ASSOCIATION REPORT ON EXAMINATION

OF THE

ATLANTIC MUTUAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2003

EXAMINER	STATE	ZONE
LARRY LEVINE	NEW YORK	NORTHEASTERN
JOSEPH ARCHDEACON	MISSISSIPPI	SOUTHEASTERN

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

Honorable Alfred W. Gross
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State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
P.O. Box 1157
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Harrisburg, Pennsylvania 17120

Honorable Charles Cohen
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Secretary-Treasurer, Western Zone
Arizona Department of Insurance
2910 North 44th Street, Suite 210
Phoenix, Arizona 85018

Honorable Howard Mills
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, 2003 into the financial condition and affairs of the Atlantic Mutual Insurance Company and the following report is respectively submitted thereon.

REPORT ON EXAMINATION

OF THE

ATLANTIC MUTUAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2003

DATE OF REPORT	JULY 29, 2005
EXAMINER	LARRY LEVINE

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

July 29, 2005

Honorable Howard Mills
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 22149 dated February 19, 2004 attached hereto, I have made an examination into the condition and affairs of Atlantic Mutual Insurance Company as of December 31, 2003, and submit the following report thereon.

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

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York Insurance Department

The examination was conducted at the Company’s administrative offices located at Three Giralda Farms, Madison, New Jersey 07940, its home office located at 140 Broadway, New York, New York and its technology and customer service center in Roanoke, Virginia.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2001. This examination covered the two-year period from January 1, 2002 through December 31, 2003. 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, 2003. 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 Company
Management and control
Corporate records
Fidelity bond and other insurance
Territory and plan of operation
Growth of Company
Business in force by states
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 are deemed to require explanation or description.

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 Centennial and remains as the sole shareholder. Centennial owns 100% of Atlantic Lloyd's Insurance Company of Texas, ("ALIC"). ALIC cedes 100% of its gross premiums to Centennial.

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 ("ASIC"). Atlantic Mutual sold ASIC and Atlantic Mutual's renewals of select commercial business to OneBeacon Insurance Company on March 31, 2004.

On February 10, 1998, the Company issued $100,000,000 of 8.15% surplus notes due February 15, 2028 and on May 22, 2003 issued additional surplus notes for $15,000,000 at a coupon rate of 3 month Libor plus 4.10% due May 23, 2033. Both surplus notes were issued pursuant to Section 1307 of the New York Insurance Law. Any principal and/or interest payments require the approval of the Superintendent of Insurance. The Company received approval for all interest payments made during the examination period.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of trustees consisting of not less than thirteen nor more than twenty-four members. The board met at least four times during each calendar year. At December 31, 2003, the board of trustees was comprised of the following sixteen members:

Name and Residence	Principal Business Affiliation
Carter J. Bacot Montclair, NJ	Retired Chairman, Bank of New York
William R. Chaney Clinton, CT	Retired Chairman, Tiffany & Co.
Salvatore R. Curiale Bellerose Village, NY	Senior Vice President, Mutual of America Life Insurance Company
Jill M. Considine New York, NY	Chairman and Chief Executive Officer Depository Trust & Clearing Corporation
Hugh A. D'Andrade Summit, NJ	Retired Vice Chairman and Chief Administrative Officer, Schering-Plough Corporation
Klaus G. Dorfi Bernardsville, NJ	Chairman of the Board and Chief Administrative Officer, Atlantic Mutual Companies
Jarobin Gilbert Jr. New Rochelle, NY	President and Chief Executive Officer, DBSS Group, Inc.
James D. Hammond State College, PA	Dean Emeritus & Wm. Elliot Professor of Insurance, Smeal College of Business Administration Pennsylvania State University
John F. Hennessy, III New York, NY	Chairman and Chief Executive Officer, Syska Hennessy Group, Inc.
Dan F. Huebner Decorah, IA	Retired Vice Chairman, Grumman Corporation
Niels M. Johnsen Colts Neck, NJ	Chairman, Central Gulf Lines, Inc.
Michael W. McConnell Brooklyn, NY	Managing Partner, Brown Brothers, Harriman & Company
Eugene R, McGrath Rye, NY	Chairman, President and Chief Executive Officer, Consolidated Edison Company of NY, Inc.
Henry M. Schwarz New York, NY	Retired Chairman, U.S. Trust Corporation

Name and Residence	Principal Business Affiliation
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 & Reynolds Company

A review of the minutes of the board of trustees' meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance.

As of December 31, 2003, the principal officers of the Company were as follows:

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

B. Territory and Plan of Operation

As of December 31, 2003, the Company was licensed to write business in all fifty states, and the District of Columbia, Puerto Rico, United States Virgin Islands and the United Kingdom.

As of the examination date, 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	Line of Business
3	Accident & health
4	Fire
5	Miscellaneous property damage
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	Worker's compensation and employers' liability
16	Fidelity and surety
17	Credit
18	Title
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
22	Residual value
23	Mortgage guarantee
24	Credit unemployment
25	Financial guaranty
26	Gap
27	Prize indemnification
28	Service Contract reimbursement
29	Legal services
30	Substantially similar kind

In addition, the Company is licensed to transact such workers' compensation insurance as incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York, including coverage 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 multiple lines reinsurance pursuant to Section 4102(c) of the New York Insurance Law.

The following schedule shows the direct premiums written by the Company both in total and in New York for the period under examination:

DIRECT PREMIUMS WRITTEN

Calendar Year	New York State	Total United States	Premiums Written in New York State as a percentage of United States Premium Written
2002	$166,508,202	$713,764,906	23.33%
2003	$149,705,882	$679,221,519	22.04%

Based on 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.

Direct premiums written of the Atlantic Companies was produced by an agency force consisting of approximately 1,000 agents and 200 brokers and was predominately a commercial lines writer domestically with limited international writings.

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 multiple peril (36.8%), workers' compensation (18%), homeowners' multiple peril (10.7%), auto physical damage (7.8%), and commercial auto liability (7.3%). The above lines of business comprised 80.6% of the Company's direct writings for the year 2003.

Subsequent to the examination date, the Atlantic Companies have reduced their total number of agents to 200, eliminated their commercial lines business and limited their geographic area primarily to the east coast and certain parts of the Midwest. Also, ASIC was terminated from the Atlantic Companies pool due to the sale of its common stock and commercial lines renewal rights to OneBeacon Insurance

Company. In 2004, the Atlantic Companies closed most of the field offices and currently are operating from the following offices:

Corporate Headquarters	Administrative & National Recoveries Center	Technology & Customer Service Center
New York, NY	Madison, NJ	Roanoke, VA

C. Reinsurance

Assumed

In 2003, the Company's assumed premiums represented approximately 26.1% of its gross premium writings for the year. The Company participates in an inter-company pooling agreement and approximately 24.9% of the Company's assumed business comes from its affiliates. The remaining 1.2% assumed reinsurance was from non-affiliated companies, alien insurers, syndicates, pools and associations.

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, 2003. The contracts all contained the required standard clauses including insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law.

The Atlantic Companies had the following ceded reinsurance program in effect at December 31, 2003:

Type of Treaty	Cession
Property / Casualty	
Blanket Casualty One Layer 100% Authorized	85% of $5,000,000 in excess of $1,000,000 each event.
Workers Compensation Catastrophe Two layers 100% and 99% Authorized	$40,000,000 in excess of $10,000,000 per occurrence.
Umbrella Quota share 100% Authorized	80% of the first $10,000,000 of personal and commercial umbrella limits, each loss, accident or occurrence, each policy.
Umbrella Excess 100% Authorized	$10,000,000 excess of $10,000,000 each event, each occurrence.
Commercial and Personal Property Per Risk - Excess of Loss Four Layers 97%, 94%, 90% and 89.5% Authorized	$47,500,000 excess of $2,500,000 per risk.
Property Catastrophe Excess of Loss Six Layers 80%, 65%, 75%, 65%, 65%, and 77% Authorized	$150,000,000 excess of $20,000,000, any one loss occurrence. 1st layer is ceded 76% 2nd layer is ceded 80% 3rd layer is ceded 90% 4th-6th layers are ceded 100%
Property Risk Terrorism Four Layers 62.5%, 61%, 70% and 56% Authorized	$47,500,000 excess of $2,500,000 per risk.
Marine Per Risk Two Layers 100% and 100% Authorized	$14,000,000 excess of $1,000,000 per risk.
Marine Clash Cover Four Layers 75%, 80%, 82% and 83% Authorized	$29,000,000 excess of $1,000,000 per occurrence.
Surety Surplus One layer 90% Authorized	Maximum Cession on any one bond is 84% of $50,000,000 or $42,000,000.

Type of Treaty	Cession
Surety Per Principal Excess Four Layers 85% Authorized, each layer	$21,500,000 excess $3,500,000 any one account.
Stop Loss Whole Account Aggregate 100% Authorized	Maximum Recovery $50,000,000 any one year and a further maximum of $100,000,000 over the three year contract 1/01/01-12/31/03.
Jewelers Block 100% Authorized	100% Net Liability Quota Share agreement in respect of unearned premium on business in force at December 31, 2003.
Marine Quota Share 100% Authorized	100% Net liability Quota Share agreement in respect of unearned premium on business in force at September 30, 2003 and new and renewal thereafter.

The Company’s limits decreased from $24,000,000 to $5,000,000 for blanket casualty coverage, the limits increased from $5,000,000 to $10,000,000 for umbrella quota share coverage, and the limits decreased from $15,000,000 to $10,000,000 for umbrella excess coverage, compared with the prior examination period. The Company’s retention increased from $1,000,000 to $2,500,000 and the limits decreased from $49,000,000 to $47,500,000 for property per risk coverages compared with the prior examination period. The Company’s retention increased from $2,500,000 to $3,500,000 and its limits increased from $17,500,000 to $21,500,000 for surety excess coverage compared with the prior examination. The Company’s retention, limits, and percentages of authorized vs. unauthorized remained the same for umbrella excess coverage and the marine per risk coverage compared with the prior examination period.

The Company’s percentages of authorized reinsurers decreased from 100% to 85% for marine clash coverage compared with the prior examination period. The percentage of cessions to authorized reinsurers has remained relatively the same for all the other coverage compared with the prior examination period.

The Company is ceding 25% of its business to its affiliates, 23% to Centennial and 2% to ASIC. This arrangement is discussed further under inter-company pooling agreement listed below. This agreement was filed and approved by the Department.

The Company is a party to reinsurance treaties that contain downgrade provisions with various aggregate excess of loss contracts with Converium Reinsurance (North America) Inc. ("Converium"). The provisions give the reinsurer the right to require Atlantic Mutual to secure its obligations by either transferring funds and or posting letters of credit, in the event of a downgrade by A.M. Best Company to a rating below A-. In October of 2003, A.M. Best Company downgraded Atlantic to a B++. As a result of this downgrade, the Company agreed to commute the 1999 accident year only, in the '99 – '01 contract and Converium agreed to refrain from invoking its right to require securitization of the obligations, until at least January 1, 2005. The Company agreed to consider commuting the remaining covers in exchange for Converium's additional consideration. However, the Company also had an option to continue the contracts in exchange for an additional fee. Converium added two further downgrade provisions to this agreement; the first provision gave them the unilateral right to commute if the Atlantic Companies failed to maintain a B+ rating during the twelve months commencing January 1, 2004-2005; the second provision gave Converium the unilateral right to commute all remaining contracts on January 1, 2005, in the event the Atlantic Companies failed to maintain an AM Best rating of B++.

Subsequent to the examination date, the Company commuted the 1999 accident year, only, on its 1999 three year option whole account aggregate excess of loss contract with Converium on January 1, 2004. As consideration for the commutation of the 1999 accident year, the Company paid Converium $9,132,970 by crediting the "Funds withheld" account balance. Effective January 1, 2005, the remaining reinsurance contracts made with Converium were commuted.

As part of the Company's arrangements to divest itself of marine business, 100 percent of the Company's renewal marine business rights were ceded to Travelers as of September 30, 2003.

In addition to its treaty reinsurance program, the Company also obtained facultative reinsurance coverage. The Company obtains facultative reinsurance for policies with limits above a certain amount, for certain types of risks/programs. Property exposures in excess of treaty limits were covered by an automatic facultative arrangement as were umbrella limits in excess of either $5M or $10M depending on the year. Most facultative reinsurance is under the control of the business unit placing the facultative reinsurance and purchased for either capacity or reinsurer expertise. Facultative cessions represented less than 10% of the Company's total premiums ceded in 2003.

Loss Portfolio Transfer

Effective December 31, 2002, the Atlantic Mutual Insurance Company entered into an aggregate excess of loss reinsurance agreement (loss portfolio transfer) with Partner Reinsurance Company Ltd. ("Partner Re"), transferring $153,750,000 of retroactive loss reserves incurred prior to 2002. The Company transferred $153,750,000 of liabilities and paid consideration of $102,375,000 and a loss portfolio transfer gain of $51,375,000. The Company has accounted for this transaction properly pursuant to the provisions of Statement of Statutory Accounting Principles ("SSAP") No. 62.

Subsequent to the examination date, the Company commuted the excess of loss reinsurance agreement with Partner Re effective July 1, 2004 and realized a loss of $47,481,479. Also, as a result of commutation, a profit commission receivable of $23,625,000, loss portfolio contra liability of $153,750,000, funds held of $129,893,521 and loss portfolio transfer gain of $51,375,000 were removed in the Company's September 30, 2004 quarterly statement.

The Partner Re contract contained two sets of triggers. The first trigger is known as the "Conversion to Funds Transferred" trigger and the second trigger is known as the "Special Commutation" trigger. The first trigger gave Partner Re the right to require transfer of the Funds withheld balances, by wire, upon the failure to maintain an A.M. Best Company rating of A- or better. The second trigger gave

Partner Re the unilateral right to commute the agreement upon the occurrence of one or more specified events.

When Atlantic Mutual was downgraded by A.M. Best Company in October of 2003 from an A- to B++, the Company notified Partner Re of the downgrade. The Company entered into an arrangement with Partner Re, whereby they agreed to waive their right to require the transfer of funds for four months. When the four month waiver period expired the Company transferred the funds and established a Regulation 114 Trust. In May 2004, Partner Re advised the Company that they intended to exercise their right to commute based on the special commutation event of the Standard & Poor's ("S&P") downgrade to BB+. The commutation was effective July 1, 2004.

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 Pooling Agreement

Atlantic Mutual and its wholly-owned subsidiaries, Centennial, ASIC and ALIC have the following reinsurance and intercompany pooling agreements in effect:

- ALIC cedes 100% of its underwriting results to Centennial under a reinsurance agreement.
- Atlantic Mutual, Centennial and ASIC participate in an inter-company pooling agreement covering all lines of business and share in the underwriting results according to the pooling agreement percentages of 75%, 23%, and 2%, respectively. Schedule F is prepared on the basis of the pooling agreement and any "Provision for reinsurance" or write-off.

Subsequent to the examination period, ASIC has been removed from the Atlantic Mutual Companies' inter-company pooling agreement retroactive to January 1, 2004 and Atlantic Mutual's inter-company tax allocation agreement effective March 31, 2004. The new inter-company pooling percentages are 75% and 25% for Atlantic Mutual and Centennial, respectively.

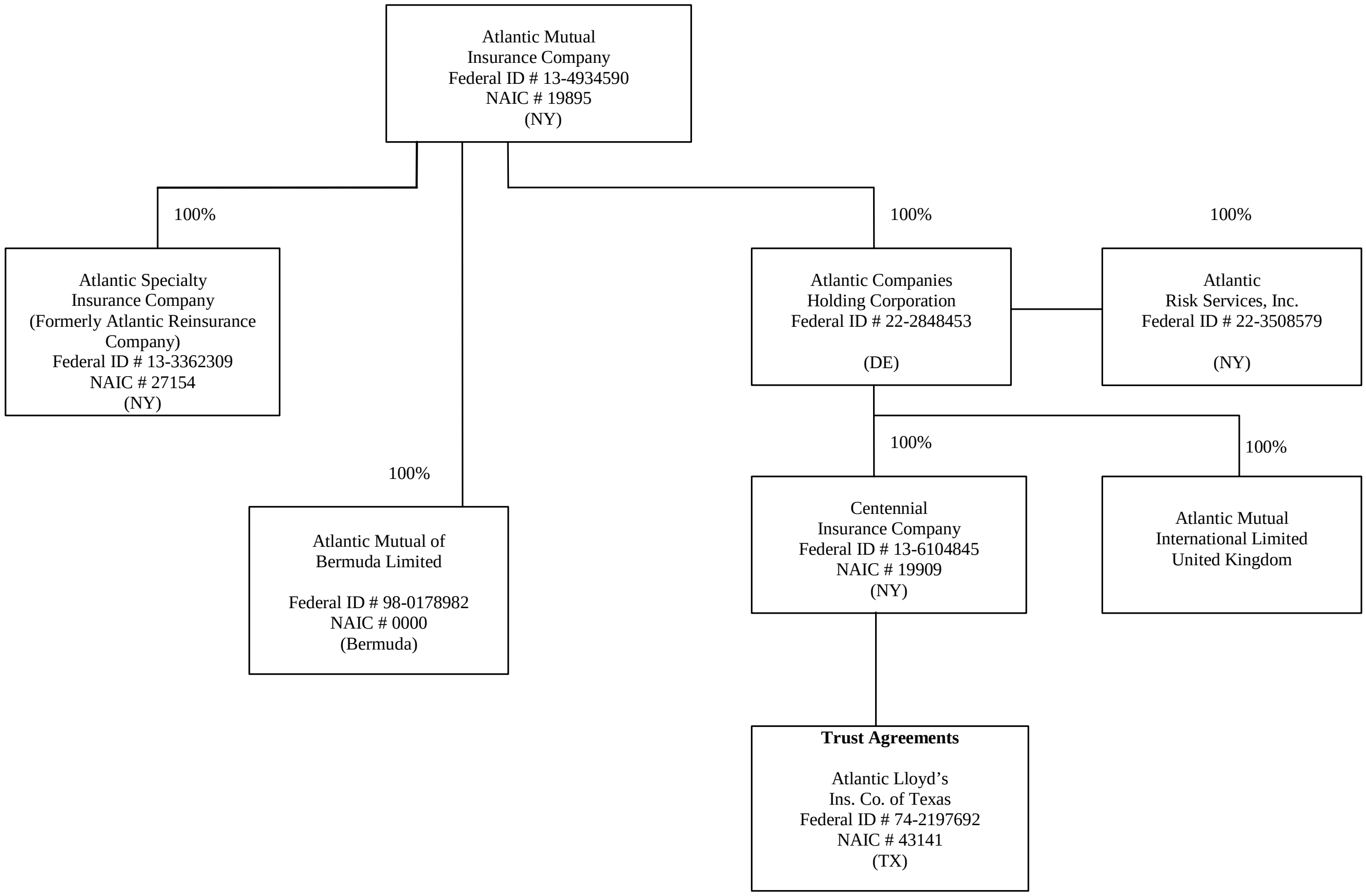
D. <u>Holding Company System</u>

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.

Pursuant to Circular Letter No. 17 (2001), dated August 13, 2001, every domestic insurer that is exempt from the provisions of Article 15 of the New York Insurance Law is hereby directed, pursuant to Section 308 of the New York Insurance Law, to furnish this Department by September 1, 2001 a copy of the latest insurance holding company system annual registration statement (NAIC Form B) filed by it.

A review of the Holding Company Registration Statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Circular Letter No. 17 (2001).

The following is a chart of the holding company system at December 31, 2003:


Atlantic Mutual
Insurance Company
Federal ID # 13-4934590
NAIC # 19895
(NY)
100%
Atlantic Specialty
Insurance Company
(Formerly Atlantic Reinsurance
Company)
Federal ID # 13-3362309
NAIC # 27154
(NY)
100%
Atlantic Mutual of
Bermuda Limited
Federal ID # 98-0178982
NAIC # 0000
(Bermuda)
100%
Atlantic Companies
Holding Corporation
Federal ID # 22-2848453
(DE)
100%
Atlantic
Risk Services, Inc.
Federal ID # 22-3508579
(NY)
100%
Centennial
Insurance Company
Federal ID # 13-6104845
NAIC # 19909
(NY)
100%
Atlantic Mutual
International Limited
United Kingdom
Trust Agreements
Atlantic Lloyd’s
Ins. Co. of Texas
Federal ID # 74-2197692
NAIC # 43141
(TX)

At December 31, 2003, the Company was party to the following agreements with other members of its holding company system:

(1) Tax Allocation Agreement

The Company participates in a tax allocation agreement with its subsidiaries, ASIC, Centennial, ALIC, Atlantic Risk Services, Inc., Atlantic Companies Holding Corporation ("ACHC"), and Atlantic Mutual of Bermuda Limited. A formal agreement was 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 or "ACHC") effective December 1, 1988. Pursuant to the terms of the agreement, the Company provides various services such as accounting, tax preparation and auditing to ACHC.

(3) Service Agreement

The Company entered into a service agreement with ALIC, 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. Abandoned Property Law

Section 1316 of the New York State 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 State Abandoned Property Law.

F. Significant Operating Ratios

The following ratios have been computed as of December 31, 2003, based upon the results of this examination:

Net premiums written to 2003 surplus as regards policyholders	2.7 to 1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	131%*
Premiums in course of collection to surplus as regards policyholders	28%

The above ratio denoted with an asterisk falls outside the benchmark range set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners. The liabilities to liquid assets (cash and invested assets) fell outside the acceptable range primarily because $194,770,327 of the Company's invested assets are invested in its affiliated companies. When these assets are taken out of the test, the results are well below the acceptable limit.

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

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$893,386,121	92.4%
Other underwriting expenses incurred	382,764,115	39.6
LAD\CLAD program fees	4,741,665	0.5
Other underwriting income	(343,882)	(0.0)
Net underwriting loss	(313,761,149)	(32.5)
Premiums earned	$966,786,870	100.0%

G. Subsequent Events

Sale of Real Estate Occupied by the Company

On July 28, 2004, the Company sold its administrative center located in Madison, New Jersey to an unaffiliated buyer at a realized loss of $4,185,563.

Transfers of Receivables Reported as Sales

The Company's trade receivables purchase and sale agreement with the Bank of New York ("BONY") expired on September 27, 2004 and has not been renewed. As a result of the expiration, the Company recognized a surplus reduction of $4,450,444 due to the increase in overdue premium receivables.

Rating Downgraded By Financial Rating Associations

The Company had their financial rating downgraded by the following financial rating associations:

a. Standard and Poor's financial strength rating of BB+ from BBB- on April 16, 2004.

b. A.M. Best financial strength rating of B+ very good, from B++, very good on June 29, 2004.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2003 and as reported by the Company:

Assets	Assets	Examination Assets Not Admitted	Net Admitted Assets	Company Net Admitted Assets	Surplus Increase (Decrease)
Bonds	$717,121,411	$	$717,121,411	$717,121,411	
Common stocks (stocks)	253,261,405		253,261,405	253,261,405	
Real estate occupied by company	1,658,475		1,658,475	1,658,475	
Cash and short-term investments	38,455,371		38,455,371	38,455,371	
Other invested assets	618,410		618,410	618,410	
Investment income due and accrued	8,030,487		8,030,487	8,030,487	
Premiums and agents' balances in course of collection	61,070,737	4,094,702	56,976,035	56,976,035	
Premiums, agents' balances and installments booked but deferred and not yet due	146,383,936	770,302	145,613,634	145,613,634	
Accrued retrospective premiums	22,366,500	2,236,500	20,130,000	20,130,000	
Funds held by or deposited with reinsured companies	39,492,344		39,492,344	39,492,344	
Amounts billed and receivable under high deductible policies	23,625,000		23,625,000	23,625,000	
Federal and foreign income tax recoverable	4,970,671		4,970,671	4,970,671	
Net deferred tax asset	100,426,000	71,266,000	29,160,000	29,160,000	
Guaranty funds receivable or on deposit	4,936,556		4,936,556	4,936,556	
EDP equipment and software	1,553,977		1,553,977	1,553,977	
Interest, dividends and real estate income due and accrued	11,795,696	11,795,696			
Receivable from parent, subsidiaries and affiliates	1,682,101		1,682,101	1,682,101	
Health care ($0) and other amounts receivable	4,747,136	74,245	4,672,891	4,672,891	
Other assets non-admitted	11,343,277	11,343,277			
Aggregate write-ins for other than invested assets	78,238,887	3,504,847	74,734,040	74,734,040	
Total Assets	$1,531,778,377	$105,085,569	$1,426,692,808	$1,426,692,808	

Liabilities, Surplus and Other Funds	Examination	Company	Surplus Increase (Decrease)
Losses and loss adjustment expenses	$790,425,694	$689,175,694	(101,250,000)
Commissions payable, contingent commissions and other similar charges	14,625,001	14,625,001	
Other expenses (excluding taxes, licenses and fees)	25,382,992	25,382,992	
Taxes, licenses and fees (excluding federal and foreign income taxes)	9,132,693	9,132,693	
Unearned premiums	254,167,344	254,167,344	
Policyholders (dividends declared and unpaid)	3,490,829	3,490,829	
Ceded reinsurance premiums payable (net of ceding commissions)	18,093,060	18,093,060	
Funds held by company under reinsurance treaties	217,834,823	217,834,823	
Amounts withheld or retained by company for account of others	9,025,418	9,025,418	
Remittances and items not allocated	1,054,000	1,054,000	
Provision for reinsurance	32,990,344	14,722,594	(18,267,750)
Net adjustments in assets and liabilities due to foreign exchange rates	468,707	468,707	
Drafts outstanding	1,764	1,764	
Aggregate write-ins for liabilities	(151,750,223)	(151,750,223)	
Total liabilities	$1,224,942,446	$1,105,424,696	$(119,517,750)
Surplus and Other Funds			
Aggregate write-ins for special surplus funds	$51,375,000	$51,375,000	
Aggregate write-ins for other than special surplus funds	3,000,000	3,000,000	
Surplus notes	115,000,000	115,000,000	
Unassigned funds (surplus)	32,375,362	151,893,112	
Surplus as regards policyholders	$201,750,362	$321,268,112	$(119,517,750)
Total liabilities, surplus and other funds	$1,426,692,808	$1,426,692,808	

Note: The Internal Revenue Service has completed its audits of the Company’s consolidated Federal Income Tax returns through tax year 2003. All material adjustments, any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. Audits covering tax years 2002 through 2003 are currently under examination. The Internal Revenue Service has not yet begun to audit tax returns covering tax year 2004. 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.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders decreased $218,642,526 during the two-year examination period from January 1, 2002 through December 31, 2003, detailed as follows:

Underwriting Income	Statement of Income	
Premiums earned		$966,786,870
Deductions:		
Losses incurred	$711,422,916	
Loss adjustment expenses incurred	181,963,205	
Other underwriting expenses incurred	382,764,115	
Aggregate write-ins for underwriting deductions	4,397,783	
Total underwriting deductions		1,280,548,019
Net underwriting loss		$(313,761,149)
Investment Income		
Net investment income earned	$26,573,537	
Net realized capital gain	34,902,986	
Net investment gain		61,476,523
Other Income		
Net loss from agents' or premium balances charged off	$(3,362,861)	
Finance and service charges not included in premiums	1,696,326	
Aggregate write-ins for miscellaneous income	50,199,806	
Total other income		48,533,271
Net income before dividends to policyholders and before federal and foreign income taxes		$(203,751,355)
Dividends to policyholders		14,810,154
Net income after dividends to policyholders but before federal and foreign income taxes		$(218,561,509)
Federal and foreign income taxes incurred		(6,737,325)
Net Income		$(211,824,184)

Capital and Surplus Accounts

Surplus as regards policyholders, per report on examination as of December 31, 2001			$420,392,888
	Gains in Surplus	Losses in Surplus	
Net income		$211,824,184	
Net unrealized capital gains or (losses)		14,335,326	
Change in net unrealized foreign exchange capital gain (loss)	$413,433		
Change in net deferred income taxes	26,951,000		
Change in non-admitted assets		29,637,560	
Change in provision for reinsurance		25,095,517	
Change in surplus notes	15,000,000		
Cumulative effect of changes in accounting principles	36,319,000		
Aggregate write-ins for gains and losses in surplus		16,433,372	
Total gains and losses	$78,683,433	$297,325,959	
Net decrease) in surplus as regards policyholders			(218,642,526)
Surplus as regards policyholders, per report on examination as of December 31, 2003			$201,750,362

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $790,425,694 is $101,250,000 more than the $689,175,097 reported by the Company as of December 31, 2003. 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 statements.

5. PROVISION FOR REINSURANCE

The examination liability for the captioned item of $32,990,344 is $18,267,750 more than the $14,722,594 reported by the Company as of December 31, 2003.

The examination change represents an additional Schedule F Penalty as a result of the additional ceded IBNR pursuant to the Department's actuarial analysis as of December 31, 2003

6. MARKET CONDUCT ACTIVITIES

In the course of this 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 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 following areas:

A. Sales and advertising
B. Underwriting
C. Rating
D. Claims and complaint handling

A market conduct investigation consisting of an underwriting and rating review of the Company's commercial lines of business was conducted for policies in force as of June 30, 2002. A review was also performed to determine compliance with Section 3426 of the New York Insurance Law. Based on the 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 $25,000 was imposed.

7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained one recommendation as follows (page numbers refer to the prior report):

ITEM		PAGE NO.
A	Accounts and Records	
	It was recommended that the Company regularly adjust its unallocated accounts that each general ledger account displays its actual outstanding amount at year-end.	13
	The Company has complied with this recommendation, by developing procedures to facilitate analyzing each general ledger account on a regular basis so that each account displays its actual outstanding amount.	

Respectfully submitted,

_______/S/__________________
Larry Levine, CFE

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

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

____________/S/___________
Larry Levine

Subscribed and sworn to before me

this__________ day of ____________________, 2007

Respectfully submitted,

Joseph Archdeacon

Joseph Archdeacon,
FLMI, CLU, CPA, CFE
Senior Insurance Examiner
Mississippi Insurance Department
Representing Southeastern Zone

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

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

"OFFICIAL SEAL"
JENNIFER L. MCNICHOLAS
NOTARY PUBLIC STATE OF ILLINOIS
Commission Expires 12/07/20

Joseph Archdeacon

Joseph Archdeacon

Subscribed and sworn to before me

this 26 day of MAY, 2005.

Appointment No 22149

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:*

Marc Bruckstein

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 19th day *of February, 2004*

GREGORY V. SERIO
Superintendent of Insurance