

From: Cassano, Joseph  
Sent: Wednesday, October 31, 2007 11:53 AM  
To: 'Mendez, Carmen'; Forster, Andrew  
Cc: Habayeb, Elias; Jackson, Erja; McGinn, Kevin; 'Lewis, Robert (AIG Enterprise Risk Mgmt)'; Hamrah, Charlene; Forster, Andrew  
Subject: RE: Presentation - FP

Carmen,

As to the additional information. I have passed on to Charlene a brief attempt at a blurb that I hoped captures the essence of the credit activity for the most recent period, it reads as follows:

"Credit segment also performed well as the market turmoil and dislocations led to significant opportunities in which the group was able to add to its super senior portfolio at levels and attachments points far in excess of anything the group was able to trade at in the past.."

I am reluctant to supply further information due to the competitive nature of the business and not wanting to signal to potential transactors we may attempt to gain advantage in underwriting through the market disruption. Further to expectations for the future we also provided a brief sentence as follows,

"The continuing turmoil and general risk aversions and capital constraints caused by the market dislocations leaves FP well positioned for continued revenue growth as competitors appetite for certain transactions wanes."

I have a strong preference for leaving any forward looking statements at this , I do not want to have to get into the routine of providing color on the credit segment. This leads to my other concern; while others such as MBIA and Ambac have given a good deal of focus to the future of their respective credit wrap business this is mainly due to the monoline nature of their business models and that the recent turbulence, turmoil, disruption dislocation in the credit markets is at the heart of their franchise and their core business. FP on the other hand, has a much more diversified business model with a broader mandate of seeking solutions within the capital markets, that touches the wider segments of the capital markets i.e. , equities, commodities currencies and rates as well as credit . The credit segment is important but is only 1/3 of our overall revenue base and the super senior sub segment is 60 pct of that. We have also made some changes to the valuation slide. I am uncomfortable with the approach as laid out in then initial slide. In all of our discussions with the various accounting teams inside and outside as well as the risk management team I have been explicit in my statements regarding the early development stage and limited reliability of the BET model. Below is an excerpt from one of our latest

memos to the accounting team regarding the BET model's precision and reliability.

"We have calculated our estimates of the portfolio value for both June 30 and September 30 and have outlined both the methodology and the actual results in a separate memo. While we have used the best data available (JP Morgan data set), both the modeling and data remain imprecise.

The BET model should only be used as a further reference point to the results of the Gorton model. The BET model is beneficial in that it employs actual market credit spreads."

We have made revisions to slide 11 to reflect our views above. I have attached the change slide. We are happy with the others. Please let me know if you have any questions, Joe