

FORMER GEN RE CHIEF EXECUTIVE OFFICER SENTENCED FOR ROLE IN FRAUDULENT MANIPULATION SCHEME

HARTFORD, Conn. – The former chief executive officer of General Re Corporation (Gen Re) was sentenced today for his role in a fraudulent scheme to manipulate AIG's financial statements, the Department of Justice announced.

Ronald E. Ferguson, 66, of Fairfield, Conn., Gen Re's chief executive officer from approximately 1987 through September 2001, was sentenced to two years in prison after being convicted by a federal jury on Feb. 25, 2008, on charges of conspiracy, securities fraud, false statements to the U.S. Securities and Exchange Commission (SEC) and mail fraud. In addition, Ferguson was sentenced by U.S. District Judge Christopher F. Droney in Hartford to two years of supervised release following his prison term and a fine of \$200,000.

Evidence presented at trial proved that Ferguson and his co-defendants, Elizabeth A. Monrad, Robert D. Graham and Christopher P. Garand, all former Gen Re executive officers, and Christian M. Milton, a former senior AIG executive officer, engaged in a scheme to falsely inflate AIG's reported loss reserves, a key indicator of financial health to insurance industry analysts and investors. According to trial evidence, the fraud was carried out through the use of two sham reinsurance transactions between subsidiaries of AIG and Gen Re in response to analysts' criticism of a \$59 million decrease in AIG's loss reserves for the third quarter of 2000.

The two sham transactions, evidence showed, increased AIG's loss reserves by \$250 million in the fourth quarter of 2000 and \$250 million in the first quarter of 2001, masking a declining trend in loss reserves in the face of premium growth. AIG restated the transactions at issue in filings with the SEC in May 2005. Evidence presented at trial established that when the investigation was disclosed to investors by AIG and through various media outlets between Feb. 14 and March 14, 2005, shares of AIG stock dropped from \$73.12 to \$61.92. All five defendants were convicted on all counts against them presented in the 16-count superseding indictment. Subsequently, on Oct. 31, 2008, the court found that AIG's shareholders lost between \$544 million and \$597 million as a consequence of the defendants' fraudulent scheme.

According to evidence at trial, each of the defendants knew that the true purpose of the transactions was to permit AIG to falsely report increasing loss reserves in its statements to analysts, investors and in its SEC filings. The defendants structured a sham reinsurance transaction and created a phony paper trail to make it appear as though Gen Re had solicited reinsurance from AIG when the evidence demonstrated that the parties knew AIG wanted the transaction to manipulate its financial statements. Additionally, the defendants entered into a secret side deal whereby AIG would never have to pay any losses under the contracts; AIG would return to Gen Re the \$10 million in premiums Gen Re paid to AIG and AIG paid Gen Re a \$5 million fee for entering into the transaction.

The case is being prosecuted by Assistant U.S. Attorneys Eric J. Glover of the District of Connecticut and Ray Patricco of the Eastern District of Virginia, and Principal Deputy Chief Paul E. Pelletier and Assistant Chief Adam Safwat of the Criminal Division's Fraud Section. Additional assistance has been provided by Paralegal Specialists Amy Konarski of the District of

Connecticut and Sarah Marberg of the Fraud Section. This matter has been investigated by the United States Postal Inspection Service.

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