

REPORT ON EXAMINATION
OF THE
ATLANTA INTERNATIONAL INSURANCE COMPANY
OF NEW YORK
AS OF
DECEMBER 31, 2006

DATE OF REPORT

AUGUST 13, 2008

EXAMINER

JIMMIE NEWSOME

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

August 13, 2008

Honorable Eric R. Dinallo
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 22661 dated July 16, 2007, attached hereto, I have made an examination into the condition and affairs of the Atlanta International Insurance Company as of December 31, 2006 and submit the following report thereon.

Wherever the designations "the Company" or "AIIIC" appear herein without qualification, it should be understood to indicate the Atlanta International Insurance Company.

Wherever the designation "Department" appears herein without qualification, it should be understood to indicate the New York Insurance Department.

The examination was conducted at the Company's main administrative office located at 7230 McGinnis Ferry Road, Suite 200, Suwanee, Georgia 30024.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2001. This examination covers the five-year period from January 1, 2002, through December 31, 2006. Transactions occurring subsequent to this period were reviewed where deemed appropriate, by the examiner.

The examination comprised a complete verification of assets and liabilities as of December 31, 2006. The examination included a review of income, disbursements and company records deemed necessary to accomplish such verification, and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants ("CPA"). 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 ("NAIC"):

- History of the Company
- Management and control
- Corporate records
- Fidelity bonds and other insurance
- Territory and plan of operation
- Growth of the Company
- Business in force by states
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations 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, under the laws of the State of New York under the sponsorship of the Yorkshire Group and began business January 22, 1929. Operations of the company 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. Since that time, management has directed the run-off of the Company’s inventory of claims.

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. Atlanta International Insurance Company became a controlled insurer of Aon Corporation (“Aon”) on January 15, 1997 through Subsidiary Corporation Inc., a wholly owned subsidiary of Aon upon acquisition of A&A Services. On February 21, 1997, Subsidiary Corporation Inc. was merged with A&A Services with A&A Services being the surviving entity. On December 31, 1997, A&A Services changed its name to Aon Group, Inc. (a Maryland corporation). A&A US, the immediate parent, subsequently changed its name to Aon Services Group, Inc. (a Delaware corporation).

At December 31, 2006, the capital paid in was \$2,560,932 consisting of 142,274 shares of common stock with a par value of \$18 per share. Gross paid-in and contributed surplus was \$6,141,052.

A. Management

Pursuant to the Company's charter and by-laws, as amended, management of the Company is vested in a board of directors, consisting of not less than thirteen nor more than twenty-one members. The board met at least one time during each calendar year. At December 31, 2006, the board of directors was comprised of the following eleven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
John W. Bing New York, NY	Consultant, Aon Specialty Re
Elizabeth W. Eaton Grayson, GA	Secretary and Treasurer, Atlanta International Insurance Company
Michael F. Hurd Clifton Park, NY	Vice President and Director of Field Financial Services, Combined Insurance Company of America
Peter J. Jacobus Atlanta, GA	President, Atlanta International Insurance Company
John S. Kinsella Duluth, GA	Vice President – Claims, Aon Specialty Re
Robert J. Legg Alpharetta, GA	Assistant Team Leader Claims, Aon Specialty Re
Peter L. Lindquist Brooklyn, NY	Assistant Director and Actuary, Aon Risk Consultants
Anita M. Sirotzki Alpharetta, GA	Assistant Vice President, Aon Re Worldwide
Smajo A. Terzich Western Springs, IL	Executive Vice President, Cambridge Integrated Services Group, Inc.
Clyde S. Tucker Kennesaw, GA	Executive Claims Consultant, Atlanta International Insurance Company
Thomas A. Valentine Roswell, GA	Consultant, Thomas A. Valentine, LLC

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 each board member had an acceptable record of attendance.

The Company was not in compliance with Section 1201 (a)(5)(B)(v) of the New York Insurance Law or Article II, Section 2 of its by-laws, which states "The directors of the Corporation shall not be fewer than thirteen nor more than twenty-one in number."

At December 31, 2006, the Company's board consisted of eleven members. It is recommended that the Company reconstitute its board of directors to meet the requirements as set forth in Section 1201(a)(5)(B)(v) of the New York Insurance Law and its by-laws.

A review of the board of directors' minutes during this examination period did not indicate that the investments made by Atlanta International Insurance Company were approved by the Company's board of directors in accordance with Section 1411(a) of the New York Insurance Law. 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 adhere to the provisions of Section 1411 (a) of the New York Insurance Law.

As of December 31, 2006 the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Peter J. Jacobus	President
Elizabeth W. Eaton	Secretary/Treasurer
Richard E. Barry	Deputy General Counsel
Ronald D. Markovits	Vice President

1. Conflict of Interest

The Company has a procedure to distribute conflict of interest questionnaires to its board of directors, executive officers and to all principal employees on a yearly basis. A review of the Company's records was made for the period covered by this examination. This review was confined to the board of directors listed in the annual statements covered by this examination period. There

were instances where the Company was unable to provide the conflict of interest questionnaires for certain directors during the period covered this examination.

It is recommended that the Company exercise due care in obtaining and maintaining signed conflict of interest questionnaires from its board of directors, officers and employees.

B. Territory and Plan of Operation

As of December 31, 2006, the Company was licensed to write business in forty-one states and the District of Columbia. The Company did not write business in Colorado, Connecticut, Florida, Illinois, Michigan, Mississippi, Tennessee, Virginia and Wyoming.

As of December 31, 2006, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Kind of Insurance</u>
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 and inland marine
21	Marine protection and indemnity

The Company is also authorized to transact such workers' compensation insurance as may be incidental to coverages contemplated under paragraphs 20 and 21 of Section 1113 (a) of the New York Insurance Law, including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69th Congress as amended; 33 USC Section 901 et seq. as amended).

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, the Company is required to maintain a minimum surplus to policyholders in the amount of \$2,560,932.

In 1985, the Company ceased all underwriting operations. Since that time, management has directed the run-off of the company's inventory of claims. Pursuant to Section 1203(b) of the New York Insurance Law, the Company must obtain prior approval from the superintendent before it can resume an 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 all underwriting operations. All reinsurance contracts were placed in run-off in May 1985.

In conjunction with the run-off, the company entered into a reinsurance transaction with Centre Reinsurance (Barbados) Limited ("Centre Re") in 1989, whereby it ceded to Centre Re virtually all of its loss reserves, loss adjusted expenses and unrecoverable reinsurance reserves of \$47 million for \$50 million in cash. In consideration for the premium received, Centre Re reimbursed the Company for substantially all gross losses and loss adjustment expenses, excluding unallocated loss adjustment expenses, reserved at January 1, 1989, as the underlying claims were paid. All reinsurance recoveries on such claims were credited to Centre Re.

As reserves deteriorated further, Centre Re provided additional reinsurance coverage of \$26.3 million above a self-insured retention by AIIC of \$12 million. At December 31, 2005, AIIC held a letter of credit from Centre Re in the amount of \$30.6 million to secure this transaction. As of December 31, 2005, AIIC had exhausted the self-insured retention and had utilized all of the additional \$26.3 million of Centre Re protection on an accrual basis

On August 31, 2006, the Company completed a commutation agreement with Centre Reinsurance Limited (f/k/a Centre Reinsurance (Barbados) Limited) ("Centre Re"), which was approved by the Department on August 1, 2006. The commutation agreement terminated the loss portfolio transfer reinsurance agreement effective as of January 1, 1989 (the "terminated agreement"), in which Centre Re agreed to reinsure certain risks insured by the Company.

At August 31, 2006, the effective date of the Commutation Agreement, the Company had \$17,012,000 of coverage remaining on the additional \$26,300,000 layer of protection, which it had fully utilized on an accrual basis. On that date, the Company also had reinsurance recoverable on Centre Re covered claims of \$5,824,000 and held a letter of credit from Centre in the amount of \$30,593,000 to collateralize the aforementioned transaction.

Pursuant to the commutation agreement and the settlement agreement (attached to the commutation agreement), the Company received \$40,207,742 (\$30,379,159 under the commutation agreement plus \$9,828,583 pursuant to the settlement agreement). Of this amount, \$22,835,760 reimbursed the Company for its remaining limit (\$17,012,077) plus reinsurance recoverable currently due (\$5,823,683), \$17,122,240 represented a premium adjustment calculated pursuant to the terms of the terminated agreement, and \$249,742 was for interest income (\$221,159 under the commutation agreement, calculated from the June 12, 2006, notice date of the commutation agreement to the September 8, 2006, payment date plus \$28,583 under the settlement agreement, calculated from the June 12, 2006, notice date of the commutation agreement to the July 17, 2006, payment date).

The aforementioned letter of credit in the amount of \$30,592,498, held by the Company to collateralize the terminated agreement, was cancelled effective September 22, 2006, pursuant to the terms of the commutation agreement.

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit and trust accounts obtained by the Company to take credit for cessions to unauthorized reinsurers were reviewed and found to be in compliance with Department Regulations 133 and 114, respectively.

All ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in NAIC Accounting Practices and Procedures Manual Statements of Statutory Accounting Principles ("SSAP") No. 62. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's chief executive officer pursuant to Department Circular Letter No. 8 (2005). Additionally, examination review indicated that the Company was not

a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in paragraphs 25 and 26 of SSAP No. 62.

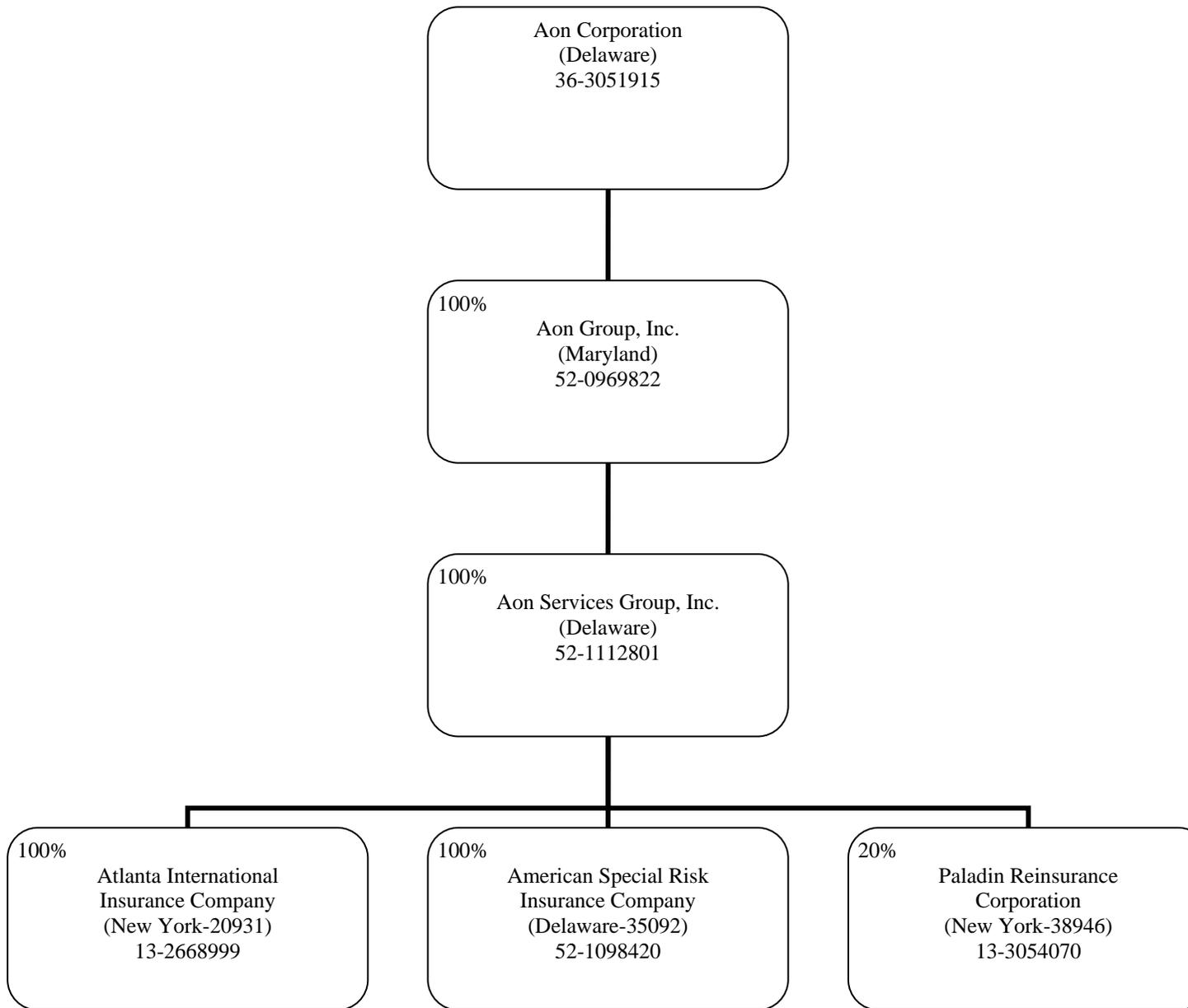
D. Holding Company System

As of December 31, 2006, Aon Corporation (“Aon”) is the ultimate parent in the holding company system. No person beneficially owns more than 10% of the presently issued and outstanding shares of Aon. The immediate parent is Aon Services Group, Inc. and the intermediate parent is Aon Group, Inc.

Atlanta International Insurance Company became a controlled insurer of Aon Corporation (“Aon”) on January 15, 1997 through Aon Group, Inc., a wholly owned subsidiary of Aon, which owns 100% of Aon Services Group, Inc., which owns 100% of Atlanta International Insurance Company.

A review of the holding company registration statements filed with this Department indicated that such filings were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abridged chart of the Company's holding company system as of December 31, 2006:



At December 31, 2006, the Company was party to the following agreements with other members of its holding company system:

1. Tax Allocation Agreement

On December 31, 1997, the Company entered into a tax allocation agreement with its ultimate parent, Aon Corporation and its affiliates, which was approved by the Department.

As determined by this examination, the tax allocation agreement by and between the Company and its ultimate parent, Aon Corporation met the minimum guidelines set forth in Department's Circular Letter No. 33 (1979).

2. Investment Advisory Agreement

Subsequent to the examination date, the Company entered into an investment advisory agreement with Aon Advisors, Inc., which was non-disapproved by the Department pursuant to the provisions of Section 1505 of the New York Insurance Law on March 5, 2007.

E. Section 1307 Loans

As of December 31, 2006, 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 was 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, 2006. 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. Significant Operating Ratios

The following ratios have been computed as of December 31, 2006 based upon the results of this examination:

Net premiums written in 2006 to surplus as regards policyholders	N/A
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	70.35%
Premiums in course of collection to surplus as regards policyholders	N/A

The net premiums written in 2006 to surplus as regards policyholders and premiums in course of collection to surplus as regards policyholders ratios are not applicable due to the Company's run-off status. The liabilities to liquid assets ratio fell within the benchmark range set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

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

	<u>Amounts</u>	<u>Ratios</u>
Losses incurred and loss adjustment expenses incurred	\$1,618,433	(360.45)%
Other underwriting expenses incurred	(15,999,938)	3,563.40
Net underwriting gain	<u>13,932,497</u>	<u>(3,102.95)</u>
Premiums earned	<u>\$(449,008)</u>	<u>100.00%</u>

G. Accounts and Records

During the period under examination, the examiners noted the following deficiencies in the Company's system of accounts and records and annual statement reporting:

1. 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.

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.

2. Reinsurance Contract with Riunione Adriatica di Sicurta

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, 2006.

It is recommended that the Company continue its efforts to locate the assumed reinsurance contract with Riunione Adriatica di Sicurta.

3. Contract with Certified Public Accountant (“CPA”)

The review of the contractual agreements between the Company and Ernst & Young LLP, its independent auditor during the examination period, revealed that they did not contain certain provisions required by Section 89.2 of Department Regulation 118 as follows:

“(a) on or before May 31st, the CPA shall provide an audited financial statement of such insurer and of any subsidiary required by Section 307 (b)(1) of the Insurance Law together with an opinion on the financial statements of such insurer and any

- such subsidiary for the prior calendar year and an evaluation of the insurer's and any such subsidiary's accounting procedures and internal control systems as are necessary to the furnishing of the opinion;
- (b) any determination by the CPA that the insurer has materially misstated its financial condition as reported to the superintendent or that the insurer does not meet minimum capital or surplus to policyholder requirements set forth in the Insurance Law shall be given by the CPA, in writing, to the superintendent within 15 calendar days following such determination; and
 - (c) the workpapers and any communications between the CPA and the insurer relating to the audit of the insurer shall be made available for review by the superintendent at the offices of the insurer, at the Insurance Department or at any other reasonable place designated by the superintendent. The CPA must retain for review such workpapers and communications in accordance with the provisions of Part 243 of this Title (Regulation 152). More specifically, such workpapers and communications must be retained by the CPA for the period specified in sections 243.2 (b)(7) and (c) of this Title..."

It is recommended that the Company comply with the provisions of Section 307(b) of the New York Insurance Law and Department Regulation 118 with respect to its written engagement contracts with its CPA.

4. Management Service Agreement

The prior report on examination indicated that the Company entered into a service agreement with its then affiliate, Cambridge Integrated Services Group, Inc ("Cambridge"), effective January 1, 1997. Under the terms under the agreement, Cambridge agrees to provide the Company services for management and all related insurance functions. In turn, the Company agrees to reimburse Cambridge for the actual cost of these services.

As of December 31, 2006, Cambridge has since been sold and FFG Insurance Company ("FFG"), an affiliate has assumed the duties of handling the management functions of the Company in lieu of a management and/or service agreement. The Company has indicated that FFG is reimbursed by the Company for the actual cost of these services.

It is recommended that the Company formalize a written management service agreement with FFG Insurance Company and file such with the Department pursuant to the provisions of Section 1505 of the New York Insurance Law.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2006 as determined by this examination. This statement is the same as the balance sheet filed by the Company.

<u>Assets</u>	<u>Assets</u>	Non-Admitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$7,621,271		\$7,621,271
Cash and short-term investments	40,006,952		40,006,952
Investment income due and accrued	194,089		194,089
Amounts recoverable from reinsurers	1,584,736		1,584,736
Funds held by or deposited with reinsured companies	6,602		6,602
Other amounts receivable under reinsurance contracts	95,944		95,944
Net deferred tax asset	<u>140,633</u>	<u>\$140,633</u>	<u>0</u>
Total assets	<u>\$49,650,227</u>	<u>\$140,633</u>	<u>\$49,509,594</u>

Liabilities, Surplus and Other Funds

<u>Liabilities</u>	<u>Amount</u>
Losses and loss adjustment expenses	\$8,692,863
Reinsurance payable on paid losses and loss adjustment expenses	104,684
Commission payable, contingent commissions and other similar charges	560
Current federal and foreign income taxes	3,821,313
Ceded reinsurance premiums payable	596,035
Funds held by company under reinsurance treaties	8,657,202
Provision for reinsurance	434,198
Drafts outstanding	9,913
Payable to parent, subsidiaries and affiliates	159,255
Reserve for unrecoverable reinsurance	<u>11,168,735</u>
Total liabilities	\$33,644,756
<u>Surplus and Other Funds</u>	
Common capital stock	\$2,560,932
Surplus notes	49,200,000
Gross paid-in and contributed surplus	6,141,052
Unassigned funds (surplus)	<u>(42,037,146)</u>
Surplus as regards policyholders	<u>15,864,838</u>
Total liabilities, surplus and other funds	<u>\$49,509,594</u>

NOTE 1: The Internal Revenue Service has completed its audits of the consolidated federal income tax returns filed on behalf of the Company through tax year 2004. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. The Internal Revenue Service has not yet begun to audit federal income tax returns covering tax year 2006. The examiner is unaware of any potential exposure of the Company to any 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, 2006. 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 \$7,103,681 during the five-year examination period January 1, 2002, through December 31, 2006 detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$(449,008)
Deductions:		
Losses and loss adjustment expenses incurred	\$1,618,433	
Other underwriting expenses incurred	1,122,302	
Premium adjustment – loss portfolio transfer	<u>(17,122,240)</u>	
Total underwriting deductions		<u>(14,381,505)</u>
Net underwriting gain or (loss)		\$13,932,497

Investment Income

Net investment income earned	\$3,616,064	
Net realized capital gains or (losses)	<u>282,341</u>	
Net investment gain or (loss)		3,898,405

Other Income

Provision for unrecoverable reinsured losses	\$(8,604,845)	
Dividends from reinsurance liquidations	964,638	
Miscellaneous income	<u>66,106</u>	
Total other income		<u>(7,574,101)</u>
Net income after capital gains tax and before all federal and foreign income taxes		\$10,256,801
Federal and foreign income taxes incurred		<u>2,773,063</u>
Net income		<u>\$7,483,738</u>

Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 2001			\$8,761,157
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income or (loss)	\$7,483,738		
Change in deferred income tax	140,633		
Change in non-admitted assets		\$140,633	
Change in provision for reinsurance	<u> </u>	<u>380,057</u>	
Total gains and losses	<u>\$7,624,371</u>	<u>\$520,690</u>	
Net increase (decrease) in surplus			<u>7,103,681</u>
Surplus as regards policyholders per report on examination as of December 31, 2006			<u>\$15,864,838</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability of \$8,692,863 is the same as the amount reported by the Company as of the examination date. 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 annual statement.

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 of this Department.

The general review was directed at practices of the Company in the area of treatment of policyholders and claimants. As the Company is in run-off, the review of sales and advertising, underwriting and rating are not applicable. No problems were encountered.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained thirteen recommendations as follows (item letters and page numbers refer to that of the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
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
The Company has not complied with this recommendation. A similar comment is made in this report.	
B. <u>Holding Company System</u>	
<u>Schedule Y</u>	
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
The Company has complied with this recommendation.	
2. It is recommended that the Company identify the correct affiliate when reporting transactions on Schedule Y, Part 2.	12
The Company has complied with this recommendation.	
<u>Tax Allocation Agreement</u>	
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
The Company has complied with this recommendation.	
2. It is recommended that the Company properly accrue for its federal income tax liability.	13
The Company has complied with this recommendation.	

ITEMPAGE NO.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

The Company has complied with this recommendation.

C. Accounts and RecordsManagement 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

The Company has complied with this recommendation.

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 Insurance Companies from the National Association of Insurance Commissioners. 15

The Company has not complied with this recommendation. A similar comment is made in this report.

Interest, Dividends and Real Estate Income Due and Accrued

It is recommended that the Company calculate the interest due and accrued on its money market account based on the actual account balance. 16

The Company has complied with this recommendation.

Investment

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

The Company has complied with this recommendation.

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

The Company has complied with this recommendation.

ITEMPAGE NO.

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

The Company has complied with this recommendation.

Loss and Loss Adjustment Expenses

- It is recommended that the Company continue its efforts to locate the assumed reinsurance contract with Riunione Adriatica di Sicurta. 25

The Company has not complied with this recommendation. A similar comment is made in this report.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i. It is recommended that the Company reconstitute its board of directors to meet the requirements as set forth in Section 1201(a)(5)(B)(v) of the New York Insurance Law and its by-laws.	5
ii. It is recommended that the Company adhere to the provisions of Section 1411(a) of the New York Insurance Law.	5
iii. It is recommended that the Company exercise due care in obtaining and maintaining signed conflict of interest questionnaires from its board of directors, officers and employees.	6
B. <u>Accounts and Records</u>	
i. 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.	13
ii. It is recommended that the Company continue its efforts to locate the assumed reinsurance contract with Riunione Adriatica di Sicurta.	13
iii. It is recommended that the Company comply with the provisions of Section 307(b) of the New York Insurance Law and Department Regulation 118 with respect to its written engagement contracts with its CPA.	14
iv. It is recommended that the formalize a written management service agreement with FFG Insurance Company and filed such with the Department pursuant to the provisions of Section 1505 of the New York Insurance Law.	14

Respectfully submitted,

_____/s/
Jimie Newsome,
Associate Insurance Examiner

STATE OF NEW YORK)
)SS:
)
COUNTY OF NEW YORK)

JIMMIE NEWSOME, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

_____/s/
Jimie Newsome

Subscribed and sworn to before me
this _____ day of _____, 2008.

Appointment No. 22661

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, Eric R. Dinallo, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Jimmie Newsome

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 16th day of July, 2007



ERIC R. DINALLO
Superintendent of Insurance

