ASSOCIATION REPORT ON EXAMINATION

OF THE

ATLANTIC SPECIALTY INSURANCE COMPANY

AS OF

DECEMBER 31, 2001

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

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Chairman, Financial Condition
Subcommittee, NAIC
2301 McGee Street, Suite 800
Kansas City, Missouri 64108-2604

Honorable Alfred W. Gross
Treasurer, Southeastern Zone
Insurance Commissioner
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1326 Strawberry Square, 13th Floor
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Honorable Charles Cohen
Director
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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 Specialty Insurance Company and the following report is respectfully submitted thereon.

REPORT ON EXAMINATION

OF THE

ATLANTIC SPECIALTY 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. 21899, dated June 5, 2002 and attached hereto, I have made an examination of the conditions and affairs of the Atlantic Specialty Insurance Company, Inc. as of December 31, 2001 and submit the following report thereon.

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 at the offices of its internal auditors, information systems, and collection and processing center located in Roanoke, Virginia.

Wherever the designations "the Company" or "Atlantic Specialty" appear herein without qualification, they should be understood to indicate the Atlantic Specialty Insurance Company. Whenever the designations "Atlantic Companies" or "Group" appear herein without qualification, they should be understood to include the Atlantic Specialty Insurance Company, the Centennial Insurance Company and 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 prior 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. The examination included 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.

Concurrent examinations were made of the Atlantic Mutual Insurance Company ("Atlantic Mutual"), the parent, and Centennial Insurance Company, a wholly-owned subsidiary of Atlantic Mutual, for which separate reports have been submitted. 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 June 27, 1986, as the Atlantic Reinsurance Company under the laws of the State of New York. The Company was organized by Atlantic Mutual Insurance Company as a wholly-owned subsidiary. It commenced business on December 24, 1986, with capital of $1,500,000 consisting of 150,000 shares of stock with a par value of $10 per share and a gross paid in surplus of $6,000,000. The Company discontinued operations in 1993. On December 16, 1994, Atlantic Mutual contributed $5,000,000 as paid in surplus to Atlantic Reinsurance Company. Prior to 1994, the Company operated as a reinsurance company. On February 14, 1995, the Company changed its name to Atlantic Specialty Insurance Company and increased the par value of its capital stock from $20 to $60 per share thereby increasing its capital to $9,000,000 and reducing its gross paid in surplus from $13,500,000 to $7,500,000.

On September 4, 1996, the Company received a $5,000,000 contribution to gross paid in and contributed surplus from its parent, Atlantic Mutual Insurance Company and began operations as a direct writer of property/casualty insurance. Simultaneously, the Company performed a quasi-reorganization whereby it eliminated the unassigned funds deficit of $5,716,000 by charging the deficit against gross paid in and contributed surplus. This transaction resulted in a gross paid in and contributed surplus of $6,784,053.

Capital paid in is $9,000,000 consisting of 150,000 shares of $60 par value per share common stock. Gross paid in and contributed surplus is $36,784,053. Gross paid in and contributed surplus increased by $30,000,000 during the examination period, as follows:

Year	Description		
1998	Beginning gross paid in and contributed surplus		$6,784,053
1999	Surplus contribution	$25,000,000	
2001	Surplus contribution	5,000,000	
	Total Surplus Contributions		30,000,000
2001	Ending gross paid in and contributed surplus		$36,784,053

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 but not more than thirty-two directors. As of the examination date, the board of directors was comprised of fourteen members. The Company's charter provides that the board meet at least four times during each calendar year. The Group shares a common board.

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

Name and Residence	Principal Business Affiliation
Carter J. Bacot Montclair, NJ	Director, The 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

Name and Residence	Principal Business Affiliation
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
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
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 meetings were well attended.

As of December 31, 2000, 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
Name	Title
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 to transact business in the following thirty-eight states and the District of Columbia:

Arizona	Michigan	South Dakota
Arkansas	Missouri	Tennessee
California	Montana	Texas
Colorado	Nebraska	Utah
Connecticut	Nevada	Vermont
Delaware	New Jersey	Virginia
Florida	New York	Washington
Georgia	North Carolina	West Virginia
Illinois	North Dakota	Wisconsin
Indiana	Ohio	Wyoming
Kansas	Oklahoma	
Kentucky	Oregon	
Louisiana	Pennsylvania	
Maryland	South Carolina	

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

The majority of the Company’s direct writings were derived from the following lines of business: commercial multi-peril (56.7%), auto physical damage (13.7%) commercial auto liability (13%), and private passenger auto liability (10%).

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	$15,544,157	$18,601,990	83.56%
1999	16,712,547	22,107,568	75.60
2000	15,930,678	19,993,405	79.68
2001	11,517,691	15,374,307	74.92
Total	$59,705,073	$76,077,270	78.48%

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 kind 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, 69^{th} 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 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 $4,200,000.

C. Reinsurance

Assumed

During the examination period, the Atlantic Companies assumed a small amount of reinsurance from alien insurers, syndicates, pools and associations. In 2001, the Company's assumed premiums represented approximately 15% of its gross premium writings. 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 statement 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 or the group.

The Company had the following reinsurance coverage in effect at December 31, 2001:

Type of Contract	Cession
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%.
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.
Type of Contract	Cession
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% of \$14,000,000 excess of \$1,000,000 any one risk,

100% authorized	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.
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 Stop Loss 3 Years 100% authorized	Maximum recovery is $50,000,000 any one year $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.

Type of Contract	Cession
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 a loss ratio of 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 – Company retains ultimate net loss incurred up to an amount equal to 30% of subject net earned premium. Section B-windstorm only – Company retains ultimate net loss up to $72,500,000.

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 Insurance Company (“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 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

The Company is owned 100% by the Atlantic Mutual, 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 New York Insurance Law and Department Regulation 52.

The Company participates in a tax allocation agreement with its parent, Atlantic Mutual Insurance Company, and its affiliates 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.

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	.06:1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	44.90%
Premiums in course of collection to surplus as regards policyholders	5%

All of the above ratios fall within the benchmark ranges set forth by 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 four-year period covered by this examination:

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$56,876,613	82.82%
Other underwriting expenses incurred	20,285,093	29.54
Miscellaneous underwriting deductions	55,726	.08
Net underwriting (loss)	(8,540,254)	(12.44)
Premiums earned	$68,677,178	100.00%

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following statements compare the assets, liabilities and surplus as regards policyholders as determined by this examination with those reported by the Company in its December 31, 2001 filed annual statement.

Assets	Ledger Assets	Not-Admitted Assets	Net-Admitted Assets
Bonds	$56,699,937		$56,699,937
Cash	(243,583)		(243,583)
Short-term investments	7,318,257		7,318,257
Agents' balances or uncollected premiums	7,190,646	290,723	6,899,923
Bills receivable taken for premiums	447		447
Amounts billed and receivable under high deductible policies	100,201		100,201
Reinsurance recoverable on loss and loss adjustment expense payments	386,653		386,653
Guaranty funds receivable or on deposit	126,885		126,885
Interest due and accrued	1,016,997		1,016,997
Receivable from parent, subsidiaries and affiliates	40,751		40,751
Equities and deposits in pools and associations	235,677	7,033	228,644
Other assets non-admitted	22,583	22,583	
Other assets	505,781	405,803	99,978
Unprocessed losses	4,938		4,938
Funds held by foreign agencies	50,032	1,821	48,211
Deposit reinsurance	502,682	2,682	500,000
Total assets	$73,958,704	$730,645	$73,228,059

Liabilities	Examination	Company	Surplus Increase (Decrease)
Losses and loss adjustment expenses	$18,137,662	$16,323,662	$(1,814,000)
Commissions payable, contingent commissions and other similar charges	301,651	301,651	
Other expenses	364,613	364,613	
Taxes, licenses and fees	263,403	263,403	
Federal and foreign income taxes	55,921	55,921	
Unearned premiums	4,579,936	4,579,936	
Dividends declared and unpaid: policyholders	83,697	83,697	
Ceded reinsurance premiums payable	169,941	169,941	
Funds held by company under reinsurance treaties	3,604,448	3,604,448	
Amounts withheld or retained by company for account of others	339,070	339,070	
Remittances and items not allocated	14,367	14,367	
Provision for reinsurance	210,529	210,529	
Net adjustments in assets and liabilities due to foreign exchange rates	23,523	23,523	
Drafts outstanding	354,216	354,216	
Aggregate write-ins for liabilities	130,357	130,357	
Total liabilities	$28,633,064	$26,819,064	$(1,814,000)
Common capital stock	$9,000,000	$9,000,000	
Gross paid in and contributed surplus	36,784,053	36,784,053	
Unassigned funds (surplus)	(1,189,598)	624,402	$(1,814,000)
Surplus as regards policyholders	$44,594,455	$46,408,455	$(1,814,000)
Total liabilities and surplus	$73,228,059	$73,228,059	

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 increased $28,058,471 during the four-year examination period from January 1, 1998 through December 31, 2001 detailed as follows:

Statement of Income

Underwriting Income		
Premiums earned		$68,677,178
Deductions:		
Losses and loss adjustment expenses incurred	$56,876,613	
Other underwriting expenses incurred	20,285,093	
LAD/CLAD program fees	55,726	
Total underwriting deductions		77,217,432
Net underwriting loss		$(8,540,254)
Investment Income		
Net investment income earned	$13,348,286	
Net realized capital gains (losses)	(293,265)	
Net investment gain		$13,055,021
Other Income		
Net loss on agents' balances charged off	$(256,439)	
Finance and service charges not included in premiums	49,475	
LAD/CLAD program fees	42,327	
Total other income		(164,637)
Net income before dividends to policyholders and before federal and foreign income taxes		$4,350,130
Dividends to policyholders		2,852,797
Net income after dividends to policyholders and before federal and foreign income taxes		$1,497,333
Federal and foreign income taxes incurred		2,259,582
Net income		$(762,249)

Capital and Surplus Account

Surplus as regards policyholders, per report on examination as of December 31, 1997			$16,535,984
	Gains in Surplus	Losses in Surplus	
Net income	$	$762,249	
Change in net unrealized foreign exchange capital loss		23,523	
Change in non-admitted assets		730,644	
Change in provision for reinsurance		210,528	
Cumulative effect of change in accounting principle	120,000		
Change in inter-company repooling non-admitted assets		501,628	
Change in inter-company repooling provision for insurance	85,172		
Change in inter-company repooling foreign exchange	5,407		
Change in inter-company repooling unrealized losses	76,464		
Change in paid-in surplus	30,000,000		
Total gains and losses	$30,287,043	$2,228,572	
Net increase in surplus as regards policyholders			28,058,471
Surplus as regards policyholders, per report on examination as of December 31, 2001			$44,594,455

4. LOSS AND LOSS ADJUSTMENT EXPENSES

The examination liability of $18,137,662 is $1,814,000 more than the liability 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.

5. 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 problem areas were noted.

A market conduct investigation consisting of an underwriting and rating review of the Group'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.

6. 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	
i.	It is recommended that Atlantic Specialty account for agents' balances that are 90 days past due and older on its books and not on Atlantic Mutual's books.	12
	The Company has complied with this recommendation.	
ii.	It is recommended that Atlantic Mutual allocate actual collections and Atlantic Specialty report the actual amount due from agents and brokers on its books.	12
	The Company has complied with this recommendation.	

7. 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.	12

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 Specialty 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 Specialty 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, ~~2000~~ 2004.

Notary Public

(SEAL)

Notary Public

My commission expires 5-28-2006 [date].

Appointment No 21899

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 SPECIALTY 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