PLAINTIFF'S
EXHIBIT
397

4/07

RECEIVED IN
EXECUTIVE FILES
APR 25 2000

MEMORANDUM

4-20-2000

April 20, 2000

TO: M. R. Greenberg

FROM: Joseph H. Umansky

RE: 2000 Reinsurance Contracts

The contracts summarized in this memo are those to be discussed in a meeting scheduled for Monday.

There are ten contracts listed on the attached schedule and additional information on selected contracts in the attachments. Five of the contracts are similar to the 1999 contracts; I am including them because of the effect that they have on the financial statements. I would like to review six specific contracts with you because of their unique nature. The six contracts are #5 through #10.

All of the contracts are beyond the conceptual stage, but a considerable amount of work needs to be done to put them in final form, including arranging for a reinsurer/counterparty; which could be the most difficult step. I would like to get your reaction to the structures before I proceed. I will cover the six contracts in this memo.

Warranty

Our objective was to convert an underwriting loss into a capital loss. The approach we devised is unique but conceptually, somewhat simple. AIG forms an off-shore reinsurer and reinsures the warranty book into that wholly-owned subsidiary. AIG then sells the subsidiary through a series of partial sales, thus recognizing a capital loss. As the warranty losses emerge they are recognized in this off-shore company that is not consolidated as part of AIG. The accounting is aggressive and there will be a significant amount of structuring required in order to address all the legal, regulatory and tax issues. This is more fully described in Exhibit I.

controllee ?

PLAINTIFF'S
EXHIBIT
5-16-01

AIG Catastrophe Cover

The objective was to cap aggregate catastrophe losses for AIG at $75 million. There are a number of issues that we need to discuss, including whether $75 million is the right attachment point and how we define a catastrophe. Since AIG's catastrophe losses consistently aggregate more than $75 million, I am proposing two additional treaties that sit under this catastrophe cover which will mitigate the catastrophe losses and use the discount on the casualty book to subsidize the catastrophe losses.

The two above-mentioned treaties are contracts #9 and #10. They are aggregate treaties (for Foreign Gen and Transatlantic) which have the effect of covering property catastrophe losses with the discount of the related casualty book. These contracts are not specifically catastrophe covers but have the same effect. A similar contract cannot be put together for DBG since this group already has an Aggregate Loss Ratio Treaty (Contract #1). The three contracts are more fully described in Exhibit II. Transatlantic has expressed a number of concerns regarding the treaty.

Personal Lines – Aggregate Loss Ratio Treaty - #5

This is a multi-year excess of loss cover that has the effect of smoothing losses. The attachment is 78%, increasing 1% each year for the term. The premium is constant. Loss recoveries are expected in the first two years. See Exhibit III.

ALICO – Brazil Currency Treaty

This contract is one where a significant recovery is realized and a compensating arrangement through a swap generates a capital loss for ALICO and a gain for the reinsurer. The accounting is very aggressive and it's a duplication of a contract that was done last year. The 1999 swap will not be repeated, although a similar swap will be put in place to accomplish the same objective.

There are a number of other issues that I look forward to discussing with you on Monday.

JHU:ge
Att.

cc: H. I. Smith

2000 Contracts to be Ceded

Ceding Co.	Agreement	Cash	Estimated Premium	Estimated Limit
1 DBG	Aggregate Loss Ratio & X/S	261	281	650
2 RMG/RF	Facultative Obligatory Agreement (discounting of individual casualty transactions)	100	100	200
3 AIU	Aggregate Excess Agreement (retrospective reserve discounting)	15	15	30
4 DBG	Aggregate Excess Agreement (retrospective reserve discounting)	30	30	60
5 Personal Lines	Aggregate Loss Ratio (personal auto)	16	16	70
6 ALICO	Life reinsurance (Brazil currency)	35	2	35
7 Warranty	Stop loss	200	20	200
8 AIG	Cat	15	15	75
9 Foreign	Cat	5 *	5 *	100
10 TRC	Cat	5 *	5 *	100
		682	489	1,520

* Plus AP equal to 50%+ of loss ceded

EXHIBIT I

WARRANTY BOOK
VOTING COMMON & NON VOTING PREFERRED PROPOSAL

Current situation:
As of Dec 99, $210m of UEP on this book is expected to earn at a 200% loss ratio.
The bulk of the UEP will earn over the next three years, the last in 2003.
The payout pattern is very quick.

AIG Entity

1 SPOR common stock	50m
SPOR pref stock	140m
3 Realized loss (Gradually)	190m

1

Single Purpose OffShore Reins (SPOR)

Investments	210
UEP	20
Preferred Stock	140
Equity	50

2

Nat Union (AIG Pool)

Ceded Prem	20m

3

Non affiliated Purchaser(s)

SPOR common stock	30
Payable to AIG	30

1 AIG entity forms Single Purpose Offshore Reinsurer (SPOR) initially as a 100% subsidiary with $190m. $50m in voting common stock, $140 in non voting Preferred.
The AIG Parent must be a non insurance entity as well as be included in the AIG consolidated tax return.

2 National Union (as AIG pool lead) enters an XOL reinsurance agreement with SPOR.
We would like the ceded premium to be nominal to minimize the 1% FET, however it must be somewhat reasonable to the end result.
The XOL is xs 100% Loss ratio. Per estimates this will generate 210m of ultimate loss, about $180m on a NPV@6%. SPOR is being funded with $210m including the premium.

3 Non Affiliated Purchaser(s) purchase the majority of the SPOR voting stock.
The purchase price will be approx $30m. ($50m x 60% = $30m)
AIG can finance the Purchaser with a note with recourse only to Purchaser's SPOR shares.
We can sell them anywhere from 60% to 100% of the SPOR common stock at carrying value.

4 As the underwriting experience emerges in SPOR:
First to erode is any SPOR common stock value carried by SPOR Purchaser or any minority interest retained by AIG. Simultaneously the Note from the Purchaser will be worthless and we will cancel it.
The SPOR common stock will lose it's value by year end 2000.

As the SPOR assumed losses continue to emerge we will allow SPOR to repurchase sufficient Preferred Stock to maintain it's solvency.

4/19/003:08 PM

SPOR FINANCIALS

(In Millions)

	June Inception	2000	2001	2002	2003	2004	2005	2006
Income Statement								
Earned Prem		7.0	4.0	3.0	2.0	2.0	1.0	1.0
Paid loss		0.0	54.0	82.0	46.0	20.0	6.0	2.0
Change in Loss Reserves		72.0	6.0	(41.0)	(23.0)	(10.0)	(3.0)	(1.0)
Inv Income		6.3	12.7	9.8	5.2	2.6	1.5	1.1
Interest on Preferred		4.2	7.5	4.5	2.4	1.5	1.1	1.0
Gain on repurchase		15.0	50.0	35.0	15.0	7.0	1.0	0.0
Income (Loss) for period		(47.9)	(0.8)	2.3	(3.2)	0.1	(0.6)	0.1
Balance Sheet								
Invested Assets	210.0	212.1	163.3	86.6	43.4	24.5	18.9	17.0
Total Assets	210.0	212.1	163.3	86.6	43.4	24.5	18.9	17.0
Loss Reserves	0.0	72.0	78.0	37.0	14.0	4.0	1.0	0.0
UEP	20.0	13.0	9.0	6.0	4.0	2.0	1.0	0.0
Preferred Stock	140.0	125.0	75.0	40.0	25.0	18.0	17.0	17.0
Equity ***	50.0	2.1	1.3	3.6	0.4	0.5	(0.1)	0.0
Total Liab & Equity	210.0	212.1	163.3	86.6	43.4	24.5	18.9	17.0

*** The negative Equity will have to be managed to zero via a series of corresponding repurchases of preferred stock by SPOR at Zero cost.
This will generate realized losses to AIG Entity holding the Preferred.

								TOTALS
Likely schedule of Realized Losses to AIG								
Equity	0	20						20
Note to Purchaser	0	30						30
Preferred Stock	0	15	50	35	15	7	1	123
	0	65	50	35	15	7	1	173
Cession Benefit taken by AIG		72	60	41	23	10	3	209

We do not appear to be taking an aggressive tax stance on this which is good.

4/19/00 1:43 PM

Warranty Book Schedule of underwriting results

		2000	2001	2002	2003	2004	2005	2006				
Unearned Premium at Dec 98	210											
Earns at the rate of		72	60	41	23	10	3	1				
Incurred loss will be		144	120	82	46	20	8	2				
PAID LOSSES - GROSS												
Loss Ratio	200%											
Undiscounted	420	144	120	82	46	20	6	2				
Discount factor	*6.00%*	*0.9700*	*0.9118*	*0.8571*	*0.8057*	*0.7573*	*0.7119*	*0.6692*	*0.6280*	*0.5913*	*0.5558*	*0.6225*
Discounted	377	140	109	70	37	15	4	1				
LOSSES CEDED @ 100% Stop Loss												
Undiscounted	210		54	82	46	20	6	2	0	0	0	0
Discounted	177		49	70	37	15	4	1	0	0	0	0

4/18/001:43 PM

AIG-F 0000149
CONFIDENTIAL

EXHIBIT II

PROPERTY CATASTROPHE AGGREGATE EXCESS OF LOSS

COMPANY:	All AIG subsidiaries excluding Transatlantic and 21st Century.
TERM:	36 month contract covering losses occurring during the period January 1, 2000 – December 31, 2003, comprised of three annual terms.
BUSINESS COVERED:	All direct and assumed property lines including but not limited to, Property and Auto Physical Damage, Accident & Health, Energy and Marine, excluding AIG Re and AIG Risk Finance. Foreign General net catastrophe losses are the greater of zero or Foreign General net catastrophe losses less the total amount ceded for the annual period to the Foreign General Accident Year Stop Loss cover. Qualifying catastrophic events are occurrences as defined in the catastrophe programs worldwide that each result in an incurred loss net of all other reinsurance to Company of $5,000,000 or greater. This $5,000,000 threshold is not to be applied as retention to a qualifying event.
LIMITS:	$75m annual aggregate limit. $150m contract limit. For the three year term
RETENTION:	$75m annual aggregate retention net of all reinsurance.
PREMIUM:	$30m in the aggregate. $10m per annual term. $10m payable May 1, 2000, March 1, 2001 and March 1, 2002. In the event of a loss, loss payments are offset by future premiums.

ADDITIONAL PREMIUM: Applicable to each annual period shall be an additional premium equal to the sum of (a) incurred losses ceded to this cover to the extent greater than $30m, multiplied by (b) 50%. The amount shall be payable on the August 1st immediately following to the annual term. The amount shall be recalculated for development in each subsequent August 1 and a corresponding payment will be required of the Company or Reinsurer accordingly. This Development Payment shall be applied interest at the current one year Treasury rate for the period since the original calculation date.

CANCELLATION: The Company has the right to cancel has a right to cancel at December 31, 2002 if there are no losses ceded to the cover for a pro rata refund of premium.

GENERAL CONDITIONS:

Ultimate Net Loss Clause
Arbitration
Insolvency
Others as appropriate

SUBSIDIARY LEVEL STOP LOSS COVERS

COMPANY:	ALL FOREIGN GENERAL BUSINESS INCLUDING AIU AND JAPAN BRANCHES. INCLUDING NAD	TRANSATLANTIC REINSURANCE COMPANY AND SUBS ZURICH AND PUTNAM
TERM:	1/1/2000 – 12/31/2000	1/1/2000 – 12/31/2000
BUSINESS COVERED:	Net 2000 accident year Loss and LAE: Worldwide direct and assumed excluding Financial Lines, Personal Lines and Risk Finance business.	Net 2000 accident year Loss and LAE: All Lines.
RETENTION:	54% of SNEP SNEP is considered exclusive of this cover. Losses paid quarterly	72% of SNEP SNEP is considered exclusive of this cover. Losses paid quarterly
SUBJECT PREMIUM:	$3,000m	$1,600m
LIMIT:	Lesser of (A)100m (B) 4% SNEP (C) Ceded incurred loss at Feb 1, 2001 or extended Reporting date.	Lesser of (A)100m (B) 8% SNEP (C) Ceded incurred loss at Feb 1, 2001 or extended Reporting date. (D) Should at any time the experience account on a cash basis be negative by greater than 30% of ceded premium, the Reinsurer shall not be liable for any further amount of loss.
CAT LIMITS:	The subject loss ratio to SNEP shall not include a net loss greater than $50m in respect of any single cat event or $500m in the aggregate.	The subject loss ratio to SNEP shall not include a net loss greater than $60m in respect of any single cat event or $200m in the aggregate.
PREMIUM:	Greater of $5m Deposit premium or 50% of incurred losses ceded at Feb 1, 2001 or Extended reporting date. Deposit premium payable at inception, balance at 2/1/2001 and or adjustment at Feb 1, 2002.	Greater of $2.5m Deposit premium or 50% of incurred losses ceded at Feb 1, 2001 or Extended reporting date. Deposit premium payable at inception, balance at 2/1/2001 and or adjustment at Feb 1, 2002.

APPLICABLE TO EACH STOP LOSS

EXPERIENCE ACCOUNT:	Calculated quarterly All premium received Less Deposit Premium (becomes margin) Less any FET payable on Additional Premium Less Paid Losses and Paid LAE Plus yield.
COMMUTATION:	Company may commute at their sole option at any time with 90 days notice. Any positive experience account balance will be returned to the Company.
DECLARATION PERIOD:	The limit shall not exceed the aggregate amount of ceded ultimate net loss reported on February 1, 2001. This reporting date may be extended at the election of the Company to February 1, 2002. Should the extended reporting date be elected, an estimated payment will be made Feb 1, 2001 subject to adjustment at February 1, 2002. Any amounts paid at February 1, 2002 shall incorporate an interest accrual from February 1, 2001 of an amount as if the experience account crediting rate had been applied from February 1, 2001.
OTHER:	All other reinsurance covers inure to this treaty.

AIU General Insurance Effect of Proposed Stop Loss

(All in thousands)

	2000 Pre	2000 Cessions	2000 Post	1999 Pre	1999 Cessions	1999 Post	1998 Pre	1998 Cessions	1998 Post
Net Premium Written	5,277,590	(5,000)	5,272,590	4,818,636	(46,723)	4,771,913	4,412,609	(32,163)	4,380,446
Net Premium Earned	5,068,020	(5,000)	5,063,020	4,762,987	(46,723)	4,716,264	4,277,072	(32,163)	4,244,909
Net Loss & LAE	3,061,610	0	3,061,610	2,998,356	(93,445)	2,904,911	2,565,324	(64,326)	2,500,998
	60.41%	0.06%	60.47%	62.95%	-1.36%	61.59%	59.98%	-1.06%	58.92%
Underwriting Expenses	1,664,836		1,664,836	1,482,157		1,482,157	1,395,522		1,395,522
	31.55%	0.03%	31.58%	30.76%	0.30%	31.06%	31.63%	0.23%	31.86%
Underwriting Result	341,574	(5,000)	336,574	282,474	46,723	329,197	316,226	32,163	348,389
	91.96%	0.09%	92.05%	93.71%	-1.06%	92.65%	91.60%	-0.83%	90.78%

Based on an selected lines attachment of 54%

Minimum Premium of 5 million

Final premium at 50% of ceded incurred loss

Limit of 100 million

4/19/001:43 PM

Transatlantic Income Statements Effect of Proposed Stop Loss

(All in thousands)

	2000 Pre	2000 Cessions	2000 Post	1999 Pre	1999 Cessions	1999 Post	1998 Pre	1998 Cessions	1998 Post
Net Premium Written	1,633,000	(2,500)	1,630,500	1,498,500	(39,944)	1,458,556	1,393,700	(13,434)	1,380,266
Net Premium Earned	1,616,670	(2,500)	1,614,170	1,484,600	(39,944)	1,444,656	1,380,600	(13,434)	1,367,166
Net Loss & LAE	1,154,302 71.40%	0 0.11%	1,154,302 71.51%	1,148,800 77.38%	(79,888) -3.39%	1,068,912 73.99%	1,020,900 73.95%	(26,868) -1.24%	994,032 72.71%
Underwriting Expenses	457,240 28.00%	0.04%	457,240 28.04%	416,558 27.80%	0.76%	416,558 28.56%	381,827 27.40%	0.27%	381,827 27.66%
Underwriting Result	5,128 99.40%	(2,500) 0.15%	2,628 99.55%	(80,758) 105.18%	39,944 -2.63%	(40,814) 102.55%	(22,127) 101.34%	13,434 -0.97%	(8,693) 100.37%

Based on an Whole a/c attachment of 72%

Minimum Premium of 2.5 million

Final premium at 50% of ceded incurred loss

Limit of 100 million

4/19/003:14 PM

AIG-F 0000155
CONFIDENTIAL

EXHIBIT III

AGGREGATE LOSS RATIO AGREEMENT

Companies -	Members of the Personal Lines Pool
Business Covered -	Net Excess Liability on business deemed Personal Lines Auto
Term -	January 1, 2000 – December 31, 2003
Retention -	Accident Year loss ratio of 78% in 2000, 79% in 2001, 80% in 2002 and 81% in 2003.
Limit -	Each accident year 8% loss ratios, not in excess of $70,000,000 annually and $150,000,000 in the aggregate.
Premium -	$16,000,000 payable annually on or before June 30 2000, June 30, 2001, June 30, 2002 and June 30, 2003.
Funding -	97% into a trust account acceptable to insurance regulators.

CONSOLIDATED PERSONAL LINES
STATEMENT OF OPERATIONS

		PROJECTED		
	2000	2001	2002	2003
Gross Premiums Written	1,722,592	2,123,181	2,583,569	3,195,395
Net Written Premium	1,715,079	2,114,014	2,572,610	3,182,197
Net Premiums Earned	1,622,519	1,990,996	2,433,054	2,986,538
Loss and Loss Adjustment Expense	1,335,085	1,583,488	1,912,723	2,329,799
Underwriting Expenses	308,699	376,782	457,894	562,832
RATIOS PRIOR TO CESSION				
Loss Ratio	82.26%	79.53%	78.59%	77.96%
Expense Ratio	17.86%	17.82%	17.80%	17.69%
Combined Ratio	100.17%	97.36%	96.38%	95.64%
Proposed Reinsurance				
Attachment Point - %	78.00%	79.00%	80.00%	81.00%
Attachment Point - Estimated $	1,265,565	1,572,887	1,947,163	2,420,716
Estimated $ to be ceded	69,520.3	10,600.5	0.0	0.0
RATIOS AFTER CESSION				
Loss Ratio	78.78%	79.64%	79.11%	78.38%
Expense Ratio	18.05%	17.96%	17.91%	17.78%
Combined Ratio	96.83%	97.60%	97.02%	96.15%

Premium Components 2000	
Voluntary	945,237
Robert Plan	180,000
21 Cent Q/S	92,855
Other	3,500
Consolidated Mass Mktg	1,221,592
Specialty Auto	501,000
Total	1,722,592

	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total	NPV
Payout Pattern	52.00%	30.50%	9.50%	4.00%	2.00%	1.00%	1.00%	0.00%	0.00%	100.00%	
Annual Paids 2000	694,244	407,201	128,833	53,403	26,702	13,351	13,351	0	0	1,335,085	
ITD Paids	694,244	1,101,445	1,228,278	1,281,681	1,308,383	1,321,734	1,335,085	0	0		
Ceded Loss	0	0	0.0	16,116.9	26,701.7	13,350.8	13,350.8	0.0	0.0	69,520.3	48,543.9
Annual Paids 2001	0	623,414	482,964	150,431	63,340	31,670	15,835	15,835	0	1,583,488	
ITD Paids	0	623,414	1,306,377	1,456,809	1,520,148	1,551,818	1,567,653	1,583,488	1,583,488		
Ceded Loss	0	0	0.0	0.0	0.0	0.0	0	10,601	0	10,600.5	5,169.6
Total Ceded Loss	0.0	0.0	0.0	16,116.9	26,701.7	13,350.8	13,350.8	10,600.5	0.0	80,120.8	54,713.5
Gross ceded premium	16,000	16,000	16,000	16,000	0	0	0	0	0	64,000	
Less: FET & other	(480)	(480)	(480)	(480)	0	0	0	0	0	(1,920)	
Net Premium to be paid 7/1	15,520	15,520	15,520	15,520	0	0	0	0	0	62,080	
Prior Year Loss recovery 7/1	0	0	0	0	(16,116.9)	(26,701.7)	(13,350.8)	(13,350.8)	(10,600.5)	(80,121)	
Yield at 7%	543	1,668	2,871	4,158	4,428	3,240	2,065	1,275	525	20,772	
Estimated Net Fund Balance at 12/31	16,063	33,251	51,642	71,320	59,631	36,169	24,883	12,806	2,731	2,731	