

**PLAINTIFF'S
EXHIBIT
126**



MEMORANDUM

February 26, 2001

CONFIDENTIAL ATTORNEY-CLIENT COMMUNICATION

TO: M. R. Greenberg
E. Patrikis

FROM: Joseph H. Umansky

RE: Special Reinsurance

Frank Douglas is now in the process of evaluating most of the significant contracts on the attached schedule, with particular focus on the Aggregate Loss Ratio treaties 1996 – 2000. While the attached schedule shows a cushion of \$31 million, I expect that amount to decrease significantly and possibly turn into a deficit once the full effects of the actuarial review are incorporated.

Other issues:

- Acceleration of losses continues to be a factor. In excess of \$110 million in claims will be paid to National Union in 2001, years ahead of the original schedule.
- The deferral of premium payments is putting a strain on the overall position because of lost investment income and a reduction in interest rates. This is further complicated by business being put in the Fac/Obligatory treaty (#14 - Discounting Treaty) priced using interest assumptions higher than the yield on the assets. I have not yet shown a deficiency on the Fac/Obligatory treaty.
- There are several treaties that can be taken back. Two aggregating \$55 million can be done quickly; the others present varying degrees of problems related to reserve deficiency, difficulty with reinsurers or investment arrangements that need to be liquidated.
- We are now working on the year 2001 contracts and will be in a better position to comment in approximately a month.

- I am working with Financial Products to develop the second tranch of the Newbridge Trust securities.
- The new treaty covering 2000 results is now being reviewed by reinsurers. Net premium to be ceded is \$114 million, the loss \$190 million
- There may be a more efficient approach to addressing some of the cash flow issues by foregoing commutations/take-backs and reducing premium ceded, thus accomplishing the same net effect in a more cost effective manner. I would like to discuss this with you.

A handwritten signature in black ink, appearing to be 'JHU' or similar, located below the list of bullet points.

JHU:ge
Attachment

cc: H. I. Smith
T. R. Tizzio

SPECIAL REINSURANCE

(in millions)

	Ulti- mate Loss	NPV of Ulti- mate	Cash Avail- able	Over (Short)	Credit Taken
AGGREGATE EXCESS / STOP LOSS					
1. Aggregate Excess - 1984-1985	206	145	145	0	208
2. Abeille - 1988 - Retrospective	400	344	327	(17)	400
3. Abeille - 1991 - 10 Yr.	189	157	152	(5)	189
4. AIGRM Stop Loss - 1993	50	43	43	0	23
5. AIGRM Stop Loss - 1994	50	37	38	1	23
6. Division 50 - Blown Max - 1991-1997	36	25	23	(2)	23
7. Excess Casualty - 1993	27	18	24	6	27
8. Excess Casualty - 1994	33	22	51	29	33
9. Aggregate Loss Ratio / Excess - 1996	525	310	280	(30)	440
10. Aggregate Loss Ratio / Excess - 1997	648	337	337	0	478
11. Aggregate Loss Ratio / Excess - 1998	800	399	349	(50)	543
12. Aggregate Loss Ratio / Excess - 1999	620	278	278	0	406
13. Aggregate Loss Ratio / Excess - 2000 (B)	652	0	0	0	318
14. DBG - Fac Obligatory - Aggregate Excess - 1999	325	147	147	0	325
15. AIU - Aggregate Excess - 1999	30	16	16	0	30
16. AIU - Aggregate Excess - 2000	30	15	15	0	30
17. DBG - Aggregate Excess - 1999	60	36	36	0	60
18. DBG - Aggregate Excess - 2000	60	30	30	0	60
19. Foreign General Aggregate - 2000	0	0	5	5	0
20. AIG Catastrophe Aggregate Excess - 2000	0	0	9	9	0
21. Warranty - 2000	210	213	213	0	210
22. Personal Lines Auto Aggregate - 2000	80	63	19	(44)	80
Total Aggregate Excess / Stop Loss	5,031	2,635	2,537	(98)	3,904
MISCELLANEOUS					
23. Other - Active Contracts	42	42	17	(25)	24
24. Other - Commuted & Cancelled Contracts (A)	0	0	154	154	0
Total Miscellaneous	42	42	171	129	24
TOTAL SPECIAL REINSURANCE	5,073	2,677	2,708	31	3,928

(A) Commuted & Cancelled Accounts Funds:

Global Catastrophe Cover	131
Lexington Warehouse	117
DBG Replacement Treaties	(80)
Professional Liability (NU Agg X/S)-Div 65	(13)
All Others Including Interest on Balance	(1)
Total Commuted & Cancelled Contracts	154

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(B) Aggregate Loss Ratio / Excess - 2000

Funds held liability balance accruing interest at 6.9% is \$ 5 for this reporting period.