SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 1998

or

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

Commission file number 0-3722

ATLANTIC AMERICAN CORPORATION

(Exact name of registrant as specified in its charter)

Georgia	58-1027114
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
4370 Peachtree Road, N.E., Atlanta, Georgia	30319
(Address of principal executive offices)	(Zip code)

(Registrant's telephone number, including area code) (404) 266-5500

Securities registered pursuant to section 12(b) of the Act:
None
Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $1.00 par value
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this 10-K or any amendment to this Form 10-K. |X|

The aggregate market value of common stock held by non-affiliates of the registrant as of March 8, 1999, was $22,090,372. On March 8, 1999 there were 19,101,106 shares of the registrant's common stock, par value $1.00 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of registrant's Annual Report to Shareholders for the year ended December 31, 1998 - Parts I, II and IV.

2. Portions of registrant's Proxy Statement for the Annual Meeting of Shareholders, to be held on May 4, 1999, have been incorporated in Items 10, 11, 12 and 13 of Part III of this Form 10-K.

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PART I

ITEM 1. BUSINESS

The Company

Atlantic American Corporation, a Georgia corporation (the "Parent" or "Company") incorporated in 1968, is a holding company that operates through its subsidiaries in well-defined specialty markets of the life, health, property and casualty insurance industries. Atlantic American's principal subsidiaries are Georgia Casualty & Surety Company ("Georgia Casualty"), incorporated in 1947 and acquired in 1968, Bankers Fidelity Life Insurance Company ("Bankers"), incorporated in 1955 and acquired in 1976, and American Southern Insurance Company and its wholly-owned subsidiary American Safety Insurance Company (collectively, "American Southern"), incorporated in 1936 and acquired in 1995.

On January 1, 1997, the Company's wholly-owned subsidiary Atlantic American Life Insurance Company ("Atlantic American Life"), incorporated in 1946 and acquired in 1968, was merged with and into Bankers. The business and operations of Atlantic American Life, which were substantially similar to those of Bankers, have been consolidated into Bankers.

In addition, during 1997, the Company acquired 100% of the outstanding stock of American Independent Life Insurance Company ("AI"). AI, domiciled in Pennsylvania, was acquired to complement the operations of Bankers. The operations of AI were assimilated into the operations of Bankers shortly after the acquisition and expanded the Company's geographic presence in the life and health insurance markets by five states. Together, Bankers and AI are referred to as "Bankers Fidelity".

During 1997, the Company also acquired 100% of the outstanding stock of Self-Insurance Administrators, Inc. ("SIA"). SIA, domiciled in Georgia, is a third party administrator that specializes in providing administrative services to those companies and organizations that choose to self-insure their workers' compensation risks. The acquisition of SIA provides the Company with an entry into alternative services in the property and casualty insurance marketplace.

During 1996, the Company sold its majority interest in Leath Furniture, LLC (f/k/a Leath Furniture, Inc., "Leath"). Leath is reflected as discontinued operations in the Company's financial statements for 1996.

The Company's strategy is to focus on well-defined niches within various areas of the insurance marketplace. Each of the Company's subsidiaries operates with relative autonomy as the Company believes this allows each subsidiary to best exploit its expertise. However, the Company seeks to develop and expand cross-marketing and joint-underwriting opportunities as they arise.

Additional information concerning the Company and its subsidiaries may be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the Company's 1998 Annual Report to Shareholders, which is incorporated herein by reference.

Casualty Operations

The Company's Casualty Operations are split between into two distinct operating entities, American Southern and Georgia Casualty. The primary products offered by the two casualty companies are described below, followed by an overview of each of the companies.

<u>Workers' Compensation Insurance</u> policies provide indemnity and medical benefits to insured workers for injuries sustained in the course of their employment.

<u>Business Automobile Insurance</u> policies provide for bodily injury or property damage liability coverage, uninsured motorists coverage, and physical damage coverage.

<u>General Liability Insurance</u> policies cover bodily injury and property damage liability for both premises and completed operations exposures for general classes of business.

<u>Property Insurance</u> policies provide for payment of losses on real and personal property caused by fire and other multiple perils.

American Southern. American Southern provides tailored fleet automobile and long-haul physical damage insurance coverage, on a multi-year contract basis, to state governments, local municipalities and other large motor pools and fleets ("block accounts") that can be specifically rated and underwritten. The size of the block accounts insured by American Southern are such that individual class experience generally can be determined, which allows for customized policy terms and rates. American Southern produces business in 18 of the 24 states in the Southeast and Midwest in which it is authorized to conduct business. While the majority of American Southern's premiums are derived from auto liability and auto physical damage, American Southern also provides property, general liability, and surety coverages.

The following table summarizes, for the periods indicated, the allocation of American Southern's net earned premiums for each of its principal product lines since its acquisition by the Company.

	Year Ended December 31, (in thousands)		
	1998	1997	1996
Automobile Liability	$25,539	$30,909	$30,889
Automobile Physical Damage	2,145	4,508	4,865
General Liability	4,291	3,116	1,947
Property	2,970	3,206	3,461
Surety	57	60	88
Total	$35,002	$41,799	$41,250

Georgia Casualty. Georgia Casualty is a property-casualty insurance company engaged in the sale of commercial lines of insurance, focusing on underwriting workers' compensation and commercial coverages in the Southeast.

Georgia Casualty writes business for both mainstream business accounts and for industries that are perceived to be high risk. The company is selective in its underwriting and focuses on insureds with stringent safety and risk management standards, or accounts that are willing to implement such standards.

Georgia Casualty has a diversified book of business that includes commercial lines other than workers' compensation, including business automobile, general liability, property, commercial umbrella, and a Business Owners Policy ("BOP"). The company can offer a total commercial insurance package to cover the insurance needs of its customers.

Currently, Georgia Casualty is focusing the majority of its new business efforts in Georgia, Florida, Tennessee and Mississippi. Management believes these states offer the greatest opportunity for balanced, profitable growth. Outside of its core states, at the end of 1998, Georgia Casualty had authority to operate in South Carolina, North Carolina and Kentucky and the company will begin writing incidental workers' compensation in some of these states in 1999.

The following table summarizes, for the periods indicated, the allocation of Georgia Casualty's net earned premiums for each of its principal product lines:

	Year Ended December 31, (in thousands)				
	1998	1997	1996	1995	1994
Workers' Compensation	$14,344	$12,841	$13,826	$14,954	$11,958
Business Automobile	3,750	4,031	2,550	1,436	1,054
General Liability	1,619	1,387	1,152	1,025	1,065
Property	2,100	1,657	1,269	887	574
Total	$21,813	$19,916	$18,797	$18,302	$14,651

Bankers Fidelity

Bankers Fidelity, which constitutes the life and health operations of Atlantic American Corporation, offers a variety of life and supplemental health products with a focus on the senior and middle income markets. Products offered by Bankers Fidelity include: ordinary life, Medicare supplement, cancer, and other supplemental health products. Medicare supplement, offered on both a standard and preferred basis, accounted for 57.3% of Bankers Fidelity's net premiums in 1998. Life insurance, including both whole and term life insurance policies, accounted for 34.1% of Bankers Fidelity's premiums in 1998. Bankers Fidelity also offers several of its products, both life and supplemental health, through payroll deduction services.

The following table summarizes, for the periods indicated, the allocation of Bankers Fidelity's net premiums earned for each of its principal product lines followed by a brief description of the principal products.

	Year Ended December 31, (in thousands)				
	1998	1997	1996	1995	1994
Ordinary Life	$10,848	$9,437	$8,937	$7,037	$6,716
Mass Market Life	900	1,016	1,303	1,260	1,395
Total Life	11,748	10,453	10,240	8,297	8,111
Medicare Supplement	19,743	12,534	11,560	11,882	13,347
Cancer, accident and other health	2,986	3,980	4,178	4,892	5,592
Total Accident and Health	22,729	16,514	15,738	16,774	18,939
Total Life and Accident and Health	$34,477	$26,967	$25,978	$25,071	$27,050

Life Products. Bankers Fidelity offers non-participating individual life insurance policies with a number of available riders and options.

Medicare Supplement. Bankers Fidelity currently markets 7 of the 10 standardized Medicare supplement policies created under the Omnibus Budget Reconciliation Act of 1990 ("OBRA 1990") which are designed to provide insurance coverage for certain expenses not covered by the Medicare program, including copayments and deductibles.

Cancer, Accident & Other Health Coverages. Bankers Fidelity offers several policies providing for payment of benefits in connection with the treatment of diagnosed cancer, as well as a number of other policies including convalescent care, accident expense, hospital/surgical and disability.

Marketing

Casualty Operations

American Southern. American Southern's business is marketed through a small number of specialized, experienced independent agents. Most of American Southern's agents are paid a moderate up-front commission with the potential for additional commission by participating in a profit sharing arrangement that is directly linked to the profitability of the business generated. In addition, a significant portion (approximately 54% of total written premium in 1998) of American Southern's premiums are assumed from third parties. In arrangements similar to those with its agents, the premium assumed from these parties is adjusted based upon the profitability of the assumed business. During 1998, American Southern formed a 50/50 joint venture, American Auto Club Insurance Agency, LLC, with the AAA Carolinas to market personal automobile insurance to the members of the automobile club.

Georgia Casualty. Georgia Casualty is represented by a field force of approximately 100 independent agents in the sale and distribution of its insurance products. Each agency is a party to a standard agency contract that sets forth the commission structure and other terms and can be terminated by either party upon thirty days written notice. Georgia Casualty also offers a contingent profit-sharing arrangement that allows the most profitable agents to earn additional commissions when specific loss experience and premium growth goals are achieved. Marketing efforts, directed by experienced marketing professionals in each state, are complemented by the underwriting, risk management, and audit staffs of Georgia Casualty, who are available to assist agents in the presentation of all insurance products and services to their insureds. Georgia Casualty has also begun marketing programs that include endorsements from trade organizations and business franchises.

Bankers Fidelity

Bankers Fidelity markets its policies through commissioned, independent agents. In general, Bankers Fidelity enters contractual arrangements with general agents who, in turn, contract with independent agents. The standard agreements set forth the commission arrangements and are terminable by either party upon thirty days written notice. General agents receive an override commission on sales made by agents contracted by them.

Management believes utilizing direct writing experienced agents, as well as independent general agents who recruit and train their own agents, is cost effective. All independent agents are compensated on a pure commission basis. Using independent agents also enables Bankers Fidelity to expand or contract their sales forces at any time without incurring significant additional expense.

Bankers Fidelity has implemented a selective agent qualification process and had 2,800 licensed agents in 1998. The agents concentrate their sales activities in either the accident and health or life insurance product lines. During 1998, a total of 1,232 agents wrote policies on behalf of Bankers Fidelity, and approximately 20% of those agents accounted for 80% of Bankers Fidelity's annualized premium.

Products of Bankers Fidelity compete directly with products offered by other insurance companies, as agents may represent several insurance companies. Bankers Fidelity, in an effort to motivate agents to market their products, offers the following agency services: a unique lead system, competitive products and commission structures, efficient claims service, prompt payment of commissions, simplified policy issue procedures, periodic sales incentive programs and, in some cases, protected sales territories consisting of counties and/or zip codes. Additionally, Bankers Fidelity has a staff of 19 employees whose primary function is to facilitate the activities of the agents and to act as liaisons between the agents and Bankers Fidelity.

The company utilizes a distribution sales system which is centered around a lead generation plan that rewards qualified agents with leads in accordance with monthly production goals. In addition, a protected territory is established for each qualified agent, which entitles them to all leads produced within that territory. The territories are zip code or county based and encompass enough physical territory to produce a minimum senior population of 12,000. To allow for the expense of lead generation, commissions were lowered on Bankers Fidelity's senior citizen life plans. In addition, Bankers Fidelity recruits at a general agent level rather than at a managing general agent level in an effort to reduce commission expenses further.

The Company believes this distribution system solves an agent's most important dilemma -- prospecting -- and allows Bankers Fidelity to build long-term relationships with individual producers who view Bankers Fidelity as their primary company. In addition, management believes that Bankers Fidelity's product line is less sensitive to competitor pricing and commissions because of the perceived value of the protected territory and the lead generation plan. Through this distribution channel, production per agent contracted increased substantially when compared to Bankers Fidelity's general brokerage division.

Underwriting

Casualty Operations

American Southern specializes in the handling of block accounts such as states and municipalities that generally are sufficiently large to establish separate class experience, relying upon the underwriting expertise of its agents. In contrast, Georgia Casualty underwrites all of its accounts in-house and has developed a team approach to underwriting with respect to renewal policies. The renewal review team includes members of the staff from management and the underwriting, risk management, claims and finance departments. By receiving active input from each of these departments, the company has improved its underwriting of the risks it continues to insure. All individuals with first-hand information regarding an account are invited to share their information with the team.

During the course of the policy year, extensive use is made of risk management representatives to assist underwriters in identifying and correcting potential loss exposures and to pre-inspect the majority of the new accounts that are underwritten. The results of each product line are reviewed on a stand-alone basis. When the results are below expectations, management takes appropriate corrective action which may include raising rates, reviewing underwriting standards, reducing commissions paid to agents, altering or declining to renew accounts at expiration, and/or terminating agencies with an unprofitable book of business.

American Southern also acts as a reinsurer with respect to all of the risks associated with certain automobile policies issued by state administrative agencies, naming the state and various local governmental entities as insureds. Premiums written from such policies constituted 54% of American Southern's gross premiums written in 1998. Premiums assumed of $21.0 million, in 1998 include a single state contract of $12.6 million. Management believes that its relationship with all of its agencies is good; however, the loss of any one agency as a customer could potentially have a material adverse effect on the business or financial condition of the company.

Georgia Casualty continually evaluates the industries in which it writes workers' compensation and today has a significant book of business in lines and industries where the cause of loss is more readily identifiable and corrective actions can be implemented through risk management programs, safety policies, drug-free workplaces, pre-employment drug testing and various other risk reduction programs.

Bankers Fidelity

Bankers Fidelity issues a variety of products including single and multiple premium life insurance policies with face amounts of not less than $1,000. All life insurance policies are fully underwritten, but the majority are issued with limited medical examinations subject to maximum policy limits ranging from $100,000 for persons under age 31 to $25,000 for persons under age 51. Medical examinations are required in connection with the issuance of life insurance policies in excess of these limits and for any amount on policies issued to customers over age 50. Paramedical examinations are ordered at age 41 for all life applications of $50,000 and above. Approximately 95% of the net premiums earned for life insurance sold during 1998 were derived from life insurance written below Bankers Fidelity's medical limits. For the senior market, Bankers Fidelity issues special life products on an accept-or-reject basis with a face amount from $15,000 at age 45 to a face amount of $2,000 at age 85. Bankers Fidelity only retains a maximum amount of $50,000 with respect to any individual life (see "Reinsurance").

Applications for insurance are reviewed as to the applicant's age and medical history and depending upon this information, additional information may be requested including the "Medical Information Bureau Report", medical examinations, statements from doctors, and, where indicated, special medical tests. If deemed necessary, Bankers Fidelity uses investigative services to supplement and substantiate information. For certain limited coverages, Bankers Fidelity has adopted simplified policy issue procedures by which the applicant submits a short application for coverage, typically containing only a few health related questions instead of presenting the applicant's complete medical history. At present, approximately 20% to 30% of the senior citizen life applications, through age 79 on the standard product and up to age 75 on the preferred, are verified by telephone. For ages 80 and above, 100% of the standard applicants are verified. All telephone verifications are made by the underwriting department. Applications not meeting the underwriting criteria are declined or additional information is requested.

Operating Results

The following table sets forth, on a statutory basis, the incurred losses and loss ratios for the Company's Casualty Operations and for Bankers Fidelity during the past five years.

	Year Ended December 31,				
	1998	1997	1996	1995	1994
	(dollars in thousands)				
Casualty Operations (1)					
WORKERS' COMPENSATION:					
Incurred losses	$ 9,175	$ 6,740	$ 6,645	$ 9,733(2)	$ 7,243
Loss ratio	64.0%	52.5%	48.1%	65.1%	61.9%
BUSINESS AUTOMOBILE:					
Incurred losses	$19,819	$27,237	$23,977	$ 1,227	$ 602
Loss ratio	63.1%	69.0%	62.6%	85.5%	57.1%
GENERAL LIABILITY:					
Incurred losses	$ 1,392	$ 1,428	$ 1,242	$(1,238)(2)	$ 1,080
Loss ratio	23.3%	31.3%	38.9%	-	101.3%
PROPERTY:					
Incurred losses	$ 2,457	$ 1,840	$ 1,700	$ 416	$ 244
Loss ratio	48.5%	37.9%	36.0%	47.0%	42.6%
TOTAL CASUALTY:					
Incurred losses	$32,843	$37,245	$33,564	$10,138	$ 9,169
Loss ratio	57.8%	60.3%	55.9%	55.4%	63.7%
Loss adjustment expense ratio	12.9%	13.9%	12.4%	15.2%	20.1%
Expense ratio	29.2%	25.3%	27.8%	31.4%	27.8%
Combined ratio	99.9%	99.5%	96.1%	102.0%	111.6%
Bankers Fidelity (3)					
MEDICARE SUPPLEMENT:					
Incurred losses	$13,319	$ 7,820	$ 7,136	$ 6,688	$ 7,582
Loss ratio	67.5%	62.4%	61.7%	57.6%	57.8%
CANCER, ACCIDENT AND OTHER HEALTH:					
Incurred losses	$ 795	$ 1,747	$ 1,752	$ 2,671	$ 3,357
Loss ratio	26.6%	43.6%	43.5%	56.1%	61.4%
TOTAL BANKERS FIDELITY:					
Incurred losses	$14,114	$ 9,567	$ 8,888	$ 9,359	$10,939
Loss ratio	62.1%	58.3%	57.2%	57.2%	58.9%

(1) Includes American Southern for 1998, 1997 and 1996 only.
(2) Includes adjustment to reallocate reserves to workers' compensation.
(3) Includes American Independent for three months in 1997 and full year in 1998.

See "Reserves" for analysis of loss development and reserves.

Policyholder and Claims Services

The Company believes that prompt, efficient policyholder and claims services are essential to its continued success in marketing its insurance products (see "Competition"). Additionally, the Company believes that its insureds are particularly sensitive to claim processing time and to the accessibility of qualified staff to answer inquiries. Accordingly, the Company's policyholder and claims services include expeditious disposition of service requests by providing toll-free access to all customers, 24-hour claim reporting services, and direct computer links with some of its largest accounts. The Company also utilizes a state-of-the-art automatic call distribution system to insure timely response. Inbound calls to customer service support groups are processed efficiently. Operational data generated from this system allows management to further refine ongoing client service programs and service representative training modules.

The Company supports a Customer Awareness Program as the basis for its customer service philosophy. All personnel are required to attend customer service classes. Hours have been expanded in all service areas to serve customers and agents in all time zones.

Casualty Operations

American Southern and Georgia Casualty. American Southern and Georgia Casualty control their claims costs by utilizing an in-house staff of claim supervisors to investigate, verify, negotiate and settle claims. Upon notification of an occurrence purportedly giving rise to a claim, the claims department conducts a preliminary investigation, determines whether an insurable event has occurred and, if so, records the claim. The companies frequently utilize independent adjusters and appraisers to service claims which require on-site inspections.

Bankers Fidelity

Insureds obtain claim forms by calling the claims department customer service group. To shorten claim processing time, a letter detailing all supporting documents that are required to complete a claim for a particular policy is sent to the customer along with the correct claim form. With respect to life policies, the claim is entered into Bankers Fidelity's claims system when the proper documentation is received. Properly documented claims are generally paid within three to nine business days of receipt. During 1998, Bankers Fidelity paid approximately 179,000 claims aggregating $19.4 million, of which approximately 174,000 claims aggregating $12.2 million were for Medicare supplement insurance.

Reserves

The following table sets forth information concerning the Company's losses and claims and loss adjustment expenses ("LAE") reserves for the periods indicated:

	1998	1997
Balance at January 1	$86,721	$84,074
Less: Reinsurance recoverables	(24,006)	(26,293)
Net balance at January 1	62,715	57,781
Incurred related to:		
Current year	63,030	60,252
Prior years	(2,606)	21
Total incurred	60,424	60,273
Paid related to:		
Current year	35,566	33,857
Prior years	23,430	22,246
Total paid	58,996	56,103
Reserves acquired due to acquisition	-	764
Net balance at December 31	64,143	62,715
Plus: Reinsurance recoverables	22,625	24,006
Balance at December 31	$86,768	$86,721

Casualty Operations

Atlantic American Corporation's Casualty Operations maintain loss reserves representing estimates of amounts necessary for payment of losses and LAE. The Casualty Operations also maintain incurred but not reported reserves and bulk reserves for future development. These loss reserves are estimates, based on known facts and circumstances at a given point in time, of amounts the insurer expects to pay on incurred claims. All balances are reviewed annually by qualified independent actuaries. Reserves for LAE are intended to cover the ultimate costs of settling claims, including investigation and defense of lawsuits resulting from such claims. Loss reserves for reported claims are based on a case-by-case evaluation of the type of claim involved, the circumstances surrounding the claim, and the policy provisions relating to the type of loss. The LAE for claims reported and claims not reported is based on historical statistical data and anticipated future development. Inflation and other factors which may affect claim payments are implicitly reflected in the reserving process through analysis of cost trends and reviews of historical reserve results; however, it is difficult to measure the effect of any one of these considerations on reserve estimates.

The Casualty Operations establish reserves for claims based upon: (a) management's estimate of ultimate liability and claim adjusters' evaluations for unpaid claims reported prior to the close of the accounting period, (b) estimates of incurred but not reported claims based on past experience, and (c) estimates of LAE. The estimated liability is continually reviewed and updated, and changes to the estimated liability are recorded in the statement of operations in the year in which such changes become known.

The table on the following page sets forth the development of balance sheet reserves for unpaid losses and LAE for the Casualty Operations' insurance lines for 1988 through 1998, including periods prior to the Company's ownership of American Southern. The top line of the table represents the estimated amount of losses and LAE for claims arising in all prior years that were unpaid at the balance sheet date for each of the indicated periods, including an estimate of losses that have been incurred but not yet reported. The amounts represent initial reserve estimates at the respective balance sheet dates for the current and all prior years. The next portion of the table shows the cumulative amounts paid with respect to claims in each succeeding year. The lower portion of the table shows the reestimated amounts of previously recorded reserves based on experience as of the end of each succeeding year.

The reserve estimates are modified as more information becomes known about the frequency and severity of claims for individual years. The "cumulative redundancy or deficiency" for each year represents the aggregate change in such year's estimates through the end of 1998. In evaluating this information, it should be noted that the amount of the redundancy or deficiency for any year represents the cumulative amount of the changes from initial reserve estimates for such year. Operations for any one year are only affected, favorably or unfavorably, by the amount of the change in the estimate for such year. Conditions and trends that have affected development of the reserves in the past may not necessarily occur in the future. Accordingly, it is inappropriate to predict future redundancies or deficiencies based on the data in this table.

	Year ended December 31, (in thousands)										
	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
Statutory reserve for losses & LAE	$57,548	$56,712	$53,496	$53,320	$50,154	$48,031	$48,485	$50,808	$52,668	$47,819(1)	$39,036
Cumulative paid as of:											
One year later		17,650	18,899	17,865	16,548	18,106	18,827	22,060	22,837	21,321	21,592
Two years later			26,387	25,821	25,280	25,914	27,731	32,560	35,278	33,507	32,352
Three years later				29,884	29,273	31,021	36,786	38,046	40,768	40,891	39,832
Four years later					31,180	33,674	40,295	41,872	44,267	43,745	43,713
Five years later						35,196	42,498	44,530	47,204	46,183	45,767
Six years later							43,989	46,523	49,000	48,056	47,880
Seven years later								47,927	50,658	49,835	49,704
Eight years later									51,809	51,100	51,288
Nine years later										52,239	52,424
Ten years later											53,335
Ultimate losses and LAE reestimated as of:											
End of Year	57,548	56,712	53,496	53,320	50,154	48,031	48,485	50,808	52,668	47,819(1)	39,036
One year later		50,013	51,103	49,799	46,249	47,021	46,756	53,700	53,676	53,212	47,314
Two years later			45,838	46,952	44,850	44,043	45,999	52,670	55,919	54,438	53,998
Three years later				43,507	44,138	45,568	48,446	53,040	55,865	56,064	55,313
Four years later					41,914	46,638	53,064	52,326	56,514	55,707	56,255
Five years later						45,094	54,173	56,771	56,648	56,579	56,403
Six years later							53,574	57,898	60,515	56,984	57,446
Seven years later								57,265	61,069	60,641	58,142
Eight years later									60,403	61,327	60,791
Nine years later										60,560	61,362
Ten years later											60,774
Cumulative redundancy (deficiency)		$ 6,699	$ 7,658	$ 9,813	$ 8,240	$ 2,937	$(5,089)	$(6,457)	$(7,735)	$(12,741)	$(21,738)

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(1) Restated due to adjustment of $4.7 million for elimination of structured annuities changed to reinsurance in 1990.

Bankers Fidelity

Bankers Fidelity establishes future policy benefits reserves to meet future obligations under outstanding policies. These reserves are calculated to satisfy policy and contract obligations as they mature. The amount of reserves for insurance policies is calculated using assumptions for interest rates, mortality and morbidity rates, expenses, and withdrawals. Reserves are adjusted periodically based on published actuarial tables with some modification to reflect actual experience (see Note 3 of Notes to Consolidated Financial Statements for the year ended December 31, 1998).

Reinsurance

The insurance subsidiaries purchase reinsurance from unaffiliated insurers and reinsurers to reduce their liability on individual risks and to protect against catastrophic losses. In a reinsurance transaction, an insurance company transfers, or "cedes," a portion or all of its exposure on insurance policies to a reinsurer. The reinsurer assumes the exposure in return for a portion of the premiums. The ceding of insurance does not legally discharge the insurer from primary liability for the full amount of policies written by it, and the ceding company incurs a loss if the reinsurer fails to meet its obligations under the reinsurance agreement.

Casualty Operations

American Southern. The limits of risks retained by American Southern vary by type of policy and insured, and amounts in excess of such limits are reinsured. The largest net amount insured in any one risk is $100,000. Reinsurance is generally maintained as follows: for fire, inland marine, and commercial automobile physical damage, recovery of losses over $40,000 up to $130,000. Net retentions for third party losses are generally over $35,000 up to $100,000. Catastrophe coverage for all lines except third party liability is for 95% of $6.6 million over $400,000.

Georgia Casualty. Georgia Casualty's basic treaties cover all claims in excess of $200,000 per person, per occurrence on casualty losses, and per risk on property losses, up to $10.0 million per casualty claim and $3.0 million per property claim. An excess catastrophe treaty provides coverage
up to statutory limits for any one occurrence on workers' compensation. The property lines of coverage are protected with an excess of loss treaty which affords recovery for property losses in excess of $250,000 up to a maximum of $3.0 million. Facultative arrangements are in place for property accounts with limits in excess of $3.0 million per risk.

Bankers Fidelity

Bankers Fidelity has entered into reinsurance contracts ceding the excess of their retention to several primary reinsurers. Maximum retention by Bankers Fidelity on any one individual in the case of life insurance policies is $50,000. At December 31, 1998, Bankers Fidelity's reinsured annualized premiums totaled $16.9 million of the $275.6 million of life insurance then in force, generally under yearly renewable term agreements. Two companies accounted for all of such reinsurance: Munich American Reassurance Company ($12.3 million) and Optimum Reinsurance ($4.6 million). Certain reinsurance agreements that are no longer active for new business remain in force to cover any claims on a run-off basis.

Competition

Casualty Operations

American Southern. The businesses in which American Southern engages are highly competitive. The principal areas of competition are pricing and service. Many competing property and casualty companies which have been in business longer than American Southern have available more diversified lines of insurance and have substantially greater financial resources. Management believes, however, that the policies it sells are competitive with those providing similar benefits offered by other insurers doing business in the states where American Southern operates.

Georgia Casualty. Georgia Casualty's insurance business is highly competitive. The competition can be placed in four categories: (1) companies with higher A.M. Best ratings, (2) alternative workers' compensation markets, (3) self-insured funds, and (4) insurance companies that actively solicit monoline workers' compensation accounts. Georgia Casualty's efforts are directed in the following three general categories where the company has the best opportunity to control exposures and claims: (1) manufacturing, (2) artisan contractors, and (3) service industries. Management believes that Georgia Casualty's keys to being competitive in these areas are maintaining strong underwriting standards, risk management programs, writing workers' compensation coverages as part of the total insurance package, maintaining and expanding its loyal network of agents and development of new agents in key territories. In addition, Georgia Casualty offers quality customer service to its agents and insureds, and provides rehabilitation, medical management, and claims management services to its insureds. Georgia Casualty believes that it will continue to be competitive in the marketplace based on its current strategies and services.

Bankers Fidelity

The life and health insurance business is highly competitive and includes a large number of insurance companies, many of which have substantially greater financial resources. Bankers Fidelity believes that the primary competitors are the Blue Cross/Blue Shield companies, AARP, the Prudential Insurance Company of America, Pioneer Life Insurance Company of Illinois, AFLAC, American Travellers, Kanawha Life, American Heritage, Bankers Life and Casualty Company, United American Insurance Corporation, and Standard Life of Oklahoma. Bankers Fidelity competes with other insurers on the basis of premium rates, policy benefits, and service to policyholders. Bankers Fidelity also competes with other insurers to attract and retain the allegiance of its independent agents through commission arrangements, accessibility and marketing assistance, lead programs, and market expertise. Bankers Fidelity believes that it competes effectively on the basis of policy benefits, services, and market expertise.

Rating

In 1998, for the first time, Atlantic American Corporation and its subsidiaries underwent a rating and review process by Standard & Poor's. As a result of the review, each of the Company's insurance subsidiaries were assigned a single "A-" counterparty credit and financial strength rating.

Each year A.M. Best Company, Inc. publishes Best's Insurance Reports ("Best's"), which include assessments and ratings of all insurance companies. Best's ratings, which may be revised quarterly, fall into fifteen categories ranging from A++ (Superior) to F (in liquidation). Best's ratings are based on an analysis of the financial condition and operations of an insurance company compared to the industry in general. These ratings are not designed for investors and do not constitute recommendations to buy, sell, or hold any security. Ratings are important in the insurance industry, and improved ratings should have a favorable impact on the ability of the companies to compete in the marketplace.

Casualty Operations

American Southern. American Southern and its wholly-owned subsidiary, American Safety Insurance Company, are each currently rated "A-" (Excellent) by A.M. Best.

Georgia Casualty. In early 1998, Georgia Casualty received a Best's rating of "B++" (Very Good).

Bankers Fidelity

Bankers Fidelity. Bankers Fidelity maintains a Best's rating of "B+" (Very Good).

American Independent. American Independent is currently rated "C++".

Regulation

In common with all domestic insurance companies, the Company's insurance subsidiaries are subject to regulation and supervision in the jurisdictions in which they do business. Statutes typically delegate regulatory, supervisory, and administrative powers to state insurance commissions. The method of such regulation varies, but regulation relates generally to the licensing of insurers and their agents, the nature of and limitations on investments, approval of policy forms, reserve requirements, the standards of solvency which must be met and maintained, deposits of securities for the benefit of policyholders, and periodic examinations of insurers and trade practices, among other things. The Company's products generally are subject to rate regulation by state insurance commissions, which require that certain minimum loss ratios be maintained. Certain states also have insurance holding company laws which require registration and periodic reporting by insurance companies controlled by other corporations licensed to transact business within their respective jurisdictions. The Company's insurance subsidiaries are subject to such legislation and are registered as controlled insurers in those jurisdictions in which such registration is required. Such laws vary from state to state but typically require periodic disclosure concerning the corporation which controls the registered insurers and all subsidiaries of such corporations, as well as prior notice to, or approval by, the state insurance commission of intercorporate transfers of assets (including payments of dividends in excess of specified amounts by the insurance subsidiaries) within the holding company system.

Most states require that rate schedules and other information be filed with the state's insurance regulatory authority, either directly or through a rating organization with which the insurer is affiliated. The regulatory authority may disapprove a rate filing if it determines that the rates are inadequate, excessive, or discriminatory. The Company has historically experienced no significant regulatory resistance to its applications for rate increases.

A state may require that acceptable securities be deposited for the protection either of policyholders located in those states or of all policyholders. As of December 31, 1998, $14.8 million of securities were on deposit either directly with various state authorities or with third parties pursuant to various custodial agreements on behalf of Bankers Fidelity and the Casualty Operations.

Virtually all of the states in which the Company's insurance subsidiaries are licensed to transact business require participation in their respective guaranty funds designed to cover claims against insolvent insurers. Insurers authorized to transact business in these jurisdictions are generally subject to assessments of up to 4% of annual direct premiums written in that jurisdiction to pay such claims, if any. The occurrence and amount of such assessments has increased in recent years. The likelihood and amount of any future assessments cannot be estimated until an insolvency has occurred. For the last five years, the amount incurred by the Company was not material.

NAIC Ratios

The National Association of Insurance Commissioners (the "NAIC") was established to provide guidelines to assess the financial strength of insurance companies for state regulatory purposes. The NAIC conducts annual reviews of the financial data of insurance companies primarily through the application of 13 financial ratios prepared on a statutory basis. The annual statements are submitted to state insurance departments to assist them in monitoring insurance companies in their states and to set forth a desirable range in which companies should fall in each such ratio.

The NAIC suggests that insurance companies which fall outside of the "usual" range in four or more financial ratios are those most likely to require analysis by state regulators. However, according to the NAIC, it may not be unusual for a financially sound company to have several ratios outside the "usual" range, and in normal years the NAIC expects 15% of the companies it tests to be outside the "usual" range in four or more categories.

For the year ended December 31, 1998, American Southern and Bankers Fidelity were within the NAIC "usual" range for all 13 financial ratios. American Independent was outside the "usual" range on four ratios: net change in capital and surplus, net income to total income, surplus relief and change in premium. In 1998, the Company ceased writing new business through American Independent and transferred its agency force to Bankers Fidelity. Georgia Casualty was outside the "usual" range on one ratio: investment yield as a result of Georgia Casualty's large investment in equity securities.

Risk-Based Capital

RBC is used by rating agencies and regulators as an early warning tool to identify weakly capitalized companies for the purpose of initiating further regulatory action. The RBC calculation determines the amount of Adjusted Capital needed by a company to avoid regulatory action. "Authorized Control Level Risk-Based Capital" ("ACL") is calculated; if a company's adjusted capital is 200% or lower than ACL, it is subject to regulatory action. At December 31, 1998, all of the Company's insurance subsidiaries substantially exceeded the RBC regulatory levels.

Investments

Investment income represents a significant portion of the Company's total income. Insurance company investments are subject to state insurance laws and regulations which limit the concentration and types of investments. The following table provides information on the Company's investments as of the dates indicated.

	December 31,					
	1998		1997		1996	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
Fixed maturities:						
Bonds:						
U.S. Government agencies and authorities	$ 86,535	43.9%	$ 76,701	38.6%	$ 73,097	39.7%
States, municipalities and political subdivisions	1,490	0.8	2,738	1.4	3,496	1.9
Public utilities	1,874	0.9	1,893	1.0	1,505	0.8
Convertibles and bonds with warrants attached	-	NIL	-	NIL	1,275	0.7
All other corporate bonds	9,442	4.8	10,457	5.3	11,562	6.3
Certificates of deposit	2,286	1.2	395	0.2	375	0.2
Total fixed maturities(1)	101,627	51.6	92,184	46.5	91,310	49.6
Common and preferred stocks (2)	61,007	30.9	46,876	23.6	37,762	20.5
Mortgage, policy and student loans (3)	8,119	4.1	9,536	4.8	13,367	7.3
Investments in limited partnerships (4)	4,822	2.4	3,941	2.0	-	-
Real estate	46	NIL	46	NIL	46	NIL
Short-term investments (5)	21,782	11.0	46,167	23.1	41,614	22.6
Total investments	$197,403	100.0%	$198,750	100.0%	$184,099	100.0%

(1) Fixed maturities are carried on the balance sheet at market value. Total cost of fixed maturities was $100.6 million as of December 31, 1998, $91.1 million as of December 31, 1997, and $91.6 million as of December 31, 1996.
(2) Equity securities are valued at market. Total cost of equity securities was $33.1 million as of December 31, 1998, $18.4 million as of December 31, 1997, and $19.7 million as of December 31, 1996.
(3) Mortgage loans and policy and student loans are valued at historical cost.
(4) Investments in other invested assets which are traded are valued at estimated market value; all other partnership interests are carried at historical cost. Total cost of investments in limited partnerships was $4.8 million as of December 31, 1998 and $4.0 million as of December 31, 1997.
(5) Short-term investments are valued at cost, which approximates market value.

Results of the investment portfolio for periods shown were as follows:

	1998	1997	1996
	Year Ended December 31,		
	(Dollars in thousands)		
Average investments(1)	$199,132	$187,408	$180,816
Net investment income	$ 11,167	$ 10,916	$ 10,699
Average yield on investments	5.6%	5.8%	5.9%
Realized investment gains, net	$ 2,909	$ 1,076	$ 1,589

(1) Calculated as the average of the balances at the beginning of the year and at the end of each of the four segment quarters.

Management's investment strategy is an increased investment in short and medium maturity bonds and common and convertible preferred stocks.

Employees

The Company and its subsidiaries at December 31, 1998 employed 180 people.

Financial Information By Industry Segment

Financial information concerning the Company and its consolidated subsidiaries by industry segment for the three years ended December 31, 1998, is set forth on pages 22 and 23 of the 1998 Annual Report to Shareholders, and such information by industry segment is incorporated herein by reference.

Executive Officers of the Registrant

The table below and the information following the table set forth for each executive officer of the Company as of December 31, 1998, (based upon information supplied by each of them) his name, age, positions with the Company, principal occupation, and business experience for the past five years and prior service with the Company.

Name	Age	Position with the Company	Director or Officer Since
J. Mack Robinson	75	Chairman of the Board	1974
Hilton H. Howell, Jr.	37	Director, President & CEO	1992
Edward L. Rand, Jr.	32	Vice President and Treasurer	1998

Officers are elected annually and serve at the discretion of the Board of Directors.

Mr. Robinson has served as Director and Chairman of the Board since 1974 and served as President and Chief Executive Officer of the Company from September 1988 to May 1995. In addition, Mr. Robinson is a Director of Bull Run Corporation and Gray Communications Systems, Inc.

Mr. Howell has been President and Chief Executive Officer of the Company since May 1995, and prior thereto served as Executive Vice President of the Company from October 1992 to May 1995. He has been a Director of the Company since October 1992. Mr. Howell is the son-in-law of Mr. Robinson. He is also a Director of Bull Run Corporation and Gray Communications Systems, Inc.

Mr. Rand has served as Vice President and Treasurer of the Company since May 1998, prior thereto he served as Vice President and Controller from August 1997 to May 1998. He also serves in the following capacities at subsidiaries of the Company, Treasurer of Self Insurance Administrators, Inc., Director of Georgia Casualty, and a Director of Bankers Fidelity Life Insurance Company and American Independent Life Insurance Company. Prior to joining the Company in August 1997, he was Vice President and Controller of United Capitol Insurance Company.

Forward-Looking Statements

Certain of the statements and subject matters contained herein that are not based upon historical or current facts deal with or may be impacted by potential future circumstances and developments, and should be considered forward-looking and subject to various risks and uncertainties. Such forward-looking statements are made based upon management's belief, as well as assumptions made by and information currently available, to management pursuant to "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Such statements, and the discussion of such subject areas, involve, and therefore are qualified by, the inherent risks and uncertainties surrounding future expectations generally, and may materially differ from the Company's actual future experience involving any one or more of such subject areas. The Company has attempted to identify, in context, certain of the factors that it currently believes may cause actual future experience and results to differ from current expectations. The Company's operations and results also may be subject to the effect of other risks and uncertainties in addition to the relevant qualifying factors identified elsewhere herein, including, but not limited to, locality and seasonality in the industries to which the Company offers its products, the impact of competitive products and pricing, unanticipated increases in the rate and number of claims outstanding, volatility in the capital markets that may have an impact on the Company's investment portfolio, unanticipated developments in the process of assessing and addressing issues related to the Year 2000 issue, the uncertainty of general economic conditions, and other risks and uncertainties identified from time to time in the Company's periodic reports filed with the Securities and Exchange Commission. Many of such factors are beyond the Company's ability to control or predict. As a result, the Company's actual financial condition, results of operations and stock price could differ materially from those expressed in any forward-looking statements made by the Company. Undue reliance should not be placed upon forward-looking statements contained herein. The Company does not intend to publicly update any forward-looking statements that may be made from time to time by, or on behalf of, the Company.

ITEM 2. PROPERTIES

Owned Properties. The Company owns two parcels of unimproved property consisting of approximately seven acres located in Fulton and Washington Counties, Georgia. At December 31, 1998, the aggregate book value of such properties was approximately $46,000.

Leased Properties. The Company (with the exception of American Southern) leases space for its principal offices in an office building located in Atlanta, Georgia, from Delta Life Insurance Company, under leases which expire at various times from May 31, 2002 to July 31, 2005. Under the current terms of the leases, the Company occupies approximately 54,000 square feet of office space. Delta Life Insurance Company, the owner of the building, is controlled by J. Mack Robinson, Chairman of the Board of Directors and largest shareholder of the Company. The terms of the leases are believed by Company management to be comparable to terms which could be obtained by the Company from unrelated parties for comparable rental property.

American Southern leases space for its offices in a building located in Atlanta, Georgia. The lease term expires January 31, 2000. Under the terms of the lease, American Southern occupies approximately 13,700 square feet.

ITEM 3. LEGAL PROCEEDINGS

Litigation

The Company and its subsidiaries are involved in various claims and lawsuits incidental to and in the ordinary course of their businesses. In the opinion of management, such claims will not have a material effect on the business or financial condition of the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of the Company's shareholders during the quarter ended December 31, 1998.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

The Company's common stock is traded in the over-the-counter market and quoted on the Nasdaq National Market (Symbol: AAME). As of March 8, 1999, there were 5,040 shareholders of record. The following table sets forth for the periods indicated the high and low sale prices of the Company's common stock as reported on the Nasdaq National Market.

Year Ending December 31,	High	Low
1998		
1st quarter	$5 1/2	$4 5/8
2nd quarter	5 1/16	3 7/8
3rd quarter	5 1/4	4
4th quarter	4 15/16	3 5/8
1997		
1st quarter	$3 3/4	$3 1/16
2nd quarter	3 1/4	2 1/2
3rd quarter	4 1/8	2 1/2
4th quarter	5 1/2	4

The Company has not paid dividends to its common shareholders since the fourth quarter of 1988. Payment of dividends in the future will be at the discretion of the Company's Board of Directors and will depend upon the financial condition, capital requirements, and earnings of the Company as well as other factors as the Board of Directors may deem relevant. The Company's primary sources of cash for the payment of dividends are dividends from its subsidiaries. Under the Insurance Code of the State of Georgia, cumulative dividend payments to the Parent Company by its insurance subsidiaries are limited to the accumulated statutory earnings of the insurance subsidiaries without the prior approval of the Insurance Commissioner. The Company's principal insurance subsidiaries had the following accumulated statutory earnings and/or (deficits) as of December 31, 1998: Georgia Casualty - $13.7 million, American Southern - $20.5 million, Bankers Fidelity Life - $17.4 million. The Company has elected to retain its earnings to grow its business and does not anticipate paying cash dividends on its common stock in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

Selected financial data of Atlantic American Corporation and subsidiaries for the five year period December 31, 1998 is set forth on page 1 of the 1998 Annual Report to Shareholders and is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis of financial condition and results of operations of Atlantic American Corporation and subsidiaries are set forth on pages 25 to 30 of the 1998 Annual Report to Shareholders and are incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information set forth under that caption "Interest Rate and Market Risk" in the information incorporated by reference in Item 7 above, is incorporated by reference herein.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of the Company and related notes are set forth on pages 10 to 24 of the 1998 Annual Report to Shareholders and are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

With the exception of information relating to the Executive Officers of the Company, which is provided in Part I hereof, all information required by Part III (Items 10, 11, 12, and 13) is incorporated by reference to the sections entitled "Election of Directors", "Security Ownership of Management", "Section 16(a) Beneficial Ownership Compliance", "Executive Compensation", and "Certain Relationships and Related Transactions" contained in the Company's definitive proxy statement to be delivered in connection with the Company's Annual Meeting of Shareholders to be held May 4, 1999.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) List of documents filed as part of this report:

FINANCIAL STATEMENTS

	Page Reference
Consolidated Balance Sheets as of December 31, 1998 and December 31, 1997	10*
Consolidated Statements of Operations for the Three Years ended December 31, 1998	11*
Consolidated Statements of Shareholders' Equity for the Three Years ended December 31, 1998	12*
Consolidated Statements of Cash Flows for the Three Years ended December 31, 1998	13*
Notes to Consolidated Financial Statements	14-24*
Report of Independent Public Accountants	31*

* The page references so designated refer to page numbers in the 1998 Annual Report to Shareholders of Atlantic American Corporation, which pages are incorporated herein by reference. With the exception of the information specifically incorporated within this Form 10-K, the 1998 Annual Report to Shareholders of Atlantic American Corporation is not deemed to be filed under the Securities Exchange Act of 1934.

FINANCIAL STATEMENT SCHEDULES

Report of Independent Public Accountants

II - Condensed financial information of registrant for the three years ended December 31, 1998

III - Supplementary Insurance Information for the three years ended December 31, 1998

IV - Reinsurance for the three years ended December 31, 1998

VI - Supplemental Information concerning property-casualty insurance operations for the three years ended December 31, 1998

Schedules other than those listed above are omitted as they are not required or are not applicable, or the required information is shown in the financial statements or notes thereto. Columns omitted from schedules filed have been omitted because the information is not applicable.

EXHIBITS

3.1 - Restated and Amended Articles of Incorporation of the registrant [incorporated by reference to Exhibit 3.1 to the registrant's Form 10-Q for the fiscal quarter ended March 31, 1996].

3.2 - Bylaws of the registrant [incorporated by reference to Exhibit 3.2 to the registrant's Form 10-K for the year ended December 31, 1993].

10.01 - Lease Contract between registrant and Delta Life Insurance Company dated June 1, 1992 [incorporated by reference to Exhibit 10.11 to the registrant's Form 10-K for the year ended December 31, 1992].

10.02 - First Amendment to Lease Contract between registrant and Delta Life Insurance Company dated June 1, 1993 [incorporated by reference to Exhibit 10.11.1 to the registrant's Form 10Q for the quarter ended June 30, 1993].

10.03 - Second Amendment to Lease Contract between registrant and Delta Life Insurance Company dated August 1, 1994 [incorporated by reference to Exhibit 10.11.2 to the registrant's Form 10Q for the quarter ended September 30, 1994].

10.04 - Lease Agreement between Georgia Casualty & Surety Company and Delta Life Insurance Company dated September 1, 1991 [incorporated by reference to Exhibit 10.12 to the registrant's Form 10-K for the year ended December 31, 1992].

10.05 - First Amendment to Lease Agreement between Georgia Casualty & Surety Company and Delta Life Insurance Company dated June 1,1992 [incorporated by reference to Exhibit 10.12.1 to the registrant's Form 10-K for the year ended December 31, 1992].

10.06 - Management Agreement between registrant and Georgia Casualty & Surety Company dated April 1, 1983 [incorporated by reference to Exhibit 10.16 to the registrant's Form 10-K for the year ended December 31, 1986].

10.07* - Minutes of Meeting of Board of Directors of registrant held February 25, 1992 adopting registrant's 1992 Incentive Plan together with a copy of that plan, as adopted [incorporated by reference to Exhibit 10.21 to the registrant's Form 10-K for the year ended December 31, 1991].

10.08 - Employment Agreement dated September 2, 1988, between the registrant and Eugene Choate [incorporated by reference to Exhibit 10.31 to the registrant's Form 10-K for the year ended December 31, 1992].

10.09 - Loan and Security Agreement dated August 26, 1991, between registrant's three insurance subsidiaries and Leath Furniture, Inc. [incorporated by reference to Exhibit 10.38 to the registrant's Form 10-K for the year ended December 31, 1992].

10.10 - First amendment to the amended and reissued mortgage note dated January 1, 1992, [incorporated by reference to Exhibit 10.38.1 to the registrant's Form 10-K for the year ended December 31, 1992].

10.11 - Intercreditor Agreement dated August 26, 1991, between Leath Furniture, Inc., the registrant and the registrant's three insurance subsidiaries [incorporated by reference to Exhibit 10.39 to the registrant's Form 10-K for the year ended December 31, 1992].

10.12 - Management Agreement between Registrant and Atlantic American Life Insurance Company and Bankers Fidelity Life Insurance Company dated July 1, 1993 [incorporated by reference to Exhibit 10.41 to the registrant's Form 10-Q for the quarter ended September 30, 1993].

10.13 - Tax allocation agreement dated January 28, 1994, between registrant and registrant's subsidiaries [incorporated by reference to Exhibit 10.44 to the registrant's Form 10-K for the year ended December 31, 1993].

10.14 - Credit Agreement, dated as of December 29, 1995, between registrant and Wachovia Bank of Georgia, N.A. [incorporated by reference to Exhibit 99.1 to the registrant's Form 8-K, filed January 12, 1996].

13.1 - Those portions of the registrant's Annual Report to Shareholders for year ended December 31, 1997, that are specifically incorporated by reference herein.

21.1 - Subsidiaries of the registrant.

23.1 - Consent of Arthur Andersen LLP, Independent Public Accountants.

28.1 - Form of General Agent's Contract of Atlantic American Life Insurance Company [incorporated by reference to Exhibit 28 to the registrant's Form 10-K for the year ended December 31, 1990].

28.2 - Form of Agent's Contract of Bankers Fidelity Life Insurance Company [incorporated by reference to Exhibit 28 to the registrant's Form 10-K for the year ended December 31, 1990].

28.3 - Form of Agency Contract of Georgia Casualty & Surety Company [incorporated by reference to Exhibit 28 to the registrant's Form 10-K for the year ended December 31, 1990].

(b) Reports on Form 8-K. None.

*Management contract, compensatory plan or arrangement required to be filed pursuant to, Part IV, Item 14(C) of Form 10-K and Item 601 of Regulation S-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant) ATLANTIC AMERICAN CORPORATION

By: /s/

Edward L. Rand, Jr.
Vice President and Treasurer

Date: March 26, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ - ----------------------------- J. MACK ROBINSON	Chairman of the Board	March 26, 1999
/s/ - ----------------------------- HILTON H. HOWELL, JR.	President, Chief Executive Officer and Director (Principal Executive Officer)	March 26, 1999
/s/ - ----------------------------- EDWARD L. RAND, JR.	Vice President and Treasurer	March 26, 1999
/s/ - ----------------------------- EDWARD E. ELSON	Director	March 26, 1999
/s/ - ----------------------------- SAMUEL E. HUDGINS	Director	March 26, 1999
/s/ - ----------------------------- D. RAYMOND RIDDLE	Director	March 26, 1999
/s/ - ----------------------------- HARRIETT J. ROBINSON	Director	March 26, 1999
/s/ - ----------------------------- SCOTT G. THOMPSON	Director	March 26, 1999
/s/ - ----------------------------- MARK C. WEST	Director	March 26, 1999
/s/ - ----------------------------- WILLIAM H. WHALEY, M.D.	Director	March 26, 1999
/s/ - ----------------------------- DOM H. WYANT	Director	March 26, 1999

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Atlantic American Corporation:

We have audited, in accordance with generally accepted auditing standards, the consolidated financial statements of Atlantic American Corporation, incorporated by reference in this Form 10-K, and have issued our report thereon dated March 26, 1999. Our audits of the financial statements were made for the purpose of forming an opinion on those statements taken as a whole. The financial statement schedules listed in Item 14 (a) are the responsibility of the Company's management, are presented for the purpose of complying with the Securities and Exchange Commission's rules, and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

/s/

ARTHUR ANDERSEN LLP

Atlanta, Georgia
March 26, 1999

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

ATLANTIC AMERICAN CORPORATION
(Parent Company Only)

BALANCE SHEETS
(in thousands)

ASSETS

	December 31, 1998	December 31, 1997
Current assets:		
Cash and short-term investments	$ 130	$ 223
Investment in insurance subsidiaries	110,587	107,124
Income taxes receivable from subsidiaries	-	137
Other assets	1,884	2,424
	$112,601	$109,908

LIABILITIES AND SHAREHOLDERS' EQUITY

	1998	1997
Current liabilities:		
Current portion of long-term debt	$ 2,400	$ 1,000
Other payables	4,320	3,125
Total current liabilities	6,720	4,125
Income taxes payable to subsidiaries	64	-
Long-term debt	23,600	27,600
Shareholders' equity	82,217	78,183
	$112,601	$109,908

The notes to consolidated financial statements are an integral part of these condensed statements.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

ATLANTIC AMERICAN CORPORATION
(Parent Company Only)

STATEMENTS OF OPERATIONS
(in thousands)

	Year Ended December 31,		
	1998	1997	1996
REVENUE			
Fees, rentals and interest income from subsidiaries	$ 4,230	$ 3,841	$ 5,662
Distributed earnings from subsidiaries	7,054	11,209	6,850
Other	1,155	20	94
Total revenue	12,439	15,070	12,606
GENERAL AND ADMINISTRATIVE EXPENSES	6,407	5,305	6,073
INTEREST EXPENSE	2,146	2,902	3,292
	3,886	6,863	3,241
INCOME TAX BENEFIT (1)	1,703	1,862	2,054
	5,589	8,725	5,295
EQUITY IN UNDISTRIBUTED EARNINGS OF CONSOLIDATED SUBSIDIARIES, NET	2,969	(692)	2,316
Income from continuing operations	8,558	8,033	7,611
(Loss) from discontinued operations, net	-	-	(4,447)
Net income	$ 8,558	$ 8,033	$ 3,164

(1) Under the terms of its tax-sharing agreement with its subsidiaries, income tax provisions for the individual companies are computed on a separate company basis. Accordingly, the Company's income tax benefit results from the utilization of the parent company separate return loss to reduce the consolidated taxable income of the Company and its subsidiaries.

The notes to consolidated financial statements are an integral part of these condensed statements.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

ATLANTIC AMERICAN CORPORATION
(Parent Company Only)

STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 8,558	$ 8,033	$ 3,164
Adjustments to reconcile net income to net cash provided by operating activities:			
Realized investment gains	(1,151)	-	-
Depreciation and amortization	670	591	452
Equity in undistributed earnings of consolidated subsidiaries	(2,969)	692	(2,316)
Loss from discontinued operations	-	-	4,447
Change in intercompany taxes	201	(715)	(245)
Decrease in other liabilities	(11)	(157)	(262)
Other, net	186	(245)	2,528
Net cash provided by operating activities	5,484	8,199	7,768
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of Leath Furniture, net	-	-	3,645
Additions to property and equipment	(305)	(536)	(1,177)
Net cash (used in) provided by investing activities	(305)	(536)	2,468
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of bank financing	-	5,617	11,352
Preferred stock dividends to affiliated shareholders	(315)	(315)	(315)
Purchase of treasury shares	(1,447)	(558)	(338)
Retirements and payments of long-term debt and notes payable to affiliates	(2,600)	(12,628)	(20,662)
Redemption of preferred stock	(1,000)	-	-
Proceeds from exercise of stock options	90	62	85
Net cash (used in) provided by financing activities	(5,272)	(7,822)	(9,878)
Net increase (decrease) in cash	(93)	(159)	358
Cash at beginning of year	223	382	24
Cash at end of year	$ 130	$ 223	$ 382
Supplemental disclosure:			
Cash paid for interest	$ 2,143	$ 2,958	$ 3,763
Cash paid for income taxes	$ 330	$ 85	$ 116
Issuance of stock to acquire SIA, Inc.	$ 66	$ 1,212	$ -

The notes to consolidated financial statements are an integral part of these condensed statements.

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY INSURANCE INFORMATION
(in thousands)

Segment	Deferred Acquisition Costs	Future Policy Benefits, Losses Claims and Loss Reserves	Unearned Premiums	Other Policy Claims and Benefits Payable
December 31, 1998:				
Bankers Fidelity..........	$13,972	$ 44,510	$ 2,874	$ 2,065
American Southern.........	1,378	46,952	11,830	1,629
Georgia Casualty..........	1,531	34,218	8,267	32
	$16,881	$125,680 (1)	$22,971	$ 3,726
December 31, 1997:				
Bankers Fidelity..........	$13,412	$ 44,070	$ 2,631	$ 2,001
American Southern.........	1,748	47,783	12,964	1,962
Georgia Casualty..........	1,323	34,056	8,817	34
	$16,483	$125,909 (2)	$24,412	$ 3,997
December 31, 1996:				
Bankers Fidelity..........	$12,237	$ 40,610	$ 2,135	$ 1,912
American Southern.........	2,131	44,652	16,481	1,693
Georgia Casualty..........	811	35,197	6,484	34
	$15,179	$120,459 (3)	$25,100	$ 3,639

(1) Includes future policy benefits of $38,912 and losses and claims of $86,768.
(2) Includes future policy benefits of $39,188 and losses and claims of $86,721.
(3) Includes future policy benefits of $36,385 and losses and claims of $84,074.

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY INSURANCE INFORMATION
(in thousands)

Segment	Premium Revenue	Investment Income (Losses)*	Benefits, Claims, Losses and Settlement Expenses	Amortization of Deferred Acquisition Costs	Other Operating Expenses	Casualty Premiums Written
December 31, 1998:						
Bankers Fidelity..........	$34,477	$ 5,572	$21,494	$ 2,110	$12,895	$ -
American Southern.........	35,002	4,503	23,135	4,748	5,183	33,869
Georgia Casualty..........	21,813	3,113	16,216	3,737	3,522	21,266
Other.....................	-	1,220	-	-	4,323	-
	$91,292	$14,408	$60,845	$10,595	$25,923	$55,135
December 31, 1997:						
Bankers Fidelity..........	$26,967	$ 5,175	$15,576	$ 1,944	$10,044	$ -
American Southern.........	41,799	4,353	30,182	4,932	4,997	38,282
Georgia Casualty..........	19,916	2,811	15,260	2,828	2,988	22,280
Other.....................	-	(7)	-	-	4,293	-
	$88,682	$12,332	$61,018	$ 9,704	$22,322	$60,562
December 31, 1996:						
Bankers Fidelity..........	$25,978	$ 5,524	$14,036	$ 2,835	$12,110	$ -
American Southern.........	41,250	4,284	28,586	5,349	5,108	41,561
Georgia Casualty..........	18,797	2,921	12,482	2,203	4,905	19,507
Other.....................	-	11	(823)	-	4,465	-
	$86,025	$12,740	$54,281	$10,387	$26,588	$61,068

* Includes realized investment gains (losses).

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
REINSURANCE
(in thousands)

	Direct Amount	Ceded To Other Companies	Assumed From Other Companies	Net Amount
Year ended December 31, 1998:				
Life insurance in force...........	$275,557	$(16,941)	$ -	$258,616
Premiums --				
Bankers Fidelity..................	$ 34,929	$ (2,236)	$ 1,784	$ 34,477
American Southern.................	19,306	(5,215)	20,911	35,002
Georgia Casualty..................	24,625	(3,206)	394	21,813
Total premiums.................	$ 78,860	$(10,657)	$23,089	$ 91,292
Year ended December 31, 1997:				
Life insurance in force...........	$267,749	$(11,767)	$ -	$255,982
Premiums --				
Bankers Fidelity..................	$ 27,427	$ (460)	$ -	$ 26,967
American Southern.................	22,471	(6,039)	25,367	41,799
Georgia Casualty..................	22,884	(2,968)	-	19,916
Total premiums.................	$ 72,782	$ (9,467)	$25,367	$ 88,682
Year ended December 31, 1996:				
Life insurance in force...........	$220,927	$(10,072)	$ -	$210,855
Premiums --				
Bankers Fidelity..................	$ 26,043	$ (65)	$ -	$ 25,978
American Southern.................	24,462	(5,770)	22,558	41,250
Georgia Casualty..................	22,011	(3,214)	-	18,797
Total premiums.................	$ 72,516	$ (9,049)	$22,558	$ 86,025

Schedule VI

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL INFORMATION CONCERNING

PROPERTY-CASUALTY INSURANCE OPERATIONS
(in thousands)

Year Ended	Deferred Policy Acquisition	Reserves	Unearned Premium	Earned Premium	Net Investment Income	Claims and Claim Adjustment Expenses Incurred Related To Current Year	Prior Years	Amortization of Deferred Acquisition Costs	Paid Claims and Claim Adjustment Expenses	Premiums Written
December 31, 1998	$ 2,909	$81,170	$20,097	$56,815	$7,616	$47,579	$(7,168)	$ 8,485	$39,699	$55,135
December 31, 1997	$ 3,071	$81,839	$21,781	$61,715	$7,165	$49,163	$(3,003)	$ 7,760	$41,883	$60,562
December 31, 1996	$ 2,942	$79,849	$22,965	$60,047	$7,205	$44,468	$(3,403)	$ 7,552	$41,017	$61,068

EXHIBIT 13.1

CORPORATE PROFILE

Atlantic American Corporation is an insurance holding company involved through its subsidiary companies in well-defined specialty markets of the life, health, property and casualty insurance industries.

FINANCIAL HIGHLIGHTS

(Dollars In Thousands, Except Per Share Data)

	Year Ended December 31,				
	1998	1997	1996	1995	1994
Insurance premiums	$ 91,292	$ 88,682	$ 86,025	$ 43,373	$ 41,701
Investment income	11,499	11,256	11,151	6,566	6,628
Other income	366	201	306	-	-
Realized investment gains, net	2,909	1,076	1,589	1,731	870
Total revenue	106,066	101,215	99,071	51,670	49,199
Insurance benefits and losses incurred	60,845	61,018	54,281	24,689	21,955
Other expenses	36,518	32,026	36,975	23,897	20,727
Total benefits and expenses	97,363	93,044	91,256	48,586	42,682
	8,703	8,171	7,815	3,084	6,517
Income tax provision (benefit)	145	138	204	(34)	(1,632)
Income from continuing operations	8,558	8,033	7,611	3,118	8,149
(Loss) income from discontinued operations, net	-	-	(4,447)	(10,094)	1,121
Income (loss) before extraordinary gain	8,558	8,033	3,164	(6,976)	9,270
Extraordinary gain	-	-	-	-	100
Net income (loss)	$ 8,558	$ 8,033	$ 3,164	$ (6,976)	$ 9,370
Diluted net income (loss) per common share:					
Continuing operations	$ .37	$ .35	$ .32	$ .15	$ .43
Discontinued operations	-	-	(.23)	(.54)	.06
Net income (loss)	$ .37	$ .35	$ .09	$ (.39)	$ .49
Book value per common share	$ 3.60	$ 3.27	$ 2.29	$ 1.61	$ 1.47
Common shares outstanding	19,120	18,907	18,684	18,679	18,414
Total assets	$272,849	$271,860	$252,994	$245,494	$148,740
Total long-term debt	$ 23,600	$ 27,600	$ 25,994	$ 31,569	$ 24,327
Total debt	$ 26,000	$ 28,600	$ 35,611	$ 44,921	$ 25,002
Total shareholders' equity before accumulated other comprehensive income	$ 53,431	$ 48,685	$ 41,423	$ 30,889	$ 24,281
Total shareholders' equity after accumulated other comprehensive income	$ 82,217	$ 78,183	$ 59,136	$ 46,478	$ 30,022
Operating return on beginning equity *	11.6%	16.8%	19.5%	5.7%	47.9%

* Operating return on equity is calculated using net income from continuing operations less realized gains and total shareholders equity before accumulated other comprehensive income.

Letter to the Investors

To Our Shareholders:

This is an exciting time for Atlantic American Corporation and the valuable portfolio of companies that comprise our diverse and competitive insurance business. In 1998, new insurance product initiatives, new marketplace niches, and expanding market penetration combined to provide sound financial results and further positioned us to take advantage of our industry's consolidation and the long-term growth opportunities such consolidation provides.

Following up on our 1997 acquisitions of American Independent Life Insurance Company and Self Insurance Administrators, Inc., we acquired two seasoned blocks of Medicare supplement business from Commonwealth Life Insurance Company and Colonial Life & Accident Insurance Company. To Atlantic American, consolidation is not just about getting bigger, it is about getting better. Our recent acquisitions, while small, have allowed us to not only spread our expenses, they have introduced us to new regions of the country where we have not historically been represented.

Consolidated revenue of $106 million for the year ended December 31, 1998, represents a five percent increase over 1997 revenues of $101 million. Net income for the year increased to $8.6 million, or $.37 per diluted share, compared with net income of $8.0 million, or $.35 per share, in 1997. The Company's book value per common share rose to $3.60 in 1998, compared to the $3.27 reported in 1997.

Overall, our consolidated operations produced solid growth in a very competitive insurance market. New sales in the Company's life and health division grew 30 percent, with the largest premium increase occurring in our Medicare supplement insurance business. In terms of actual policies sold, our various life products were our largest seller, but the larger premium size of our Medicare supplement products drove the premium increase. Premiums earned in our property and casualty companies declined slightly due to our efforts to maintain the proper price for our products in the face of stiff competition.

The financial strength of our portfolio of companies received strong support in 1998 when Standard & Poor's assigned its single 'A-' ("Strong") counterparty credit and financial strength rating to the entire Atlantic American Insurance Group including Bankers Fidelity Life Insurance Company, Georgia Casualty & Surety Company, American Southern Insurance Company and American Safety Insurance Company. We are extremely gratified by Standard & Poor's new rating of our companies and believe it validates the decisions we have made in our efforts to build our companies into strong regional competitors.

Although the property and casualty market continued to be extremely competitive in 1998, we remained focused on maintaining the underwriting discipline underlying our business. We view the fact that we are a regional company, close to our insureds, close to our agents, and close to our markets, as a competitive advantage. We try to maintain the local character and flair of each of our individual companies. As the giants of our industry continue to focus on volume sales, more and more independent agents are turning to us because we strive to provide the personalized service they cannot find elsewhere. We have also found that with our insureds, if we lose an account over price, it is not long before they return to us for service.

Our efforts to improve our information systems, begun in 1993, have continued to prove vital to our continued success. Although we are not totally finished, we are very close to completing the process of bringing our systems into compliance for Year 2000. The necessary changes to our information systems have been completed and we are in the process of completing the testing phase.

We are proud to have had the opportunity in July to re-elect The Honorable Edward E. Elson to our Board of Directors. After serving seven years on our board, he resigned in 1993 when he was appointed United States Ambassador to the Kingdom of Denmark, where he served until June 1998. We are excited to have him with us again. His experience and guidance will be a significant contribution to Atlantic American in the coming years.

We believe value is created through solid business partnerships. Clearly, we are committed to building and maintaining strong and successful relationships with our agents and employees, our policyholders and shareholders. Representing our commitment toward these relationships and the creation of shareholder value, we made the decision to redeem our Series A Preferred Stock at the end of last year, and initiated a stock program to assist odd lot shareholders increase or sell holdings of fewer than 100 shares. We have also continued our share buyback program and between January 1, 1998 and December 31, 1998, we acquired approximately 350,000 shares at a total cost of $1.6 million.

As we remain firmly positioned for future growth, everyone in the Atlantic American Group of companies is excited about our plans and opportunities. The management and staff of Atlantic American look forward to the challenges that lie ahead and thank you for your continued confidence and support.

/s/	/s/
J. Mack Robinson	Hilton H. Howell, Jr.
Chairman	President and Chief Executive Officer

" American Southern has built a strong reputation for providing quality products and service."

Picture of the following around a conference room table:

Calvin L. Wall, Chairman and Chief Executive Officer
Edward L. Rand, Jr., Vice President and Treasurer, AAC
Roy S. Thompson, Jr., Chariman Emeritus
Scott G. Thompson, President and Chief Financial Officer

American Southern

Products: Customized Fleet Automobile Liability and Damage Insurance
Premiums: $35,002,000
Pre-tax Income: $6,682,000
Statutory Surplus: $30,825,000
Employees: 38

In 1998, American Southern and American Safety, together known as "American Southern" contributed more than 45 percent of Atlantic American's revenue and profit, primarily offering automobile liability and physical damage insurance to large commercial policyholders in a broad geographic area. Georgia, Florida and South Carolina are major markets among the 22 states in which American Southern produced business in 1998.

American Southern's book of business is comprised of large contracts that are usually long-term and substantial. Earned premiums for 1998 of $35 million decreased from $41.8 million in 1997 due to competitive pressures and discontinuing unprofitable books of business.

Through a consistent drive to establish new product lines and programs, renew its long-term contracts and seek opportunities that complement existing operations, American Southern remains strong and is well positioned to achieve higher growth rates in the future. Both of the insurance companies that comprise American Southern maintain an `A-` ("Excellent") rating from A.M. Best and an 'A-' ("Strong") rating from Standard & Poor's.

American Southern continues to target key markets and large blocks of business, including state, county and municipal vehicle pools. In 1998, American Southern formed a joint venture with AAA Carolinas Motor Club to market personal automobile insurance to the almost one million members of the Carolinas Motor Club. The new venture, American Auto Club Insurance Agency, LLC, while providing a significant benefit to the members of the auto club provides an exciting growth opportunity for 1999 and beyond. Insuring leased modular facilities, such as the temporary facilities used for housing and storage at schools, construction sites and sports venues, in a number of states is another new program for American Southern that should prove invaluable in helping promote additional growth.

With 60 years of experience initiating unique insurance plans to meet the needs of its clients, American Southern has built a strong reputation for providing quality products and service. By building and maintaining a solid base of commercial policyholders, American Southern continues to earn the trust and confidence customers have placed in the entire portfolio of Atlantic American companies. American Southern's dedication to quality service ensures a strong foothold in the specialty insurance business for years to come.

GEORGIA CASUALTY & SURETY

"An outstanding relationship with the agent...keeps us in touch with the marketplace..."

Picture of the following in conference room:

Sandra W. Doar, Vice President, Underwriting
Marc Zierten, Assistant Vice President, Marketing
Geoge G. Clements, Vice President, Claims
Andy Thompson, President, SIA
Jack R. Baker, Vice President, Underwriting
Linda S. Cook, Vice President, Secretary and Treasurer

Georgia Casualty

Products: Workers' Compensation and
Commercial P&C Insurance
Premiums: $21,813,000
Pre-Tax Income: $1,495,000
Statutory Surplus: $18,667,000
Employees: 43

Georgia Casualty, a significant component of Atlantic American's portfolio of companies, is a leading provider of workers' compensation and commercial liability insurance, in the southeast. In 1998, earned premiums rose to $22 million, 24 percent of consolidated premiums for the year. Based on strong operating results and strengthened capitalization, Georgia Casualty, in 1998, received a 'B++' ("Very Good") rating from A.M. Best - its fifth rating upgrade in the past four years. In addition, Georgia Casualty received an 'A-' ("Strong") rating from Standard & Poor's in 1998.

Concentrating in Georgia, Mississippi, Louisiana, Florida and Tennessee, Georgia Casualty markets primarily to manufacturers, commercial contractors and service industries. The Company continues to focus on expanding its business by providing a variety of specialized programs. In 1998, the Company launched a number of creative initiatives to broaden its product base and enhance service to both our insureds and agents.

Georgia Casualty introduced an innovative Renters' Program, offering fire protection in Georgia for apartments and condominiums through a unique agency system. Georgia Casualty also introduced a liability product specifically designed to meet the needs of homeowners' associations. Another new program provides various coverages, including workers' compensation, commercial packages and automobile liability, to franchisees of a national tire dealer in Florida and Georgia. Georgia Casualty is entering its second year of endorsement by the Georgia Fruit and Vegetable Growers Association, and we expect continued premium growth in this program in 1999.

A dedicated electronic data interface system now offers a convenient toll-free claim reporting system, operating 24-hours a day, seven days a week, to expedite claim reporting and speed service to our policyholders in time of need. A new streamlined risk management department offers risk management evaluations, and policyholders receive personal attention through one-on-one contact when it comes to risk control and audit services. Georgia Casualty's team of registered nurse case managers ensures that employees return to work quickly, eliminating lost time for the insured and reducing workers' compensation loss costs.

To support agent sales activity, account underwriting has been improved even more - each agent works with one underwriter on all lines of business. Georgia Casualty continues to introduce innovative products and programs for the agent, through niche marketing support and cost sharing on marketing materials. Georgia Casualty continues to stand out from its competitors by offering exciting incentive campaigns and a tradition of exceptional conventions along with a competitive profit sharing program that rewards our most productive and consistent growth agents.

An outstanding relationship with our agents, coupled with the fact that we are a regional company operating in a concentrated geographic area, keeps us in touch with the marketplace, and allows us to identify new market opportunities and react quickly to agent needs. As Georgia Casualty completes its 50th anniversary year and prepares to meet the challenges of the future, we are well positioned for growth and continued profitability.

BANKERS FIDELITY

"Bankers Fidelity was among 155 life insurance companies awarded with charter member status in the Insurance Marketplace Standards Association."

Picture of the following around desk:

Anthony D. Chapman, Vice President and Chief Marketing Officer, Agency Division
Robert E. Orean, Vice President and Actuary
Clark W. Berryman, Vice President, Information Services, AAC
Eugene Choate, President

Bankers Fidelity

Products: Medicare Supplement
Senior Life Insurance
Other Supplemental Health
Premiums: $34,477,000
Pre-tax Income: $3,550,000
Statutory Surplus: $25,998,000
Employees: 71

In 1998, Bankers Fidelity continued to improve its position as an industry leader in the senior market. The Company's core lines of senior life and Medicare supplement products continue to produce solid revenue growth. Market penetration continued in 1998 with sizeable increases in both premium revenue and recruiting of new agents throughout the southeast, mid-atlantic and midwestern United States. In addition to the strong performance of its core lines of business, the company expanded specialty market sales in the college funding division as well as supplemental health products in the family and payroll deduction markets.

As a result of a focused marketing plan new sales in 1998 increased 30% over 1997. Adding depth and strength to the value of Atlantic American's portfolio of companies, earned premiums for Bankers Fidelity grew 28% in 1998 to $34.5 million. Licensed in 33 states, and with a 'B+' ("Very Good") rating from A.M. Best and an 'A-' ("Strong ") rating from Standard & Poor's, Bankers Fidelity is positioned to expand its product lines utilizing its proven distribution system in the western United States in 1999.

The Company continued to supplement internal growth in 1998 with the acquisition of two blocks of Medicare supplement business from Commonwealth Insurance Company and Colonial Life & Accident Insurance Company. In addition, Bankers Fidelity divested a portion of its long-term care and home health care business to Life and Health of America, further focusing the company on growing and servicing its core lines of business. The purchases, which were accretive to earnings, coupled with this divestiture increased net annualized premiums by approximately $700,000.

In 1998, Bankers Fidelity added two new features to its line of senior life products - a waiver of premium for hospital or nursing facility confinement and an accelerated death benefit rider for terminal illness. In addition, the company added an innovative discount prescription drug service, which allows policyholders to obtain prescription medication at significant savings through a national network of 35,000 participating pharmacies with no added cost for the company. Value-added benefits, such as these, help to differentiate Bankers Fidelity from its competitors.

Key to the company's outstanding growth is its commitment to and understanding of the independent agency distribution system. The company's distribution system, implemented in 1993 focuses on developing long-term relationships with Regional Sales Directors who recruit and manage a strong network of career oriented agents utilizing a proprietary lead generation program. The company's commitment to this proven distribution strategy was key to the successful expansion of operations throughout the mid-atlantic and midwestern United States in 1998. This same strategy will be used to continue solid expansion in 1999. The soundness of this strategy is reflected in the company's double-digit new sales growth over the past five years.

Committed to maintaining the highest of ethical standards in the life insurance industry, Bankers Fidelity was among 155 life insurance companies awarded charter member status in the Insurance Marketplace Standards Association, (IMSA). IMSA is a voluntary membership organization promoting high standards of market conduct through sales, operations and home office servicing of life and annuity products. As a key component of the Atlantic American Insurance Group portfolio of companies, Bankers Fidelity remains committed to maintaining these standards as well as its tradition of delivering innovative insurance products through a network of motivated, professional insurance agents.

CONSOLIDATED BALANCE SHEETS

(Dollars In Thousands, Except Share and Per Share Data)

	December 31, 1998	December 31, 1997
ASSETS		
Cash and cash equivalents, including short-term investments of $24,068 and $46,167	$ 32,385	$ 51,044
Investments	173,335	152,583
Receivables:		
Reinsurance	22,772	24,123
Other (net of allowance for doubtful accounts: $1,377 and $916)	18,912	18,511
Deferred acquisition costs	16,881	16,483
Other assets	4,225	4,510
Goodwill	4,339	4,606
Total assets	$272,849	$271,860
LIABILITIES AND SHAREHOLDERS' EQUITY		
Insurance reserves and policy funds	$152,377	$154,318
Accounts payable and accrued expenses	12,255	10,759
Debt payable	26,000	28,600
Total liabilities	190,632	193,677
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $1 par, 4,000,000 shares authorized:		
Series A preferred, 30,000 shares issued and outstanding, $3,000 redemption value	-	30
Series B preferred, 134,000 shares issued and outstanding, $13,400 redemption value	134	134
Common stock, $1 par, 30,000,000 shares authorized; 19,405,753 shares issued in 1998 and 18,920,728 shares issued in 1997 and 19,119,888 shares outstanding in 1998 and 18,907,267 shares outstanding in 1997	19,406	18,921
Additional paid-in capital	50,406	53,316
Accumulated deficit	(15,213)	(23,653)
Accumulated other comprehensive income	28,786	29,498
Treasury stock, at cost, 285,865 shares in 1998 and 13,461 shares in 1997	(1,302)	(63)
Total shareholders' equity	82,217	78,183
Total liabilities and shareholders' equity	$272,849	$271,860

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars In Thousands, Except Per Share Data)

	Year Ended December 31, 1998	1997	1996
Revenue:			
Insurance premiums	$ 91,292	$ 88,682	$ 86,025
Investment income	11,499	11,256	11,151
Other income	366	201	306
Realized investment gains, net	2,909	1,076	1,589
Total revenue	106,066	101,215	99,071
Benefits and expenses:			
Insurance benefits and losses incurred	60,845	61,018	54,281
Commissions and underwriting expenses	27,160	23,012	26,959
Interest expense	2,146	2,902	3,292
Other	7,212	6,112	6,724
Total benefits and expenses	97,363	93,044	91,256
Income before income tax provision and discontinued operations	8,703	8,171	7,815
Income tax provision	145	138	204
Income from continuing operations, net	8,558	8,033	7,611
Loss from discontinued operations, net	-	-	(4,447)
Net income before preferred stock dividends	8,558	8,033	3,164
Preferred stock dividends	(1,521)	(1,521)	(1,521)
Net income applicable to common stock	$ 7,037	$ 6,512	$ 1,643
Diluted earnings (loss) per common share:			
Continuing operations	$ .37	$ .35	$ .32
Discontinued operations	-	-	(.23)
Net income	$ .37	$ .35	$ .09
Basic earnings (loss) per common share:			
Continuing operations	$ .37	$ .35	$ .33
Discontinued operations	-	-	(.24)
Net income	$ .37	$ .35	$ .09

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Dollars In Thousands, Except Share and Per Share Data)

	Preferred Stock(1)	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance, December 31, 1995	$ 164	$ 18,712	$ 46,531	$(34,446)	$ 15,589	$ (72)	$ 46,478
Comprehensive income:							
Net income	-	-	-	3,164	-	-	3,164
Increase in unrealized investment gains	-	-	-	-	2,124	-	2,124
Total comprehensive income	-	-	-	-	-	-	5,288
Cash dividends paid on preferred stock	-	-	(315)	-	-	-	(315)
Dividends accrued on preferred stock	-	-	(1,206)	-	-	-	(1,206)
Purchase of 104,635 shares for treasury	-	-	-	-	-	(338)	(338)
Issuance of 109,452 shares for employee benefit plans and stock options	-	-	6	(144)	-	321	183
Gain on sale of subsidiary	-	-	9,046	-	-	-	9,046
Balance, December 31, 1996	164	18,712	54,062	(31,426)	17,713	(89)	59,136
Comprehensive income:							
Net income	-	-	-	8,033	-	-	8,033
Increase in unrealized investment gains	-	-	-	-	11,785	-	11,785
Total comprehensive income	-	-	-	-	-	-	19,818
Cash dividends paid on preferred stock	-	-	(315)	-	-	-	(315)
Dividends accrued on preferred stock	-	-	(1,206)	-	-	-	(1,206)
Purchase of 213,089 shares for treasury	-	-	-	-	-	(735)	(735)
Issuance of 157,578 shares for employee benefit plans and stock options	-	-	3	(260)	-	530	273
Issuance of 278,561 shares for acquisition of Self-Insurance Administrators, Inc.	-	209	772	-	-	231	1,212
Balance, December 31, 1997	164	18,921	53,316	(23,653)	29,498	(63)	78,183
Comprehensive income:							
Net income	-	-	-	8,558	-	-	8,558
Decrease in unrealized investment gains	-	-	-	-	(712)	-	(712)
Total comprehensive income	-	-	-	-	-	-	7,846
Cash dividends paid on preferred stock	-	-	(315)	-	-	-	(315)
Dividends accrued on preferred stock	-	-	(1,206)	-	-	-	(1,206)
Purchase of 349,879 shares for treasury	-	-	-	-	-	(1,592)	(1,592)
Issuance of 77,475 shares for employee benefit plans and stock options	-	-	-	(118)	-	353	235
Preferred stock redeemed including issuance of 469,760 shares	(30)	470	(1,440)	-	-	-	(1,000)
Issuance of 15,265 shares for final consideration of Self-Insurance Administrators, Inc.	-	15	51	-	-	-	66
Balance, December 31, 1998	$ 134	$ 19,406	$ 50,406	$(15,213)	$ 28,786	$(1,302)	$ 82,217

1) Includes Series A and B preferred stock

CONSOLIDATED STATEMENTS OF CASH FLOW

(Dollars In Thousands)	Year Ended December 31, 1998	1997	1996
Cash flows from operating activities:			
Net income	$ 8,558	$ 8,033	$ 3,164
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of deferred acquisition costs	10,595	9,704	8,184
Acquisition costs deferred	(11,087)	(11,008)	(8,464)
Realized investment gains	(2,909)	(1,076)	(1,589)
(Decrease) increase in reserves	(1,941)	618	5,352
Loss from discontinued operations, net	-	-	4,447
Depreciation and amortization	1,368	1,121	1,102
Decrease (increase) in receivables, net	950	1,114	(3,870)
Increase (decrease) in other liabilities	291	13	(694)
Other, net	(350)	98	811
Net cash provided by continuing operations	5,475	8,617	8,443
Net cash used by discontinued operations	-	-	(5,902)
Net cash provided by operating activities	5,475	8,617	2,541
Cash flows from investing activities:			
Proceeds from investments sold	8,723	7,748	44,445
Proceeds from investments matured, called or redeemed	55,665	52,074	40,868
Investments purchased	(82,981)	(53,544)	(54,632)
Acquisition of minority interest	-	(101)	(846)
Additions to property and equipment	(394)	(733)	(1,616)
Sale of Leath Furniture, Inc., net	-	-	3,646
Acquisition of American Independent, net of $1,946 acquired	(483)	(719)	-
Acquisition of SIA, Inc.	-	25	-
Bulk reinsurance transactions, net	608	-	-
Net cash (used) provided by continuing operations	(18,862)	4,750	31,865
Net cash used by discontinued operations	-	-	(440)
Net cash (used) provided by investing activities	(18,862)	4,750	31,425
Cash flows from financing activities:			
Proceeds from issuance of bank financing	-	5,617	11,352
Preferred stock dividends	(315)	(315)	(315)
Proceeds from exercise of stock options	90	62	85
Purchase of treasury shares	(1,447)	(558)	(338)
Repayments of debt	(2,600)	(12,628)	(20,662)
Redemption of preferred stock	(1,000)	-	-
Net cash used in continuing operations	(5,272)	(7,822)	(9,878)
Net cash provided by discontinued operations	-	-	6,342
Net cash used in financing activities	(5,272)	(7,822)	(3,536)
Net (decrease) increase in cash and cash equivalents	(18,659)	5,545	30,430
Cash and cash equivalents at beginning of year	51,044	45,499	15,069
Cash and cash equivalents at end of year	$32,385	$51,044	$45,499
Supplemental cash flow information:			
Cash paid for interest	$ 2,143	$ 2,958	$ 3,763
Cash paid for income taxes	$ 330	$ 85	$ 116

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Thousands, Except Per Share Data)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles ("GAAP"). These financial statements include the accounts of Atlantic American Corporation (the "Company") and its wholly-owned subsidiaries. Leath Furniture, LLC (f/k/a Leath Furniture, Inc.), previously a majority-owned subsidiary, has been reflected as discontinued operations in the accompanying financial statements (see Note 8) through the date of its divestiture on April 8, 1996 (see Note 14). All significant intercompany accounts and transactions have been eliminated in consolidation.

At December 31, 1998, the Company had five insurance subsidiaries, including Bankers Fidelity Life Insurance Company and its wholly-owned subsidiary, American Independent Life Insurance Company ("American Independent"), together known as "Bankers Fidelity", American Southern Insurance Company and its wholly-owned subsidiary, American Safety Insurance Company (together known as "American Southern"), and Georgia Casualty & Surety Company ("Georgia Casualty"), in addition to one non-insurance subsidiary, Self-Insurance Administrators, Inc. ("SIA, Inc."). American Independent was acquired on October 1, 1997, and SIA, Inc. was acquired on October 28, 1997 (see Note 7). The results of operations of American Independent and SIA, Inc. are included from their respective dates of acquisition and in 1997 were not material to the overall operations of the Company. Assets and liabilities are not classified, in accordance with insurance industry practice, and certain prior year amounts have been reclassified to conform to the 1998 presentation.

Premium Revenue and Cost Recognition

Life insurance premiums are recognized as revenues when due, whereas accident and health premiums are recognized over the premium paying period. Benefits and expenses are associated with premiums as they are earned so as to result in recognition of profits over the lives of the contract. This association is accomplished by the provision of a future policy benefits reserve and the deferral and subsequent amortization of the costs of acquiring business "deferred policy acquisition costs" (principally commissions, premium taxes, advertising and other expenses of issuing policies). Traditional life insurance and long-duration health insurance deferred policy acquisition costs are amortized over the estimated premium-paying period of the related policies using assumptions consistent with those used in computing policy benefit reserves. The deferred policy acquisition costs for property and casualty insurance and short-duration health insurance are amortized over the effective period of the related insurance policies. Deferred policy acquisition costs are expensed when such costs are deemed not to be recoverable from the related unearned premiums and investment income.

Property and casualty insurance premiums are recognized as revenue ratably over the contract period. The Company provides for insurance benefits and losses on accident, health, and casualty claims based upon estimates of projected ultimate losses.

Goodwill

Goodwill resulting from the acquisitions of American Independent, American Southern, and SIA, Inc. is amortized over a fifteen year period using the straight-line method. The Company periodically evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of goodwill may warrant revision. Should factors indicate that goodwill be evaluated for possible impairment, the Company will compare the recoverability of goodwill to a projection of the acquired companies' undiscounted income over the estimated remaining life of the goodwill in assessing whether the goodwill is recoverable.

Investments

All of the Company's debt and equity securities are classified as available for sale and are carried at market value. Mortgage loans, policy and student loans, and real estate are carried at historical cost. Other invested assets are comprised of investments in limited partnerships, limited liability companies and real estate joint ventures; those which are publicly traded are carried at estimated market value, and all others are carried at historical cost. If a decline in the value of a common stock, preferred stock, other invested asset interest, or publicly traded bond below its cost or amortized cost is considered to be other than temporary, a realized loss is recorded to reduce the carrying value of the investment to its estimated net realizable value, which becomes the new cost basis.

The cost of securities sold is based on specific identification. Unrealized gains (losses) in the value of bonds and common and preferred stocks, are accounted for as a direct increase (decrease) in accumulated other comprehensive income in shareholders' equity and, accordingly, have no effect on net income.

Income Taxes

Deferred income taxes represent the expected future tax consequences when the reported amounts of assets and liabilities are recovered or paid. They arise from differences between the financial reporting and tax basis of assets and liabilities and are adjusted for changes in tax laws and tax rates as those changes are enacted. The provision for income taxes represents the total amount of income taxes paid or payable for the current year, plus the change in deferred taxes during the year.

Net Income Per Common Share

Basic earnings per share are based on the weighted average number of common shares outstanding during each period. Diluted earnings per common share are based on the weighted average number of common shares outstanding during each period, plus common shares calculated for stock options outstanding using the treasury stock method, and in 1998 include common shares calculated for the assumed conversion of the Series B Preferred Stock. Unless otherwise indicated, earnings per share are presented on a diluted basis.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and investments in short-term, highly liquid securities which have original maturities of three months or less from date of purchase.

Impact of Recently Issued Accounting Standards

The Financial Accounting Standards Board has issued Statement 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133 provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activity. SFAS 133 requires all derivatives to be recorded on the balance sheet at fair value and establishes specific accounting methods for hedges. Changes in the value of most derivatives and hedges will be included in earnings in the period of the change. SFAS 133 is effective for years beginning after June 15, 1999. The Company intends to adopt SFAS 133 on January 1, 2000. Management does not believe the adoption of SFAS 133 will have a material effect on the Company's financial condition or results of operations.

During the first quarter of 1998, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) 98-1, "Accounting for Costs of Computer Software Developed or Obtained for Internal Use." During the fourth quarter of 1997, the AICPA issued SOP 97-3, "Accounting by Insurance and Other Enterprises for Insurance-Related Assessments." Both SOP 98-1 and 97-3 are effective for fiscal years beginning after December 15, 1998. The Company adopted SOP 98-1 and 97-3 effective January 1, 1999. Neither SOP is expected to have a material impact on the Company's financial position or results of operations.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, although, in the opinion of management, such differences would not be significant.

NOTE 2. INVESTMENTS

Investments are comprised of the following:

1998

	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
Bonds:				
U.S. Treasury Securities and Obligations of U.S. Government Corporations and Agencies	$ 85,784	$ 976	$ 188	$ 84,996
Obligations of states and political subdivisions	2,714	116	-	2,598
Corporate securities	10,092	507	375	9,960
Mortgage-backed securities (government guaranteed)	751	19	-	732
	99,341	$ 1,618	$ 563	$ 98,286
Common and preferred stocks	61,007	$29,345	$ 1,454	$ 33,116
Other invested assets	4,822	-	160	4,982
Mortgage loans (estimated fair value of $4,221)	3,851			
Policy and student loans	4,268			
Real estate	46			
Investments	173,335			
Short-term investments	24,068			
Total investments	$197,403			

1997

	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
Bonds:				
U.S. Treasury Securities and Obligations of U.S. Government Corporations and Agencies	$ 75,724	$ 670	$ 136	$ 75,190
Obligations of states and political subdivisions	2,738	30	-	2,708
Corporate securities	12,745	464	14	12,295
Mortgage-backed securities (government guaranteed)	977	30	3	950
	92,184	$ 1,194	$ 153	$ 91,143
Common and preferred stocks	46,876	$ 29,561	$ 1,044	$ 18,359
Other invested assets	3,941	-	60	4,001

Mortgage loans (estimated fair value of $4,406)	4,243
Policy and student loans	5,293
Real estate	46
Investments	152,583
Short-term investments	46,167
Total investments	$198,750

Bonds and cash having an amortized cost of $14,836 and $15,684 were on deposit with insurance regulatory authorities at December 31, 1998 and 1997, respectively, in accordance with statutory requirements.

NOTE 2. INVESTMENTS (continued)

The amortized cost and carrying value of bonds and short-term investments at December 31, 1998 by contractual maturity are as follows. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Carrying Value	Amortized Cost
Due in one year or less	$ 29,586	$ 29,547
Due after one year through five years	15,765	15,211
Due after five years through ten years	75,708	75,093
Due after ten years	1,599	1,771
Varying maturities	751	732
Totals	$123,409	$122,354

Investment income was earned from the following sources:

	1998	1997	1996
Bonds	$ 6,363	$6,906	$6,728
Common and preferred stocks	1,903	1,373	1,622
Mortgage loans	373	554	863
CDs and commercial paper	2,004	2,130	1,443
Other	856	293	495
Total investment income	11,499	11,256	11,151
Less investment expenses	(332)	(340)	(452)
Net investment income	$11,167	$10,916	$10,699

A summary of realized investment gains (losses) follows:

1998

	Stocks	Bonds	Other Invested Assets	Total
Gains	$ 3,832	$ 11	$ -	$ 3,843
Losses	(735)	(199)	-	(934)
Total realized investment gains (losses), net	$ 3,097	$ (188)	$ -	$ 2,909

1997

	Stocks	Bonds	Other Invested Assets	Total
Gains	$ 1,597	$ 16	$ 2	$ 1,615
Losses	(104)	(435)	-	(539)
Total realized investment gains (losses), net	$ 1,493	$ (419)	$ 2	$ 1,076

1996

	Stocks	Bonds	Other Invested Assets	Total
Gains	$ 1,910	$ 73	$ 17	$ 2,000
Losses	(411)	-	-	(411)
Total realized investment gains, net	$ 1,499	$ 73	$ 17	$ 1,589

Proceeds from the sale of common and preferred stocks, bonds and other investments are as follows:

	1998	1997	1996
Common and preferred stocks	$ 6,999	$ 6,393	$ 9,734
Bonds	-	-	25,335
Student loans	1,024	1,262	6,053
Other investments	700	93	3,323
Total proceeds	$8,723	$ 7,748	$44,445

The Company's investment in the common stock of Wachovia Corporation exceeds 10% of shareholders' equity at December 31, 1998. The carrying value of this investment at December 31, 1998 was $26,039 with a cost basis of $3,143.

The Company's bond portfolio included 98% of investment grade securities at December 31, 1998 as defined by the NAIC.

NOTE 3. INSURANCE RESERVES AND POLICY FUNDS

The following table presents the Company's reserves for life, accident, health and property and casualty losses as well as loss adjustment expenses.

Future policy benefits	1998	1997	Amount of Insurance in Force 1998	Amount of Insurance in Force 1997
Life insurance policies:				
Ordinary	$27,340	$26,403	$240,642	$236,543
Mass market	8,532	8,916	17,974	19,439
Individual annuities	711	808	-	-
	36,583	36,127	$258,616	$255,982
Accident and health insurance policies	2,329	3,061		
	38,912	39,188		
Unearned premiums	22,971	24,412		
Losses and claims	86,768	86,721		
Other policy liabilities	3,726	3,997		
Total policy liabilities	$152,377	$154,318		

Annualized premiums for accident and health insurance policies were $25,793 and $21,434 at December 31, 1998 and 1997, respectively.

Future Policy Benefits

Liabilities for life insurance future policy benefits are based upon assumed future investment yields, mortality rates and withdrawal rates after giving effect to possible risks of adverse deviation. The assumed mortality and withdrawal rates are based upon the Company's experience. The interest rates assumed for life, accident and health are generally: (i) 2.5% to 5.5% for issues prior to 1977, (ii) 7% graded to 5.5% for 1977 through 1979 issues, (iii) 9% for 1980 through 1987 issues, and (iv) 7% for 1988 and later issues.

Loss and Claim Reserves

Loss and claim reserves represent estimates of projected ultimate losses and are based upon: (a) management's estimate of ultimate liability and claim adjusters' evaluations for unpaid claims reported prior to the close of the accounting period, (b) estimates of incurred but not reported claims based on past experience, and (c) estimates of loss adjustment expenses. The estimated liability is continually reviewed by management and independent consulting actuaries and updated with changes to the estimated liability recorded in the statement of operations in the year in which such changes are known.

Activity in the liability for unpaid claims and claim adjustment expenses is summarized as follows:

	1998	1997
Balance at January 1	$86,721	$84,074
Less: Reinsurance recoverables	(24,006)	(26,293)
Net balance at January 1	62,715	57,781
Incurred related to:		
Current year	63,030	60,252
Prior years	(2,606)	21
Total incurred	60,424	60,273
Paid related to:		
Current year	35,566	33,857
Prior years	23,430	22,246
Total paid	58,996	56,103
Reserves acquired due to acquisition	-	764
Net balance at December 31	64,143	62,715
Plus: Reinsurance recoverables	22,625	24,006
Balance at December 31	$86,768	$86,721

Following is a reconciliation of total incurred claims to total insurance benefits and losses incurred:

	1998	1997
Total incurred claims	$60,424	$60,273
State residual pool refunds and adjustments to loss portfolio arrangements	(1,098)	(715)
Cash surrender value and matured endowments	1,438	1,381
Death benefits	81	79
Total insurance benefits and losses incurred	$60,845	$61,018

NOTE 4. REINSURANCE

In accordance with general practice in the insurance industry, portions of the life, property and casualty insurance written by the Company are reinsured; however, the Company remains contingently liable with respect to reinsurance ceded should any reinsurer be unable to meet its obligations. Approximately 81% of the reinsurance receivables are due from three reinsurers as of December 31, 1998. Reinsurance receivables of $13,668 are with National Reinsurance Corporation, rated 'AAA' by Standard & Poor's and 'A++' (Superior) by A.M. Best, $2,246 are with First Colony Life Insurance Company, rated 'AA' by Standard & Poor's and 'A++' (Superior) by A.M. Best, and $2,626 are with Pennsylvania Manufacturers Association Insurance Company, rated 'A+' (Superior) by A.M. Best. In the opinion of management, the Company's reinsurers are financially stable. Allowances for uncollectible amounts are established against reinsurance receivables, if appropriate. Premiums assumed of $23,633, $23,738, $25,739 in 1998, 1997 and 1996, respectively, include a state contract with premiums of $12,600, $15,900, $15,400. The contract premiums represent 13.8%, 17.9% and 17.9% of net premiums earned for the years ened 1998, 1997 and 1996, respectively. The following table reconciles premiums written to premiums earned and summarizes the components of insurance benefits and losses incurred.

	1998	1997	1996
Premiums written	$ 76,964	$ 73,006	$ 70,295
Plus - premiums assumed	23,633	23,738	25,739
Less - premiums ceded	(10,746)	(9,345)	(9,074)
Net premiums written	89,851	87,399	86,960
Change in unearned premiums	1,352	1,405	(960)
Change in unearned premiums ceded	89	(122)	25
Net change in unearned premiums	1,441	1,283	(935)
Net premiums earned	$ 91,292	$ 88,682	$ 86,025
Provision for benefits and losses incurred	$ 69,478	$ 68,043	$ 58,801
Reinsurance loss recoveries	(8,633)	(7,025)	(4,520)

Insurance benefits and losses incurred	$ 60,845	$ 61,018	$ 54,281

Components of reinsurance receivables are as follows:

	1998	1997
Receivable on losses	$22,625	$24,006
Commissions recoverable	147	117
	$22,772	$24,123

NOTE 5. INCOME TAXES

A reconciliation of the differences between income taxes on income before discontinued operations computed at the federal statutory income tax rate is as follows:

	1998	1997	1996
Federal income tax provision at statutory rate of 35%	$ 3,046	$ 2,860	$ 2,735
Tax exempt interest and dividends received deductions	(452)	(267)	(413)
Change in asset valuation allowance - utilization of net operating loss	(2,594)	(2,585)	(2,260)
Alternative minimum tax	145	130	142
Total provision for income taxes	$ 145	$ 138	$ 204

Deferred tax liabilities and assets at December 31, 1998 and 1997 are comprised of the following:

	1998	1997
Deferred tax liabilities:		
Deferred acquisition costs	$ (3,888)	$ (3,875)
Net unrealized investment gains	(10,075)	(10,325)
Total deferred tax liabilities	(13,963)	(14,200)
Deferred tax assets		
Net operating loss carryforwards	15,077	17,409
Insurance reserves	3,131	3,515
Bad debts	482	321
Total deferred tax assets	18,690	21,245
Asset valuation allowance	(4,727)	(7,045)
Net deferred tax assets	$ -	$ -

NOTE 5. INCOME TAXES (continued)

The components of the provision (benefit) are:

	1998	1997	1996
Current - Federal	$145	$138	$204
Deferred - Federal	-	-	-
Total	$145	$138	$204

At December 31, 1998, the Company has regular tax loss carryforwards of approximately $43,077 expiring generally between 2000 and 2010.

The Company has determined, based on its earnings history, that an asset valuation allowance of $4,727 should be established against its net deferred tax assets at December 31, 1998. The Company's asset valuation allowance decreased by $2,318 during 1998, due primarily to the utilization of NOL carryforwards. Due to the uncertain nature of their ultimate realization based upon past performance and expiration dates, the Company has established a full valuation allowance against these carryforward benefits and recognizes the benefits only as reassessment demonstrates they are realizable. The Company's ability to generate taxable income from operations is dependent upon various factors, many of which are beyond management's control. Accordingly, there can be no assurance that the Company will generate future taxable income based on historical performance. Therefore, the realization of the deferred tax assets will be assessed periodically based on the Company's current and anticipated results of operations. The Company has a formal tax-sharing agreement with each of its subsidiaries. With the exception of American Independent, which files a separate federal income tax return, the Company files a consolidated federal income tax return with its subsidiaries.

NOTE 6. CREDIT ARRANGEMENTS

Debt payable is as follows:

	1998	1997
Note payable to bank due December 31, 2000:		
Balance at prime rate of interest (1997 8.50%)	$ -	$28,600
Balance at prime less 1/2% (1998 7.25%)	26,000	-
Total arrangements	$26,000	$28,600
Total arrangements		
Due within one year	$ 2,400	$ 1,000
Long-term debt, due in 2000	$23,600	$27,600

The note payable due December 31, 2000, is payable quarterly with a payment of $400 due at the beginning of the second quarter of 1999 and $1,000 each quarter thereafter through 2000 with the balance due at maturity. Payments required in 1999 have been reduced by $1,600 of prepayments made during 1998. Interest is paid quarterly in arrears. The interest rate on the note payable to bank changes based upon the Company meeting certain financial criteria.

The Company is required to maintain certain financial covenants including, among others, ratios that relate funded debt to consolidated total capitalization and cash flow to debt service. The Company must also comply with limitations on capital expenditures and debt obligations. The Company was in compliance with all of the covenants associated with the note payable to bank at December 31, 1998.

NOTE 7. ACQUISITIONS

On October 1, 1997, the Company acquired 100% of the outstanding stock of American Independent for approximately $2,700 in cash. The assets and liabilities of American Independent are included in the 1997 balance sheet and the results of operations are included from the date of acquisition. On October 28, 1997, the Company acquired 100% of the outstanding stock of SIA, Inc. for approximately $1,278 in common stock of the Company. The assets and liabilities of SIA, Inc. are included in the 1997 balance sheet and the results of operations are included since the date of acquisition. The acquisitions of American Independent and SIA, Inc. were both accounted for as purchases and were not material to the financial position or results of operations of the Company in 1997. Had both companies been included in the consolidated financial statements for the earliest year presented, their impact on the consolidated results of operations would not have been material.

In connection with the acquisitions of American Independent and SIA, Inc. the following assets and liabilities were acquired:

Cash, short-term investments	$1,971
Other investments	3,585
Goodwill	2,767
Other assets	732
Total assets	9,055
Insurance reserves and policy funds	4,502
Other liabilities	593
Total liabilities	5,095
Net assets	$ 3,960

NOTE 8. DISCONTINUED OPERATIONS

Subsequent to year end 1995, the Company announced its intent to sell its approximately 88% interest in Leath Furniture, LLC (f/k/a Leath Furniture, Inc.), a retail furniture chain. Accordingly, the consolidated financial statements report separately the operating results of these discontinued operations for 1996. The Company completed the sale of its interest to Gulf

Capital Services, Ltd., a related party, on April 8, 1996. The gain from this transaction is reflected as a direct credit to additional paid-in capital.

The following results of operations are attributable to discontinued operations:

	1996
Results of Operations:	
Net sales	$45,502
Loss from discontinued operations	$(7,885)
Benefit for discontinued operations	3,438
Net loss from discontinued operations	$(4,447)
Diluted net loss per share from discontinued operations	$ (.23)

NOTE 9. COMMITMENTS AND CONTINGENCIES

Litigation

The Company and its subsidiaries are parties to litigation occurring in the normal course of business. In the opinion of management, such litigation will not have a material adverse effect on the Company's financial position or results of operations.

Operating Lease Commitments

The Company's rental expense, including common area charges, for operating leases was $1,188, $1,178, and $1,222 in 1998, 1997 and 1996, respectively. The Company's future minimum lease obligations under non-cancelable operating leases are as follows:

Year Ending December 31,	
1999	$ 991
2000	796
2001	771
2002	626
2003	466
Thereafter	776
Total	$4,426

NOTE 10. EMPLOYEE BENEFIT PLANS

Stock Options

In 1992, the shareholders approved the Company's adoption of the 1992 Incentive Plan ("1992 Plan"). The 1992 Plan originally provided for a maximum of 400,000 stock options subject to issuance. The 1992 Plan was amended by the Board of Directors in 1995, and subsequently ratified at the 1996 Annual Meeting of Shareholders, to provide for an additional 400,000 stock options. The 1992 Plan was amended by the Board of Directors again in 1997, and this amendment was subsequently ratified at the 1998 Annual Meeting of Shareholders to provide for an additional 1,000,000 stock options. The Board of Directors may grant: (a) incentive stock options within the meaning of section 422 of the Internal Revenue Code; (b) non-qualified stock options; (c) performance units; (d) awards of restricted shares of the Company's common stock; or (e) all or any combination of the foregoing to officers and key employees. Options granted under these plans expire five years from the date of grant. Vesting occurs at 50% upon issuance of an option, and the remaining portion is vested at 25% increments in each of the following two years. In 1996, the Company adopted the 1996 Director Stock Option Plan, which provides for a maximum of 200,000 stock options with full vesting six months after the grant date. As of December 31, 1998, an aggregate of sixty-five employees, officers and directors held options under the two plans.

A summary of the status of the Company's stock option plans at December 31, 1998 and 1997, is as follows:

	1998		1997	
	Shares	Weighted Avg. Exercise Price	Shares	Weighted Avg. Exercise Price
Options outstanding, beginning of year	870,400	$ 3.11	625,391	$ 2.14
Options granted	338,000	3.80	379,500	4.08
Options exercised	(50,000)	2.24	(129,491)	1.30
Options canceled or expired	(3,500)	3.93	(5,000)	3.25
Options outstanding, end of year	1,154,900	3.20	870,400	3.11
Options exercisable	900,525	3.04	624,900	2.89

The Company does not recognize compensation cost since the option price approximates fair value at date of grant. If compensation cost had been recognized, the Company's net income and earnings per share would have been as follows:

1998 1997 1996

- --

Net income:			
As reported	$ 8,558	$ 8,033	$ 3,164
Pro forma	8,082	7,787	2,972
Diluted earnings per share:			
As reported	$ .37	$ .35	$ .09
Pro forma	.35	.34	.08

The resulting pro forma compensation cost may not be representative of that to be expected in future years.

NOTE 10. EMPLOYEE BENEFIT PLANS (continued)

	Outstanding			Exercisable	
Range of Exercise Price	Number of Options	Weighted Average Remaining Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$1.50 to $2.00	73,400	0.81	$1.88	73,400	$1.88
$2.00 to $2.50	345,000	2.03	$2.42	345,000	$2.42
$2.50 to $3.00	15,000	3.45	$3.00	12,500	$3.00
$3.00 to $3.50	67,500	3.01	$3.22	63,125	$3.23
$3.50 to $4.00	643,000	4.32	$3.74	400,500	$3.74
$4.00 to $4.50	6,000	4.34	$4.44	6,000	$4.44
$4.50 to $5.00	5,000	4.57	$4.94	-	-
	1,154,900			900,525	

The weighted average fair value of options granted estimated on the date of grant using the Black-Scholes option pricing model is $1.67 and $1.97 for grants in 1998 and 1997, respectively, based on expected dividend yields of zero; expected lives of 5 years; risk free interest rates of 4.56% and 5.71%; and expected volatility of 42.61% and 39.97%, for the years ended December 31, 1998 and 1997, respectively.

401(k) Plan

The Company initiated an employees' savings plan under Section 401(k) of the Internal Revenue Code in May of 1995. The plan covers substantially all the Company's employees, except employees of American Southern. The Company previously had a profit sharing plan for its employees which was subsequently amended and restated to comply with the Section 401(k) provisions. Under the plan, employees generally may elect to contribute up to 16% of their compensation to the plan. The Company makes a matching contribution to each employee in an amount equal to 50% of the first 6% of such contributions. The Company's matching contribution is in Company stock and with a value of approximately $125, $103, and $102, in 1998, 1997, and 1996, respectively.

Defined Benefit Pension Plans

In April 1998, the Financial Accounting Standards Board issued Statement No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" ("SFAS 132"). This statement only modifies the disclosures companies make about their pension and nonpension benefit plans and does not alter the accounting for these plans. The provisions of the statement are effective for years beginning after December 15, 1997. SFAS No. 132 disclosures have been incorporated in this document.

The Company has two defined benefit pension plans covering the employees of American Southern. The Company's general funding policy is to contribute annually the maximum amount that can be deducted for income tax purposes.

Net periodic pension cost for American Southern's qualified and non-qualified defined benefit plans for the years ended December 31, 1998, 1997 and 1996 included the following components:

	1998	1997	1996
Service cost	$131	$102	$103
Interest cost	241	221	204
Expected return on plan assets	(198)	(187)	(185)
Net amortization	19	9	14
	$193	$145	$136

The following assumptions were used to measure the projected benefit obligation for the benefit plans at December 31, 1998, 1997 and 1996:

	1998	1997	1996
Discount rate to determine the projected benefit obligation	6.75%	7.25%	7.75%
Expected long-term rate of return on plan assets used to determine net periodic pension cost	8.00%	8.00%	8.00%
Projected annual salary increases	4.50%	6.00%	6.00%

The following table sets forth the benefit plans' funded status at December 31, 1998 and 1997:

	1998	1997
Change in Benefit Obligation		
Net benefit obligation at beginning of year	$3,280	$2,770
Service cost	131	102
Interest cost	241	220
Actuarial (gain) loss	(132)	256
Gross benefits paid	(68)	(68)
Net benefit obligation at end of year	$3,452	$3,280
Change in Plan Assets		
Fair value of plan assets at beginning of year	$2,508	$2,371
Actual return on plan assets	338	205
Gross benefits paid	(68)	(68)
Fair value of plan assets at end of year	$2,778	$2,508
Funded Status of Plan		
Funded status at end of year	$ (674)	$ (772)
Unrecognized net actuarial loss	213	503
Unrecognized prior service cost	(363)	(399)
Unrecognized net transition obligation	368	405
Net amount recognized at end of year	$ (456)	$ (263)
Amounts recognized in the statement of financial position consist of:		
Prepaid benefit cost	$ 30	$ 117
Accrued benefit cost	(486)	(379)
Additional minimum liability	(29)	(58)
Net amount recognized at end of year	$ (485)	$ (320)

Included in the above is one plan which is unfunded, the projected benefit obligation, accumulated benefit obligation and fair value of plan assets for this plan were $761, $515 and $0 respectively as of December 31, 1998 and $762, $437, and $0 as of December 31, 1997.

NOTE 11. PREFERRED STOCK

During the fourth quarter of 1998, the Company called for redemption all of the outstanding shares of its Series A Convertible Preferred Stock ("Series A Preferred Stock"). Pursuant to the terms of the Series A Preferred Stock, upon being called for redemption the holders had the option to convert any or all of such shares into shares of the Company's Common Stock at a specified conversion rate. As of December 31, 1998, 20,000 shares were converted into 469,760 shares of common stock at a conversion price of approximately $4.26 per share, and 10,000 shares were redeemed at par for $1,000,000. Annual dividends on the Series B Preferred Stock ("Series B Preferred Stock") are $9.00 per share and are cumulative. The Series B Preferred Stock is not currently convertible, but may become convertible into shares of the Company's Common Stock under certain circumstances. In such event, the Series B Preferred Stock would be convertible into an aggregate of approximately 3,358,000 shares of the Common Stock at a conversion rate of $3.99 per share. The Series B Preferred Stock is redeemable at the option of the Company.

NOTE 12. EARNINGS PER SHARE

A reconciliation of the numerator and denominator of the earnings per common share calculations are as follows:

For the Year Ended December 31, 1998	Income	Shares	Per Share Amount
Basic Earnings Per Common Share			
Net income	$ 8,558	18,803	
Less preferred dividends	(1,521)		
Net income available to common shareholders	7,037	18,803	$ .37
Diluted Earnings Per Common Share			
Effect of dilutive stock options		271	
Effect of Series B Preferred Stock	1,206	3,358	
Net income available to common shareholders plus assumed conversions	$ 8,243	22,432	$ .37

For the Year Ended December 31, 1997	Income	Shares	Per Share Amount
Basic Earnings Per Common Share			

	Income	Shares	Per Share Amount
Net income	$ 8,033	18,667	
Less preferred dividends	(1,521)		
Net income available to common shareholders	6,512	18,667	$ .35
Diluted Earnings Per Common Share			
Effect of dilutive stock options		175	
Net income available to common shareholders plus assumed conversions	$ 6,512	18,842	$ .35

	For the Year Ended December 31, 1996		
	Income	Shares	Per Share Amount
Basic Earnings Per Common Share			
Net income from continuing operations	$ 7,611	18,682	
Less preferred dividends	(1,521)		
Net income available to common shareholders from continuing operations	6,090	18,682	$ .33
Net loss from discontinued operations	(4,447)		(.24)
Net income available to common shareholders	1,643	18,682	$ .09
Diluted Earnings Per Common Share			
Effect of dilutive stock options		200	
Net income available to common shareholders from continuing operations	6,090	18,882	$ .32
Net loss from discontinued operations	(4,447)		(.23)
Net income available to common shareholders	$ 1,643	18,882	$ .09

NOTE 13. STATUTORY REPORTING

The assets, liabilities and results of operations have been reported on the basis of GAAP, which varies from statutory accounting practices ("SAP") prescribed or permitted by insurance regulatory authorities. The principal differences between SAP and GAAP are that under SAP: (i) certain assets that are nonadmitted assets are eliminated from the balance sheet; (ii) acquisition costs for policies are expensed as incurred, while they are deferred and amortized over the estimated life of the policies under GAAP; (iii) no provision is made for deferred income taxes; (iv) the timing of establishing certain reserves is different than under GAAP; and (v) valuation allowances are established against investments.

The amount of statutory net income and surplus (shareholders' equity) for the insurance subsidiaries for the years ended December 31 were as follows:

	1998	1997	1996
Life and Health, net income	$ 1,477	$ 2,523 (1)	$ 1,315
Property and Casualty, net income	7,098	6,694	7,567
Statutory net income	$ 8,575	$ 9,217	$ 8,882
Life and Health, surplus	$25,998	$26,517 (1)	$25,792
Property and Casualty, surplus	49,492	48,032	42,416
Total surplus	$75,490	$74,549	$68,208

(1) Impact of American Independent was not material.

Under the Insurance Code of the State of Georgia, dividend payments to the Company by its insurance subsidiaries are subject to certain limitations without the prior approval of the Insurance Commissioner. The Company received dividends of $7,054 and $11,209 in 1998 and 1997, respectively, from its insurance subsidiaries. Approval from the Insurance Commissioner was required and obtained for a portion of the dividends received in 1997. In 1999, dividend payments by the insurance companies in excess of $8,336 would require prior approval.

NOTE 14. RELATED PARTY AND OTHER TRANSACTIONS

In the normal course of business and, in management's opinion, at terms comparable to those available from unrelated parties, the Company has engaged in transactions with its Chairman and his affiliates from time to time. These transactions include leasing of office space, investing and financing. A brief description of each of these is discussed below.

The Company leases approximately 54,637 square feet of office and covered garage space from an affiliated company. In the years ended December 31, 1998, 1997 and 1996, the Company paid $895, $900 and $957, respectively, under the lease.

A majority of the financing for the Company has historically been provided through affiliates of the Company or its Chairman, in the form of debt and the Series A Preferred Stock and Series B Preferred Stock. Effective December 31, 1998, all of the outstanding shares of the Series A Preferred Stock were either redeemed or converted (see Note 11).

The Company has made mortgage loans to finance properties owned by its former subsidiary, Leath Furniture, LLC ("Leath"), which is now owned by an affiliate of the Chairman. At December 31, 1998 and 1997, the balance of mortgage loans owed by Leath to various of the Company's insurance subsidiaries was $3,845 and $3,921, respectively. For 1998, 1997 and 1996, interest on the mortgage loans totaled $373, $521 and $688, respectively.

During 1998, certain of the Company's subsidiaries sold the remaining equity investments they held in Leath for $285,000 to certain affiliates of the Company.

Certain members of management are on the Board of Directors of Bull Run Corporation ("Bull Run") and Gray Communications Systems, Inc. ("Gray"). At December 31, 1998, the Company owned 620,000 common shares of Bull Run and 354,060 shares of Gray Series A Common Stock and 6,000 shares of Gray Series B Common Stock. At December 31, 1997 the Company owned 600,000 common shares of Bull Run and 236,040 common shares of Gray Series A Common Stock. The Company also held $1.5 million in Gray 10.625% debentures at December 31, 1998 and 1997.

On April 8, 1996, the Company completed the sale of its 88% interest in Leath Furniture, LLC (f/k/a Leath Furniture, Inc.) to Gulf Capital Services, Ltd., in exchange for $5.3 million. Gulf Capital is controlled by certain affiliates of the Company.

Delta Life Insurance Company ("Delta Life"), which is controlled by certain affiliates of the Company, purchases credit life insurance policies with face amounts greater than $50 from Bankers Fidelity. Bankers Fidelity receives premiums for these policies from Delta Life and pays benefits directly to policyholders. At December 31, 1998 and 1997, the face amount of these policies was $586 and $673, respectively, and the reserve balance was $8 and $11, respectively.

In 1998 Georgia Casualty began assuming workers' compensation premiums from Delta Fire & Casualty Insurance Company which is controlled by certain affiliates of the Company. Premiums assumed and commissions paid in 1998 were $456 and $62, respectively.

NOTE 15. SEGMENT INFORMATION

The Company's three insurance subsidiaries operate with relative autonomy and each company is evaluated based on its individual performance.

NOTE 15. SEGMENT INFORMATION (continued)

	American Southern	Georgia Casualty	Bankers Fidelity	Corporate & Other	Adjustments & Eliminations	Consolidated
As of December 31, 1998						
Insurance Premiums	$ 35,002	$ 21,813	$ 34,477	$ -	$ -	$ 91,292
Investment income, including realized gains	4,503	3,113	5,572	1,158	62	14,408
Other income	243	44	-	4,230	(4,151)	366
Total revenue	39,748	24,970	40,049	5,388	(4,089)	106,066
Insurance benefits and losses	23,135	16,216	21,494	-	-	60,845
Expenses deferred	(4,378)	(3,945)	(2,764)	-	-	(11,087)
Amortization expense	5,303	4,142	2,518	-	-	11,963
Other expenses	9,006	7,062	15,251	8,412	(4,089)	35,642
Total expenses	33,066	23,475	36,499	8,412	(4,089)	97,363
Income (loss) before income taxes	$ 6,682	$ 1,495	$ 3,550	$ (3,024)	$ -	$ 8,703
Total assets	$101,522	$ 65,147	$102,355	$114,412	$(110,587)	$272,849
As of December 31, 1997						
Insurance Premiums	$ 41,799	$ 19,916	$ 26,967	$ -	$ -	$ 88,682
Investment income, including realized gains	4,353	2,811	5,175	47	(54)	12,332
Other income	154	45	-	3,843	(3,841)	201
Total revenue	46,306	22,772	32,142	3,890	(3,895)	101,215
Insurance benefits and losses	30,182	15,260	15,576	-	-	61,018
Expenses deferred	(4,549)	(3,342)	(3,117)	-	-	(11,008)
Amortization expense	5,405	3,152	2,268	-	-	10,825
Other expenses	9,073	6,006	12,837	8,188	(3,895)	32,209
Total expenses	40,111	21,076	27,564	8,188	(3,895)	93,044
Income (loss) before income taxes	$ 6,195	$ 1,696	$ 4,578	$ (4,298)	$ -	$ 8,171
Total assets	$102,529	$ 65,464	$ 99,591	$111,388	$(107,112)	$271,860
As of December 31, 1996						
Insurance Premiums	$ 41,250	$ 18,797	$ 25,978	$ -	$ -	$ 86,025
Investment income, including realized gains	4,284	2,921	5,524	100	(89)	12,740
Other income	242	21	-	5,675	(5,632)	306
Total revenue	45,776	21,739	31,502	5,775	(5,721)	99,071
Insurance benefits and losses	28,586	12,482	14,036	-	(823)	54,281
Expenses deferred	(5,397)	(2,438)	(2,831)	-	-	(10,666)
Amortization expense	3,406	2,624	3,256	-	-	9,286
Other expenses	12,448	6,922	14,520	9,363	(4,898)	38,355
Total expenses	39,043	19,590	28,981	9,363	(5,721)	91,256
Income (loss) before income taxes	$ 6,733	$ 2,149	$ 2,521	$ (3,588)	$ -	$ 7,815
Total assets	$101,004	$ 59,198	$ 90,130	$ 97,459	$ (94,797)	$252,994

American Southern and Georgia Casualty operate in the property and casualty insurance market, while Bankers Fidelity operates in the life and health insurance market. All segments derive revenue from the collection of premiums, as well as from investment income. Substantially all revenues other than those in the corporate and other segment are from external sources.

NOTE 16. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is necessary to interpret market data and to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts which the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

	1998		1997	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and short-term investments	$32,385	$32,385	$51,044	$51,044
Bonds	99,341	99,341	92,184	92,184
Common and preferred stocks	61,007	61,007	46,876	46,876
Mortgage loans	3,851	4,221	4,243	4,406
Policy and student loans	4,268	4,268	5,293	5,293
Other invested assets	4,822	4,822	3,941	3,941
Liabilities:				

Debt	26,000	26,000	28,600	28,600

The fair value estimates as of December 31, 1998 and 1997 are based on pertinent information available to management as of the respective dates. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, current estimates of fair value may differ significantly from amounts that might ultimately be realized.

NOTE 16. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following describes the methods and assumptions used by the Company in estimating fair values:

Cash, Short-term Investments, Other Non-publicly Traded Invested Assets, Insurance Premiums Receivable, Accounts Payable, and Accrued Liabilities

The carrying amount approximates fair value due to the short-term nature of the instruments.

Bonds, Common and Preferred Stocks and Publicly Traded Other Invested Assets

The carrying amount is determined in accordance with methods prescribed by the National Association of Insurance Commissioners ("NAIC"), which do not differ materially from nationally quoted market prices. The fair value of certain municipal bonds is assumed to be equal to amortized cost where market quotations do not exist.

Mortgage Loans

The fair values are estimated based on quoted market prices for those or similar investments.

Debt Payable

The fair value is estimated based on the quoted market prices for the same or similar issues or on the current rates offered for debt having the same or similar returns and remaining maturities.

NOTE 17. RECONCILIATION OF OTHER COMPREHENSIVE INCOME

Under Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," certain transactions and other economic events that bypass the income statement must be displayed as other comprehensive income. The Company's comprehensive income consists of net income and unrealized gains and losses on securities available for sale, net of income taxes.

Other than net income, the other components of comprehensive income for the years ended December 31, 1998, 1997 and 1996 are as follows:

	December 31,		
	1998	1997	1996
Gain on sale of securities included in net income	$2,909	$ 1,076	$1,589
Other comprehensive income:			
Net unrealized gain arising during year	$2,197	$12,861	$3,713
Reclassification adjustment	(2,909)	(1,076)	(1,589)
Net unrealized (loss) gain recognized in other comprehensive income	$ (712)	$11,785	$2,124

NOTE 18. QUARTERLY FINANCIAL INFORMATION (Unaudited)

The following table sets forth a summary of the quarterly unaudited results of operations for the two years ended December 31, 1998 and 1997:

	1998				1997			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	$26,512	$26,039	$26,795	$26,720	$24,691	$24,339	$25,249	$26,936
Income:								
Income before income tax (provision) benefit,	$ 1,625	$ 1,905	$ 2,854	$ 2,319	$ 1,978	$ 1,466	$ 2,418	$ 2,309
Income tax (provision) benefit	(26)	(106)	8	(21)	(40)	(20)	(23)	(55)
Net income	$ 1,599	$ 1,799	$ 2,862	$ 2,298	$ 1,938	$ 1,446	$ 2,395	$ 2,254
Diluted net income per common share data:	$ .06	$ .08	$ .13	$ .10	$ .08	$ .06	$ .11	$ .10

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis of the financial condition and the results of operations for the three years ended December 31, 1998, 1997 and 1996 analyzes the results of operations, consolidated financial condition, liquidity and capital resources of Atlantic American Corporation (the "Company" or "Parent Company") and its consolidated subsidiaries: Bankers Fidelity Life Insurance Company and American Independent Life Insurance Company (collectively "Bankers Fidelity"), American Southern Insurance Company ("American Southern") and Georgia Casualty & Surety Company ("Georgia Casualty"). Effective January 1, 1997, Atlantic American Life Insurance Company was merged into Bankers Fidelity Life Insurance Company. The following discussion should be read in conjunction with the consolidated financial statements and notes thereto.

OVERVIEW

Atlantic American Corporation's net income for 1998 was $8.6 million ($.37 per share), compared to a net income of $8.0 million ($.35 per share) in 1997, and $3.2 million ($.09 per share) (net income of $7.6 million or $.32 per share from continuing operations) in 1996. The increase in earnings in 1998 was primarily attributable to an increase in realized gains. The increase in earnings from continuing operations in 1997 was also driven by an increase in profitability from insurance operations.

As discussed below, 1997 represents the first full year not impacted by the discontinued operations of the Company's previously owned retail furniture operations.

ACQUISITIONS

On October 1, 1997, the Company acquired American Independent Life Insurance Company ("American Independent") for approximately $2.7 million in cash. American Independent specializes in traditional life insurance and supplemental health insurance, including Medicare supplement. American Independent has been consolidated in the Company's December 31, 1997 balance sheet. Results of operations and cash flows are reflected from the date of acquisition. Following the consummation of the acquisition, the operations of American Independent were consolidated into the operations of Bankers Fidelity Life Insurance Company.

On October 28, 1997, the Company acquired Self-Insurance Administrators, Inc. ("SIA, Inc.") for approximately $1.2 million in common stock of the Company. SIA, Inc. specializes in the administration of self-insured workers' compensation funds and was acquired to complement the Company's existing workers' compensation book of business. SIA Inc.'s balance sheet has been consolidated in the Company's December 31, 1997 balance sheet, while the results of operations and cash flows of SIA, Inc. have been included since the date of acquisition.

On April 8, 1998, the Company acquired two blocks of Medicare supplement business from Commonwealth Life Insurance Company and from Colonial Life & Accident Insurance Company. At the same time, the Company sold a portion of its long-term care and home health care business to Life and Health of America. Net proceeds received by the Company from these transactions were approximately $600,000. The transactions increased annualized premium by approximately $700,000.

DISCONTINUED OPERATIONS

In early 1996, the Company announced its intent to sell its furniture operations. The furniture division, which consisted of Leath Furniture, LLC (f/k/a Leath Furniture, Inc.) and its subsidiaries, Modernage Furniture, Inc. and Jefferson Home Furniture Company, Inc. (collectively, "Leath"), suffered significant losses in an industry wide downturn. Management anticipated continued losses in the future and, therefore, decided to exit the retail furniture business and concentrate on its core insurance businesses (see Note 8 of the Notes to Consolidated Financial Statements). The Company completed the sale of its approximately 88% interest in Leath on April 8, 1996, to Gulf Capital Services, Ltd., a related party (see Note 14 of the Notes to Consolidated Financial Statements).

The Company incurred an additional loss from discontinued operations of $4.4 million in 1996. Previously separated intersegment revenues attributable to mortgage loans from the insurance companies to Leath have been included in investment income of the continuing operations of the insurance segment.

RESULTS OF CONTINUING OPERATIONS

Revenue

The Company markets insurance through various distribution channels. The following table summarizes the insurance premiums during each of the three years ended December 31, 1998, 1997 and 1996 by company and line of business.

Net Earned Premium by Company by Line
(in thousands)

	Year Ended December 31,					
	1998		1997		1996	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Bankers Fidelity:						
Ordinary Life	$10,848	11.88%	$ 9,437	10.64%	$ 8,937	10.39%
Mass Market Life	900	.99%	1,016	1.15%	1,303	1.51%
Total Life	11,748	12.87%	10,453	11.79%	10,240	11.90%
Medicare Supplement	19,743	21.63%	12,534	14.13%	11,560	13.44%
Cancer, accident and other health	2,986	3.27%	3,980	4.49%	4,178	4.86%
Total Accident and Health	22,729	24.90%	16,514	18.62%	15,738	18.30%
Total Bankers Fidelity	34,477	37.77%	26,967	30.41%	25,978	30.20%
Georgia Casualty:						
Workers' Compensation	14,344	15.71%	12,841	14.48%	13,826	16.07%
Business Automobile	3,750	4.11%	4,031	4.55%	2,550	2.96%
General Liability	1,619	1.77%	1,387	1.56%	1,152	1.34%
Property	2,100	2.30%	1,657	1.87%	1,269	1.48%
Total Georgia Casualty	21,813	23.89%	19,916	22.46%	18,797	21.85%
American Southern:						
Automobile Liability	25,539	27.98%	30,909	34.85%	30,889	35.91%
Automobile Physical Damage	2,145	2.35%	4,508	5.08%	4,865	5.66%
General Liability	4,291	4.70%	3,116	3.51%	1,947	2.26%
Property	2,970	3.25%	3,206	3.62%	3,461	4.02%
Surety	57	.06%	60	.07%	88	.10%
Total American Southern	35,002	38.34%	41,799	47.13%	41,250	47.95%
Total Consolidated	$91,292	100.00%	$88,682	100.00%	$86,025	100.00%

Premium revenue for 1998 was $91.3 million compared to $88.7 million in 1997 and $86.0 million in 1996, a 3% increase in both 1998 and 1997. Premiums at American Southern declined 16% in 1998 as management decided to exit some smaller lines of business where profits were below expectations. In addition, American Southern's premiums were impacted by a decrease in the net rate charged for one of its large block accounts. Management believes that while this net rate has declined, as the result of a heightened competitive environment, the account will continue to be profitable. Georgia Casualty's earned premiums increased 10% or $1.9 million in 1998. This increase in premium reflects the impact of an increased marketing effort, particularly in the fourth quarter of 1997, the results of which are now being realized. Premiums from the workers' compensation line of business, Georgia Casualty's core line, increased 12% in 1998. In 1997, Georgia Casualty's premiums increased 6% over 1996 with a decline in workers' compensation premiums being offset by modest increases in its other lines of business.

Earned premium at Bankers Fidelity increased 28% or $7.5 million. The increase in premium volume is attributable to both the acquisition of American Independent in the fourth quarter of 1997 and strong internal growth as the result of an intensified marketing campaign. American Independent contributed $3.0 million in earned premium in 1998 compared to $1.0 million in the three-month period following its acquisition in 1997. Bankers Fidelity's Medicare Supplement line increased 58% in 1998 as competitors whose primary focus is not on this market began to exit. In addition, premiums from Bankers Fidelity's life insurance products increased 12% with significant growth experienced in the sale of ordinary life products. Growth in premiums of 4% in 1997 for Bankers Fidelity was primarily attributable to the Medicare Supplement line. Annualized premium for Bankers Fidelity increased to $38.0 million from $33.7 million at the end of 1997 and $26.7 million at the end of 1996.

Investment income increased a modest 2% in 1998, after increasing 1% from 1996 to 1997. Although invested assets (excluding cash and short-term investments) increased 14% over the course of the year, declining interest rates and a flat yield curve brought down yields. Management has continued to focus on investing in short and medium maturity bonds of high quality, in addition to government-backed securities. In 1998, the Company also increased its holdings in preferred stocks as management sought additional avenues to increase the overall yield on the investment portfolio. The carrying value of funds available for investment (which includes cash, short-term investments, bonds, and common and preferred stocks) at December 31, 1998 was $192.7 million, an increase over 1997 of $2.6 million, due primarily to cash provided by operations offset by the repayment of debt and preferred stock. Unrealized investment gains of $28.8 million were 2% below 1997 unrealized investment gains.

Realized investment gains increased $1.8 million in 1998 after decreasing by $513,000 in 1997. Management is continually evaluating the composition of the Company's investment portfolio and will periodically divest appreciated investments as deemed appropriate.

Benefits and Expenses

Total insurance benefits and losses decreased slightly in 1998 after a 12% increase in 1997. At American Southern, insurance benefits and losses decreased by $7.0 million, with American Southern recording a loss ratio (the ratio of insurance benefits and losses to premiums) of 66.1%, down from 72.2% in 1997. The decline in the loss ratio is attributable to favorable development on past accident years, which, when coupled with the decline in premium volume, is the reason for the significant decline in insurance benefits and losses at American Southern. In 1997 insurance benefits and losses at American Southern increased $1.6 million, the result of an increase in the loss ratios from 1996 and 1997 from 69.3% to 72.2%. Georgia Casualty experienced a modest increase in insurance benefits and losses to $16.2 million from $15.3 million in 1998. In 1997, Georgia Casualty experienced a $2.8 million increase over 1996 and at that time began a program of tightened underwriting standards and increased risk management programs. As a result, the loss ratio in 1998 was 74.3%, down from 76.6% in 1997. In 1996, Georgia Casualty recorded a loss ratio of 66.4%. The increase in the loss ratio from 1996 to 1997 was the result of worse than anticipated claims frequency in one agent's line of business.

Insurance benefits and losses at Bankers Fidelity increased $5.9 million in 1998 primarily as a result of the increase in insurance premiums. In 1997, insurance benefits and losses for the Company increased $1.5 million also from increased premium volume. The loss ratio for Bankers Fidelity increased from 57.8% to 62.3% in 1998 due to a change in the mix of business. In 1998, Bankers Fidelity had a significant increase in Medicare premiums, which have higher expected losses than the Company's life business, but also have lower commission and operating costs.

Commission and underwriting expenses increased 18%, or $4.1 million, in 1998 after a $3.9 million decline in 1997. The 1998 increase is due to the increased premium volume at Bankers Fidelity and increased profit sharing at American Southern. Much of American Southern's business is structured such that its agents commissions are adjusted up or down depending on the loss experience of their business. If losses decline, commission expenses will increase accordingly. American Southern's expense ratio (the ratio of commission and underwriting expenses to insurance premiums) increased from 23.3% in 1997 to 27.9% in 1998, the result of the aforementioned profit sharing structure. In 1996, American Southern reported an expense ratio of 24.9%. Georgia Casualty's expense ratio increased from 27.7% to 32.3%. In 1997 the expense ratio was favorably impacted by a contingent ceding commission received under Georgia Casualty's reinsurance agreements which amounted to $1.0 million compared to $161,000 in 1998. In 1996, Georgia Casualty's expense ratio was 35.3%.

The expense ratio for Bankers Fidelity decreased from 44.5% in 1997 to 43.5% in 1998. Commission and underwriting expenses increased $3.0 million due to the significant increase in premium volume. The decline in expense ratio is attributable to the change in the mix of business that was previously discussed and operating efficiencies obtained from the integration of the operations of American Independent. In 1997, commission and underwriting expenses decreased $3.0 million, from $14.9 million in 1996, primarily from operating efficiencies gained from the merger of Atlantic American Life Insurance Company with Bankers Fidelity.

The Company had a net deferral of acquisition costs of $492,000 in 1998, compared to a net deferral of $1.3 million in 1997 and a net deferral of $280,000 in 1996. Aside from the items previously discussed, the increase in deferred costs is attributable to the increase in business produced at Bankers Fidelity.

Interest expense in 1998 decreased to $2.1 million from $2.9 million in 1997 and $3.3 million in 1996. The decrease in 1998 was due to a reduction of debt in 1998 and 1997 coupled with a decline in the Company's prime rate based borrowing rate. As a result of the Company meeting certain financial criteria, the interest rate under the Company's term note with Wachovia Bank of Georgia, N.A.

("Wachovia") was reduced from the prime rate of interest to 50 basis points below the prime rate. In addition, prompted by declines in the federal lending rate, Wachovia decreased its prime lending rate in 1998, resulting in a net reduction in the Company's interest rate under this facility of 1.25%.

Other operating expenses increased $1.1 million, or 18%, after declining in 1997 by $612,000 and increasing by $534,000 in 1996. The increase in other operating expenses is attributable to several one-time expenses, including $300,000 in expenses incurred to bring the Company's computer systems into compliance with the Year 2000 (see Year 2000 discussions below) and an increase in general operating expenses. In 1997, the decrease over 1996 general operating expense was the result of non-recurring legal fees incurred in 1996 relating to the divestiture of Leath.

The Company's net tax provision of $145,000, $138,000 and $204,000 in 1998, 1997 and 1996 respectively, was primarily for alternative minimum taxes.

LIQUIDITY AND CAPITAL RESOURCES

The major cash needs of the Company are for the payment of claims and expenses as they come due, maintaining adequate statutory capital and surplus to satisfy state regulatory requirements and debt service requirements of the Parent. The Company's primary sources of cash are written premiums and investment income. Cash payments consist of current claim payments to insureds and operating expenses such as salaries, employee benefits, commissions, taxes, and shareholder dividends, when earnings warrant such payment. By statute, the state regulatory authorities establish minimum liquidity standards, primarily to protect policyholders.

The Company's insurance subsidiaries reported a combined statutory profit of $8.6 million in 1998 compared to $9.2 million in 1997 and $8.9 million in 1996. The statutory results in 1998 were comprised of a $5.0 million profit at American Southern, a $2.1 million profit at Georgia Casualty and a $1.5 million profit at Bankers Fidelity. The 1997 statutory results were comprised of a profit of $4.8 million from American Southern, $1.9 million from Georgia Casualty, and $2.5 million from Bankers Fidelity. The 1996 statutory results were comprised of a profit of $5.6 million from American Southern, $2.0 million from Georgia Casualty and $1.3 million from Bankers Fidelity.

Statutory results differ from the results of operations under generally accepted accounting principles ("GAAP") for American Southern and Georgia Casualty due to the deferral of acquisition costs. Bankers Fidelity's statutory results differ from GAAP primarily due to deferral of acquisition costs, as well as different reserving methods.

On December 31, 1995, the Company entered into a Credit Agreement with Wachovia Bank of Georgia, N.A. The Credit Agreement provides for aggregate borrowings of approximately $34.0 million. At December 31, 1998, the Company had outstanding borrowings under the Credit Agreement of $26.0 million, of which approximately $2.4 million will become due and payable during 1999. The Company intends to repay its obligations under the Credit Agreement using dividend payments received from its subsidiaries and through receipts from its tax-sharing agreement with its subsidiaries. In addition, the Company believes that the balance due in the year 2000 of $23.6 million can be refinanced with the current lender if the Company so chooses.

In connection with entering into the Credit Agreement, the Company converted, effective December 31, 1995, approximately $13.4 million in outstanding debt to affiliates into a new series of preferred stock, which accrues dividends at 9% per year. The Company has accrued but not paid the cumulative dividends on this preferred stock since its issuance and does not currently intend to pay such dividends in 1999. At December 31, 1998, the Company had accrued but unpaid dividends on its Series B Preferred Stock totaling $3.6 million.

On December 31, 1998, the Company retired all of the outstanding shares of Series A Convertible Preferred Stock ("Series A Stock") which paid an annual dividend of 10.5%. Shareholders of 20,000 shares of the Series A Stock chose to elect their conversion option and converted their shares of Series A Stock into 469,760 shares of Atlantic American Corporation common stock at a conversion price of approximately $4.26 per share. The remaining 10,000 shares were redeemed at par for $1,000,000.

The Company provides certain administrative and other services to each of its insurance subsidiaries. The amounts charged to and paid by the subsidiaries in 1998 was $6.5 million and a constant at $5.6 million in 1997 and 1996. In addition, the Company has a formal tax-sharing agreement with each of its insurance subsidiaries. A net total of $1.9 million, $1.2 million and $3.4 million were paid to the Company under the tax-sharing agreement in 1998, 1997 and 1996, respectively. It is anticipated that this agreement will provide the Company with additional funds from profitable subsidiaries due to the subsidiaries' use of the Company's tax loss carryforwards which totaled approximately $42 million at December 31, 1998.

Approximately 93% of the invested assets of the insurance subsidiaries are in marketable securities that can be converted into cash, if required; however, use of such assets by the Company is limited by state insurance regulations. Dividend payments to the Company by the insurance subsidiaries are subject to annual limitations and are restricted to the accumulated statutory earnings of the individual insurance subsidiaries. At December 31, 1998, Georgia Casualty had $13.7 million of accumulated statutory earnings, Bankers Fidelity had $17.4 million of accumulated statutory earnings, and American Southern had $20.5 million of accumulated statutory earnings for a total of $51.6 million.

Net cash provided by operating activities totaled $5.5 million in 1998 and $8.6 million in 1997, compared to $8.4 million in 1996. The Company incurred a total cost of $394,000 in 1998, $733,000 in 1997 and $1.6 million in 1996 for additions to property and equipment, which mainly represent leasehold improvements and additions and enhancements to existing computer systems. Cash and short-term investments decreased to $32.4 million in 1998 as funds were shifted from short-term investments into longer-term and higher yielding investments.

The Company believes that the fees, charges and dividends it receives from its subsidiaries and, if needed, borrowings from banks and affiliates of the Company will enable the Company to meet its liquidity requirements for the foreseeable future. Management is not aware of any current recommendations by regulatory authorities which, if implemented, would have a material adverse effect on the Company's liquidity, capital resources or operations.

YEAR 2000

Many existing computer systems and equipment with embedded computer chips currently in use were developed using two digits rather than four digits to specify the year. As a result, many systems will recognize a date code of "00" as the calendar year 1900 rather than 2000 which could cause systems to fail or cause erroneous results in date sensitive systems.

The Company's operating systems, most of which depend on date sensitive data, are integral to its business. The Company has developed a program to assess the state of readiness of the Company's internal systems, both computer systems and those with embedded micro-processors, and those of its vendors and customers, the remediation measures necessary for those systems to be Year 2000 compliant, the costs to undertake such measures and to develop appropriate contingency plans.

The Company's program to assess its internal systems (which include both hardware and software) is continuing. The Company has identified four critical operating systems that require the highest level and priority of testing to ensure that performance is not adversely affected by the Year 2000 issue. At the end of 1998, the Company had completed all scheduled modifications to its systems to appropriately address the Year 2000. Initial testing of these systems has been completed and the Company is currently running on these modified systems. Additional testing will continue through the first half of 1999. To date, the Company has been able to remediate its systems through upgrades, rather than system replacement. The failure of any of those systems as a result of the Year 2000 issue would inhibit the Company's ability to conduct its business and process claims, and would likely have a material adverse effect on the Company's results of operations. The Company is also continuing to test less critical information systems and systems with embedded micro-processors for compliance, and expects that phase to be completed by the end of the first quarter of 1999. As that testing process continues, the Company is developing contingency plans to enable the Company to fulfill the functions performed by those systems in the event of failure. The development of contingency plans is ongoing; however, the Company expects to have in place contingency plans for its critical operating systems, as well as for less critical systems and vendor alternatives, by the beginning of the fourth quarter of 1999.

While the Company is taking every precaution to address the Year 2000 issue, some uncertainty remains. The Company can not control the activities of its third party vendors, and the Company may have failed to identify and remediate all of its systems and other such uncertainties. As a result, management cannot determine whether or not Year 2000 related problems that could arise will have a material impact on the Company's financial condition or results of operations.

As part of this process, the Company is continuing its process of surveying its vendors and service providers and customers in order to identify areas in which Year 2000-related problems with external systems could cause disruptions, delays or failures that could impact the Company. As the results of these external surveys are assessed, the Company expects to develop appropriate contingency plans. While unlikely, it is possible that a major service provider, such as a utility company, may be unable to provide the Company with its needed service for a period of time. If such an event were to happen, the Company might not be able to provide services until the utilities are returned.

During 1998, the Company spent approximately $300,000 to modify existing systems and applications to address the Year 2000 issue. The Company estimates that an additional $100,000 will be incurred in 1999. The Company does not anticipate that the costs of bringing its systems into compliance would have a material adverse effect on the results of operations or financial condition of the Company.

DEFERRED TAXES

At December 31, 1998, the Company had a net cumulative deferred tax asset of zero. The net cumulative deferred tax asset is the result of $18.7 million of deferred tax assets, offset by $13.9 million of deferred tax liabilities, and a $4.8 million valuation allowance. SFAS No. 109 requires that a valuation allowance be recorded against tax assets which are not likely to be realized. The Company's carryforwards expire at specific future dates and utilization of certain carryforwards is limited to specific amounts each year. Due to the uncertain nature of the ultimate realization of these carryforwards, the Company has established a full valuation allowance against them. The Company's ability to generate taxable income from operations is dependent upon various factors, many of which are beyond management's control. The Company has taken measures to ensure the existence of the carryforwards in future periods; however, there can be no assurance that these measures will ultimately provide successful. The Company operates in segments of the insurance industry that are extremely competitive and writes lines of business that are subject to significant losses. Accordingly, there can be no assurance that the Company will generate future taxable income based on historical performance. The realization of the deferred tax assets is assessed periodically based on the Company's current and anticipated results of operations.

IMPACT OF INFLATION

Insurance premiums are established before the amount of losses and loss adjustment expenses, or the extent to which inflation may affect such losses and expenses, are known. Consequently, the Company attempts, in establishing its premiums, to anticipate the potential impact of inflation. If for competitive reasons premiums cannot be increased to anticipate inflation, this cost would be absorbed by the Company. Inflation also affects the rate of investment return on the Company's investment portfolio with a corresponding effect on investment income.

INTEREST RATE AND MARKET RISK

Due to the nature of the Company's business it is exposed to both interest rate and market risk. Changes in interest rates may result in changes in the fair value of the Company's investments, cashflows and interest income and expense. To mitigate this risk, the Company invests in high quality bonds and avoids investing in securities that are directly linked to loans or mortgages.

A 100 basis point increase in interest rates at December 31, 1998 would result in a decrease of approximately $375 in the value of the investment portfolio. A 100 basis reduction in interest rates would not have a material impact on the Company's results of operations.

The Company is also subject to risk from changes in equity prices. Atlantic American owned $26.0 million of common stock of Wachovia Corporation at December 31, 1998. A 10% decrease in the share price of the common stock of Wachovia Corporation would result in a decrease of approximately $2.6 million to shareholders' equity.

The interest rate on the Company's note payable is tied to the prime rate of interest. A 100 point basis increase in the prime rate would result in an additional $260,000 in interest expense.

FORWARD-LOOKING STATEMENTS

This report contains and references certain information that constitutes forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Those statements, to the extent they are not historical facts, should be considered forward-looking and subject to various risks and uncertainties. Such forward-looking statements are made based upon management's assessments of various risks and uncertainties, as well as assumptions made in accordance with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. The Company's actual results could differ materially from the results anticipated in these forward-looking statements as a result of such risks and uncertainties, including those identified in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998 and the other filings made by the Company from time to time with the Securities and Exchange Commission.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Atlantic American Corporation:

We have audited the accompanying consolidated balance sheets of Atlantic American Corporation (a Georgia corporation) and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements (pages 10 through 24) referred to above present fairly, in all material respects, the financial position of Atlantic American Corporation and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

/s/

ARTHUR ANDERSEN LLP

Atlanta, Georgia
March 26, 1999

MARKET INFORMATION (UNAUDITED)

The common stock of the Company is quoted on the Nasdaq National Market under the symbol "AAME". As of December 31, 1998, the Company had approximately 5,040 stockholders, including beneficial owners holding shares in nominee or "street" name. The following tables show for the periods indicated the range of the reported high and low prices of the common stock on the Nasdaq National Market and the closing price of the stock and percent of change at December 31. The Company did not declare or pay cash dividends on its common stock during the year ended December 31, 1997. Since 1988, the Company has retained its earnings to support the growth of its business.

	1998		1997	
	High	Low	High	Low
First quarter	$ 5 1/2	$ 4 5/8	$ 3 3/4	$ 3 1/16
Second quarter	5 1/16	3 7/8	3 1/4	2 1/2
Third quarter	5 1/4	4	4 1/8	2 1/2
Fourth quarter	4 15/16	3 5/8	5 1/2	4

	1998	1997	1996	1995	1994
December 31, stock price close per share	$ 4 7/8	$5 1/16	$3 1/16	$2 5/16	$2 1/4
Stock price percentage of change from prior year	-3.7%	+65.3%	+32.4%	+2.8%	+28.6%

DIRECTORS

J. MACK ROBINSON
Chairman
Atlantic American Corporation

HILTON H. HOWELL, JR.
President and Chief Executive Officer
Atlantic American Corporation

THE HONORABLE EDWARD E. ELSON
Former United States Ambassador
to the Kingdom of Denmark

SAMUEL E. HUDGINS
Consultant

D. RAYMOND RIDDLE
Retired Chairman and Chief Executive Officer
National Service Industries, Inc.

HARRIETT J. ROBINSON
Director, Delta Life Insurance Company

SCOTT G. THOMPSON
President and Chief Financial Officer
American Southern Insurance Company

MARK C. WEST
Chairman and Chief Executive Officer
Genoa Companies

WILLIAM H. WHALEY, M.D.
William H. Whaley, M.D., P.C., F.A.C.P.

DOM H. WYANT
Retired Partner, Jones, Day, Reavis & Pogue

OFFICERS

J. MACK ROBINSON
Chairman

HILTON H. HOWELL, JR.
President and Chief Executive Officer

EDWARD L. RAND, JR.
Vice President and Treasurer

CLARK W. BERRYMAN
Vice President, Information Services

MICHAEL J. BRASSER
Vice President, Internal Audit

JANIE L. RYAN
Corporate Secretary

BARBARA B. SNYDER
Assistant Vice President and Director, Human Resources

Tissue Insert in Annual Report:

SUBSIDIARIES

Bankers Fidelity Life Insurance Company
American Independent Life Insurance Company

J. MACK ROBINSON
Chairman

HILTON H. HOWELL, JR.
Vice Chairman

EUGENE CHOATE
President

Georgia Casualty & Surety Company

J. MACK ROBINSON
Chairman and President

HILTON H. HOWELL, JR.
Vice Chairman and
Executive Vice President

American Southern Insurance Company
American Safety Insurance Company

ROY S. THOMPSON, JR.
Chairman Emeritus

CALVIN L. WALL
Chairman and Chief Executive Officer

SCOTT G. THOMPSON
President and Chief Financial Officer

Self-Insurance Administrators, Inc.

HILTON H. HOWELL, JR.
Chairman

ANDY M. THOMPSON
President

Inside Page Cover:

SHAREHOLDER INFORMATION

ANNUAL MEETING

Atlantic American's annual meeting of shareholders will be held on Tuesday, May 4, 1999, at 9:00 a.m. in the Peachtree Insurance Center, 4370 Peachtree Road, N.E., Atlanta, Georgia. Holders of common stock of record at the close of business on March 8, 1999, are entitled to vote at the meeting, and all parties interested in Atlantic American are invited to attend. A notice of meeting, proxy statement and proxy were mailed to shareholders with this annual report.

Independent Accountants
Arthur Andersen LLP
Atlanta, Georgia

Legal Counsel
Jones, Day, Reavis & Pogue
Atlanta, Georgia

Stock Exchange Listing
Symbol: AAME
Traded over-the-counter market
Quoted on the Nasdaq National Market System

Transfer Agent and Registrar
Atlantic American Corporation
Attn: Janie L. Ryan, Corporate Secretary
P. O. Box 190720
Atlanta, Georgia 31119-0720
(800) 241-1439 or (404) 266-5532

Form 10-K and Other Information For investors and others seeking additional data regarding Atlantic American Corporation or copies of the Corporation's annual report to the Securities and Exchange Commission (Form 10-K), please contact Janie L. Ryan Corporate Secretary, (800) 241-1439 or (404) 266-5532. Please visit our web site at:
www.atlam.com.

(Back Cover to Annual Report)

Atlantic
American
Corporation

4370 Peachtree Road, N.E.
Atlanta, Georgia 30319-3000
Telephone: 404-266-5500
Facsimile: 404-266-5702
Internet: www.atlam.com

EXHIBIT 21.1

SUBSIDIARIES OF THE REGISTRANT

Subsidiary	State of Incorporation
American Independent Life Insurance Company	Pennsylvania
American Safety Insurance Company	Georgia
American Southern Insurance Company	Georgia
Bankers Fidelity Life Insurance Company	Georgia
Georgia Casualty & Surety Company	Georgia
Self-Insurance Administrators, Inc.	Georgia

EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference in this Form 10-K of our report dated March 26, 1999 included in Registration Statement File No. 33-56866.

/s/
- ---------------------------
ARTHUR ANDERSEN LLP

Atlanta, Georgia
March 26, 1999

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YEAR
DEC-31-1998
DEC-31-1998
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99341
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