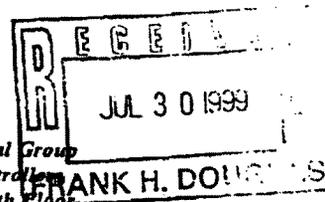


PLAINTIFF'S  
EXHIBIT  
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Memorandum

**AIG**

American International Group  
DBG Executive Controller  
175 Water Street - 30th Floor  
New York, N.Y. 10038  
458-8600 Fax 458-6316



To: K. P. Moor  
From: M. J. Castelli  
Date: July 30, 1999  
Re: DBG 1999 Third Quarter

Smith  
3-18-10  
117  
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CONFIDENTIAL

As a follow up to our discussion on the second quarter actual and third quarter forecast review meeting with MRG, following are the key items we are working to address or have completed:

1. DBG by profit center forecast of the third quarter – Done (attached). Separately, we have required analysis of certain loss ratios. This should be done by Wednesday, August 4, 1999.
2. National Union third quarter forecast breakout between Risk Transfer and LMU – Done (attached). Also attached is the detail breakout between Risk Transfer and LMU for the actual second quarter.
3. Warranty – Offshore reinsurance assessment to blunt the statutory loss – This analysis needs to be done by Frank Douglas and I with consideration of the existing surplus held in current offshore facilities managed by J. Umansky. This analysis will likely require a couple of weeks.
4. Warranty Auto Novation – The third quarter forecast includes the impact of this transaction - a reduction to Net Written of \$20.7 million and a benefit to stat P&L of \$1.0 million based on premium earned through June. Had we fully earned the \$20.7 million of Premium, we would have had a benefit of \$4.0 million.
5. International Property – Determine amount of IBNR which can be released to mitigate \$9.5 million forecasted third quarter loss. This should be done the week of August 2, 1999.
6. Excess Y2K Earnings Issue – We should have completed by mid-next week, the ultimate assessment of the amount over-earned through June 30, 1999 and what would be the proper earning pattern. From this assessment we will be able to evaluate what correction, if any, we may want to make. The third quarter forecast does not include any correction.
7. LMU, Risk Finance pipeline for the third quarter 1999 – This has been requested from Risk Finance and National Union and we expect to have this completed by Wednesday, August 4, 1999. We are attempting to also determine how the pipeline transaction would earn (i.e., pro-rata on all up front) and what the profit on each deal is expected to be.

8. Take Back of 1995 Stop Loss – There is \$128 million of premium, as of June 30, 1999, which can be taken back at any time.
9. Reduction of 1999 Stop Loss Cession – Frank Douglas and I need to assess this issue. This assessment will likely not be completed the week of August 2, 1999. As reference, the budget called for \$276 million of premium cessions and a ceding commission of \$16 million. Through June, we have ceded approximately one-half of this amount.

Please also note that Frank Douglas and I are meeting with Howie Smith on Monday, August 2, 1999 to review a number of the above items as well as the range of reserve change we might expect based on the third quarter forecasted earned premium and paid losses.

I'll give you an update on all of the above late Monday August 2, 1999.

MJC:ec

Attachments:

cc: E. G. Greenberg  
F. H. Douglas (w/o attachments) ✓  
H. I. Smith (w/o attachments)

A handwritten signature in black ink, appearing to be 'MJC', is written over the 'Attachments:' section.