REPORT ON EXAMINATION

OF THE

ATLANTA INTERNATIONAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2001

DATE OF REPORT	NOVEMBER 28, 2002
EXAMINER	JOSEPH A. ROME, CFE

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

November 28, 2002

Honorable Gregory V. Serio
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to instructions contained in Appointment Number 21944 dated October 17, 2002 and attached hereto, I have made an examination into the condition and affairs of the Atlanta International Insurance Company as of December 31, 2001 and respectfully submit the following report thereon.

The Company’s statutory home office is located at 11 British American Boulevard, Latham, New York 12110. The examination was conducted at the Company’s main administrative office located at 7230 McGinnis Ferry Road, Suite 300, Suwanee, Georgia 30024.

Whenever the designations “the Company” or “AIIC” appear herein without qualification, they should be understood to indicate the Atlanta International Insurance Company.

Whenever the designation “Department” appears herein without qualification, it should be understood to indicate the New York Insurance Department.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1997. This examination covered the four-year period from January 1, 1998 through December 31, 2001. Transactions occurring subsequent to this period were reviewed where deemed appropriate.

The examination comprised a complete verification of assets and liabilities as of December 31, 2001, a review of income and disbursements deemed necessary to accomplish such verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

Company history
Management and control
Corporate records
Fidelity bonds and other insurance
Territory and plan of operation
Market conduct activities
Growth of Company
Business in force by states
Loss experience
Reinsurance
Accounts and records

A review was also made to ascertain what actions were taken by the Company with regard to comments contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was incorporated on January 21, 1929 in the State of New York under the sponsorship of the Yorkshire Group. Operations were conducted under the title Seaboard Fire and Marine Insurance Company of New York from organization until October 1, 1975, when the Company was acquired by Alexander Howden Group U.S., Inc. and its name was changed to Drake Insurance Company of New York. Through this immediate parent or at other times through related parental units, the Company was a member of the British worldwide insurance brokerage network of Alexander Howden Group Ltd. (UK). On January 1, 1980, the name Atlanta International Insurance Company was adopted.

In 1982, the Alexander Howden Group Ltd. (UK) was purchased by Alexander & Alexander Services Inc. ("A&A Services"). A&A Services and its subsidiaries provided insurance brokerage risk management, and human resource management consulting services to clients worldwide. The Company's then immediate parent, Alexander Howden Group U.S., Inc., changed its name to Atlanta Group, Inc. in 1986. The name was changed again to A&A Underwriting Services Inc. ("A&A US") in 1994.

In March 1985, the Company ceased its underwriting operations following notification from A.M. Best and Company that its rating for 1985 would be "not assigned." The then ultimate parent, A&A Services made a business decision not to re-enter the business of underwriting insurance.

At December 31, 1996, the Company was a wholly-owned subsidiary of A&A US, which in turn was a wholly-owned subsidiary of A&A Services. Effective January 1997, Aon Corporation, through its wholly-owned subsidiary, Subsidiary Corporation Inc., acquired A&A Services, the ultimate parent of the Company. Subsidiary Corporation Inc. was then merged with A&A Services as of February 1997, with the survivor being A&A Services. On December 31, 1997 A&A Services changed its name to Aon Group

Inc. (a Maryland corporation). A&A US, the direct parent, subsequently changed its name to Aon Services Group, Inc. (a Delaware corporation).

Capital paid up is $2,560,932, consisting of 142,274 shares of common stock at $18 par value per share. All authorized shares are issued and outstanding. As of the examination date, gross paid in and contributed surplus was $6,141,052.

A. Management

The charter and by-laws of the Company provide that its corporate powers are to be exercised by a board of directors consisting of not less than thirteen nor more than twenty-one persons.

At December 31, 2001, the board of directors was comprised of the following thirteen members:

Name and Residence	Principal Business Affiliation
John W. Bing New York, NY	Consultant, Aon Re Worldwide
John M. Buttram Dacula, GA	Former Senior Claims Manager, Atlanta International Insurance Company
Clifford C. Calanni Ossining, NY	Assistant Vice President - Systems Applications, Cambridge Integrated Services Group, Inc
Elizabeth W. Eaton Grayson, GA	Treasurer, Atlanta International Insurance Company
Tari-Lee J. Gates Lawrenceville, GA	Regional Claims Manager, Cambridge Integrated Services Group, Inc
Peter J. Jacobus Atlanta, GA	Vice President and Secretary, Atlanta International Insurance Company
John S. Kinsella Duluth, GA	Vice President - Intermediary Reinsurance Accounting, Aon Specialty Re

Name and Residence	Principal Business Affiliation
Robert J. Legg Alpharetta, GA	Assistant Vice President, Aon Re Worldwide
Peter L. Lindquist Brooklyn, NY	Vice President-Actuarial Resources Department, Aon Re Worldwide
Michael J. Murphy Lawrenceville, GA	President and Chairman, Atlanta International Insurance Company
John K. Shea Yardley, PA	Division President, Cambridge Integrated Services Group, Inc
Anita M. Sirotzki Alpharetta, GA	Assistant Vice President, Aon Re Worldwide
Thomas A. Valentine Roswell, GA	Consultant, Atlanta International Insurance Company

During the period covered by this examination, the board met seven times. A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and that each of the directors had a satisfactory attendance record.

In the review of the Company's board of directors' minutes, it was noted that the board did not approve the purchases and sale of securities. Section 1411(a) of the New York Insurance Law provides that no domestic insurer shall make any loan or investment unless authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investment or loan.

It is recommended that the Company's board of directors approve all purchases and sales of securities and include such approvals in the minutes of its meetings, pursuant to the provisions of Section 1411(a) of the New York Insurance Law.

At December 31, 2001, the principal officers of the Company were as follows:

Name	Title
Michael J. Murphy	President
Peter J. Jacobus	Secretary/Vice President
Elizabeth W. Eaton	Treasurer

B. Territory and Plan of Operation

The Company is licensed to transact business in all states, including the District of Columbia, with the exception of Alaska, Colorado, Connecticut, Florida, Illinois, Michigan, Mississippi, Tennessee, Virginia and Wyoming.

During the prior period covered by this examination the Company's licenses have remained the same except for New Jersey, where the Company withdrew from a number of lines to comply with statutory requirements for minimum capital and surplus. Prior to this examination period the Company's license was suspended in Alaska, Florida, Mississippi and Tennessee and revoked in Colorado, Michigan, Virginia and Illinois. The suspensions and revocations were primarily due to the impairment of the Company's required capital and surplus level established by the various states. The Company was never licensed in Connecticut or Wyoming.

As of December 31, 2001, Atlanta International Insurance Company was authorized to transact the kinds of business as set forth in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

Paragraph	Lines of Business
3	Accident and health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine
21	Marine protection and indemnity

The Company is also empowered to transact such workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69th Congress as amended).

In 1989, the Company amended its New York license to exclude the power to write reinsurance risks of every kind or description pursuant to Section 4102(c) of the New York Insurance Law.

Based upon the lines of business for which the Company is licensed, and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, Atlanta International Insurance Company is required to maintain capital of $2,560,932 and a minimum surplus to policyholders in the amount of $2,560,932.

The Company ceased underwriting operations in 1985 and subject to the provisions of Section 1203 of the Insurance Law must obtain prior approval of the Superintendent of Insurance before it can resume writing any insurance business.

C. Reinsurance

The Company maintained extensive treaty and facultative reinsurance facilities for both property and casualty lines through 1985 at which time the Company ceased underwriting. All reinsurance contracts were placed in runoff in May 1985.

The Company entered into a loss portfolio transfer agreement with Centre Reinsurance (Barbados) Limited effective January 1, 1989. Pursuant to this agreement, the Company transferred $47,000,000 in outstanding loss and loss adjustment expenses (including outstanding loss and loss adjustment expenses recoverable from insolvent and commuted reinsurers) for which it paid $50,000,000. The cession represents 100% of the Company's net retained liability for losses and loss adjustment expenses outstanding at that date. This agreement is linked to two similar agreements whereby two affiliated companies transferred loss and loss adjustment expense reserves of $31,000,000 to Centre Re and paid $29,000,000. The agreement is with an unauthorized reinsurer and provides that all reserves are to be 100% funded by a letter of credit meeting the requirements of Department Regulation 133. The agreements were submitted to the New York Insurance Department. The Department expressed no objection. Transactions involving these agreements are entered into a "combined notional account". The balance in this account consists of the reinsurance premium paid by the companies; less a provisional administrative fee of 6%; less all indemnity payments paid by the companies; plus interest credited quarterly on the average daily balance in the account at a rate which is calculated at 60% of the current Treasury bill rate plus 40% of 8.375%.

Losses for the three companies are covered up to a maximum of $126,000,000. The Company has coverage available up to $68,000,000 plus any coverage unused by the other companies. If the Company's net settled losses exceed $47,000,000, additional losses may be subject to a "self-insured retention" ("SIR"). The SIR was established at $12,012,000; the actual SIR was not known until the combined net settled losses for the three companies equaled $76,000,000 and the net settled losses for the Company equaled $47,000,000. The SIR is calculated as follows:

(1) If net settled losses for AIIC reach $47,000,000 at the same time the combined net settled losses reach $76,000,000, the SIR will be equal to $12,500,000 less the excess, if any, of the balance in the combined notional account over $33,000,000 (referred to as the "available excess balance").

(2) If net settled losses for AIIC reach $47,000,000 before the combined net settled losses reach $76,000,000, Centre Re will continue to pay AIIC's losses until the combined net settled losses reach $76,000,000. At that time the SIR will be equal to $12,500,000 less the available excess balance.

(3) If the combined net settled losses reach $76,000,000 before AIIC's net settled losses reach $47,000,000, the SIR will be equal to $12,500,000 less the available excess balance plus an SIR adjustment. The SIR adjustment will consist of interest at the current Treasury bill rate on all combined net settled losses paid over the $76,000,000 plus the available excess balance until AIIC's net settled losses equal $47,000,000 plus the available excess balances. The SIR adjustment may not exceed $2,500,000.

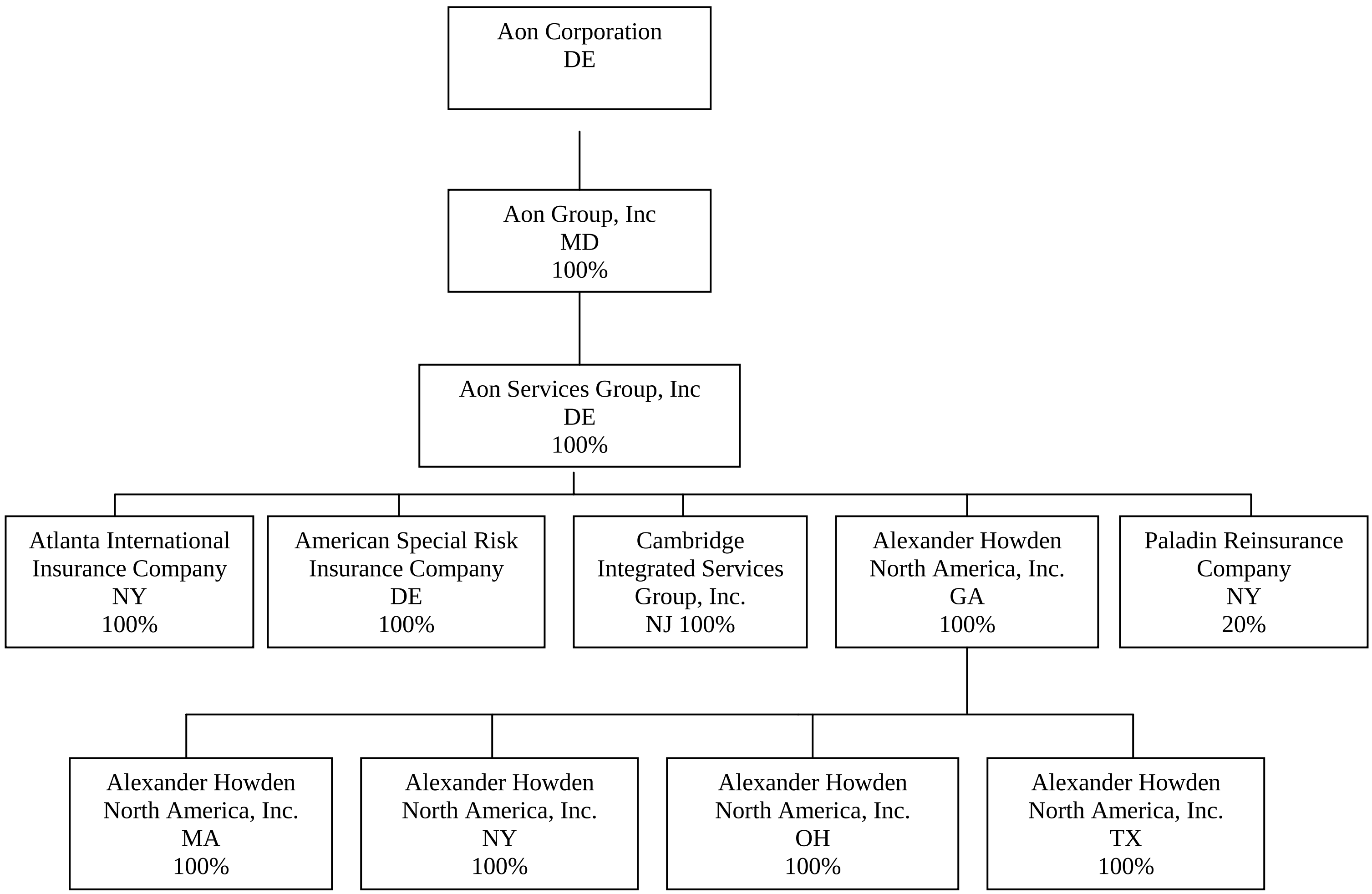
As of December 31, 2001 the net loss and loss adjustment expense ("LAE") payments for AIIC totaled $48,088,732. The available excess balance of $1,088,732 was based on contract terms. The Company has $9,701,893 remaining in the self–insured retention. An additional expected loss and LAE payment amount of approximately $21,000,000 was accrued for reserves in excess of the self-insured retention. AIIC has as collateral, a standby letter of credit in the amount of $28,052,888 supporting the loss portfolio transfer reserves.

D. Holding Company System

Atlanta International Insurance Company is a wholly-owned subsidiary of Aon Services Group, Inc. (a Delaware corporation), which in turn is wholly-owned by Aon Group, Inc. (a Maryland corporation). The ultimate parent in the holding company system at December 31, 2001, is Aon Corporation, (a Delaware corporation).

The Company's annual holding company registration statements have been filed on a timely basis, pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is a partial holding company chart depicting the Company's position in the holding company system.


Aon Corporation
DE
Aon Group, Inc
MD
100%
Aon Services Group, Inc
DE
100%
Atlanta International Insurance Company
NY
100%
American Special Risk Insurance Company
DE
100%
Cambridge Integrated Services Group, Inc.
NJ 100%
Alexander Howden North America, Inc.
GA
100%
Paladin Reinsurance Company
NY
20%
Alexander Howden North America, Inc.
MA
100%
Alexander Howden North America, Inc.
NY
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Alexander Howden North America, Inc.
OH
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Alexander Howden North America, Inc.
TX
100%

Schedule Y

The Company was a party to a service agreement with Cambridge Integrated Services Group, Inc. ("Cambridge"); however, the Company failed to include Cambridge in Schedule Y, Part 1 of its filed annual statement. Additionally, the Company reflected payments to Cambridge under the service agreement as being paid to its parent company, Aon Services Group, Inc. in Schedule Y, Part 2 of its filed annual statement. The Annual Statement Instructions for Property and Casualty Insurance Companies from the National Association of Insurance Commissioners provides that Schedule Y, Part 1 should include any non-insurer affiliates if such affiliate has activities reported in Schedule Y, Part 2.

It is recommended that the Company report all corporations in Schedule Y, Part 1 for which business transactions are reported in Schedule Y, Part 2 pursuant to the Annual Statement Instructions for Property and Casualty Insurance Companies from the National Association of Insurance Commissioners.

It is further recommended that the Company identify the correct affiliate when reporting transactions in Schedule Y, Part 2.

Tax Allocation Agreement

The Company entered into a tax allocation agreement with its ultimate parent, Aon Corporation, effective December 31, 1997, whereby the companies file a consolidated federal income tax return. The Company did not comply with the provisions of its tax allocation agreement regarding the timely settlement of amounts due.

As of the date of this examination, the tax allocation agreement had not been submitted to this Department for non-disapproval pursuant to Section 1505(d)(3) of the New York Insurance Law. However, it was subsequently submitted and non-disapproved.

It is recommended that the Company submit all inter-company agreements to this Department in a timely manner pursuant to Section 1505(d)(3) of the New York Insurance Law.

Additionally, it is recommended that the Company settle its obligations under the agreement in a timely manner.

A review of the Company's federal income tax liability as of December 31, 2001 indicated that the Company did not accrue for the full amount of its federal income taxes due. No adjustment has been made to the balance sheet for this understatement as the amount was not material. However, it is recommended that the Company properly accrue for its federal income tax liability.

Service Agreement

Effective in 1997, the Company entered into a service agreement with its affiliate, Cambridge Integrated Services Group, Inc ("Cambridge"). The agreement provides that Cambridge will provide all management and related insurance functions to AIIC and will be reimbursed for the actual cost of such services. This agreement was submitted to this Department in 1999 and it was non-disapproved pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law. It is noted that the agreement was not executed by the parties until the year 2002 and the executed agreement was not provided to this Department until 2002.

It is recommended that the Company execute its affiliated agreements and submit the executed agreements to this Department in a timely manner.

E. Section 1307 Loans

As of December 31, 2001, the Company reported loans in the amount of $49,200,000 as segregated surplus under the caption, “Section 1307 loans” in its filed annual statement. This item represents amounts borrowed from the Company’s parent, Aon Services Group, Inc (formerly A&A Underwriting Services Inc.) pursuant to the provisions of Section 1307(a) of the New York Insurance Law. The entire amount of these loans were received prior to this examination period. The loan agreements provide that these loans will accrue interest at a specified rate; however, the Company has received a waiver of interest from Aon Services Group, Inc. through December 31, 2001. All of these loan agreements have been submitted to, and approved by, this Department pursuant to the provisions of Section 1307(d) of the New York Insurance Law.

F. Accounts and Records

Management Fees

Upon review of the Underwriting and Investment Exhibit, Part 4 – Expenses, contained in the Company’s filed annual statements for the period under review, it was noted that the fees paid to the Company’s affiliate, Cambridge Integrated Services Group, Inc., for services rendered pursuant to the service agreement were reported as a one-line expense under the caption, “Aggregate write-ins for miscellaneous expenses – management fees.” The Annual Statement Instructions for Property and Casualty Insurance Companies from the National Association of Insurance Commissions provides that:

> “A company that pays any affiliated entity (including a managing general agent) for the management, administration, or service of all or part of its business or operations shall allocate these costs to the appropriate expense classification items (salaries, rent, postage, etc.) as if these costs had been borne directly by the company. Management, administration, or similar fees should not be reported as a one-line expense. The company may estimate these expense allocations based on a formula or other reasonable basis.”

It is recommended that the Company allocate its management fees to the appropriate expense classification items pursuant to the Annual Statement Instructions for Property and Casualty Insurance Companies from the National Association of Insurance Commissions. It is noted that a similar recommendation was contained in the prior report on examination.

Reinsurance Recoverable

Upon review of the items reported as admitted assets under the caption, “Reinsurance recoverable on paid loss and loss adjustment expenses”, it was noted that the Company does not always bill its reinsurers on a timely basis pursuant to the terms of the reinsurance agreements. The Company reports all unbilled recoverable balances in the “current” column of Schedule F – Part 4 of its annual statement, and does not begin aging its ceded reinsurance balances recoverable until such balances have been billed. The Annual Statement Instructions for Property and Casualty Insurance Companies from the National Association of Insurance Commissioners provides that:

> “For purposes of completing Columns 5 through 9, a paid loss and paid loss adjustment expense recoverable is due pursuant to original contract terms (as the contract stood on the date of execution).”

Reinsurance recoverable balances more than 90 days past due are considered in the determination of the liability item “Provision for reinsurance.” No change has been made to the liability account “Provision for reinsurance” for the effect of the incorrect aging of the recoverable balances due to the immateriality of the amounts. However, it is recommended that the Company age its paid loss and loss adjustment expense recoverable balances based on the terms of the reinsurance contracts pursuant to the provisions of the Annual Statement Instructions for Property and Casualty Insurance Companies from the

National Association of Insurance Commissioners. It is noted that a similar recommendation was contained in the prior report on examination.

Interest, Dividends and Real Estate Income Due and Accrued

A review of the admitted asset account, "Interest, dividends and real estate income due and accrued" indicated that the Company over-accrued for the interest due on a money market account. It was noted that the Company reported the same accrual amount for this account each year without consideration of the current balance. No change has been made to the admitted asset due to the immateriality of the amount. However, it is recommended that the Company calculate the interest due and accrued on its money market account based on the actual account balance.

Investment

(a) The Company reported an investment in a money market mutual fund as an admitted asset under the caption "cash" in its filed annual statement as of the examination date. This item should have been reported under the caption "common stocks" pursuant to the Annual Statement Instructions for Property and Casualty Insurance Companies from the National Association of Insurance Commissioners, which states that:

> "Shares of all mutual funds, regardless of the underlying security, whether specialized or a mixture of bonds, stock, money market instruments or other type of investments, except those mutual funds as defined in the *Purposes and Procedures* manual of the Securities Valuation Office of the NAIC which are reported in Schedule DA, Part 1, are considered to be shares of common stock and should be listed in the Industrial and Miscellaneous Category."

It was noted that the Company's investment in this mutual fund exceeded 10% of its admitted assets as reported on its last statement on file with the superintendent, which is in violation of Section 1409 of the New York Insurance Law. Subsequent to the examination date, the Company reinvested these funds into a money market fund that is qualified to be reported as a short-term investment in Schedule DA – Part 1, as defined in the Securities Valuation Office of the NAIC, and which is exempt from the 10% limitation provisions of Section 1409 of the New York Insurance Law.

No adjustment has been made to the Company’s balance sheet for the excess investment pursuant to Section 1409 of the New York Insurance Law, based on the subsequent reinvestment in an exempt security. However, it is recommended that the Company classify its investments in money market mutual funds to the proper annual statement line in accordance with instructions contained in the NAIC’s SVO manual and Annual Statement instructions.

(b) A review of the Company’s investment schedules indicated that the Company had a number of investment designation exceptions where bonds were categorized as provisionally exempt (“PE”) by the Securities Valuation Office (“SVO”) but were not designated as PE by the Company. The SVO Manual of the NAIC provides that the Company need not file these securities with the SVO if it follows certain monitoring procedures. The Company indicated that it did not have any monitoring procedures in place for its PE securities. The examiner verified that the securities would qualify as PE; therefore, no adjustment has been made to the financial statements in this report on examination.

It is recommended that the Company correctly categorize any PE securities in its annual statement. It is further recommended that the Company develop procedures for monitoring all PE securities.

(c) The total loss adjustment expenses paid in 2001 as reported in the Underwriting and Investment Exhibit, Part 4, Column 1 was $558,941, which is $498,941 more than the $60,000 reported in

Schedule P, Part 1, Summary. The difference represents the loss adjustment expense portion of the management fees paid to Cambridge pursuant to the service agreement, which were not included in Schedule P.

It is recommended that the Company include all loss adjustment expenses paid in Schedule P of its annual statement, pursuant to the Annual Statement Instructions for Property and Casualty Insurance Companies from the National Association of Insurance Commissioners.

G. Significant Operating Ratios

The following ratios have been computed as of December 31, 2001 based upon the results of this examination:

Net premiums written to surplus as regards policyholders	Not applicable
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	61.3%
Premiums in course of collection to surplus as regards policyholders	Not applicable

The second ratio falls within the benchmark range of the Insurance Regulatory Information System of the National Association of Insurance Commissioners. The first and third ratios were not applicable due to the fact that the Company has not written any business since 1985.

The underwriting ratios presented below are on an earned/incurred basis and encompass the four-year period covered by this examination:

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$(1,153,261)	(861.8)%
Other underwriting expenses incurred	752,865	562.6
Cession to Centre Re	(4,723,016)	(3,529.3)
Net underwriting gain	5,257,236	3,928.5
Premiums earned	$133,824	100.0%

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2001 and as reported by the Company.

	Examination			Company	
Assets	Asset	Not Admitted	Net Admitted	Net Admitted	Surplus Increase (Decrease)
Bonds	$14,823,370	$	$14,823,370	$14,823,370	$
Cash and short term investments	8,451,309		8,451,309	8,451,309	
Funds held by or deposited with reinsured companies	(2,396)		(2,396)	(2,396)	
Reinsurance recoverables on loss and loss adjustment expense payments	496,965		496,965	496,965	
Interest, dividends and real estate income due and accrued	234,981		234,981	234,981	
Other assets	87,079		87,079	87,079	
Total assets	$24,091,308	$	$24,091,308	$24,091,308	$ 0

Liabilities	Examination	Company	Surplus Increase (Decrease)
Losses and loss adjustment expenses	$13,257,674	$12,191,732	$(1,065,942)
Reinsurance payable on paid loss and LAE	1,023,288	1,023,288	
Commissions payable, contingent commissions	560	560	
Federal and foreign income taxes	730,725	730,725	
Funds held by company under reinsurance treaties	3,249,038	3,249,038	
Provisions for reinsurance	54,140	54,140	
Drafts outstanding	419,851	419,851	
Payable to parent, subsidiaries and affiliates	81,732	81,732	
Reserve for unrecoverable reinsurance	17,474,393	17,474,393	
Loss portfolio transfer	(21,000,000)	(21,000,000)	
Other liabilities	38,750	38,750	
Total liabilities	$15,330,151	$14,264,209	$(1,065,942)
Common capital stock	$2,560,932	$2,560,932	$
Section 1307 loans	49,200,000	49,200,000	
Gross paid in and contributed surplus	6,141,052	6,141,052	
Unassigned funds (surplus)	(49,140,827)	(48,074,885)	(1,065,942)
Surplus as regards policyholders	$8,761,157	$9,827,099	$(1,065,942)
Total liabilities and surplus	$24,091,308	$24,091,308	

NOTE 1: The Internal Revenue Service has completed its audits of the consolidated tax returns filed on behalf of the Company through tax year 1997. All material adjustments, if any, made subsequent to the date of the examination and arising from said audits, are reflected in the financial statements included in this report. Audits covering tax years 1998 to 2000 are in progress, while those covering tax year 2001 have yet to commence. The examiner is unaware of any potential exposure of the Company to any further tax assessment and no liability has been established herein relative to such contingency.

NOTE 2: No liability appears in the balance sheet for loans totaling $49,200,000 through December 31, 2001. The loans were granted pursuant to Section 1307 of the New York Insurance Law. As provided in Section 1307, repayment of the principal and interest shall only be made out of free and divisible surplus and is subject to prior approval of the Superintendent of Insurance of the State of New York.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased $7,897,393 during the four-year examination period, January 1, 1998 through December 31, 2001, detailed as follows:

Statement of Income

Underwriting Income		
Premiums earned		$133,824
Deductions:		
Losses and loss adjustment expenses incurred	$(1,153,261)	
Other underwriting expenses incurred	752,865	
Cession to Centre Re	(4,723,016)	
Total underwriting deductions		(5,123,412)
Net underwriting gain		$5,257,236
Investment Income		
Net investment income earned	$5,323,435	
Net realized capital gains	1,503	
Net investment gain		5,324,938
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$(10,434)	
Aggregate write-ins for miscellaneous income	3,461,066	
Total other income		3,450,632
Net income (loss) before federal income taxes		$14,032,806
Federal income taxes incurred		$1,436,753
Net income or (loss)		$12,596,053

Capital and Surplus Account

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders, per report on examination as of December 31, 1997			$863,763
Net income or loss	$12,596,053	$	
Change in not admitted assets	249,343		
Change in provision for reinsurance		30,561	
Change in excess statutory over statement reserves	4,483		
Prior exam change to liability for loss portfolio transfer	___________	4,921,927	
Total gains and losses in surplus	$12,849,881	$4,952,488	
Net gains in surplus			7,897,393
Surplus as regards policyholders per report on examination as of December 31, 2001			$8,761,156

Note: Failure of columns to add is due to rounding.

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for losses and loss adjustment expenses of $13,257,674 is $1,065,942 more than the $12,191,732 reported by the Company as December 31, 2001. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed and sworn to annual statements.

The examination change represents the difference between the amount reported as reinsurance recoverable on a structured settlement and the amount of funds held in a trust account as payment-in-full for the reinsurance recoverable amount. The Company entered into a structured settlement with one of its claimants in the amount of $30,500,000. Under the terms of this settlement the Company was to pay $5,500,000 in December 1998 and three additional payments of $8,333,333 each, one each year starting in 2003, totaling $25,000,000. Pursuant to Department policy when an insurer self-funds the cost of a structured settlement, a reserve in the amount of the sum of the total payments to be made less the periodic payments already made should be maintained as the loss reserve.

As of December 31, 2001, the Company's net loss reserve on the structured settlement was $10,292,944, as follows:

	Amount
Gross structured settlement amount payable	$25,000,000
Reinsurance recoverable on structured settlement	14,707,056
Net loss reserve on structured settlement	$10,292,944

The court settlement agreement required that funds secured from reinsurers be placed in a trust account. In 1998, the Company received funds from reinsurers in the amount of $9,782,762 on a discounted basis and $2,051,703 from AIIC and other reinsurers on a gross basis, which are being held in a trust account, in full settlement of the reinsurance recoverable on the structured settlement. As of December 31, 2001, the trust account was under-funded in the amount of $1,065,942, as follows:

	Value at Par
Bonds	$ 11,909,000
Money Market	1,502,828
Accrued interest	229,286
Total trust account	$ 13,641,114
Reinsurance recoverable on structured settlement	14,707,056
Under-funded reinsurance recoverable amount	$ 1,065,942

Pursuant to Section 4117(c) of the New York Insurance Law, loss and loss expense reserves may not be reported on a discounted basis, except for certain specified lines of business. The examination change of $1,065,942 represents the difference between the reinsurance recoverable amount reported as a reduction to the Company's liability for losses outstanding and the amount held in the trust account. It is noted that the Company's quarterly statements in 2002 properly reflect only the actual amount of the trust account balance as an offset to the structured settlement.

The prior report on examination noted that the Company was unable to locate an assumed reinsurance contract with Riunione Adriatica di Sicurta and recommended that the Company endeavor to locate this contract. As of the date of this report, the Company has been unable to locate this assumed reinsurance contract. The Company continues to report assumed loss and loss adjustment expense reserves related to this contract as of December 31, 2001. It is recommended that the Company continue its efforts to locate the assumed reinsurance contract with Riunione Adriatica di Sicurta.

5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct investigation, which is the responsibility of the Market Conduct Unit of the Property Bureau.

The general review was directed at practices of the Company in the area of treatment of policyholders and claimants. Reviews of sales and advertising, underwriting and rating were not applicable due to the fact that the Company has not written any business during the examination period. No problem areas were encountered.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained eleven comments and recommendations as follows (page numbers refer to the prior report):

ITEM		PAGE NO.
A.	It was commented that as a result of the prior examination, the Company's capital was impaired in the amount of $1,697,169 and its required to be maintained minimum surplus to policyholders of $2,200,000 was impaired in the amount of $1,336,237. As of the current examination date, the Company's capital and surplus are no longer impaired.	1,16 and 22
B.	It was recommended that board members who fail to attend at least one-half of the board's meetings should resign or be replaced. The Company has complied with this recommendation.	5-6
C.	It was commented that the Company ceased underwriting in 1985 and subject to the provisions of Section 1203 of the Insurance Law must obtain prior approval of the Superintendent of Insurance before it can resume writing any insurance business. This comment is still applicable.	7-8
D.	It was recommended that the Company comply with Section 1505(d)(2) of the New York Insurance Law and submit all inter-company agreements to the Department for prior approval. The Company has not complied with this recommendation. A similar recommendation is contained herein.	11
E.	It was recommended that the Company submit agreements to the Department for approval in a timely manner. The Company has not complied with this recommendation. A similar recommendation is contained herein.	11

ITEM		PAGE NO.
F.	It was recommended that a written contract be obtained for services by its independent accounting firm, such contract to be executed by Atlanta International or its parent and it conform to the requirements of Section 307(b) of the New York Insurance Law and Department Regulation 118. The Company has complied with this recommendation.	12-13
G.	It was recommended that the Company comply with the NAIC's Annual Statement Instructions and allocate its management fees to the appropriate expense classification item. The Company has not complied with this recommendation. A similar recommendation is contained herein.	13
H.	It was recommended that the Company comply with the NAIC's Annual Statement Instructions and age this receivable pursuant to its contract terms. The Company has not complied with this recommendation. A similar recommendation is contained herein.	13-14
I.	It was recommended that the Company refrain from depositing its securities with securities brokers. The Company has complied with this recommendation.	18
J.	It was recommended that the Company continue in its efforts to locate the assumed reinsurance contract with Riunione Adriatica di Sicurta. The Company has not complied with this recommendation. A similar recommendation is contained herein.	20
K.	It was recommended that the wording used on the claims drafts be changed to conform to the provisions of Department Regulation 64. The Company has complied with this recommendation.	21

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Management	
	It is recommended that the Company's board of directors approve all purchases and sales of securities and include such approvals in the minutes of its meetings, pursuant to the provisions of Section 1411(a) of the New York Insurance Law.	5
B.	Holding Company System	
	Schedule Y	
1.	It is recommended that the Company report all corporations in Schedule Y, Part 1 for which business transactions are reported in Schedule Y, Part 2 pursuant to the Annual Statement Instructions for Property and Casualty Insurance Companies from the National Association of Insurance Commissioners.	12
2.	It is recommended that the Company identify the correct affiliate when reporting transactions on Schedule Y, Part 2.	12
	Tax Allocation Agreement	
1.	It is recommended that the Company submit all inter-company agreements to this Department in a timely manner pursuant to Section 1505(d)(3) of the New York Insurance Law. Additionally, it is recommended that the Company settle its obligations under the agreement in a timely manner.	13
2.	It is recommended that the Company properly accrue for its federal income tax liability.	13
	Service Agreement	
	It is recommended that the Company execute its affiliated agreements and submit the executed agreements to this Department in a timely manner.	13
C.	Accounts and Records	
	Management Fees	
	It is recommended that the Company allocate its management fees to the appropriate expense classification items pursuant to the Annual Statement Instructions for Property and Casualty Insurance Companies from the National Association of Insurance Commissions.	15
	Reinsurance Recoverable	
	It is recommended that the Company age its paid loss and loss adjustment expense recoverable balances based on the terms of the reinsurance contracts pursuant to the provisions of the Annual Statement Instructions for Property and Casualty	15

ITEM		PAGE NO.
	Insurance Companies from the National Association of Insurance Commissioners.	
	<u>Interest, Dividends and Real Estate Income Due and Accrued</u>	
	It is recommended that the Company calculate the interest due and accrued on its money market account based on the actual account balance.	16
	<u>Investment</u>	
1.	It is recommended that the Company classify its investments in money market mutual funds to the proper annual statement line in accordance with instructions contained in the NAIC's SVO manual and Annual Statement instructions.	16
2.	It is recommended that the Company correctly categorize any PE securities in its annual statement. It is further recommended that the Company develop procedures for monitoring all PE securities.	17
3.	It is recommended that the Company include all loss adjustment expenses paid in Schedule P of its annual statement, pursuant to the Annual Statement Instructions for Property and Casualty Insurance Companies from the National Association of Insurance Commissioners.	18
	<u>Loss and Loss Adjustment Expenses</u>	
	It is recommended that the Company continue its efforts to locate the assumed reinsurance contract with Riunione Adriatica di Sicurta.	25

Respectfully submitted,

__________/S/_____________
Joseph A. Rome, CFE
Examiner In Charge

STATE OF NEW YORK)
)SS.
)
COUNTY OF NEW YORK)

JOSEPH A. ROME, being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

__________/S/_____________
Joseph A. Rome

Subscribed and sworn to before me

this _________day of ______________________2003.

Appointment No. 21944

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY V. SERIO, *Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

Joseph Rome

as proper person to examine into the affairs of the

ATLANTA INTERNATIONAL INSURANCE COMPANY

and to make a report to me in writing of the condition of the said

Company

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by the name and affixed the official Seal of this Department, at the City of New York,

this 17th *day of October,* 2002

GREGORY V. SERIO
Superintendent of Insurance