

Statement of Howard I. Smith

I have agreed to settle the case brought against me by the Office of the New York Attorney General. In 2000, when I was the Chief Financial Officer of AIG, the company entered into two reinsurance transactions. One involved AIG's assumption of a loss portfolio from Gen Re; in connection with that transaction, AIG recorded a total of \$500 million in loss reserves. The other transaction involved a reinsurance agreement between AIG and an offshore entity, Capco (which was financed by AIG), whereby Capco reinsured AIG's underwriting losses from an auto warranty program; the effect of this transaction was that AIG reported as investment losses amounts that otherwise would have been reported as underwriting losses. The Gen Re transaction was done for the purpose of increasing AIG's loss reserves, and the Capco transaction was done for the purpose of converting underwriting losses into investment losses. I knew these facts at the time that I participated in and approved these two transactions.

For the years 2000 through 2002 (in the case of the Capco transaction) and 2000 through 2003 (in the case of the Gen Re transaction), I certified AIG's publicly-filed annual consolidated financial statements aware that the financial effects of these transactions were and continued to be reflected in those statements.

As a result of these transactions, AIG's publicly-filed consolidated financial statements inaccurately portrayed the accounting, and thus the financial condition and performance for AIG's loss reserves and underwriting income. The accounting for the Gen Re transaction was correctly restated by AIG in AIG's 2005 Restatement of the Company's financial results for the years 2000 through 2003 and the first three quarters of 2004. The accounting for the Capco transaction was also restated by AIG in AIG's 2005 Restatement of the Company's financial results.