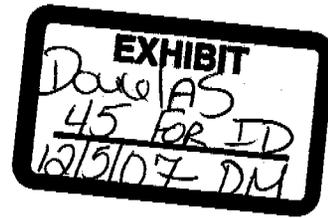


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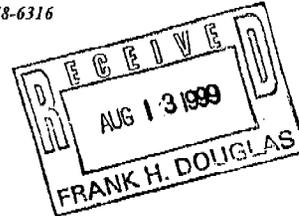


Memorandum

AIG

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

To: M. R. Greenberg
From: M. J. Castelli
Date: August 12, 1999
Re: DBG Results



As a follow-up to the review of DBG second quarter 1999 results and requests of third quarter 1999 information, please note the following:

- 1) American Home Excess:
The work done by American Home on the Y2K earned premium issue preliminarily suggests we may have over-earned premium by approximately \$65 million as of June 30, 1999 - \$15 million on policies with expiration dates of January 1 through June 30 and \$50 million on policies with expiration dates of July 1 through December 31. Estimates are that we may have corrected approximately \$15 - \$25 million of earned premium during the first six months of 1999. The Actuarial Department is presently reviewing American Home's work. As such, and given that this review is by policy, the above estimates are subject to change. Notwithstanding the magnitude of the earned premium error, it is important to note, however, that since Excess is booked to approximately a 100 combined ratio (roughly 80 Loss, 20 Expense) the impact to GAAP income would be close to zero, as the expense would be deferred in line with the increased unearned premium if we chose to process corrections to the earned premium. On a statutory income basis we would suffer a loss equal to 20% of the earned premium we correct. Based on the immaterial impact to our statutory and GAAP income and the negative impact any correction would have on our loss reserve level (correction of the \$65 million would reduce reserves by approximately \$50 million), we are not proposing that further adjustments be made. Current policy coding should earn properly.
- 2) American Home Workers' Comp:
Attachment A to this memorandum is a copy of the Specialty Workers' Compensation Analysis and Action Items prepared by Susan Rivera.
- 3) Warranty Auto Losses:
Effective for the third quarter 1999, we have requested Joe Umansky to put in place an off-shore facility which will serve to blunt the anticipated adverse loss development on the auto unearned premium runoff. In anticipation of this facility, the third quarter DBG forecast includes an anticipated \$7.0 million benefit in Division 45.

- 4) National Union Risk Transfer/LMU Breakout:
Attachments B and C provide a by division breakout of Risk Transfer and LMU results for the 1999 actual second and forecasted third quarters, respectively.
- 5) Lexington International Property:
The 1999 third quarter forecast for this division includes an IBNR reserve release provided by Frank Douglas.
- 6) DBG 1999 Third Quarter Forecast:
Attachment D provides the division detail in support of the DBG forecast with comparisons to the third quarter 1999 budget and third quarter 1998 actual.
- 7) 1995 Stop Loss Cancellation:
The cancellation of this agreement has been evaluated and determined to be available as an option in the third quarter 1999. Premium of \$130 million would be recorded along with a corresponding loss reserve of \$130 million. This has not been reflected in the third quarter forecast at this time.
- 8) Reduction/Elimination of 1999 Stop Loss:
Howie Smith, Frank Douglas, Joe Umansky, and I have evaluated this item and concluded that this is not a viable option. I understand from Howie, he has separately updated you on this item.

MJC:ec

Attachment:

cc: F. H. Douglas ✓
E. G. Greenberg
K. P. Moor
H. I. Smith
T. R. Tizzio

