ASSOCIATION REPORT ON EXAMINATION

OF THE

ATLANTIC MUTUAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2001

ZONES REPRESENTED	STATES PARTICIPATING	EXAMINERS
I	NEW YORK	JAMES MURPHY
II	MISSISSIPPI	HERB PARKS

Honorable Alfred W. Gross
Chairman, Financial Condition
Subcommittee, NAIC
2301 McGee Street, Suite 800
Kansas City, Missouri 64108-2604

Honorable Alfred W. Gross
Treasurer, Southeastern Zone
Insurance Commissioner
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
P.O. Box 1157
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Honorable Diane Koken
Secretary-Treasurer, Northeastern Zone
Insurance Commissioner
Pennsylvania Insurance Department
1326 Strawberry Square, 13th Floor
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Honorable Charles Cohen
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Secretary-Treasurer, Western Zone
Arizona Department of Insurance
2910 North 44th Street, Suite 210
Phoenix, Arizona 85018-7256

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

Commissioners:

In accordance with your several instructions, an Association Examination has been made as of December 31, 2001 into the financial condition and affairs of the Atlantic Mutual Insurance Company and the following report is respectfully submitted.

Whenever the designations “Company” or “Atlantic Mutual” appear herein without qualification, they should be understood to indicate the Atlantic Mutual Insurance Company. Whenever the designations “Atlantic Companies” or “Group” appear herein without qualification, they should be understood to include the Atlantic Specialty Insurance Company and the Centennial Insurance Company, as well as the Atlantic Mutual Insurance Company.

REPORT ON EXAMINATION

OF THE

ATLANTIC MUTUAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2001

DATE OF REPORT: JANUARY 31, 2003

EXAMINER: JAMES MURPHY

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

January 31, 2003

Honorable Gregory Serio
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to instructions contained in Appointment No. 21898, dated June 5, 2002 and attached hereto, I have made an examination of the conditions and affairs of the Atlantic Mutual Insurance Company as of December 31, 2001 and submit the following report.

The examination was conducted at the Company's administrative office located at 3 Giralda Farms, Madison, New Jersey 07940, its home office located at 140 Broadway, New York, New York and its Branch office in Roanoke, Virginia.

Wherever the designations "the Company" or "Atlantic Mutual" appear herein without qualification, they should be understood to indicate the Atlantic Mutual Insurance Company. Whenever the designations "Atlantic Companies" or "Group" appear herein without qualification, they should be understood to include the Atlantic Specialty Insurance Company and the Centennial Insurance Company, as well as the Atlantic Mutual Insurance Company.

Whenever the designation "the 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 period from January 1, 1998 through December 31, 2001. Transactions occurring subsequent to this period were reviewed where deemed necessary by the examiner.

The examination comprised a complete verification of assets and liabilities as of December 31, 2001, and a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent 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:

History of the Company
Management and control
Company records
Fidelity bonds and other insurance
Territory and plan of operation
Growth of the Company
Business in force
Loss experience
Reinsurance
Market conduct activities
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 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 require explanation or description.

A concurrent examination was made of the Atlantic Specialty Insurance Company and the Centennial Insurance Company, wholly-owned subsidiaries of the Company, for which separate reports have been issued. The systems and practices of conducting business are integrated and all three companies operate under common management.

2. DESCRIPTION OF COMPANY

The Company was incorporated on April 11, 1842 under the laws of the State of New York. It commenced business on July 1, 1842 having taken over and continuing the business of the Atlantic Insurance Company, a stock company organized in 1829.

In September 1941, Atlantic Mutual subscribed to the entire issue of capital stock of the Centennial Insurance Company ("Centennial") and remains as the sole shareholder.

In 1986, the formation of the Atlantic Holding Corporation and two wholly-owned subsidiaries, Atlantic Re Management Services, Inc. and Atlantic Reinsurance Company were approved by the New York Insurance Department. On February 14, 1995, Atlantic Reinsurance Company changed its name to Atlantic Specialty Insurance Company ("Atlantic Specialty"), and it continues to operate under that name.

On February 10, 1998, the Company issued $100,000,000 of 8.15% surplus notes due February 28, 2028, pursuant to Section 1307 of the New York Insurance Law. Any principal or interest payments require the approval of the Superintendent of Insurance. The Company received approval for all interest payments made during the examination period.

On May 31, 1999, the Company made a surplus contribution of $25,000,000 to its subsidiary, Atlantic Specialty. On June 13, 2000, the Company made a surplus contribution of $500,000 to its subsidiary, Atlantic Mutual of Bermuda, Ltd. On June 30, 2001, the Company made an additional surplus contribution of $5,000,000 to Atlantic Specialty.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than twenty-four directors. As of the examination date, the board of directors was comprised of fifteen trustees. The Company's charter provides that the board meet at least four times during each calendar year. The Group shares a common board.

The fifteen directors as of December 31, 2001 were as follows:

Name and Residence	Principal Business Affiliation
Carter J. Bacot Montclair, NJ	Director, Bank of New York
William R. Chaney Clinton, CT	Chairman, Tiffany & Company
Jill M. Considine New York, NY	Chairman and Chief Executive Officer, Depository Trust & Clearing Corporation
Virgil E. Conway Bronxville, NY	Chairman, Metropolitan Transit Authority
Salvatore R. Curiale Bellerose Village, NY	Senior Executive Vice President, Mutual of America Life Insurance Company
Hugh A. D'Andrade Summit, NJ	Retired Vice Chairman and Chief Executive Officer, Schering-Plough Corporation

Name and Residence	Principal Business Affiliation
Klaus G. Dorfi Bernardsville, NJ	Chairman of the Board and Chief Executive Officer, Atlantic Mutual Companies
T. M. Farley Westfield, NJ	General Partner, Brown Brothers Harriman & Company
Jarobin Gilbert New Rochelle, NY	President and Chief Executive Officer, DBSS Group, Inc.
J. D. Hammond State College, PA	Dean Emeritus & William Elliot Professor Emeritus, Smeal College of Business Administration Pennsylvania State University
Dan F. Huebner Fairfield, CT	Retired Vice Chairman, Grumman Corporation
Eugene R. McGrath Rye, NY	Chairman, President and Chief Executive Officer, Consolidated Edison Company of New York, Inc.
H. Marshall Schwarz New York, NY	Retired Chairman, U. S. Trust Corporation
Kermit C. Smith Madison, NJ	President and Chief Operating Officer, Atlantic Mutual Companies
Lloyd G. Waterhouse Dayton, OH	Chief Executive Officer, Chairman and President, The Reynolds and Reynolds Company

The examiner's review of the minutes of the meetings of the board of directors and its committees indicated that such meetings were well attended.

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

Name	Title
Klaus G. Dorfi	Chairman of the Board
Kermit C. Smith	President
Cornelius E. Golding	Senior Vice President and Chief Financial Officer
Theodore R. Henke	Senior Vice President and Corporate Counsel
Thomas P. Gorke	Senior Vice President
John G. Heitz	Senior Vice President
Robert G. Himmer	Senior Vice President
Daniel H. Olmsted	Senior Vice President
David P. Mitchell, Jr.	Senior Vice President
Nancy E. Hahon	Vice President and Corporate Secretary

B. Territory and Plan of Operation

As of December 31, 2001, the Company was licensed in all fifty states, the District of Columbia, Puerto Rico and the United Kingdom.

Direct premium income of the Atlantic Companies is produced by an agency force consisting of approximately 1,000 independent agents and 200 brokers.

The Company is restricted by its charter to the issuance of non-assessable policies, whereby the policyholders are not liable for the debts or obligations of the Company. Policies may be issued on a participating or non-participating basis.

The majority of the Company's direct premium writings consist of the following lines of business: commercial multi-peril (36.5%), workers' compensation (22.8%), homeowners' multi-peril (9.7%), commercial auto (8%) and auto physical damage (7.9%).

Insurance operations are conducted by the Atlantic Companies through the following regional offices:

Commercial Lines	Personal Lines	Marine Lines
Northeast Region New York, New York	Eastern Region Madison, New Jersey	Northeast Region New York, New York
Central Region Atlanta, Georgia	Southeast Region Atlanta, Georgia	Central Region Philadelphia, Pennsylvania
Midwest Region Chicago, Illinois	Western Region Chicago, Illinois	Southern Region Atlanta, Georgia
Western Region San Francisco, California		Pacific Region San Francisco, California

Each regional office, with its branch offices, underwrites business and settles claims in its territory within its limits of authority.

The following schedule shows the direct premiums written by the Company during the examination period, the direct premiums written in New York State, and the percentage that the New York premiums bear to the countrywide premiums:

DIRECT PREMIUMS WRITTEN

Calendar Year	New York State	Total United States	Percentage of premiums Written in New York
1998	$ 95,282,097	$ 496,958,416	19.17%
1999	95,029,785	521,654,785	18.22
2000	112,316,468	623,051,160	18.03
2001	133,717,307	675,691,630	19.79
Totals	$436,345,657	$2,317,355,991	18.83%

As of December 31, 2001, 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:

Paragraph	Kind of Insurance
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
26	Gap
27	Prize indemnification
28	Service contract reimbursement
29	Legal services
30	Substantially similar kinds of insurance

In addition, the Company is licensed to transact such workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a), including coverages 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). The Company is also licensed to write special risk insurance pursuant to Section 6302, as well as the multiple line reinsurance as set forth in 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, the Company is required to maintain a minimum surplus to policyholders in the amount of $35,000,000.

C. Reinsurance

Assumed

During the examination period, the Atlantic Companies assumed a small amount of reinsurance from non-affiliated companies, alien insurers, syndicates, pools and associations. In 2001, the Company's assumed premiums represented approximately 25.37% of its gross premium writings for the year. The Company participates in an inter-company pooling agreement, the details of which are explained in Section 2D of this report.

Ceded

The Schedule F data as contained in the Company's filed annual statements was found to accurately reflect its reinsurance transactions.

The examiner reviewed all ceded reinsurance contracts in effect at December 31, 2001. All of the contracts contained the required standard clauses including insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law. The reinsurance program is the same for each company.

The following is a description of the Company's reinsurance program at December 31, 2001:

Type of Contract	Coverage and Limits
Blanket Casualty	
Three layers 100% authorized	\$24,000,000 excess of \$1,000,000 each event 1st layer is ceded 95%, next two layers are ceded 100%.

Type of Contract	Coverage and Limits
Umbrella Quota Share	
100% authorized	80% quota share in respect of first $5,000,000 of limits, each loss, accident or occurrence, each policy.
Umbrella Excess	
100% authorized	95% of commercial and 100% of personal umbrella limits $5,000,000 excess of $5,000,000 each loss, accident or occurrence, each policy.
Umbrella Excess	
100% authorized	100% of commercial umbrella limits $15,000,000 excess of $10,000,000 each loss, accident or occurrence, each policy.
Property Per Risk	
Five layers Mostly authorized	100% of $49,000,000 excess of $1,000,000 each risk, each loss occurrence, subject to an annual aggregate deductible of $2,500,000.
Property Catastrophe	
Six layers Mostly authorized	$150,000,000 excess of $20,000,000 any one loss occurrence 1st layer is ceded 70% 2nd layer is ceded 80% 3rd layer is ceded 90% all other layers are ceded 100%.
Marine Lines	
Marine Per Risk	
Two layers 100 % authorized	100% of $14,000,000 excess of $1,000,000 any one risk, subject to annual aggregate deductible of $1,000,000.
Marine Clash	
Four layers 100% authorized	$29,000,000 excess of $1,000,000 any one loss occurrence 1st layer is ceded 100% all other layers are ceded 80%.
Surety	
Surety Surplus	
Variable Surplus Mostly authorized	Up to $44,000,000 part of $50,000,000 in respect of any one bond, cession amount varies by bond amount.

Type of Contract	Coverage and Limits
Surety Excess	
Three layers Mostly authorized	$17,500,000 excess of $2,500,000 ultimate net loss per principal, per event all layers are ceded 95%.
Stop Loss	
Whole Account Aggregate	Maximum recovery is $50,000,000 any one year and Cession
Stop Loss 3Years 100% authorized	$100,000,000 over 3 years 1/1/99 – 12/31/01. Coverage attaches at a loss ratio of 62.9% for accident year 1999 and 63.9% for accident years 2000 and 2001.
Whole Account Aggregate Stop Loss 3 Years 100% authorized	Maximum recovery is $50,000,000 any one year $100,000,000 over 3 years 1/1/01 – 12/31/03. Coverage attaches at 63.9% for accident year 2001.
Whole Account Aggregate 100% unauthorized	Maximum recovery is $65,300,000 4/01/01 – 3/31/02 Section A Whole Account Section B-Windstorm only.

The Company was also a party to a ten-layer excess of loss reinsurance agreement covering all lines of business for accident year 2000. The Company and its auditor at the time concluded that the Company retained all underwriting risk for this transaction and that coverage was equal to the premium paid. As such, the Company determined that there was no transfer of underwriting risk under this agreement and accounted for it using deposit accounting. As of the examination date, there had been no recoveries under the agreement, and the agreement was commuted during calendar year 2003.

Unauthorized Reinsurance

The trust agreements and letters of credit obtained by the Company in order to take credit for cessions made to unauthorized reinsurers were reviewed for compliance with Department Regulations 114 and 133, respectively. No exceptions were noted.

Inter-Company Reinsurance Agreement

Atlantic Mutual and the Centennial Insurance Company ("Centennial") entered into an inter-company reinsurance agreement originally effective January 1, 1960. Pursuant to the terms of the agreement all combined net business of the companies was apportioned 75% to Atlantic Mutual and 25% to Centennial. The companies share underwriting assets and liabilities, including any non-admitted assets and the provision for reinsurance, in the same proportion. Certain corporate assets and liabilities are not pooled and each company is responsible for its own operation. On January 1, 1991, the participating share for each company changed from 75% to 60% for Atlantic Mutual and from 25% to 40% for Centennial. On January 1, 1999, Atlantic Specialty Insurance Company ("Atlantic Specialty") was added to the agreement and the participating share for each company was changed to 55% for Atlantic Mutual, 40% for Centennial and 5% for Atlantic Specialty. On January 1, 2001, the participating share for each company was changed to 75% for Atlantic Mutual, 23% for Centennial and 2% for Atlantic Specialty.

D. Holding Company System

Atlantic Mutual Insurance Company is a New York domestic insurer. Pursuant to Section 1502(a)(1) of the New York Insurance Law, if the ultimate parent is an authorized insurer, then all companies in the group are exempt from holding company matters and filings. Therefore, the Company is not required to file pursuant to Article 15 of the Insurance Law and Department Regulation 52.

The Company is party to the following inter-company agreements:

(1) Tax Allocation Agreement

The Company participates in a tax allocation agreement with its subsidiaries, Atlantic Specialty Insurance Company, Centennial Insurance Company, Atlantic Lloyd's Insurance Company of Texas, Atlantic Risk Services, Inc., Atlantic Companies Holding Corporation, Atlantic Mutual of Bermuda

Limited. A formal agreement was executed and submitted to the Department, pursuant to the Department's Circular Letter No. 33 (1979), describing the manner in which the federal income tax for all entities is allocated to each entity. The agreement was effective April 11, 1980 and was amended numerous times to add various participants.

(2) Service Agreement

The Company entered into a service agreement with Centennial Holding Corporation (now known as Atlantic Companies Holding Corporation) effective December 1, 1988. Pursuant to the terms of the agreement, the Company provides various services such as accounting, tax preparation and auditing to Centennial Holding Corporation.

(3) Service Agreement

The Company entered into a service agreement with Atlantic Lloyd's Insurance Company of Texas effective January 1, 1982. Pursuant to the terms of the agreement, the Company provides various services such as underwriting advice, policy issuance, billing services, auditing and record keeping.

E. Accounts and Records

The Company does not regularly adjust its unallocated accounts so that each general ledger account displays its actual outstanding amount at year-end.

It is recommended that the Company regularly adjust its unallocated accounts so that each general ledger account displays its actual outstanding amount at year-end.

F. Abandoned Property Law

Section 1316 of the New York Abandoned Property Law provides that amounts payable to a resident of this state from a policy of insurance, if unclaimed for three years, shall be deemed to be abandoned property. Such abandoned property shall be reported to the Comptroller on or before the first day of April each year. Such filing is required of all insurers regardless of whether or not they have any abandoned property to report.

The Company's abandoned property reports for the period of this examination were all filed on a timely basis pursuant to the provisions of Section 1316 of the New York Abandoned Property Law.

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 in 2001 to surplus as regards policyholders	1.76:1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	107.6%
Premiums in course of collection to surplus as regards policyholders	19.00%

The first and third ratio set forth above fall within the benchmark ranges set forth by the Insurance Regulatory Information System of the National Association of Insurance Commissioners. The second ratio falls outside the benchmark range due to the examination increase to the Company's loss and loss adjustment expense reserves.

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	$1,409,349,581	83.9%
Other underwriting expenses incurred	586,459,251	34.9
LAD/CLAD program fees	2,081,490	.1
Net underwriting (loss)	(318,671,005)	(19.0)
Premiums earned	$1,679,219,317	100.00%

3. FINANCIAL STATEMENTS

A. Balance Sheet

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

	EXAMINATION			COMPANY	
Assets	Ledger Assets	Not-Admitted Assets	Net-Admitted Assets	Assets	Increase (Decrease)
Bonds	$529,314,263	$	$529,314,263	$529,314,263	$
Preferred stocks	86,000		86,000	86,000	
Common stocks	443,440,616	28,144,000	415,296,000	443,440,616	(28,144,000)
Real estate	2,690,829		2,690,829	2,690,829	
Cash	(9,180,561)		(9,180,561)	(9,180,561)	
Short-term investments	62,293,168		62,293,168	62,293,168	
Other invested assets	300,000		300,000	300,000	
Receivable for securities	14,359,792		14,359,792	14,359,792	
Premiums and agents' balances in course of collection	87,228,158	7,023,255	80,204,903	80,204,903	
Premiums, agents balances and installments booked but deferred and not yet due	162,682,552	1,905,000	160,777,552	160,777,552	
Accrued retrospective premiums	19,738,500	1,973,850	17,764,650	17,764,650	
Bills receivable taken for premiums	16,746		16,746	16,746	
Amounts billed and receivable under high deductible policies	3,757,549		3,757,549	3,757,549	
Reinsurance recoverable on loss and loss adjustment expense payments	14,499,497		14,499,497	14,499,497	
Federal and foreign income tax Recoverable	3,461,177	2,281,000	1,180,177	1,180,177	
Guaranty funds receivable or on Deposit	4,758,164		4,758,164	4,758,164	
Electronic data processing Equipment	4,428,531		4,428,531	4,428,531	
Interest due and accrued	11,197,893		11,197,893	11,197,893	
Receivable from parent, subsidiaries and affiliates	4,358,769		4,358,769	4,358,769	
Equities and deposits in pools and Associations	8,837,915	263,750	8,574,165	8,574,165	
Other assets nonadmitted	24,500,808	24,500,808			
Other assets	19,265,277	16,635,631	2,629,646	2,629,646	
Unprocessed losses	185,168		185,168	185,168	
Funds held by foreign agencies	1,876,196	68,290	1,807,906	1,807,906	
Deposit reinsurance	18,850,556	100,556	18,750,000	18,750,000	
Coli-cash surrender value	51,026,113		51,026,113	51,026,113	
Total assets	$1,483,973,676	$82,896,140	$1,401,077,536	$1,429,221,536	$(28,144,000)

	Examination	Company	Surplus Increase (Decrease)
Liabilities			
Losses and loss adjustment expenses	$698,042,339	$612,146,339	$(85,896,000)
Contingent commissions	11,311,937	11,311,937	
Other expenses	13,781,055	13,781,055	
Taxes licenses and fees	9,877,615	9,877,615	
Unearned premiums	171,747,605	171,747,605	
Dividends declared and unpaid: policyholders	3,148,765	3,148,765	
Ceded reinsurance premiums payable	6,372,780	6,372,780	
Funds held by company under reinsurance treaties	135,166,818	135,166,818	
Amounts withheld or retained by company for account of others	12,715,266	12,715,266	
Remittances and items not allocated	538,775	538,775	
Provision for reinsurance	7,894,827	7,894,827	
Net adjustments in assets and liabilities due to foreign exchange rates	882,140	882,140	
Drafts outstanding	13,283,099	13,283,099	
Payable for securities	5,047,329	5,047,329	
Aggregate write-ins for liabilities	4,914,298	4,914,298	
Total liabilities	$1,094,724,648	$1,008,828,648	$(85,896,000)
Surplus and Other Funds			
Guaranty fund	$ 3,000,000	$ 3,000,000	
Surplus notes	100,000,000	100,000,000	
Unassigned funds (surplus)	203,352,888	317,392,888	$(114,040,000)
Surplus as regards policyholders	$306,352,888	$ 420,392,888	$(114,040,000)
Total liabilities and surplus	$1,401,077,536	$1,429,221,536	

NOTE: The Internal Revenue Service has completed its audit of the consolidated federal income tax returns filed on behalf of the Company through the tax year ended December 31, 1995. All material adjustments, if any, made subsequent to the examination date and arising from said audits are reflected in the financial statements included in this report. 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.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders decreased $112,717,255 during the four-year examination period from January 1, 1998 through December 31, 2001 detailed as follows:

Statement of Income

Underwriting Income		
Premiums earned		$1,679,219,317
Deductions:		
Losses and loss adjustment expenses incurred	$1,409,349,581	
Other underwriting expenses incurred	586,459,251	
CLAD/LAD program fees	2,081,490	
Total underwriting deductions		1,997,890,322
Net underwriting loss		$(318,671,005)
Investment Income		
Net investment income earned	$ 161,677,152	
Net realized capital gains (losses)	103,224,797	
Net investment gain		264,901,949
Other Income		
Net loss from agents' balances charged off	$ (6,609,921)	
Finance and service charges not included in premiums	3,048,678	
Aggregate write-ins for other income	764,965	
Total other income		(2,796,278)
Net income before dividends to policyholders and federal income taxes		$ (56,565,334)
Dividends to policyholders		27,499,118
Net income after dividends to policyholders and before federal and foreign income taxes		$ (84,064,452)
Federal and foreign income taxes incurred		5,625,255
Net income (loss)		$(89,689,707)

Capital and Surplus Account

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders, per report on examination as of December 31, 1997			$420,884,143
Net loss	$	$89,689,707	
Net unrealized capital loss		92,634,592	
Change in non-admitted assets		38,144,621	
Change in provision for reinsurance		4,578,731	
Change in surplus notes	100,000,000		
Change in foreign exchange adjustment		765,379	
Cumulative effect of change in accounting principle	1,320,000		
Change in inter-company repooling non-admitted assets	9,077,333		
Change in inter-company repooling provision for reinsurance	998,309		
Change in inter-company repooling foreign exchange		37,403	
Change in inter-company repooling unrealized losses		76,464	
Total gains and losses	$111,395,642	$225,926,886	
Net decrease in surplus as regards policyholders			114,531,255
Surplus as regards policyholders, per report on examination as of December 31, 2001			$306,352,888

4. COMMON STOCKS

The examination admitted asset of $415,296,000 is $28,144,000 less than the $443,440,616 reported by the Company in its December 31, 2001 filed annual statement.

The examination decrease is due to a decrease in the carrying value of the one of the Company's second tier subsidiaries. Examination analysis indicated that the loss and loss adjustment expense reserves of the second tier subsidiary were understated by $28,144,000, thus reducing the admitted value of the subsidiary stock reported by the Company in its annual statement.

5. LOSS AND LOSS ADJUSTMENT EXPENSES

The examination liability of $698,042,339 is $85,896,000 more than the $612,146,339 reported by the Company as of the examination date. The 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 statements.

6. MARKET CONDUCT ACTIVITIES

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

The general review was directed at practices of the Company in the following major areas:

A. Sales and advertising
B. Underwriting
C. Rating
D. Treatment of policyholders and claimants

No problems were noted.

A market conduct investigation consisting of an underwriting and rating review of the Company's commercial multiple peril line of business, was conducted for policies in force as of June 30, 2000. A review was also performed to determine compliance with Section 3426 of the New York Insurance Law. Based on this investigation, it was determined that the Group had violated Article 34 of the New York Insurance Law. The Group agreed that the violations had occurred and a penalty of $5,775 was imposed.

7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

Following are the violations, recommendations and comments contained in the prior report on examination and the subsequent actions taken by the Company in response to each citation:

ITEM		PAGE NO.
A.	Accounts and Records	15
i.	It is recommended that Atlantic Specialty account for agents' balances that are 90 days past due and older on their books and not on Atlantic Mutual's books. The Company has complied with this recommendation.	
ii.	It is recommended that the companies correct the remaining TARABS programming problems, especially since this condition has existed for approximately two years. The Company has complied with this recommendation.	15-16
B.	Losses	
	It is recommended that the Company take proper care when completing Schedule P and all other parts of the annual statement and review that all data in the annual statement is correct before filing it with the New York Insurance Department. The Company has complied with this recommendation.	21

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

Following are the violations, recommendations and comments contained in this report:

ITEM		PAGE NO.
A.	Accounts and Records	
	It is recommended that the Company regularly adjust its unallocated accounts so that each general ledger account displays its actual outstanding amount at year- end.	13

Respectfully submitted,

_____________/S/___________
James Murphy
Associate Insurance Examiner

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

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

_____________/S/___________
James Murphy

Subscribed and sworn to before me

this_________ day of __________________2003.

State of New York
County of New York

EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES USED IN AN EXAMINATION

HERB PARKS, BEING DULY SWORN, STATES AS FOLLOWS:

1. I have authority to represent the State of Mississippi in the examination of Atlantic Mutual Insurance Company.

2. Mississippi is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

3. I have reviewed the examination work papers and examination report and the examination of Atlantic Mutual Insurance Company was performed in a manner consistent with the standards and procedures required by the State of Mississippi.

The affiant says nothing further.

Examiner's Signature

State of Tennessee
Davidson County

Subscribed and sworn before me by Jere P. Cowan on this 29th day of March, ~~2003~~ 2004.

(SEAL)

Notary Public

My commission expires 5.28.2006 [date].

Appointment No 21898

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:*

James Murphy

as proper person to examine into the affairs of the

ATLANTIC MUTUAL 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 5th *day of* June, 2002

GREGORY V. SERIO
Superintendent of Insurance