued by an affiliate of AIG-FP.

23. AIG-FP continued to propose the C-GAITS product to prospective counter-parties with a zero coupon note issued by an AIG-FP affiliate. In the marketing material, AIG-FP informed the prospective counter-party that the contemplated accounting treatment was “based upon advice from [National Accounting Firm A].” Subsequent to the April 23, 2001 SAS-50 letter, a partner of National Accounting Firm A who had participated in the drafting of the SAS 50 letter was copied by AIG-FP on distributions to a prospective counter-party of structure diagrams and marketing material for the C-GAITS product that included in the proposed structure a zero coupon note issued by an affiliate of AIG-FP. No C-GAITS transaction, however, was ever consummated with a zero coupon note issued by an AIG-FP affiliate.

1. National Insurance Company A

24. On May 29, 2001 representatives of National Insurance Company A and its outside auditors, National Accounting Firm B, participated in a meeting (not attended by any AIG-FP employee) during which they discussed, among other things, “soft spots” noted by National Accounting Firm B in analyzing the accounting for a proposed C-GAITS transaction with AIG-FP. These subjects included whether AIG-FP’s capital investment might fall below the

minimum (3%) capital investment required by GAAP for deconsolidation of the SPE by National Insurance Company A if AIG-FP received a "large prepayment" of its fees or if its fees were not received in exchange for services rendered by AIG-FP. On that same day, an employee of National Insurance Company A advised at least one AIG-FP employee of the "soft spots" noted by National Accounting Firm B and proposed that AIG-FP's equity investment in the SPE be increased from 3% to 5%. By the end of that day, AIG-FP modified the proposed C-GAITS structure for National Insurance Company A to increase AIG-FP's capital investment from 3% to 5%.

25. During the period from July through October 2001, AIG-FP and National Insurance Company A refined the terms of their proposed C-GAITS transaction to utilize real-estate assets as National Insurance Company A's contribution into the SPE and to specify that National Insurance Company A would pay a structuring fee directly to AIG-FP. At the request of National Insurance Company A, AIG-FP requested that National Accounting Firm A prepare another SAS-50 letter that addressed these modifications to the structure.

26. AIG-FP received a revised draft of the SAS-50 letter on November 20, 2001. With respect to the payment of the "structuring fee" directly to AIG-FP by National Insurance Company A, the draft SAS-50 letter stated the following:

We also considered the effect of the structuring fee required to be paid by Investor to the Class B Common holder, as managing member, during the life of the transaction and for a minimum period of five years. Our consideration focused on whether this fee could represent a return of the initial investment of the independent third party investor in the Class B interest thereby indicating that its initial investment is inadequate. We observe, however, that even if the amount of the required payments (.50% of assets for

five years) were deducted from the initial investment by [AIG-FP] in the Class B interests, its initial investment would still exceed the minimum required by EITF Topic D-14. Therefore, without further considering the nature of such payment, we concluded that it does not affect the adequacy of the initial investment required by Topic D-14.

The final version of this SAS-50 letter, dated November 29, 2001, contained the identical statements.

27. AIG-FP proposed the C-GAITS transaction to National Insurance Company A with a zero coupon note issued by an AIG-FP affiliate. AIG-FP's written marketing materials sent to National Insurance Company A included a statement that AIG-FP's summary of the GAAP treatment for the SPE transactions was "based upon advice from [National Accounting Firm A]." Although AIG-FP provided National Insurance Company A with a copy of the April 23, 2001 SAS-50 letter, AIG-FP did not inform National Insurance Company A that National Accounting Firm A's April 23, 2001 SAS-50 letter did not address whether the zero coupon note could be issued by an AIG-FP affiliate.

28. National Insurance Company A did not consummate a C-GAITS transaction with AIG-FP.

2. National Insurance Company B

29. In May 2001, AIG-FP proposed a C-GAITS transaction to National Insurance Company B. National Insurance Company B asked National Accounting Firm B, its outside auditor, to review the proposed C-GAITS transactions. An employee of AIG-FP informed National Insurance Company B on May 30, 2001 – one day after the discussion between National Insurance Company A and AIG-FP discussed in paragraph 24 – that National Accounting Firm B

had identified several "soft spots" in the accounting analysis in response to a review of a similar C-GAITS transaction with another "insurance client," which was National Insurance Company A. The AIG-FP employee told National Insurance Company B that, in order to address these "soft spots," AIG-FP had agreed in connection with the proposed transaction with the other "insurance client" to increase AIG-FP's capital investment above 3% and to receive the "overwhelming majority" of the fees from the SPE on an annual, rather than a lump sum, basis. National Insurance Company B did not consummate a C-GAITS transaction.

3. National Insurance Company C

30. On October 15, 2001, AIG-FP provided written marketing materials regarding a C-GAITS product to another potential counter-party ("National Insurance Company C"), which included a statement that AIG-FP's summary of the GAAP treatment for the SPE transactions was "based upon related advice from [National Accounting Firm A]." These marketing materials prescribed a 3% equity investment in the SPE by a wholly-owned subsidiary of AIG-FP.

31. AIG-FP did not inform National Insurance Company C that National Insurance Company A had asked AIG-FP five months earlier to increase its substantive capital investment in the proposed C-GAITS transaction with National Insurance Company A from 3% to 5% to address "soft spots" in the accounting analysis identified by National Accounting Firm B, as discussed in paragraph 24.

32. On November 1, 2001, at the request of National Insurance Company C, AIG-FP sent a term sheet to National Insurance Company C in which AIG-FP increased its equity investment in the SPE from 3% to 5%. The increase in AIG-FP's equity investment in the SPE

was based upon comments to the proposed structure by National Accounting Firm B. National Accounting Firm B, which had previously been involved in discussions with National Insurance Company A concerning the timing and nature of AIG-FP's fees as described in paragraph 24, was also the outside auditor for National Insurance Company C and AIG. The term sheet also called for an annual fee of 50 basis points to be paid by the SPE to AIG-FP.

33. A November 9, 2001 revised term sheet continued to propose that the SPE would purchase a zero coupon note issued by an affiliate of AIG-FP. Although AIG-FP provided National Insurance Company C with a copy of the April 23, 2001 SAS-50 letter, AIG-FP did not inform National Insurance Company C that the April 23, 2001 SAS-50 letter from National Accounting Firm A did not address whether the zero coupon bond could be issued by an AIG-FP affiliate.

34. National Insurance Company C did not consummate a C-GAITS transaction with AIG-FP.

4. National Insurance Company D

35. On December 14, 2001, AIG-FP provided written marketing materials proposing a C-GAITS transaction to another potential counter-party ("National Insurance Company D"). These marketing materials prescribed a 3% equity investment in the SPE by a wholly-owned subsidiary of AIG-FP. The proposed transaction contemplated that AIG-FP would receive an annual fee of 50 basis points to be paid by the SPE and that an affiliate of AIG-FP would issue a zero coupon note to be purchased and held by the SPE.

36. AIG-FP's written marketing materials sent to National Insurance Company D included a statement that AIG-FP's summary of the GAAP treatment for the SPE transactions was "based upon related advice from [National Accounting Firm A]." AIG-FP provided National Insurance Company D with a copy of the April 23, 2001 SAS-50 letter from National Accounting Firm A, but did not point out that the letter failed to address in connection with the C-GAITS structure whether the zero coupon bond could be issued by an AIG-FP affiliate. National Accounting Firm A, which had issued the SAS-50 letter and had assisted AIG-FP in designing the C-GAITS structure, was National Insurance Company D's outside auditor.

37. AIG-FP did not inform National Insurance Company D that AIG-FP had been asked six months earlier during the prospective transaction with National Insurance Company A to increase its substantive capital investment from 3% to 5% to address "soft spots" in the accounting analysis identified by National Accounting Firm B, as discussed in paragraph 24. Nor did AIG-FP inform National Insurance Company D that AIG-FP had been asked six weeks earlier during negotiations over the prospective transaction with National Insurance Company C to increase its substantive capital investment from 3% to 5% to address comments received from National Accounting Firm B, as discussed in paragraph 32 above. AIG-FP also did not inform National Insurance Company D about issues raised two weeks earlier by the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of Cleveland (together, the "Federal Reserve") concerning the accounting treatment for a proposed C-GAITS transaction with a bank holding company.

38. National Insurance Company D did not consummate a C-GAITS transaction with AIG-FP.

II. The PAGIC Transactions

39. AIG-FP consummated three C-GAITS transactions with one counter-party – The PNC Financial Services Group, Inc. (“PNC”), of Pittsburgh, Pennsylvania, a bank holding company regulated by the Federal Reserve and with a national bank subsidiary regulated by the Comptroller of the Currency.

40. During 2001, AIG-FP concluded three C-GAITS transactions with PNC (the “PAGIC transactions”). AIG-FP formed two limited liability corporation SPEs for each of the PAGIC transactions (each a “PAGIC entity”). As a result of the transactions, the PAGIC entities held approximately \$754 million in loan and venture-capital assets previously held by PNC. A purpose of the PAGIC transactions was to permit PNC to remove from its financial statements the assets that it transferred to the PAGIC entities and to record on its financial statements PNC’s preferred share investments in the PAGIC entities as available for sale securities. PNC could obtain this accounting treatment only if the three C-GAITS transactions satisfied GAAP requirements for deconsolidation of the PAGIC entities from PNC’s financial statements.

41. On May 29, 2001 – the same day that AIG-FP had discussed the potential C-GAITS transaction with National Insurance Company A discussed in paragraph 24 – AIG-FP representatives traveled to Pittsburgh, Pennsylvania, to provide written marketing materials and make an oral presentation to PNC regarding a potential C-GAITS transaction. AIG-FP proposed that indirect wholly-owned subsidiaries of AIG-FP would invest 3% equity in the PAGIC entities

and that AIG-FP would receive an annual fee of 75 basis points (0.75%) of certain of the SPE's assets (including assets transferred by PNC and cash held by the SPE).

42. AIG-FP did not inform PNC that AIG-FP had been asked during the prospective transaction with National Insurance Company A to increase its substantive capital investment from 3% to 5% to address "soft spots" in the accounting analysis identified by National Accounting Firm B, as discussed in paragraph 24.

43. AIG-FP also proposed that an affiliate of AIG-FP issue a 30-year zero coupon note to be purchased and held by the SPE. AIG-FP's written marketing materials given to PNC included a statement that AIG-FP's summary of the GAAP treatment of the SPE transactions was "based upon advice from [National Accounting Firm A] related to corporate accounting." Although AIG-FP provided PNC with a copy of the April 23, 2001 SAS-50 letter, AIG-FP did not inform PNC that the April 23, 2001 SAS-50 letter from National Accounting Firm A did not address whether the zero coupon note could be issued by an AIG-FP affiliate.

44. PNC obtained written advice from its outside auditor for each PAGIC transaction that the structure as ultimately agreed upon by AIG-FP and PNC satisfied the GAAP requirements for deconsolidation under GAAP. PNC's outside auditor at the time of the PAGIC transactions was National Accounting Firm A, which had assisted AIG-FP in designing the C-GAITS structure as well as one of the GAITS structures and had issued the SAS-50 letters to AIG-FP.

45. On June 18, 2001, PNC requested AIG-FP to change the issuer of the 30-year zero coupon note from an AIG-FP affiliate to some other issuer. PNC explained to one AIG-FP

employee that National Accounting Firm A had requested the change because although National Accounting Firm A believed that the C-GAITS structure “works using [an] AIG Zero,” National Accounting Firm A believed there was a risk that the SEC might view the issuance of the zero coupon note by an affiliate of AIG-FP as a return of the capital invested by AIG-FP in the PAGIC entity. PNC and AIG-FP thereupon substituted a bond issued by the United States Treasury for the 30-year zero coupon note to be issued by an affiliate of AIG-FP.

46. Notwithstanding the concern expressed by PNC, based on the opinion of National Accounting Firm A concerning the risk that the SEC might view the issuance of the zero coupon note by an affiliate of AIG-FP as a return of the capital invested by AIG-FP in the PAGIC entity, AIG-FP continued to market the C-GAITS product to other prospective counter-parties with the inclusion of a zero coupon note from an AIG-FP affiliate and did not inform those counter-parties of the accounting concern raised by National Accounting Firm A through PNC. The written marketing materials stated that AIG-FP’s summary of the GAAP treatment for the SPE transactions was “based upon related advice from [National Accounting Firm A].” At the time of the C-GAITS transactions between PNC and AIG-FP, National Accounting Firm A had not revised or withdrawn the SAS-50 letter it had provided to AIG-FP in connection with the GAITS transactions that contemplated that, at closing of the transaction, the SPE trust would purchase a zero coupon note issued by an affiliate of AIG-FP.

47. In each of the second, third and fourth quarters of 2001, AIG-FP and wholly-owned indirect subsidiaries of PNC entered into a PAGIC transaction. The first PAGIC transaction (“PAGIC I”) closed on June 28, 2001 (two days before the end of PNC’s second

quarter). The second PAGIC transaction ("PAGIC II") closed on September 27, 2001 (three days before the end of PNC's third quarter). In the PAGIC I and PAGIC II transactions, PNC transferred to the PAGIC entities participations in a number of loans held by PNC's principal bank subsidiary, PNC Bank, N.A. PNC viewed the underlying loans as presenting a substantial risk of loss to PNC. The third PAGIC transaction ("PAGIC III") closed on November 30, 2001. In this transaction, PNC transferred to the PAGIC entities venture-capital investments it held. PNC viewed these assets as being subject to volatile changes in values over short periods of time. PNC treated the PAGIC transactions as complying with the requirements for deconsolidation under GAAP. PNC therefore removed the assets it transferred to the PAGIC entities from PNC's financial statements and recorded PNC's preferred share investments in the SPEs as available for sale securities, with changes in the value of the preferred share investments therefore being recorded in the "Other Comprehensive Income" line item within the Shareholder's Equity section of PNC's balance sheet.

48. The PAGIC transactions failed to satisfy the GAAP requirement for non-consolidation of the SPE that AIG-FP, as the independent third-party investor in the SPE, make a substantive capital investment in the SPE of at least 3% of the SPE's assets. Under GAAP, structuring fees paid by the SPE or a transaction counter-party to an investor in the SPE should be deducted from the investor's capital investment for purposes of determining compliance with the capital investment requirement for non-consolidation of the SPE. National Accounting Firm A did not address the need to deduct structuring fees paid to AIG-FP in the SAS-50 letters that were issued to AIG-FP regarding the PAGIC transactions. The payment of structuring fees to

AIG-FP in the PAGIC transactions reduced AIG-FP's "substantive capital investment" below the minimum 3% level required by GAAP. After deducting the structuring fees received by AIG-FP at the closing of each PAGIC transaction, the capital investment made by AIG-FP was less than the 3% minimum required by GAAP. Hence the loan participations and venture-capital assets that PNC transferred to the PAGIC entities should have been included in PNC's financial statements and regulatory reports.

49. The fees paid to AIG-FP in each of the PAGIC transactions were characterized in the closing documents as a "fee to Managing Member" or, in some instances, as "management fees owed by the Company to the Managing Member," and not as structuring fees. AIG-FP intended such fees to compensate AIG-FP for structuring the transaction and for taking the assets and liabilities of the PAGIC entities onto its balance sheet, and not for providing management services to the SPEs. As a result, the fees paid to AIG-FP had the effect under GAAP of reducing AIG-FP's capital investment below the level required for deconsolidation of the SPEs by PNC.

50. Because it deemed the fees received from the PAGIC transactions to be structuring fees or balance sheet rental fees that were fully earned immediately, rather than fees for management services to be rendered to the PAGIC entities, AIG-FP recognized in its own earnings reports in the year ending December 31, 2001, the entire amount of the present value of fees for the initial five years of the PAGIC transactions. AIG-FP informed its outside auditors, National Accounting Firm B, that AIG-FP had performed all services necessary to earn the initial five years of the fees at the outset of each of the PAGIC transactions.

51. PNC thus improperly treated the transfers of assets to the PAGIC entities as sales of those assets that permitted PNC not to report them on its regulatory reports and financial statements. Applying GAAP requirements, PNC should have included the assets of the PAGIC entities in PNC's regulatory reports and financial statements: *i.e.*, PNC should have consolidated the PAGIC entities, which held those assets, into those statements and reports. PNC was subsequently required to report these assets in its regulatory reports and financial statements by consolidating the PAGIC entities, and was required by GAAP to classify them as "held for sale" assets. PNC's initial failure to consolidate these assets, combined with the "held for sale" classification they received when subsequently re-consolidated on PNC's balance sheet, resulted, among other things, in (a) a material overstatement of PNC's earnings per share for the third quarter of 2001 by 21.4%, (b) a material understatement of PNC's fourth quarter 2001 loss per share of approximately 25% in a January 3, 2002 and January 17, 2002 press release, (c) a material overstatement of 2001 earnings per share by 52% in a January 17, 2002 press release, (d) a material understatement of the amount of PNC's nonperforming assets, and (e) a material overstatement of the amount of reduction in loans held for sale and an overstatement in the amounts of securities available for sale.

52. By the time PAGIC III closed on November 30, 2001, AIG-FP had received the SAS-50 letter from National Accounting Firm A addressing the proposed C-GAITS transaction with National Insurance Company A, as discussed in paragraph 24. The revised draft noted the possibility that a structuring fee paid to a managing member "could represent a return of the

initial investment” of AIG-FP, “thereby indicating that its initial investment is inadequate.” The revised draft continued:

We observe, however, that even if the amount of the required payments (.50% of assets for five years) were deducted from the initial investment by an affiliate of AIG FS in the Class B interests, its initial investment would still exceed the minimum required by EITF Topic D-14. Therefore, without further considering the nature of such payment, we concluded that it does not affect the adequacy of the initial investment required by Topic D-14.

AIG-FP did not provide PNC with a copy of this revised draft SAS-50 letter or inform PNC of this concern.

53. On October 23, 2001, the Federal Reserve sent a letter to PNC expressing the Federal Reserve’s concern about PNC’s decision not to record in its financial statements the assets it had transferred to PAGIC I and PAGIC II. Subsequently, PNC informed AIG-FP that PNC was in discussions with the Federal Reserve regarding the first two PAGIC transactions having previously informed AIG-FP in September 2001 that the Federal Reserve had “signed off” on PAGIC I. After receiving the Federal Reserve’s letter, PNC postponed the closing of the PAGIC III transaction, but told an AIG-FP employee that PNC was confident of a favorable review. On November 7, 2001 a PNC employee advised an AIG-FP employee that he had been directed by his superiors at PNC to assume that the third PAGIC transaction would close (which it did on November 30, 2001). In connection with a proposed C-GAITS transaction with another bank holding company, AIG-FP learned in mid-November 2001 that the bank holding company intended to discuss the proposed C-GAITS transaction with the Federal Reserve, including the contemplated accounting treatment for the proposed transaction. In late November 2001,

AIG-FP received a copy of that bank holding company's presentation to the Federal Reserve concerning the proposed C-GAITS transaction, which addressed (among other things) the contemplated accounting treatment for this transaction. Although AIG-FP had told prospective counter-parties that other C-GAITS transactions had been consummated, AIG-FP did not inform other counter-parties that actual and prospective C-GAITS transactions, including the contemplated accounting treatment for such transactions, had come under review by the Federal Reserve.

III. AIG-FP's Unwinding and Restructuring of the GAITS and C-GAITS Transactions

54. By January 29, 2002, AIG-FP learned of PNC's decision to consolidate the PAGIC transactions onto PNC's financial statements due to accounting flaws. AIG-FP also learned thereafter that National Accounting Firm A, which had earlier issued SAS-50 letters to AIG-FP addressing the application of GAAP to the similarly structured GAITS products, had concurred in PNC's decision to consolidate the PAGIC transactions.

55. On February 7, 2002, National Accounting Firm A sent a letter to AIG-FP requesting that AIG-FP discontinue the use of the C-GAITS SAS-50 letters prepared by National Accounting Firm A. The letter stated:

We have become aware that in today's regulatory environment there have been challenges to the accounting treatment of certain transactions that are similar in some, but not all, respects to the hypothetical transactions addressed in the referenced opinions. In light of these challenges and the potential for a range of factual differences among structured transactions that may affect their financial reporting treatment, we believe it would be prudent that the referenced opinions no longer be used.

56. On July 18, 2002, the SEC instituted an administrative proceeding in which the SEC issued an Order Instituting Proceedings that concluded PNC's accounting for the PAGIC transactions did not conform to GAAP. PNC consented to the issuance of this Order Instituting Proceedings without admitting or denying the findings made by the Commission. Concurrently therewith, the Board of Governors of the Federal Reserve System announced that PNC and the Federal Reserve Bank of Cleveland had entered into an agreement requiring PNC to improve its management structure, corporate governance, risk management practices, regulatory communications, and internal controls, in order to address matters relating to compliance with GAAP and related matters.

57. On January 22, 2003, AIG-FP and PNC liquidated the PAGIC entities in accordance with their terms following conversion by PNC of its Class A Convertible Preferred securities into Class A Common stock.

58. On June 2, 2003, PNC ICLC Corp. ("PNCICLC"), a wholly-owned indirect subsidiary of PNC, entered into a Deferred Prosecution Agreement with the United States Department of Justice. As part of that Deferred Prosecution Agreement, PNCICLC acknowledged and accepted responsibility for its behavior as set forth in a Statement of Facts incorporated by reference into the Deferred Prosecution Agreement. That Statement of Facts acknowledged, among other things, that each PAGIC transaction violated the GAAP requirements for deconsolidation of the PAGIC entities by PNC.

59. Despite the events described in paragraphs 54-58, neither AIG-FP nor National Accounting Firm A took steps to modify the five previously consummated GAITS transactions to

address the deficiencies in the counter-parties' GAAP treatment of those transactions that had been identified in connection with the C-GAITS structure. National Accounting Firm A did not withdraw the deficient SAS-50 letters related to the GAITS transactions, and it did not urge AIG-FP either to restructure or unwind the noncompliant transactions. In addition, National Accounting Firm A, which was the outside auditor for the two counter-parties to the GAITS transactions at the time of the events described in paragraphs 54-58, did not notify those counter-parties of the deficiencies in the GAITS transactions. Among other things, National Accounting Firm A did not recommend an increase in the equity investment by AIG-FP in the SPEs to make up for the structuring fees received by AIG-FP from the counter-parties or the SPEs, which reduced AIG-FP's capital investment below the minimally acceptable level under GAAP needed to achieve non-consolidation. Nor did AIG-FP recommend any such change. Further, AIG-FP and National Accounting Firm A did not recommend replacement of the zero coupon bond issued by an affiliate of AIG-FP in those transactions and never informed the counter-parties to the GAITS transactions that the GAITS structures might not satisfy the requirements for non-consolidation under GAAP because of the presence of a zero coupon bond issued by an affiliate of AIG-FP in those transactions.

60. AIG-FP and its counter-parties did not unwind or restructure the GAITS transactions until April 7, 2003 (one transaction unwound), May 5, 2003 (two transactions unwound) and September 25, 2003 (two transactions restructured).

61. There are other matters known to the parties that are not included in this Statement of Facts.