PLAINTIFF'S EXHIBIT 789

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MEMORANDUM

To: M.R. Greenberg

Date: September 26, 2000

From: Howard I. Smith

Re: **Investment Income**

The attached schedule ("NII Budget-Gen") shows the budgeted investment income for 2000 and our updated attempts at forecasting 2001.

As you can see, the "recurring" income from all units other than DBG is relatively flat and is not surprising given cash flow estimates and reinvestment yield scenarios. DBG is impacted by negative recurring cash flow in 2000 and an even larger negative recurring flow in 2001. DBG was positively impacted in 2000 by over $1 billion of "non-recurring" items, including Microsoft and Best Buy. To the extent that similar transactions are completed in 2001, NII would be positively impacted. The full impact of the CCA benefit in 2001 also needs further refinement, which will produce additional NII.

DBG's 2000 NII, as presented, includes additional NII from Pinkerton's group of $75 million, which is not being presently projected for 2001. (In part, this represents the usage of previously available NII banks).

The caption labeled "adjustments" consists principally of the income generated from Pinkerton's portfolio (both outside managed accounts and private/strategic investments). Also reflected in the "adjustments" are the reclasses to investment income from Financial Services and SunAmerica. As we are anticipating significant gains from Pinkerton's portfolio in 2000 to reach our present growth target of 7%, we presently do not feel this can be replicated in 2001, thus the reason for the 25.1% decline in the "adjustments" number. Accordingly, on an overall basis, this leaves us short by 10.9% from 2000 and approximately $483 million short of a 7% growth target for 2001.

The following options, some of which we have discussed, have (not) been reflected in this initial analysis:

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	Estimated Benefit (In Millions)	
• Recapture of reinsurance from offshore third-party reinsurers – Part of the recapture can be characterized as investment income	50	
• Gain on sale of Morgan Stanley stock obtained from Asesores sales	12	
• Seven year yen carry trade (2nd tranche)	25	-5.3
• Estimated benefits of reclassing investment expenses to operating expense	20	
• AIGFP Halifax Trade	30	24
• Various market trades developed by Income Enhancement Group (Norwegian Krone/Swiss Franc Swap; Polish Zloty/ Czech Koruna Swap; Asset Allocation trade; Currency swaps hedged with forwards)	34 · (23	26 dm
• Hedging remittances with currency swaps	11	
• Increase based on Fin'l Services Division restructure	20	
• Basket of put warrants sale – Trade to mirror AIG stock put program with 4 stocks whose volatility tracks closely to AIG	35	
Total	226	

The following additional options are being evaluated but have not yet been quantified:

- Benefit of additional insurance premiums retention through CCA
- Use of call options to capture unrealized appreciation on present tax-exempt portfolio. (We need to go over logistics but the call option premium we receive will be equivalent to the present unrealized appreciation in the portfolio).
- Unrealized appreciation on high tech-venture capital investments, other than included in Pinkerton's portfolio – Most of this belongs to the Life Group so the specifics of a transfer to Gen NII need to be worked out
- Consider AIGFP executing an "equity" trade for AIG
- Consider reclassifying certain insurance deals to NII as opposed to underwriting income (i.e., Risk Finance, Structured Settlements)
- Acceleration of reinsurance commutations and related NII benefit
- Possible deal with Equitas
- General Atlantic has been reflected only to the extent of $24 million in both 200 and 2001.

Switch port. AFS to Trading * HOHM

The issue we also must focus on is the preliminary shortfall for 2002, which is larger than 2001. Some of the strategies discussed in the memo for 2001 can be repeated for 2002 but, if we don't achieve consistent premium rate increases or have some "home runs" in Pinkerton's, or Peter Yu's portfolios, non-recurring transactions will be required.

HIS:jak
Attachment

NII BUDGET - GEN

	2002	2001	2000	2001 Change
DBG	968.3	939.9	1,095.8	-14.2%
Consumer Lines	77.2	69.7	65.1	7.0%
Audubon	14.1	13.0	12.4	5.0%
UCG	106.1	96.4	87.7	10.0%
Foreign Gen	406.4	381.1	371.1	2.7%
21st Century	54.6	52.0	49.5	5.0%
TranReCo	274.0	256.1	239.4	7.0%
Other	60.9	60.9	60.9	-0.1%
Total Income	1,961.6	1,869.2	1,982.0	-5.7%
Adjustments	564.4	541.5	723.1	-25.1%
Total NII	2,526.1	2,410.7	2,705.1	-10.9%
7% Target	3,097.1	2,894.5	2,705.1	7.0%
Shortfall	571.0	483.8		
Adjustments:				
MS Stock		12.4		
FSD Restructure	41.4	20.3		
Yen Carry	25.0	25.0		
Adj Shortfall	504.6	426.1		

Additional income from pricing increases	2001	2002
DBG 15% pricing increase	14.8	46.2
Foreign Gen additional income	3.7	3.7
Additional Income from most aggressive	18.5	49.9

Lost DBG cash flow	
ILFC dividends	(325.0)
Capco Dividend	(190.0)
2000 Forecast Change	(100.0)
Misc dividend changes	(80.0)
Total cash change	(695.0)
Lost income	(46.6)

09/18/2000

Assumptions-Aug24