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, 1996

or

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

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)
8% Convertible Subordinated Notes
(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 7, 1997, was $17,454,169. On March 7, 1997 there were 18,691,026 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, 1996 - Parts I, II and IV.

2. Portions of registrant's Proxy Statement for the Annual Meeting of Shareholders, to be held on May 6, 1997, 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 (the "Company" or the "Parent") is a Georgia holding company which during 1996 engaged primarily in the insurance business through the following subsidiaries: Atlantic American Life Insurance Company ("Atlantic American Life"), Bankers Fidelity Life Insurance Company ("Bankers Fidelity Life") (jointly, the "Life Companies"), American Southern Insurance Company and its wholly owned subsidiary, American Safety Insurance Company, (collectively, "American Southern") and Georgia Casualty & Surety Company ("Georgia Casualty" and together with American Southern, the "Casualty Division"). As of January 1, 1997 Atlantic American Life was merged with and into Bankers Fidelity Life, and the business and operations of the Life Companies are now consolidated in Bankers Fidelity Life.

The Company was incorporated as a Georgia corporation in 1968 and during that year acquired Georgia Casualty, which was incorporated in 1947. In 1970, the Company acquired Atlantic American Life, which was incorporated in Georgia in 1946, and in 1976 Bankers Fidelity Life, a Georgia corporation incorporated in 1955. In 1991, the Company acquired substantially all of the stock of Leath Furniture, Inc. ("Leath"), an Atlanta-based furniture retailer which operates full-line, full-service retail furniture stores throughout the Midwest, Alabama and Florida. On April 8, 1996, the Company sold its approximately 88% interest in Leath. Leath is reflected as discontinued operations in the Company's financial statements for all periods presented. On December 31, 1995, the Company acquired American Southern, which was incorporated in Georgia in 1936.

As used herein, unless the context otherwise requires, the term "Company" means the Parent holding company and its consolidated subsidiaries as of December 31, 1996. On April 1, 1996, the Company completed a merger in which it acquired the remaining publicly-held interest in Bankers Fidelity Life. Pursuant to that merger, the public shareholders of Bankers Fidelity Life received $6.25 in cash per share, and their shares of stock in Bankers Fidelity Life were canceled. On November 26, 1996, the Company completed a merger in which it acquired the remaining publicly-held interest in Georgia Casualty. Pursuant to that merger, the public shareholders of Georgia Casualty received $9.00 in cash per share, and their shares of stock in Georgia Casualty were canceled. As a result of those two transactions, the Company now owns 100% of each of its subsidiaries.

The balance sheets of American Southern were consolidated at December 31, 1996 and 1995; however, the results of operations are included and discussed only as related to 1996.

The executive offices for the Company and each of its subsidiaries, with the exception of American Southern, are located at 4370 Peachtree Road, N.E., Atlanta, Georgia 30319. American Southern is located at 3175 Northside Parkway, Building 400, 8th Floor, Atlanta, Georgia 30327.

INSURANCE OPERATIONS

Glossary of Selected Insurance Terms

Combined Ratio.................	The sum of the expense ratio and the loss ratio. A combined ratio under 100% indicates an underwriting profit and a combined ratio over 100% indicates an underwriting loss.
Deferred Acquisition Costs.....	The portion of costs associated with the acquisition of business, including agents' and brokers' commissions and marketing expenses that are deferred.
Earned Premium.................	The portion of premium that is due or received applicable to the current year.
Expense Ratio..................	The ratio of underwriting expenses to premiums earned.
Lapse Ratio....................	For a specific group of insurance policies, the ratio of (i) the dollar amount of gross written premiums in-force at the beginning of a period (before reinsurance ceded, if any) less gross written premiums in-force at the end of the period over (ii) the dollar amount of gross written premiums in-force at the beginning of the period (before reinsurance ceded, if any).
Loss Adjustment Expenses ("LAE")	The estimated expenses of settling claims, including legal and other fees and expenses.
Loss Ratio.....................	The ratio of net incurred losses and loss adjustment expenses to net premiums earned. Incurred losses include an estimated provision for claims which have been incurred but not reported to the insurer ("IBNR").
NAIC Ratios....................	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 set forth a desirable range in which companies should fall in each such ratio.
Net Premiums Written...........	Premiums retained by an insurer, including assumed premiums, after deducting premiums on business reinsured with others.

Reinsurance.................... A procedure whereby an original insurer remits or "cedes" a portion of the premium to a reinsurer as payment to the reinsurer for assuming a portion of the related risk.

Risk Based Capital............. Risk Based Capital ("RBC") is a new method of measuring the amount of capital appropriate for a company to support its overall business operation with respect to its size and risk profile. There are four major risks that are used to measure RBC. They are: 1) Asset Risk - measures the quality of a company's investment. 2) Insurance Risk - involves the pricing and exposure of a company's insurance. 3) Interest Rate Risk - vulnerability of a company to changes in interest rates. 4) Business Risk - vulnerability of the company to external events.

Statutory Accounting Practices. Recording transactions and preparing financial statements in accordance with the rules and procedures prescribed or permitted by regulatory authorities. The principal differences between statutory accounting practices ("SAP") and generally accepted accounting principles ("GAAP"), the method by which the Company generally reports its financial results, are that under statutory accounting (i) certain assets that are nonadmitted assets are eliminated from the balance sheet; (ii) acquisition costs 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 factors utilized in establishing certain reserves is different than under GAAP; (v) certain notes are considered surplus rather than debt; (vi) valuation allowances are established against investments, and (vii) goodwill is limited to 10% of an insurer's surplus, subject to a 10-year amortization period.

Statutory Capital and Surplus.. The sum remaining after all liabilities are subtracted from all assets applying statutory accounting practices. An insurance company must maintain minimum levels of statutory capital and surplus under state insurance regulations in order to provide financial protection to policyholders in the event the company suffers unexpected or catastrophic losses.

Underwriting................... The process whereby an insurer reviews applications submitted for insurance coverage and determines whether it will accept all or part of the coverage being requested and what the applicable premiums should be.

Underwriting Expenses.......... The aggregate of the amortization of deferred acquisition costs and general and administrative expenses attributable to insurance operations.

Background

Through its insurance subsidiaries, the Company offers life, accident and health insurance ("A&H"), which includes Medicare supplement and other medical care policies, as well as property and casualty insurance. In 1996, accident and health (including Medicare supplement) and life insurance accounted for approximately 30% of the Company's total net earned premiums, and property and casualty insurance accounted for approximately 70% of such premiums. Medicare supplement insurance accounted for approximately 13% of the Company's total earned premiums in 1996. The insurance subsidiaries are licensed to do business in a total of 28 states, although 87.2% of the Company's earned premiums in 1996 were derived from the states of Florida, Georgia, Indiana, Kentucky, Mississippi, Missouri, North Carolina, Tennessee, Texas and West Virginia.

Accident and health insurance lines are offered through the Life Companies and include Medicare supplement, cancer, hospital indemnity, short-term nursing home care, accident expense, medical indemnity, and disability insurance. The Life Companies also offer ordinary whole life and term-life insurance policies. The Company's life, accident and health insurance is sold by approximately 2,500 independent agents primarily in the Southeast. Property and casualty insurance lines are offered through Georgia Casualty and American Southern and include workers' compensation, automobile insurance, and to a lesser extent, business automobile, general liability and property coverage. The Georgia Casualty lines are sold through a total of 72 independent agents primarily in the states of Mississippi and Georgia. The American Southern lines are sold through a total of 175 independent agents primarily in the Southeast and Midwest.

Life Companies

Atlantic American Life and Bankers Fidelity Life are legal reserve stock life insurance companies which engage in sales of accident and health insurance as well as ordinary, term, and group life insurance. The Life Companies offer nonparticipating individual life insurance policies with a number of available riders and options including double indemnity, waiver or reduction of premium, reducing or increasing term, intensive care, annuity, family term, payor death benefits, waiver of skilled nursing home benefit, terminal illness payout rider, and an additional coverage amount enhancement option not requiring additional underwriting. The accident and health insurance lines include Medicare supplement insurance in two classes (standard and preferred) as well as cancer, accident expense, disability income, hospital/surgical insurance, and short-term care (under one year). The Company still receives premiums from the discontinued lines of medical surgical and convalescent care.

In addition, the Life Companies write a small amount of special risk accident and health insurance policies. Substantially all of the accident and health policies offer guaranteed renewals in that the policies are automatically renewable at the option of the policyholder, although the Life Companies have the right, on a state-by-state basis, to adjust premium rates on each class of policies (see "Regulation"). The insured may elect to pay premiums monthly, quarterly, semi-annually or annually. Policies lapse if premiums are more than 45 days overdue.

Prior to 1983, the Life Companies primarily wrote life insurance. In May 1983, the Life Companies introduced a Medicare supplement policy in order to add additional product lines. The Life Companies determined that they were not well positioned to achieve significant growth in sales of life insurance. For the next five years the Life Companies focused the majority of their resources on marketing Medicare supplement insurance. As legislative changes reduced the attractiveness of writing Medicare supplement insurance, the Life Companies placed a greater emphasis on offering other products. This resulted in a steady decrease in Medicare supplement sales. Beginning in 1986, the Life Companies broadened their product base to include various supplemental health products. In September 1986, the Life Companies introduced a convalescent-care policy that provided for payment of benefits for confinement in a licensed nursing facility following a minimum three day hospital stay. The Life Companies discontinued the sale of the convalescent-care policy in 1992, when states required companies to eliminate the minimum three day hospital stay. The Life Companies' experience indicated that the minimum three day hospital stay was a key to prohibiting excessive use or over-utilization based on medical necessity. Net premiums for that product peaked at $5.1 million in 1988; after discontinuing the sale of new policies for that product, earned premiums have declined to $955,000 in 1996. In 1987, the Life Companies introduced an individual disability income product. The policy provides disability income benefits in periods of one and two years and offers an optional daily hospital indemnity rider. In January 1988, the Life Companies introduced an accident expense policy which provides for payment of benefits at predetermined rates for accidental injury or death. Accident expense premium in 1988 was $500,000, increased to $2.1 million in 1990, and decreased to $677,000 in 1996. Also in 1988, the Life Companies introduced a new cancer benefit policy that provides for a lump-sum cash payment upon diagnosis of cancer. Premium for that product was $3.4 million in 1988 but decreased to $2.0 million in 1996.

In 1990, the Life Companies updated the life product portfolio. The Life Companies implemented several new life products to penetrate niche markets where these products have greater appeal and where less competition exists. In 1991, the companies introduced the Debt Management Program, designed to allow insureds to accumulate funds for the future repayment of college tuition debt. The program's major components consist of a 10-Pay Whole Life Policy with an Annuity Rider. This program updated the outdated Student Loan Program which began in 1986. The Life Companies also introduced a new life product for the senior market to enhance a portfolio of products that are sold exclusively in that market. The senior market life product's portfolio was revised in 1993 with the introduction of the Senior Security Life program with products marketed as the Senior Security Series. The revised program is comprised of whole life with both standard and preferred underwriting and joint whole life providing replacement of lost social security income. The life products have preferred and standard rates for males and females. Sales in this market increased in both 1995 and 1996, and the Life Companies expect to see continued growth in 1997 and 1998. Designed in 1995 and implemented in 1996, the Life Companies marketed two new level term products identified as Term Ten and Term Ten Plus. Designed to replace an old existing term product, these products were developed strategically to generate appeal in the individual payroll markets. The Term Ten is a standard level term product that is renewable at term and convertible to any whole life product offered by the companies. Term Ten Plus is also a standard level term policy that is renewable and convertible and includes an option that allows policyholders to increase their coverage amount during the second to the ninth policy years. Premium rates for the additional coverage are determined by the age of the policyholder at the time coverage originally began, not at their current age. The Life Companies have seen increased sales in other life products that are sold in concert with the new senior life products. Renewed emphasis on life sales produced an increase in life sales over the past four years. Additionally, the Life Companies began updating their array of supplemental health products in 1993.

The Life Companies introduced four new or updated health products in 1994. The first product introduced was a short-term care product that provides nursing home coverage for 90, 180, 270 or 360 days. This product enhanced the senior citizen portfolio and was designed to target individuals who cannot afford long-term care insurance. The second product introduced was a new cancer product to be sold on an individual basis and in the payroll market. The cancer product benefits were strategically designed to be flexible, thus providing individuals with the ability to tailor their insurance programs to fit their specific needs. The third product introduced was an enhanced hospital indemnity product. This product was also designed to be sold on an individual basis and in the payroll market. As with the cancer product, the hospital indemnity benefits were strategically designed to be flexible, thus providing individuals with the ability to tailor their insurance programs to fit their specific needs. The fourth product introduced in 1994 was a dual disability product. This product provides disability benefits if the insured becomes disabled before age 65 and benefits for nursing facility coverage after age 65. The Life Companies believe this is the first product introduced with these benefits. This product is marketed on an individual and payroll basis. The implementation of these products advances the Life

Companies' plans for a more diversified portfolio, thus enabling it to compete effectively in niche markets. They also allow greater expansion of sales in the list bill (billing for more than one insured) and payroll deduction markets. To increase product revenues, the Life Companies will continue to place emphasis on the entire line of products and not rely on any one individual product. In 1995 and 1996, the Companies developed and introduced a new list bill product which pays a limited doctor benefit for a limited amount of time plus a flat $500 or $1,000 for deductibles and copayments. This product is for the list bill and payroll deduction market and is designed to enhance the existing small group voluntary products area. Also in 1995, Bankers Fidelity Life introduced a low premium Medicare product to be sold jointly with our senior citizen life products. Sales through 1996 were successful and this product will be introduced to all other states where the Life Companies operate.

The following table sets forth annual premium information regarding the Life Companies' policies offered as of January 1, 1997:

	Range of Premium
Medicare Supplement	$300 to $ 2,923
Short-Term Care (1)	$ 9 to $ 399
Other Accident and Health Policies	$ 7 to $ 1,440
Ordinary Life (2)	$ 3 to $ 372

The following table summarizes, for the periods indicated, the allocation of the Life Companies' net premiums earned for each of its principal product lines and is followed by a summary of the various policies offered.

	Year Ended December 31,				
	1996	1995	1994	1993	1992
			(in thousands)		
Ordinary Life	$ 8,937	$ 7,037	$ 6,716	$ 5,130	$ 4,362
Mass Market Life	1,303	1,260	1,395	1,541	1,769
Total Life	10,240	8,297	8,111	6,671	6,131
Medicare Supplement	11,560	11,882	13,347	15,052	17,212
Convalescent Care/Short-Term Care	955	1,191	1,385	1,628	2,064
Medical Surgical	160	211	289	389	565
Cancer	1,982	2,221	2,457	2,726	3,033
Hospital Indemnity	282	337	414	508	592
Accident Expense	677	790	892	992	1,210
Disability	122	142	155	154	139
Total Accident and Health	15,738	16,774	18,939	21,449	24,815
Total Life and Accident and Health	$ 25,978	$ 25,071	$ 27,050	$ 28,120	$ 30,946

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(1) Per $10 daily benefit.

(2) Per thousand of face amount.

Medicare Supplement. The Company currently markets 7 of the 10 standardized Medicare supplement policies created under the Omnibus Budget Reconciliation Act of 1990, known as "OBRA 1990" (P.L. 101-508). The Company's existing Medicare supplement policies written before November 6, 1991 ("pre-OBRA 1990 policies") are not subject to the standardized Medicare Supplement policy provisions of OBRA 1990.

The Company's pre-OBRA 1990 policies consist of 4 complete supplements to Part A, and 16 alternative supplements to Part B were grandfathered. The 16 alternative Part B supplements are essentially differentiated by their deductible amounts ($0, $100 or $200) and by the percentage of benefits which apply to Medicare approved charges (20%, 70%, 80% or 100%). The Company believes that the range of benefits under its pre-OBRA 1990 Part B supplements exceeds those of the typical Part B supplements that were available before November 6, 1991.

While a charge must be approved by Medicare before any benefit is paid, the amount of the benefit is based upon the Medicare allowable charge. Approximately 54% of the Company's Medicare supplement business in-force on December 31, 1996, provided more than the minimum 20% coinsurance coverage. Until 1991, such policies were more difficult to rate and incorporated more risk for the Company because physicians and other providers could increase their charges while Medicare did not provide a parallel increase in allowable charges. The Company would then pay the difference between the actual physician charges and the amount reimbursed by Medicare, not to exceed the policy limits. Uncontrolled increases in physician or provider charges would adversely affect the Company's underwriting results. Benefits based on maximum coverage also result in the Company's absorption of reductions in Medicare physician payments, such as reductions under the Gramm-Rudman-Hollings Act (P.L. 99-177). These increased benefit costs were offset by implementing timely rate increases.

Under OBRA 1990, legal caps were established on physicians' and other providers' charges. Capped physician charges now have a more stabilizing effect on Medicare costs. This, in turn, allows the Company to price its products more effectively. Although OBRA 1990 will not halt medical inflation in general, it does limit the uncontrolled amount of increases in provider charges. The ultimate effect from the imposed caps beginning January 1, 1991, is lower loss ratios and improved persistency. This in turn had a stabilizing effect on Medicare supplement rates in general. Fewer and lower overall rate increases are necessary in order to manage and maintain the Life Companies' Medicare supplement blocks of business.

Under OBRA 1990, a company can only offer Medicare supplement policies which conform to one of the ten standardized policies established by the Federal Government. The Company expects to continue to market seven of these plans, including the required core policy with basic benefits. The three plans not marketed by the Company provide prescription drug benefits.

OBRA 1990 also mandated the following provisions that significantly changed the Company's operation:

(1) federal certification of policies through each state;

(2) prohibition of the sale of duplicate coverages;

(3) a mandated loss ratio on individual policies with premium credits and/or rebates if the standard is not met; and

(4) a prohibition against denying or limiting coverage on the basis of an applicant's health condition during the first six months in which an applicant is eligible for Medicare.

Controlled provider caps reduced the amount physicians can charge, which has had a direct bearing on the Life Companies' claim experience. As a result, the Life Companies had limited rate increases in 1994, 1995 and 1996. The Life Companies also introduced area factors to reduce rates in various geographic areas.

The technical corrections amendment (HR 5252 Social Security Act of 1994), effective April 28, 1995, gave states with yearly legislative sessions until April 1996 to adopt the amendment and until 1997 for those states with alternating year legislative sessions to adopt the provisions of the new act. The act covered items (2) and (4) above. Item (2) was clarified to mean duplication of coverage from any other Medicare supplement policy. Item (4) was amended to cover Medicare beneficiaries under the age of 65.

Convalescent Care (Long-Term Care). The Life Companies discontinued the sale of this product in 1992 as each state passed legislation eliminating the required minimum three day hospital stay. It was the Company's experience that the minimum three day hospital stay was the key to prohibiting excessive use or over utilization based on medical necessity.

Cancer, Cancer PLUS and New Cancer. The Life Companies offer several policies providing for payment of benefits in connection with the treatment of diagnosed cancer. The traditional cancer policies provide for fixed dollar payments pursuant to a scheduled benefit chart and provide benefits on an individual, joint, or family basis. The Cancer PLUS policy, introduced in 1988, includes a lump-sum payment upon diagnosis of internal cancer. In late 1994, a higher limit cancer policy, Cancer Care Solution, was introduced to complement the existing cancer portfolio and to improve benefits to this market. A modified version of Cancer Care Solution is also used in the payroll market.

Hospital/Surgical. In 1992, the Life Companies introduced a new limited benefit hospital/surgical indemnity policy. It is intended for the market where consumers have difficulty in affording major medical coverage. Due to this product's moderate cost, it is considered to have potential effective market penetration. During 1992 through 1994, the Federal Government offered subsidies to lower income persons for the purpose of buying health insurance. This was also at a time when state and federal governments and the insurance industry were concerned about the lack of affordable health-care products. This policy was designed to qualify for the government subsidy and be affordable. In 1994 the subsidy was eliminated; the product was then updated to be more flexible by providing options on benefits, such as daily hospital confinement, and making other benefits optional instead of mandatory to meet the needs of the insuring public. Each benefit is subject to a maximum, designed to protect the Company against excessive claims. This product is also used in the payroll market.

Medical Indemnity. In 1995, the Life Companies designed a new Medical Indemnity product. The policy provides an indemnity for visits to a physician's office or emergency room and a benefit for a routine physical examination once a year for each insured person. The benefits are available in a variety of pre-set levels. Optional benefits are available to provide a lump-sum benefit and/or daily indemnity for hospital confinement. This voluntary health product, intended for both the individual and payroll markets, fills the gaps in coverage, such as deductibles and copayments, left by more comprehensive medical policies.

Accident Expense. In January 1988, the Company introduced an accident expense policy which provides death or dismemberment benefits due to accidental injury. In addition, the policy offers compensation for lost wages, hospital indemnity, and emergency medical service within prescribed limits. Policyholders may elect full or half coverage. Past revisions to the benefits available under this policy and premium increases implemented in 1991 and 1992 made this product profitable. Management believes that this product line will continue to grow as traditional health policies become more expensive and consumers seek supplemental policies as a replacement for expensive health insurance. The Company will continue to place greater emphasis on these policies as well as expand the product line. This product is also used in the payroll market.

Short-Term Care (Nursing Home Coverage With Benefits Less Than One Year). In the first quarter of 1994, the Life Companies developed a short-term care product. This product serves that part of the market that cannot afford to buy the higher priced mandated coverage of long-term care products. When long-term care mandates are fully implemented, it appears that even a tax deductible premium would not reduce long-term care rates to a level affordable to more than a minority of the available market. Statistics show that approximately 75% of nursing home stays are for less than one year. However, short-term care coverage allows time to plan for payment of long-term confinement with existing family assets. More states realize that Medicaid, which pays approximately 50% of present nursing home care, is the fastest growing part of the state budget. Future spending cuts on Medicaid are likely; this will reduce long-term care coverage and increase the need for private coverage. Short-term care coverage will then be an affordable alternative product.

Ordinary Life. The Life Companies offer various whole life insurance policies. The cost of a whole life policy is averaged over the policyholder's expected lifetime, costing more than comparable term insurance when the policyholder is younger but less as the policyholder grows older. A whole life policy combines protection with a savings plan that gradually increases in amount over time. The policyholder may borrow against the cash value or use it as collateral for a loan. Policy loans typically are at a rate of interest lower than rates available from other lending sources. The policyholder may also choose to surrender the policy and receive the cash value rather than continuing the insurance protection. The Life Companies expanded their product line by offering a preferred product and continued to monitor experience and update the application as needed. These revisions and updates resulted in increased sales.

Term Life Insurance. The Life Companies offer several term policies, including an annual renewable term; a 5, 10, and 20-year level; a decreasing term policy; and a 10, 15, and 30-year mortgage term at amortized interest rates. In 1995 and 1996, the Life Companies developed two 10-year term products. One product was developed for individuals who are interested in a low premium product. The second product allows the insured to purchase additional insurance at their original issue age.

Disability Products. Since 1987 the Life Companies have offered a one and two year disability product with benefits up to $1,000 of monthly income beginning after 30 days of continuous disability. Policies are available on a list bill and/or payroll deduction, as well as on an individual basis. During 1994, a new type of disability product with larger benefits was designed for utilization in the payroll market. The dual disability product transforms at age 65 to the short-term care product at reduced rates. Disability products cover both sickness and accident. The dual disability benefits range from 6 months to age 65; additional benefit periods include 1 year, 2 years, and 5 years with elimination periods of 30, 60, 90, 180, and 360 days.

Group Term Life. New term products will be used with group underwriting in the payroll deduction program, including yearly renewable term and 10-year term.

Mass Market Life. Prior to 1984, the Company actively marketed, through extensive newspaper and radio advertising, guaranteed issue life policies to persons aged 40 through 80, subject to maximum policy limits paying from $20,100 at age 40 to $3,420 at age 80. The Company presently receives approximately $1.1 million of annualized premiums from existing policyholders who subscribed to the mass marketed life policies.

Georgia Casualty

Georgia Casualty is a property-casualty insurance company engaged in the sale of specific lines of commercial insurance. Georgia Casualty focuses much of its marketing efforts on the workers' compensation insurance line. However, as part of a diversification plan, the company altered the industries it targets; as a result, significant premium volume is written in other commercial lines. Specifically, Georgia Casualty now has a significant book of business in manufacturing industries where the cause of loss is more easily identified and corrective actions are implemented through loss control programs, safety plans, drug-free workplaces, re-employment drug testing and various other programs. Georgia Casualty also provides a significant volume of coverage for service type industries and artisan contractors. Georgia Casualty no longer issues policies in high risk industries and in certain geographic areas where the regulatory and legal environment is less favorable to casualty insurers. In 1996, the company issued new policies to customers in the wood products industry for the first time since 1991, doing so only through selected agencies. The company was highly selective in renewing existing accounts in that industry by focusing only on insureds with stringent safety and loss control standards. Although Georgia Casualty writes some monoline accounts, the company makes every effort to provide each insured with a full range of coverages including workers' compensation, business automobile, general liability and property insurance coverage. In addition, Georgia Casualty provides a commercial umbrella policy for limits up to $5,000,000.

Georgia Casualty's premium rates are determined in accordance with the factors promulgated by the National Council on Compensation Insurance and by the Insurance Services Office. In most cases, loss cost multipliers, which are modified by Georgia Casualty to reflect its own loss experience, and cost expense factors are used to produce a final premium rate.

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

	Year Ended December 31, (in thousands)				
	1996	1995	1994	1993	1992
Workers' Compensation	$ 13,826	$ 14,954	$ 11,958	$ 9,890	$ 8,640
Business Automobile	2,550	1,436	1,054	953	974
General Liability	1,152	1,025	1,065	1,180	1,842
Property	1,269	887	574	801	362
Total Property-Casualty	$ 18,797	$ 18,302	$ 14,651	$ 12,824	$ 11,818

Workers' Compensation. Georgia Casualty offers workers' compensation insurance policies that provide indemnity and medical benefits to insured workers for injuries sustained in the course of their employment. All other lines of business primarily are written in connection with workers' compensation.

Business Automobile. Georgia Casualty offers a business automobile policy which provides for bodily injury or property damage liability coverage, uninsured motorists coverage, and physical damage coverage.

General Liability. Georgia Casualty offers general liability policies covering bodily injury and property damage liability for both premises and completed operations exposures for general classes of business.

Property. Georgia Casualty offers property insurance policies for payment of losses on real and personal property caused by fire and other multiple perils.

Georgia Casualty concentrated its efforts in those states and industries which management believes offer the greatest opportunity for return on equity. Specifically, Georgia

Casualty is concentrating its efforts for new business in the states of Georgia and Mississippi, which offer the greatest opportunity for future growth. In prior years, the workers' compensation line was subject to large assessments in most states from the National Council on Compensation Insurance for the Residual Market Reinsurance Pool. This was particularly true in the states of Alabama, Louisiana and Florida where Georgia Casualty elected to discontinue writing all workers' compensation exposures. The last voluntary insurance policies in these three states expired in 1995.

During 1992, Georgia Casualty entered into agreements with the states of Florida, South Carolina, Tennessee and Texas to limit writings to a specified amount or voluntarily discontinue writing. In 1996, this restriction to limit writings in South Carolina was withdrawn, and Georgia Casualty may now commence writing business again in that state. At the end of 1993, the company elected to discontinue writing any business in the state of Alabama effective March 1, 1994, due to the legal environment in the state.

American Southern

American Southern is a multiple-line property and casualty insurance company primarily engaged in the sale of automobile insurance. American Southern specializes in block accounts, such as states and municipalities, which are sufficiently large to establish separate class experience.

American Southern is licensed in 18 states in the Southeast and Midwest to write all forms of property and casualty insurance except workers' compensation. It is authorized to write business on a surplus line basis in seven additional states. During the past five years, American Southern derived at least 85% of its premium revenue from auto liability and auto physical damage coverage. However, due to recent competitive declines in physical damage pricing, American Southern has been focusing on auto liability coverage.

The following table summarizes 1996 premiums by product line:

	Year Ended December 31, 1996 (in thousands)
Automobile Physical Damage...	$ 4,865
Automobile Liability.........	30,889
General Liability............	1,947
Property.....................	3,461
Surety.......................	88
Total....................	$ 41,250

Marketing

Life Companies. The Life Companies' policies are marketed by commissioned, independent agents. In general, the Life Companies enter into 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 notice. General agents receive an override commission on sales made by agents associated with them.

The Life Companies believe 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 commission basis, administered by the Life Companies. Using independent agents also enables the Life Companies to expand their sales forces at any time without significant additional expense.

The number of independent agents varied from approximately 2,700 in 1983 to approximately 12,000 in 1987 and approximately 2,500 presently. This decline is the result of a more selective agent selection process established in 1988. During 1993, emphasis was placed on recruiting more independent agents who would write life insurance and other lines of business directly with the Life Companies. The agents concentrate their sales activities in either the accident and health or life insurance product lines. A majority of the agents concentrated on marketing supplemental health insurance policies prior to 1993. Beginning in 1993, emphasis was placed on marketing the new expanded senior citizen life product portfolio; as a result, the senior citizen life product sales were a large part of the sales increase for the Life Companies. During 1996, a total of 1,105 agents wrote policies on behalf of the Life Companies, and 22% of those agents accounted for 81% of the Life Companies' annualized premium.

Products of the Life Companies compete directly with products offered by other insurance companies, as agents may represent several insurance companies. The Life Companies, in an endeavor to motivate agents to market their products, offer the following agency services: a unique lead system, competitive products and commission structures, efficient claims service, prompt payment of commissions, simplified policy issue procedures, annual sales incentive programs, and in some cases protected sales territories consisting of counties and/or zip codes. From 1990 through 1996, several new marketing programs such as education and retirement funding, packaged marketing, and payroll deduction were implemented to promote the sales of updated policies offered by the Life Companies. Management believes that sales of those products will produce greater life insurance premium growth because they better meet the needs of the insureds. Additionally, the Life Companies have a combined staff of 16 employees whose primary function is to facilitate the activities of the agents and to act as liaisons between the agents and the Life Companies.

A distribution sales system was implemented with the introduction of the Life Companies' Senior Security Series whole life plans. This distribution system is centered around a lead generation plan that rewards qualified agents with direct mail leads in accordance with monthly production requirements. 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 populace of 12,000. To allow for the expense of lead generation, commissions were lowered on the Life Companies' senior citizen life plans. In addition, the Life Companies recruit at a general agent level rather than at a managing general agent level in an effort to reduce commission expenses further. The Life Companies' domicile state of Georgia was used as a test market for this new distribution and lead generation system. The results were above expectations and distribution is expanding to include all states in which the Life Companies are approved.

This distribution system solves an agent's most important dilemma -- prospecting -- and allows the company to build a long-term relationship with individual producers who view the Life Companies as their primary company. In addition, the Life Companies' product line is less sensitive to competitor pricing and commissions because of the perceived value of the protected area and the lead generation plan. The company believes life sales will increase through this distribution channel because of the need for agents to place all of their business with the company in order to obtain the maximum number of leads. Through this distribution channel, production per agent contracted increased substantially when compared to the Life Companies' general brokerage division.

Georgia Casualty. Georgia Casualty's marketing efforts are directed by two marketing representatives for the states of Georgia and Mississippi. These representatives work with agents in the sale and distribution of Georgia Casualty's insurance products. Marketing efforts are complemented by the underwriting, loss control, and audit staffs which are available to assist agents in the presentation of all insurance products and services to their insureds.

Georgia Casualty operates through a field force of 72 independent agencies. 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 notice. Georgia Casualty also offers a profit-sharing arrangement to its highest performing agents that allows agents to earn additional commissions when specific loss experience and premium growth goals are achieved. Currently, 54 agencies participate in the profit-sharing arrangement.

American Southern. American Southern's business is marketed through independent agents. The premium on some of the larger accounts is adjusted based on each account's loss ratio. American Southern's auto physical damage business consists primarily of long-haul physical damage insurance produced by agents specializing in trucking insurance. These accounts are subject to retrospective commission agreements which provide that a portion of the commission paid to the agent is determined by the profitability of the business produced.

Underwriting

Life Companies. The Life Companies issue life insurance policies with face amounts of no less than $1,000. Life policies, excluding Senior Citizen Market Life products, are issued without 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 1996 were derived from life insurance written below the Life Companies' medical limits. For the senior market, the Life Companies issue 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. The Life Companies retain a maximum amount of $50,000 with respect to an individual life (see "Reinsurance").

The Life Companies use collective underwriting practices. Applications for insurance are reviewed to determine any additional information required to make an underwriting decision, depending on the amount of insurance applied for and the applicant's age and medical history. Such additional information may include the "Medical Information Bureau Report"; medical examinations; statements from doctors who treated the applicant in the past; and, where indicated, special medical tests. If deemed necessary, the Life Companies use investigative services to supplement and substantiate information. For certain limited coverages, the Life Companies 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.

Georgia Casualty. During recent years, Georgia Casualty concentrated its underwriting efforts only in states with reasonable probability of profit. These efforts are showing very positive results. Also, the company developed a team approach to underwriting with respect to both new submissions and renewal policies. The new submission team generally includes agents, underwriting staff, loss control staff, the claims staff, and the accounting department. By receiving active input from each of these departments, the company improved its underwriting risk. Georgia Casualty also uses the team approach in renewal reviews. All accounts are reviewed by underwriting, loss control, accounting, and claims personnel. All individuals with first-hand information regarding an account are invited to share their information with the group. The results of these changes are seen in the improvement in underwriting profit.

During the course of the policy year, extensive use is made of loss control representatives to assist underwriters in identifying and correcting potential loss exposures. 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, altering or declining to renew accounts at expiration, and/or terminating agencies with an unprofitable book of business.

Until September 30, 1991, Georgia Casualty was a member of the National Workers' Compensation Reinsurance Pool, a national reinsurance fund for policies allocated to insurers under various states' workers' compensation assigned risk laws for companies that cannot otherwise obtain coverage. Losses sustained by the pool are allocated to participating members. In September 1991, Georgia Casualty was asked to collateralize that liability to the pool but declined and withdrew from the pool.

On December 30, 1994, Georgia Casualty reached an agreement with the National Council on Compensation Insurance, Inc. (NCCI) to settle workers' compensation liabilities with the workers' compensation pool. This settlement released $13.7 million in workers' compensation pool reserves from the balance sheet and provided a one-time reduction of $4.8 million in the loss provision in the statement of operations. The credit received in 1994 represented the income effect for accident years 1991 and prior. The settlement had no impact on earnings in either 1995 or 1996.

Since September 1991, Georgia Casualty has been a direct assignment carrier in Georgia and is assigned direct workers' compensation policies from the state rather than participating in the National Workers' Compensation Reinsurance Pool. Georgia Casualty has 263 direct assignment workers' compensation policies in force with a total net earned premium of $2.5 million in 1996. The loss experience on the direct assignment business is significantly better than the loss experience on policies that the company was assigned through the National Workers' Compensation Reinsurance Pool.

American Southern. American Southern specializes in the handling of block accounts such as states and municipalities which are sufficiently large to establish separate class experience. All of American Southern's business is marketed through independent agents. The premium on the larger accounts is adjusted based on each account's loss ratio. American Southern's auto physical damage business consists primarily of long haul physical damage insurance produced by agents specializing in insurance for truckers. These accounts are subject to retrospective commission agreements which provide that a portion of the commission paid to the agent is determined by the profitability of the business produced.

Operating Results

The following table sets forth, on a statutory basis, the incurred losses and loss ratios for the Company's Accident & Health insurance lines and the incurred loss and expense ratios and combined ratios for the Company's casualty business during the past five years:

	Year Ended December 31,				
	1996	1995	1994	1993	1992
	(dollars in thousands)				
Accident and Health Insurance					
MEDICARE SUPPLEMENT:					
Incurred losses	$ 7,136	$ 6,688	$ 7,582	$ 8,284	$10,403
Loss ratio	61.73%	57.6%	57.8%	56.6%	61.8%
CONVALESCENT CARE:					
Incurred losses	$ 710	$ 1,393	$ 1,486	$ 1,861	$ 2,404
Loss ratio	74.33%	121.0%	110.3%	121.3%	124.8%
MEDICAL SURGICAL:					
Incurred losses	$ 187	$ 148	$ 170	$ 279	$ 408
Loss ratio	116.59%	78.8%	61.4%	84.2%	81.0%
CANCER:					
Incurred losses	$ 599	$ 714	$ 885	$ 1,035	$ 1,218
Loss ratio	30.20%	32.9%	37.0%	39.1%	41.4%
HOSPITAL INDEMNITY					
Incurred losses	$ 54	$ 171	$ 206	$ 215	$ 266
Loss ratio	41.46%	52.9%	51.4%	65.8%	48.5%
ACCIDENT EXPENSE:					
Incurred losses	$ 165	$ 173	$ 526	$ 622	$ 1,204
Loss ratio	24.40%	21.9%	58.9%	62.7%	99.7%
DISABILITY INCOME:					
Incurred losses	$ 37	$ 72	$ 84	$ 90	$ 39
Loss ratio	30.21%	50.7%	53.2%	58.5%	26.2%
TOTAL ACCIDENT AND HEALTH:					
Incurred losses	$ 8,888	$ 9,359	$10,939	$12,386	$15,942
Loss ratio	57.02%	57.2%	58.9%	59.6%	66.1%
Property and Casualty (1)					
WORKERS' COMPENSATION:					
Incurred losses	$ 9,117	$12,152	$ 4,884	$ 8,709	$13,606
Loss ratio	65.95%	81.3%	41.7%	88.6%	145.9%
BUSINESS AUTOMOBILE:					
Incurred losses	$28,088	$ 1,373	$ 737	$ 250	$ 576
Loss ratio	73.38	95.6%	70.0%	26.2%	59.1%
GENERAL LIABILITY:					
Incurred losses	$ 1,618	$(1,177)(2)	$ 1,431	$ 1,015	$ 1,054
Loss ratio	50.8%	-	134.5%	86.0%	57.2%
PROPERTY:					
Incurred losses	$ 2,215	$ 573	$ 275	$ 227	$ 359
Loss ratio	46.8%	64.6%	47.2%	33.4%	134.8%
TOTAL PROPERTY AND CASUALTY:					
Incurred losses	$41,038	$12,921	$ 7,327	$10,201	$15,595
Loss ratio	68.31%	70.6%	50.9%	79.5%	123.5%
Expense ratio	27.49%	30.6%	29.8%	33.1%	32.3%
Combined ratio	95.80%	102.4%	114.0%	112.6%	155.8%

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(1) Includes American Southern for 1996 only.
(2) Includes adjustment to reallocate reserves to workers' compensation.

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

Premiums to Surplus Ratio

The following table shows the statutory ratios of net premiums earned to statutory capital and surplus for Georgia Casualty. Guidelines established by the NAIC provide that this ratio for property and casualty insurance companies should not be greater than 300% (see "NAIC Ratios").

	Year ended December 31,				
	1996	1995	1994	1993	1992
		(dollars in thousands)			
Georgia Casualty					
Net premiums earned............	$18,797	$18,302	$14,651	$12,824	$11,818
Statutory capital and surplus......................	$13,616	$11,687	$ 9,663	$ 5,740	$ 5,293
Premiums to surplus ratio......	138%	157%	152%	223%	223%

NAIC Ratios

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.

Life Companies. For the year ended December 31, 1996, Atlantic American Life and Bankers Fidelity Life were within the NAIC "usual" range in all 13 financial ratios.

Georgia Casualty. For the year ended December 31, 1996, Georgia Casualty was outside the NAIC "usual" range for only one ratio - the estimated current reserve deficiency to surplus ratio.

American Southern. For the year ended December 31, 1996, American Southern was within the NAIC "usual" range in all 13 financial ratios.

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, 1996, all of the Company's insurance subsidiaries exceeded the RBC regulatory levels.

Policyholder Services and Claims

The Company believes that prompt, efficient policyholder services are essential to its continued success in marketing its insurance products (see "Competition"). Additionally, the Company believes that persons to whom the Company markets its insurance products are particularly sensitive to claim processing time and to the accessibility of insurers to answer inquiries. Accordingly, the Company's policyholder and claims services include expeditious disposition of service requests by providing toll-free home office telephone numbers to all customers. In 1996, the Company augmented its telephone support system by installing a state-of-the-art automatic call distribution enhancement. Inbound calls to customer service support groups are now processed more efficiently. Operational data generated from this system allows management to further refine ongoing client service programs and service representative training modules.

During 1995 and 1996, the Company completed the installation of and conversion to a new AS400 client server system. All department representatives were trained to perform their respective responsibilities in maintaining and building the Company's client database. As a result of improved system software efficiency, the Company significantly increased responsiveness to its clients and agents.

In 1995, a Customer Awareness Program was implemented company-wide and became the basis for the Company's customer service philosophy. All personnel were required to attend customer service classes. Hours were expanded in all service areas in the first quarter of 1995 to serve customers and agents in other time zones.

Life Companies. While the computer software system was being implemented, several other changes were taking place within the Life Companies. A new department was established in the second quarter of 1994 to ensure that agents receive prompt service. This allows the marketing team to concentrate on building production and achieving the Life Companies' production goals. The claims department for the Life Companies consists of approximately 16 people located at the Company's home office in Atlanta. Insureds obtain claim forms by calling the claims department customer service group. To shorten claim processing time, a letter detailing all support 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 the Life Companies' claims system when the proper documentation is received. The computerized claims system was enhanced to enable the Life Companies to pay all properly documented claims within three to nine business days of receipt. During 1996, the Life Companies paid approximately 102,000 claims aggregating $14.0 million, of which approximately 97,000 claims aggregating $7.2 million were for Medicare supplement insurance. The total amount of claims paid represented approximately 51.5% of total accident and health and life earned premium revenue, and Medicare supplement claims paid represented 27.6% of total accident and health and life earned premium revenue. The Life Companies continually monitor their claims backlog and implement appropriate corrective action to maintain an average five-day payment period.

Georgia Casualty. In 1996, Georgia Casualty completed implementation of a new property-casualty software package that should enable the company to streamline and reduce underwriting expenses in 1997 although no impact of the new system was recognized in 1996. Efficiency and productivity should improve with the new computer system, lowering operating expenses and the combined ratio in 1997. Additionally, the company positioned itself to provide strong customer service to its policyholders in 1997 by increased staffing in its underwriting department. The claims department of Georgia Casualty consists of 16 people located at the home office in Atlanta. Georgia Casualty controls its claims costs by utilizing an in-house staff of adjusters 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 to determine whether an insurable event has occurred and, if so, records the claim. This process usually occurs within 7 days of notification of the claim. Where appropriate, the company utilizes independent adjusters and appraisers to service claims which require on-site inspections. Georgia Casualty believes that its prompt claims service provides a favorable basis for competition.

In 1994, Georgia Casualty implemented a new loss prevention and rehabilitation service called Early Case Management. This program proved to be a sound strategy in reducing insurance claim costs for the employers and insurance company and in providing better medical treatment for the injured employee. In 1995 and 1996, the claims department was increased by three case managers who are responsible for administration of the case management program.

American Southern. American Southern controls its claims costs by utilizing its 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. American Southern frequently utilizes independent adjusters and appraisers to service claims which require on-site inspections.

Reserves

The following table sets forth information concerning the Company's losses and claims and LAE reserves for the periods indicated:

	1996	1995
Balance at January 1	$79,514	$40,730
Less: Reinsurance recoverables	(22,467)	(12,334)
Net balance at January 1	57,047	28,396
Incurred related to:		
Current year	57,481	17,017
Prior years	(4,802)	5,364
Total incurred	52,679	22,381
Paid related to:		
Current year	28,279	13,743
Prior years	24,227	8,398
Total paid	52,506	22,141
Reserves acquired due to acquisition, net	-	28,411
Net balance at December 31	57,220	57,047
Plus: Reinsurance recoverables	26,854	11,893
Reinsurance recoverables acquired due to acquisition	-	10,574
Balance at December 31	$84,074	$79,514

Life Companies. The Life Companies establish 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, 1996).

Casualty Division. The Casualty Division maintains loss reserves representing estimates of amounts necessary for payment of losses and loss adjustment expenses (LAE). Loss and LAE reserves are annually reviewed by qualified independent actuaries. The Casualty Division also maintains incurred but not reported reserves (INBR) 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. 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 Division provides insurance benefits on casualty 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 loss adjustment expenses. 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 are known. Some of the major assumptions about anticipated loss emergence patterns have changed in the last few years.

The following table sets forth the development of balance sheet reserves for unpaid losses and LAE for the Casualty Division's insurance lines ("long-tail" lines) for 1986 through 1996. This table does not present development data on an accident or policy year basis. 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, 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 deficiency" for each year represents the aggregate change in such year's estimates through the end of 1996. In evaluating this information, it should be noted that the amount of the 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 statutory 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,										
	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986
Reserve for losses and LAE	$53,496	$53,320	$50,154	$48,031	$48,485	$50,808	$52,668	$47,819(1)	$ 39,036	$ 35,770	$ 28,848
Cumulative paid as of:											
One year later.....		17,865	16,548	18,106	18,827	22,060	22,837	21,321	21,592	20,812	16,948
Two years later....			25,280	25,914	27,731	32,560	35,278	33,507	32,352	32,975	27,743
Three years later..				31,021	36,786	38,046	40,768	40,891	39,832	39,168	34,657
Four years later...					40,295	41,872	44,267	43,745	43,713	43,249	38,163
Five years later...						44,530	47,204	46,183	45,767	46,004	40,938
Six years later....							49,000	48,056	47,880	47,727	42,412
Seven years later..								49,835	49,674	49,671	43,750
Eight years later..									51,288	50,987	45,284
Nine years later...										52,363	46,202
Ten years later....											47,433
Ultimate losses and LAE reestimated as of:											
End of Year........	$53,496	$53,320	$50,154	$48,031	$48,485	$50,808	$52,668	$47,819(1)	$ 39,036	$ 35,770	$ 28,848
One year later.....		49,799	46,249	47,021	46,756	53,700	53,676	53,212	47,314	40,990	33,083
Two years later....			44,850	44,043	45,999	52,670	55,919	54,438	53,998	49,569	39,413
Three years later..				45,568	48,446	53,040	55,865	56,064	55,313	55,752	46,596
Four years later...					53,064	52,326	56,514	55,707	56,255	55,511	51,852
Five years later...						56,771	56,648	56,579	56,403	56,408	51,184
Six years later....							60,515	56,984	57,446	56,868	51,694
Seven years later..								60,641	58,142	57,901	52,089
Eight years later..									60,791	58,626	52,972
Nine years later...										61,391	53,339
Ten years later....											55,241
Cumulative deficiency.........		$ 3,521	$ 5,304	$ 2,463	$(4,579)	$(5,963)	$(7,847)	$(12,822)	$(21,755)	$(25,621)	$(26,393)

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

Reinsurance

The insurance subsidiaries purchase reinsurance from unaffiliated insurers and reinsurers to reduce 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 written by it to another insurer. 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. American Southern is currently the only subsidiary of the Company that assumes reinsurance.

Life Companies. The Life Companies entered into reinsurance contracts ceding the excess of their retention to several primary reinsurers. Maximum retention by the Life Companies on any one individual in the case of life insurance policies is $50,000. At December 31, 1996, the Life Companies' reinsured premiums totaled $10.0 million of the $288.0 million of life insurance then in force, generally under yearly renewable term agreements. Two companies accounted for the $10.0 million of reinsurance: Munich American Reassurance Company ($7.0 million) and Optimum Reinsurance ($3.0 million). Certain reinsurance agreements no longer active for new business remain in-force to cover any claims on a run-off basis.

Georgia Casualty. Georgia Casualty continues to strengthen and improve its reinsurance program. There are currently in place treaties which apply to all casualty lines of business. Georgia Casualty's basic treaties cover all casualty claims in excess of $200,000 per person per occurrence, up to $5.0 million. These basic treaties are supplemented with additional per person treaties up to $5.0 million per person and additional catastrophe treaties for workers' compensation to a maximum of $50.0 million for any one occurrence. The property lines of coverage are protected with an excess of loss treaty which affords recovery for property losses in excess of $100,000 up to a maximum of $2.0 million. Facultative arrangements are in place for property accounts with limits in excess of $3.0 million per risk.

Of the $11.8 million of net reinsurance recoverable on unpaid losses by Georgia Casualty at December 31, 1996, First Colony Life Insurance Company accounted for $3.6 million, Lloyds of London and other London based companies accounted for $1.0 million, and Pennsylvania Manufacturer's Associated Insurance Company accounted for $2.9 million. A number of reinsurance companies, both domestic and foreign, account for the balance.

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 maintained as follows: for fire, inland marine, and commercial automobile physical damage, recovery of losses over $30,000 up to $100,000. Net retentions for third party losses are generally over $30,000 up to $100,000. Catastrophe coverage for all lines except third party liability is for 95% of $6.6 million over $400,000.

American Southern acts as a reinsurer with respect to all of the risks associated with certain automobile policies issued by a state administrative agency naming the state and various local governmental entities as insureds. Premiums written from such policies constituted between 38% and 32% of American Southern's gross premiums written in 1992 through 1996. Management believes that its relationship with such agency is good; however, the loss of such agency as a customer could have a material adverse effect on the business or financial condition of the company.

Premiums assumed of $25.8 million include a state contract for premiums of $15.4 million (17.9% of total earned premiums). The contract had a five- year term at inception and was renewed for a second five-year term that will expire January 31, 1998. The company has no assurance that the contract will be renewed for a third term. However, the company's ten-year experience in servicing this business provides an advantage that could affect renewal.

Competition

Life Companies. The life insurance business is highly competitive and includes a large number of insurance companies, many of which have substantially greater financial resources and larger, more experienced staffs than the Life Companies. The Life Companies believe 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. The Life Companies compete with other insurers on the basis of premium rates, policy benefits, and service to policyholders. The Life Companies also compete 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. The Life Companies believe they compete effectively on the basis of policy benefits, services, and market expertise. The final implementation of the AS400 computer network system greatly improved the company's ability to service its customers and thereby improved its ability to compete.

Georgia Casualty. The property and casualty insurance business is highly competitive in all lines. Georgia Casualty's 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 workers' compensation accounts. Georgia Casualty's efforts are directed in the following three general categories where the company has a reasonable chance of controlling exposures and claims: 1) manufacturing, 2) artisan contractors, and 3) service industries. Georgia Casualty's keys to being competitive in these areas are writing workers' compensation coverages as part of the total insurance package, a loyal network of agents and development of new agents in key territories, offering quality customer service to our agents and insureds, and providing loss control and claims management services to insureds. Georgia Casualty believes that it will continue to be competitive in the marketplace based on its current strategies and services.

American Southern. All of 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.

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.

Life Companies. Both of the Life Companies received upgrades from A.M. Best in both 1993 and 1994 after giving consideration to improvements in financial strength and other items. Bankers Fidelity Life and Atlantic American Life obtained ratings of "B-" (Good) in 1994. In 1996, a B+ rating was attained due to continued improvements in operations.

Georgia Casualty. In early 1997, Georgia Casualty received a Best's rating of B+ (Very Good). Georgia Casualty's statutory earnings increased by $567,382, or 38.7%, in 1996 compared to 1995, which was an outstanding achievement considering the soft competitive insurance market in 1996. The surplus position of the company improved significantly in 1996 due to strong earnings and improvements in market conditions of the equity market. These conditions, along with a combined ratio of 100.3%, resulted in the improved rating.

American Southern. American Southern and its wholly-owned subsidiary, American Safety Insurance Company, are each currently rated "A-" by A.M. Best. These ratings were assigned in early 1996 and were based on statutory results through 1995. American Southern and its wholly-owned subsidiary previously had ratings of "A+ (Superior)" but were down-graded due to the Company's acquisition of American Southern.

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 accident and health coverages 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, 1996, $13.6 million of securities were on deposit either directly with various state authorities or with third parties pursuant to various custodial agreements on behalf of the Life Companies and Casualty Companies.

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 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.

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 (which includes information on American Southern only for 1996 and 1995) provides information on the Company's investments as of the dates indicated.

	December 31, 1996 Amount	1996 Percent	1995 Amount	1995 Percent	1994 Amount	1994 Percent
	(Dollars in thousands)					
Fixed maturities:						
Bonds:						
U.S. Government, agencies and authorities..........	$ 73,097	39.7%	$ 71,549	39.6%	$29,017	29.3%
States, municipalities and political subdivisions...	3,496	1.9	21,947	12.2	3,465	3.5
Public utilities..........	1,505	.8	4,110	2.3	3,780	3.8
Convertibles and bonds with warrants attached...	1,275	.7	1,188	.7	1,088	1.1
All other corp. bonds.....	11,562	6.3	12,829	7.1	12,680	12.8
Certificates of deposit...	375	.2	1,690	.9	1,445	1.6
Total fixed maturities(1)	91,310	49.6	113,313	62.85	1,475	52.1
Common and preferred stocks (2).................	37,762	20.5	42,116	23.3	29,571	29.9
Mortgage, policy and student loans (5).........	13,367	7.3	12,642	7.0	14,277	14.4
Investments in limited partnerships (4)...........	-	-	-	-	1,047	1.1
Real estate.................	46	NIL	46	NIL	46	NIL
Short-term investments (3)..	41,614	22.6	12,498	6.9	2,498	2.5
Total investments......	$184,099	100.0%	$180,615	100.0%	$98,914	100.0%

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(1) Fixed maturities are carried on the balance sheet at market value. Total cost of fixed maturities was $91.6 million as of December 31, 1996, $112.9 million as of December 31, 1995, and $52.9 million at December 31, 1994.

(2) Equity securities are valued at market. Total cost of equity securities was $19.7 million as of December 31, 1996, $26.9 million at December 31, 1995, and $22.4 million at December 31, 1994.

(3) Short-term investments are valued at cost, which approximates market value.

(4) Investments in limited partnerships are valued at cost.

(5) Mortgage loans and policy and student loans are valued at cost.

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

	Year Ended December 31, 1996	1995	1994
	(Dollars in thousands)		
Average investments(1)	$180,816	$106,645	$106,549
Net investment income	11,005	6,142	6,163
Average yield on investments	6.1%	5.7%	5.8%
Realized investment gains, net	$ 1,589	$ 1,731	$ 870

(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. The calculations for 1995 and 1994 do not include American Southern's investment portfolio.

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, 1996 employed 176 people.

Services Provided to Subsidiaries

The Parent provides investment, data processing, personnel, administrative, insurance, and accounting services to all of its insurance subsidiaries except American Southern. In addition, all furniture, fixtures, and most equipment is owned by the Parent Company and leased to the insurance subsidiaries except American Southern. Investment services include continuous yield analysis of the subsidiaries' investment portfolios. Data processing services include utilization of hardware and software and support systems to process and adjudicate claims and maintain historical data for all policies written by any of the insurance subsidiaries. Personnel services consist of hiring, training, and administering benefit programs for approximately 140 employees. Insurance services entail billing for group plan and general insurance. Administrative and accounting services entail supplying adequate facilities, accounting, tax, auditing, and cost control records, systems and procedures appropriate to the insurance subsidiaries' operations.

The Parent has management fee arrangements with all of its insurance subsidiaries, except American Southern, regarding investment services and the salaries of certain management personnel. The total of such management fees and service charges billed to the insurance subsidiaries amounted to $5.6 million in 1996 and 1995 and $5.4 million in 1994. While management believes the fees and charges are fair and reasonable, there can be no assurance that regulatory authorities would not object to the amount of the fees and charges.

Financial Information By Industry Segments

Financial information concerning the Company and its consolidated subsidiaries by industry segment for the three years ended December 31, 1996, is set forth on page 28 of the 1996 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, 1996, (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	73	Chairman of the Board	1974
Hilton H. Howell, Jr.	35	Director, President & CEO	1992
John W. Hancock	59	Senior Vice President and Treasurer	1989

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

Mr. Robinson served as President of the Company from September 1988 until May 1995 and has served as a Director and Chairman of the Board since 1974. He has been Chairman of the Board of Bankers Fidelity Life since 1986 and Chairman of the Board and President of Georgia Casualty since 1988. In addition, Mr. Robinson is Chairman of the Board of Bull Run Corporation; a Director of Gray Communications Systems, Inc.; the General Partner of Gulf Capital Services, Ltd.; Chairman of the Board of Leath Furniture, LLC; and the Chairman and President of Delta Life Insurance Company and Delta Fire & Casualty Insurance Company.

Mr. Howell has been a Director of the Company since October 1992 and President and CEO since May 1995. He served as Executive Vice President of the Company from October 1992 until May 1995. In addition, Mr. Howell has been Executive Vice President and General Counsel of Delta Life Insurance Company since November 1991 and Vice President and Secretary of Bull Run Corporation since November 1994. He is also a Director of Bankers Fidelity Life, Georgia Casualty, Bull Run Corporation, and Gray Communications, Inc. Prior thereto, he was an attorney with Liddell, Sapp, Zivley, Hill and LaBoon from October 1989 to October 1991. Mr. Howell is the son-in-law of Mr. Robinson.

Mr. Hancock has served as Senior Vice President and Treasurer of the Company and each of the Life Companies since November 1993, prior thereto served as Vice President and Treasurer of the Company and each of the Life Companies since April 1989, and prior thereto served as Controller of the Life Companies since March 1988. He is also a Director of Bankers Fidelity Life and Georgia Casualty. Prior to joining the Company in 1988, he was Vice President of Finance with National Consultants, Inc.

ITEM 2. PROPERTIES

Insurance

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, 1996, 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 at 4370 Peachtree Road, N.E., Atlanta, Georgia, from Delta Life Insurance Company and its affiliates, 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 54,637 square feet of office space at an annual base rental plus a pro rata share of all real estate taxes, general maintenance, service expenses, and insurance costs with respect to the office building. Pursuant to such leases, the Company's aggregate annual rental in 1996 (including its pro rata expenses) amounted to approximately $14.65 per square foot, or $957,000. Delta Life Insurance Company, the owner of the building, is controlled by J. Mack Robinson, Chairman of the Board of Directors and principal 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 at 3715 Northside Parkway, Building 400, 8th Floor, Atlanta, Georgia. The lease term expires January 31, 2000. Under the terms of the lease, American Southern occupies approximately 13,746 square feet. American Southern's annual rental payments for 1996 were approximately $14.19 per square foot, or $195,000.

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, 1996.

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 7, 1997, there were 6,730 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
1996		
1st quarter	$3 1/4	$2 1/8
2nd quarter	4	2 3/4
3rd quarter	3 5/8	3
4th quarter	3 5/8	3
1995		
1st quarter	$2 3/4	$2
2nd quarter	2 1/2	2
3rd quarter	2 7/8	1 7/8
4th quarter	3	2 1/8

The Company has not paid dividends 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, 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 insurance subsidiaries had the following accumulated statutory earnings and/or (deficits) as of December 31, 1996: Georgia Casualty - $8.5 million, American Southern - $18.4 million, Atlantic American Life - ($1.4 million), Bankers Fidelity Life - $7.0 million. The Company does not anticipate paying cash dividends on the Common Stock in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

Selected financial data of Atlantic American Corporation and subsidiaries for the five years ended December 31, 1996 is set forth on the inside front cover of the 1996 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 1996 Annual Report to Shareholders and are incorporated herein by reference.

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 1996 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 Company's definitive proxy statement to be delivered in connection with the Company's annual meeting of shareholders to be held May 6, 1996.

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

* The page references so designated refer to page numbers in the 1996 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 1996 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, 1996

III - Supplementary Insurance Information for the three years ended December 31, 1996

IV - Reinsurance for the three years ended December 31, 1996

VI - Supplemental Information concerning property-casualty insurance operations for the three years ended December 31, 1996

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].

4.1 - Indenture between registrant and Wachovia Bank and Trust Company, N.A., Trustee, dated as of pril 1, 1987 relating to the registrant's 8% Convertible Subordinated Notes due May 15, 1997 [incorporated by reference to Exhibit 4.1 to the registrant's Form 10-K for the year ended December 31, 1987].

10.11 - 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].

10.11.1 - 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].

10.11.2 - 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].

10.12 - 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].

10.12.1 - 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].

10.16 - Management Agreement between egistrant 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].

10.17 - Management Services Agreement, dated April 9, 1991, between the registrant and Leath Furniture, Inc. [incorporated by reference to Exhibit 10.17 to the registrant's Form 10-K for the year ended December 31, 1991].

10.17.1 - First Amendment to the Management Services Agreement, dated August 31, 1992, between the registrant and Leath Furniture, Inc. [incorporated by reference to Exhibit 10.17.1. to the registrant's Form 10-K for the year ended December 31, 1992].

10.19* - 1987 Stock Option and Stock Appreciation Right Plan dated November 3, 1987 [incorporated by reference to Exhibit 10.19 to the registrant's Form 10-K for the year ended December 31, 1987].

10.21* - 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].

10.22 - Investment Agreement, dated April 9, 1991, among the registrant, Leath Furniture, Inc. and the Purchasers (as defined therein) [incorporated by reference to Exhibit 10.22 to the registrant's Form 10-K for the year ended December 31, 1991].

10.23 - Convertible Subordinated Promissory Note, dated April 9, 1991, issued in the principal amount of $2,000,000 by Leath Furniture, Inc. in favor of the registrant [incorporated by reference to Exhibit 10.23 to the registrant's Form 10-K for the year ended December 31, 1991].

10.24 - Stockholders Agreement, dated April 9, 1991, among the stockholders of Leath Furniture, Inc. [incorporated by reference to Exhibit 10.24 to the registrant's Form 10-K for the year ended December 31, 1991].

10.25* - Consulting Agreement, dated April 9, 1991, between Samuel E. Hudgins and Leath Furniture, Inc. [incorporated by reference to Exhibit 10.25 to the registrant's Form 10-K for the year ended December 31, 1991].

10.26 - Purchase and Assignment Agreement, dated May 23, 1991, among Leath Furniture, Inc., Modernage Furniture, Inc., Wickes Companies, Inc. and Delta Life Insurance Company [incorporated by reference to Exhibit 10.26 to the registrant's Form 10-K for the year ended December 31, 1991].

10.27 - Term Note, dated January 29, 1988, of Leath Furniture, Inc.in favor of Wickes Companies, Inc. in the principal amount of $3,750,000 and First Amendment to Term Note, dated May 23, 1991 [incorporated by reference to Exhibit 10.27 to the registrant's Form 10-K for the year ended December 31, 1991].

10.29* - Executive Employment and Non-Competition Agreement, dated April 8, 1991, between Leath Furniture, Inc. and Ronald D. Phillips [incorporated by reference to Exhibit 10.29 to the registrant's Form 10-K for the year ended December 31, 1992].

10.30* - Employment Agreement, dated September 8, 1988, between the registrant and John W. Hancock [incorporated by reference to exhibit 10.30 to the registrant's Form 10-K for the year ended December 31, 1992].

10.31* - 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].

10.32 - Loan and Security Agreement dated January 29, 1993, by and between Gulf Capital Services Ltd., Leath Furniture, Inc. and Modernage Furniture, Inc. [incorporated by reference to Exhibit 10.32 to the registrant's Form 10-K for the year ended December 31, 1992].

10.32.1 - First Amendment to Loan and Security Agreement dated December 19, 1994, by and between Gulf Capital Services, Ltd., Leath Furniture, Inc., and Modernage Furniture, Inc. [incorporated by reference to Exhibit 10.32.1 to the registrant's Form 10-K for the year ended December 31, 1994].

10.33 - 8% Promissory notes between registrant and registrant's chairman and his affiliates [incorporated by reference to Exhibit 10.33 to the registrant's Form 10-K for the year ended December 31, 1992].

10.33.1 - Amendment to 8% Promissory Notes, dated March 24, 1993, between registrant and registrant's chairman and his affiliates [incorporated by reference to Exhibit 10.33.1 to the registrant's Form 10-K for the year ended December 31, 1992].

10.34 - 9 1/2% Promissory Notes between registrant and registrant's chairman and his affiliates [incorporated by reference to Exhibit 10.34 to the registrant's Form 10-K for the year ended December 31, 1992].

10.34.1 - Amendment to 9 1/2% Promissory Notes, dated March 24, 1993, between registrant and registrant's chairman and his affiliates [incorporated by reference to Exhibit 10.34.1 to the registrant's Form 10-K for the year ended December 31, 1992].

10.35 - 10% Subordinated notes between registrant and registrant's affiliates [incorporated by reference to Exhibit 10.35 to the registrant's Form 10-K for the year ended December 31, 1992].

10.35.1 - Amendment to 10% Subordinated Notes, dated March 24, 1993, between registrant and registrant's affiliates [incorporated by reference to Exhibit 10.35.1 to the registrant's Form 10-K for the year ended December 31, 1992].

10.36 - 9% Promissory notes between Leath Furniture, Inc. and registrant's chairman and his affiliates [incorporated by reference to Exhibit 10.36 to the registrant's Form 10-K for the year ended December 31, 1992].

10.37 - 10% Promissory notes between Leath Furniture, Inc. and registrant's chairman and his affiliates [incorporated by reference to Exhibit 10.37 to the registrant's Form 10-K for the year ended December 31, 1992].

10.38 - 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 theregistrant's Form 10-K for the year ended December 31, 1992].

10.38.1 - 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].

10.39 - 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].

10.41 - 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].

10.42 - 8% Promissory Notes dated September 29, 1993, between registrant and registrant's affiliates [incorporated by reference to Exhibit 10.42 in the Registrant's Form 10-Q for the quarter ended September 30, 1993].

10.43 - 8% Promissory Notes dated November 3, 1993, between registrant and registrant's affiliates [incorporated by reference to Exhibit 10.43 to the registrant's Form 10-K for the year ended December 31, 1993].

10.44 - 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].

10.45 - Amendment to the Promissory Notes dated March 23, 1994, [incorporated by reference to Exhibit 10.4 5 to the Registrant's Form 10-K for the year ended December 31, 1993].

10.45.1 - Second Amendment to the Promissory Notes dated March 27, 1995, [incorporated by reference to Exhibit 10.45.1 to the registrant's Form 10-K for the year ended December 31, 1994].

10.46 - 9% Promissory Note dated December 16, 1994, between registrant and registrant's ffiliate [incorporated by reference to Exhibit 10.46 to the registrant's Form 10-K for the year ended December 31, 1994].

10.47 - 9% Promissory Note dated December 29, 1994, between registrant and registrant's affiliate [incorporated by reference to Exhibit 10.47 to the registrant's Form 10-K for the year ended December 31, 1994].

10.48 - 9% Promissory Note dated December 30, 1994, between registrant and registrant's affiliate [incorporated by reference to Exhibit 10.48 to the registrant's Form 10-K for the year ended December 31, 1994].

10.49 - Prime plus 1% Promissory Note dated June 28, 1994, between Leath Furniture, Inc. and registrant's Chairman [incorporated by reference to Exhibit 10.49 to the registrant's Form 10-K for the year ended December 31, 1994].

10.50 - Prime plus 1-1/2% Promissory Note d ated January 23, 1995, between Leath Furniture, Inc. and registrant's Chairman [incorporated by reference to Exhibit 10.50 to the registrant's Form 10-K for the year ended December 31, 1994].

10.51 - 9% Promissory Note dated February 3, 1995, between Leath Furniture, Inc. and registrant's Chairman [incorporated by reference to Exhibit 10.51 to the registrant's Form 10-K for the year ended December 31, 1994].

10.52 - Prime plus 1% Promissory Note dated December 19, 1994, between registrant and registrant's affiliate [incorporated by reference to Exhibit 10.52 to the registrant's Form 10-K for the year ended December 31, 1994].

10.53 - Certificate of designations of Series A Convertible Preferred Stock of Leath Furniture, Inc. dated December 16, 1994 [incorporated by reference to Exhibit 10.53 to the registrant's Form 10-K for the year ended December 31, 1994].

10.54 - Stock Purchase Agreements by and between registrant and Fuqua Enterprises, Inc. dated as of October 16, 1995 [incorporated by reference to Exhibit 2.1 to the registrant's Form 8-K, filed January 12, 1996].

10.55 - 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, 1996, that are specifically incorporated by reference herein.

21.1 - Subsidiaries of the registrant.

23.1 - Consent of 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].

29.1.1 - Schedule P from American Safety Insurance Company annual statement for year ended December 31, 1996 (submitted in paper format under cover of Form SE).

29.1.2 - Schedule P from American Southern Insurance Company annual statement for year ended December 31, 1996 (submitted in paper format under cover of Form SE).

29.1.3 - Schedule P from Georgia Casualty & Surety Company annual statement for year ended December 31, 1996 (submitted in paper format under cover of Form SE).

(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/

John W. Hancock
Senior Vice President and Treasurer

Date: March 27, 1997

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 27, 1997
/s/ HILTON H. HOWELL, JR.	President, Chief Executive Officer and Director (Principal Executive Officer)	March 27, 1997
/s/ JOHN W. HANCOCK	Senior Vice President and Treasurer (Principal Financial Officer)	March 27, 1997
/s/ SAMUEL E. HUDGINS	Director	March 27, 1997
/s/ D. RAYMOND RIDDLE	Director	March 27, 1997
/s/ HARRIETT J. ROBINSON	Director	March 27, 1997
/s/ SCOTT G. THOMPSON	Director	March 27, 1997
/s/ CHARLES B. WEST	Director	March 27, 1997
/s/ WILLIAM H. WHALEY, M.D.	Director	March 27, 1997
/s/ DOM H. WYANT	Director	March 27, 1997

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders of
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 14, 1997. 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.

ARTHUR ANDERSEN LLP

Atlanta, Georgia
March 14, 1997

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

ATLANTIC AMERICAN CORPORATION
(Parent Company Only)

BALANCE SHEETS
(in thousands)

ASSETS

	December 31, 1996	December 31, 1995
Current assets:		
Cash and short-term investments	$ 382	$ 24
Investment in affiliates:		
Investment in insurance subsidiaries	94,797	90,551
Investment in furniture subsidiary	-	(1,965)
Total investment in affiliated companies	94,797	88,586
Income taxes receivable from subsidiaries	55	1,435
Other assets	2,278	2,541
	$ 97,512	$ 92,586

LIABILITIES AND SHAREHOLDERS' EQUITY

	1996	1995
Current liabilities:		
Notes payable to affiliates	$ 1,058	$ -
Current portion of long-term debt	8,559	13,352
Interest payable	56	527
Other payables	2,076	660
Total current liabilities	11,749	14,539
Income taxes payable to subsidiaries	633	-
Long-term debt	25,994	25,211
Long-term debt payable to affiliates	-	6,358
Shareholders' equity	59,136	46,478
	$ 97,512	$ 92,586

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,		
	1996	1995	1994
REVENUE			
Fees, rentals and interest income from subsidiaries	$ 5,662	$ 5,968	$ 5,952
Distributed earnings from subsidiaries	6,850	2,864	-
Other	94	12	2
Total revenue	12,606	8,844	5,954
GENERAL AND ADMINISTRATIVE EXPENSES	6,073	5,555	5,522
INTEREST EXPENSE	3,292	2,458	1,968
	3,241	831	(1,536)
INCOME TAX PROVISION (BENEFIT)	204	(34)	(1,632)
	3,037	865	96
EQUITY IN UNDISTRIBUTED EARNINGS OF CONSOLIDATED SUBSIDIARIES, NET	4,574	2,253	8,053
Income from continuing operations	7,611	3,118	8,149
(Loss) income from discontinued operations, net	(4,447)	(10,094)	1,121
Income (loss) before extraordinary gain	3,164	(6,976)	9,270
Extraordinary gain	-	-	100
Net income (loss)	$ 3,164	$(6,976)	$ 9,370

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,		
	1996	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 3,164	$ (6,976)	$ 9,370
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	452	379	292
Equity in undistributed earnings of consolidated subsidiaries	(4,574)	(2,253)	(8,053)
Loss (income) from discontinued operations	4,447	10,094	(1,121)
Benefit from deferred taxes	-	-	(1,000)
Change in intercompany taxes	2,013	-	-
Extraordinary gain from extinguishment of debt	-	-	(100)
(Decrease) increase in other liabilities	(262)	(746)	812
Minority interest	-	(554)	205
Other, net	2,528	1,790	(268)
Net cash provided by operating activities	7,768	1,734	137
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment in subsidiaries, net	-	(38)	(2,306)
Proceeds from sale of Leath Furniture, net	3,645	-	-
Acquisition of American Southern Insurance Company	-	(22,770)	-
Additions to property and equipment	(1,177)	(1,058)	(646)
Net cash provided (used) by investing activities	2,468	(23,866)	(2,952)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of notes payable to affiliates	-	-	3,175
Proceeds from issuance of bank financing	11,352	22,642	-
Preferred stock dividends to affiliated shareholders	(315)	(315)	(315)
Purchase of treasury shares	(338)	(174)	-
Retirements and payments of long-term debt and notes payable to affiliates	(20,662)	(675)	-
Proceeds from exercise of stock options	85	600	19
Net cash (used) provided by financing activities	(9,878)	220,078	2,879
Net increase (decrease) in cash	358	(54)	64
Cash at beginning of year	24	78	14
Cash at end of year	$ 382	$ 24	$ 78
Supplemental disclosure:			
Cash paid for interest	$ 3,763	$ 2,894	$ 900
Cash paid for income taxes	$ 116	$ 128	$ 115
Long-term debt, payable to affiliates, converted to preferred stock	$ -	$ 13,400	$ -
Debt to seller for purchase of American Southern Insurance Company	$ -	$ 11,352	$ -

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

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY INSURANCE INFORMATION(1)
(in thousands)

Segment	Deferred Acquisition Costs	Future Policy Benefits, Losses, Claims and Loss Reserves	Unearned Premiums	Other Poicy Claims and Benefits Payable
December 31, 1996:				
A & H..........	$ 2,561	$ 6,924	$ 2,135	$ -
Life...........	9,676	33,686	-	1,912
Casualty.......	2,942	79,849	22,965	1,727
	$15,179	$120,459 (2)	$25,100	$ 3,639
December 31, 1995:				
A & H..........	$ 3,831	$ 8,907	$ 2,222	$ -
Life...........	8,411	32,219	-	1,905
Casualty.......	2,657	74,693	21,918	1,983
	$14,899	$115,819 (3)	$24,140	$ 3,888
December 31, 1994:				
A & H..........	$ 4,594	$ 11,364	$ 2,629	$ -
Life...........	8,521	31,572	-	1,959
Casualty.......	438	35,435	5,111	225
	$13,553	$ 78,371 (4)	$ 7,740	$ 2,184

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(1) Supplementary insurance information contained above includes amounts related to American Southern for December 31, 1995 and 1996.
(2) Includes future policy benefits of $36,385 and losses and claims of $84,074.
(3) Includes future policy benefits of $36,305 and losses and claims of $79,514.
(4) Includes future policy benefits of $37,641 and losses and claims of $40,730.

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY INSURANCE INFORMATION(1)
(in thousands)

Segment	Premium Revenue	Investment Income (Losses)*(2)	Benefits, Claims,Losses and Settlement Expenses	Amortization of Deferred Acquisition Costs	Other Operating Expenses(2)	Casualty Premiums Written
December 31, 1996:						
Life...........	$ 10,240	$ 4,210	$ 6,446	$ 1,449	$ 4,543	$ -
Casualty.......	60,047	7,377	40,245	5,349	13,039	61,068
A & H..........	15,738	1,234	7,590	1,386	7,565	-
Other..........	-	225	-	-	3,644	-
	$ 86,025	$13,046	$54,281	$ 8,184	$28,791	$61,068
December 31, 1995:						
Life...........	$ 8,297	$ 3,941	$ 4,861	$ 1,799	$ 3,546	$ -
Casualty.......	18,302	2,989	12,356	-	6,582	19,074
A & H..........	16,774	1,442	7,472	1,922	7,796	-
Other..........	-	(75)	-	-	2,252	-
	$ 43,373	$ 8,297	$24,689	$ 3,721	$20,176	$19,074
December 31, 1994:						
Life...........	$ 8,111	$ 2,964	$ 5,726	$ 1,387	$ 2,762	$ -
Casualty.......	14,651	2,940	6,513	-	5,198	16,094
A & H..........	18,939	1,523	9,716	1,621	8,026	-
Other..........	-	71	-	-	1,733	-
	$ 41,701	$ 7,498	$21,955	$ 3,008	$17,719	$16,094

* Includes realized investment gains (losses).

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(1) Supplementary insurance information contained above includes amounts related to American Southern for 1996 only.
(2) Investment income is allocated based on the pro rata percentages of insurance reserves and policyholders' funds attributable to each segment whereas other operating expenses are allocated based on premiums collected.

Schedule IV

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
REINSURANCE
(in thousands)

	Gross Amount	Ceded To Other Companies	Assumed From Other Companies	Net Amount
Year ended December 31, 1996:				
Life insurance in force.....	$287,963	$ 10,072	$ -	$277,891
Premiums --				
Life insurance..............	$ 10,305	$ 65	$ -	$ 10,240
Accident and health insurance.................	15,738	-	-	15,738
Property and casualty insurance(1)..............	43,317	9,009	25,739	60,047
Total premiums...........	$ 69,360	$ 9,074	$ 25,739	$ 86,025
Year ended December 31, 1995:				
Life insurance in force.....	$254,349	$ 10,003	$ -	$244,346
Premiums --				
Life insurance..............	$ 8,378	$ 81	$ -	$ 8,297
Accident and health insurance.................	16,774	-	-	16,774
Property and casualty insurance(1)..............	21,258	2,956	-	18,302
Total premiums...........	$ 46,410	$ 3,037	$ -	$ 43,373
Year ended December 31, 1994:				
Life insurance in force.....	$252,997	$ 11,043	$ -	$241,954
Premiums --				
Life insurance..............	$ 8,188	$ 77	$ -	$ 8,111
Accident and health insurance.................	18,939	-	-	18,939
Property and casualty insurance(1)..............	17,035	2,384	-	14,651
Total premiums...........	$ 44,162	$ 2,461	$ -	$ 41,701

(1) Information contained above includes amounts related to American Southern for 1996 only.

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	Claims and Claim Adjustment Expenses Incurred Related to Prior Years	Amortization of Deferred Acquisition Costs	Paid Claims and Claim Adjustment Expenses	Premiums Written
December 31, 1996(1)	$ 2,942	$79,849	$22,965	$60,047	$ 7,205	$44,468	$(3,403)	$ 5,349	$41,017	$61,068
December 31, 1995	$ 2,657(1)	$74,693(1)	$21,918(1)	$18,302(2)	$ 2,989(2)	$ 7,002(2)	$ 5,985	$ -	$12,923(2)	$19,074(2)
December 31, 1994(2)	$ 438	$35,435	$ 5,111	$14,651	$ 2,940	$10,617	$(2,661)	$ -	$21,272	$16,094

(1) Includes Georgia Casualty & Surety and American Southern.
(2) Includes Georgia Casualty only.

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.

Selected Financial Data
(In Thousands, Except Per Share Data)

	Year Ended December 31,				
	1996	1995	1994	1993	1992
Insurance premiums	$ 86,025	$ 43,373	$ 41,701	$ 40,944	$ 42,764
Investment income	11,457	6,566	6,628	6,048	6,399
Realized investment gains, net	1,589	1,731	870	744	4,091
Total revenue	99,071	51,670	49,199	47,736	53,254
Insurance benefits and losses incurred	54,281	24,689	21,955	25,364	33,616
Other expenses	36,975	23,897	20,727	21,905	20,430
Total benefits and expenses	91,256	48,586	42,682	47,269	54,046
	7,815	3,084	6,517	467	(792)
Debt conversion expense	-	-	-	-	(98)
Income tax provision (benefit)	204	(34)	(1,632)	(989)	-
Income (loss) from continuing operations	7,611	3,118	8,149	1,456	(890)
(Loss) income from discontinued operations, net	(4,447)	(10,094)	1,121	1,543	96
Income (loss) before extraordinary gain and cumulative effect of change in accounting principle for income taxes	3,164	(6,976)	9,270	2,999	(794)
Extraordinary gain	-	-	100	897	279
Income (loss) before cumulative effect of change in accounting principle for income taxes	3,164	(6,976)	9,370	3,896	(515)
Cumulative effect of change in accounting principle for income taxes	-	-	-	(519)	-
Net income (loss)	$ 3,164	$ (6,976)	$ 9,370	$ 3,377	$ (515)
Net income (loss) per common share data:					
Continuing operations	$ .32	$ .15	$ .43	$ .06	$ (.07)
Discontinued operations	(.23)	(.54)	.06	.09	.01
Extraordinary gain	-	-	-	.05	.01
Cumulative effect of change in accounting principle for income taxes	-	-	-	(.03)	-
Net income (loss)	$ .09	$ (.39)	$ .49	$ .17	$ (.05)
Weighted average common shares outstanding	18,856	18,671	18,511	18,476	17,680
Book value per share	$ 2.29	$ 1.61	$ 1.47	$ 1.24	$ 1.01
Common shares outstanding	18,684	18,679	18,414	18,399	18,399
Total assets	$252,994	$245,494	$148,740	$154,822	$159,698
Total long-term debt	$ 25,994	$ 31,569	$ 24,327	$ 21,827	$ 19,327
Total shareholders' equity	$ 59,136	$ 46,478	$ 30,022	$ 25,806	$ 21,601

President's Message

To Our Shareholders:

Atlantic American Corporation's outstanding year can be credited to our dedication to building one of the best niche insurance companies in the country. By positioning the Company as a specialty underwriter of niche insurance products and markets, Atlantic American Corporation produced record financial results during each quarter of 1996, resulting in an outstanding year-end performance.

Net income from continuing operations increased 144% in 1996 to $7.6 million, or $0.32 per share. Revenues increased 92% to $99.1 million. There were approximately $1.0 million, or $0.05 per share, of non-recurring charges associated with the Company's realignment. Even with these charges, Atlantic American Corporation produced a strong 20% return on equity on its common stock. We also attribute this outstanding performance to the benefits derived from implementing our strategy to position Atlantic American as a 'pure play' insurance company. Our focus on higher return specialty insurance markets and the divestiture of our non-core operations has allowed us to repay approximately $9 million in debt over the past year.

Atlantic American's management team has been aggressive in building a more competitive and financially strong company. Through several strategic initiatives we have furthered our goal of seeking to maximize the value of our shareholders' investments in the Company. The completed sale of Leath furniture in April 1996 has afforded the Company complete focus on its core business -- insurance. The bottom line was affected by the operation of Leath Furniture through the of disposition, but will not affect our future reported earnings.

In addition, we are very proud to report that as of December 31, 1996, Atlantic American Corporation has complete ownership of all of its subsidiaries, subsidiaries: American Southern Insurance Company, American Safety Insurance Company, Atlantic American Life Insurance Company, Bankers Fidelity Life Insurance Company, and Georgia Casualty & Surety Company. During 1996 the company purchased the remainingpublicly-held shares of Bankers Fidelity and followed up with the purchase of theshares of Georgia Casualty not already owned by the Company. Furthermore, at theclose of the year, the Board of Directors approved the merger of Atlantic American Life Insurance Company and Bankers Fidelity Life Insurance Company, with Bankers Fidelity being the surviving company. These combined initiatives have streamlined operations, reduced costs and expenses, and created management efficiencies that will positively influence the Company in 1997 and beyond.

Despite strong, industry-wide pricing pressures, all of our companies remain profitable and continue to grow. Since becoming a dedicated insurance company, we have witnessed an overall increase in premiums from all of our operations. Our life insurance operations reported a 29% increase in total new business written and for the first time in several years, we reported an increase of 1.7% in total annualized premiums, as our new life insurance premiums more than exceeded the anticipated decrease in our supplemental health insurance premiums. Furthermore, our life insurance operations received 5 new licenses to do business in the states of Maryland, Montana, Nevada, North Dakota and Oregon, bringing that division's total market penetration to twenty-eight states.

Georgia Casualty's premiums increased 2.7% this year. Although the company's voluntary business increased 17%, this increase was primarily offset by a reduction in the amount of our direct-assignment premiums due to the dwindling number businesses which obtain workers' compensation coverage in the residual market. Since that portion of Georgia Casualty's business has now stabilized, we expect the Company's reportable growth to once again gain momentum this year. In addition, we have recently been informed that Georgia Casualty received a rating increase from A.M. Best to B+ (very good). Consequently, all of our insurance companies are now rated either B+ (very good) or A- (excellent) by A.M. Best and are positioned to further increase their ratings as time and our results allow. We remain committed to improving our ratings in 1997 and beyond.

We are particularly proud of the performance of American Southern Insurance Company, which was acquired at the close of 1995. It is in an enviable position as one of the most successful property and casualty insurance companies in the country, adding considerable financial strength and reputation to Atlantic American Corporation. American Southern's specialization in insurance coverages for public entity automobile fleets, as well as large accounts that can be specially priced and customized, diversifies Atlantic American Corporation into a highly desirable niche market and allows American Southern to provide unique benefits and services to its insurance customers. This, in turn, gives American Southern a competitive advantage as a true value added provider of insurance products and services. For the year, American Southern contributed revenues of $45.8 million, or 46% of Atlantic American Corporation's total revenue.

A substantial capital investment in our infrastructure, especially in the management information systems of Georgia Casualty and Bankers Fidelity, has been committed to further their growth. Over the past three years, approximately $1.0 million per year has been allocated to upgrade these systems to better support management, employees, agents and policyholders. The majority of these expenditures are now behind us, and both companies expect to realize significant efficiency gains from these investments in the future. Our systems should enable us to grow our business and maintain the high level of service our agents and insureds expect without a significant increase in the costs of administration. We will continue to improve our information systems as needed, while we pursue the Company's objective to be at the forefront of technical efficiency in our industry and to ensure that we provide the highest quality service to our agents and policyholders.

Total shareholders' equity increased dramatically in 1996 to $59.1 million, or $2.29 per common share, from $46.5 million, or $1.61 per share, in 1995. This represents a 27% increase in total equity and a 42% increase per share. The value of our common stock also advanced from 2 5/16 per share at December 31, 1995, to 3 1/16 at year-end 1996, increasing our total market capitalization to $57.2 million from $43.2 million, a 32% appreciation.

While 1996 was a year of primarily internal development, growth, and consolidation, Atlantic American Corporation continues to look for potential acquisition candidates that will complement and grow the Company while maximizing shareholder value. An attractive candidate must be profitable with existing management expertise and products that will support and grow our core insurance business. Opportunities that we would consider exploring include acquiring companies or blocks of business that can geographically increase our market share, companies that have the distribution capacity to cross-sell our products or services, or companies that have an identifiable market niche in the industry.

Charles West has announced that he will retire from our Board of Directors at the annual meeting this year. Charles has served as a director of Atlantic American for 17 years, joining us in July 1980, and has been extremely helpful in planning the growth of Atlantic American and charting a steady course during some difficult years. The financial health and vigor of Atlantic American today are due in no small part to his sound advice in the past. He will be sorely missed. All of his colleagues on the Board and all of us here at the Company wish him well in his retirement from the Board and with his many new endeavors.

In closing, we would like to thank all of our employees, agents, policyholders and especially the shareholders who have helped position Atlantic American Corporation for its future successes.

J. Mack Robinson
Chairman

Hilton H. Howell, Jr.
President and Chief Executive Officer

Accident Expense
Cancer
Disability Income
Medicare Supplement
Hospital Surgical Indemnity
Medical Indemnity
Nursing Facility
Whole Life
Joint Whole Life
Level Term

OPERATIONS

Life and Health Division

Atlantic American's two life insurance companies, Atlantic American Life Insurance Company and Bankers Fidelity Life Insurance Company, successfully completed a planned merger effective January 1, 1997 and will go forward under the banner of Bankers Fidelity Life. The merger will result in a more efficient company as well as enhance the financial strength of this important subsidiary, and will provide Atlantic American Corporation with a vigorous competitor in the life and supplemental health insurance markets with consolidated capital and surplus in excess of $25 million. The enhanced financial strength of Bankers Fidelity will improve the company's competitive posture in established markets as well as enhance its continuing progress in achieving favorable ratings from the A.M. Best Company and other industry rating firms. In addition, the merger will facilitate the planned expansion of the company into new markets in the midwestern and western United States through improved marketing efficiencies, streamlined product development and reduced expenses.

Market segmentation in the Life Company continues to evolve. The company's decision to penetrate new markets in recent years resulted in a firm presence in four distinct market segments -- the senior, niche, family and payroll deduction markets. The company's primary product focus in each of these markets is life insurance and supplemental health insurance.

Bankers Fidelity's niche markets continue to generate stable revenue. Utilizing a 10-Pay whole life plan and annuity rider, the company targets the college preparatory and military markets. This product line provides for an early paid up life policy and substantial cash accumulation through the annuity rider. In the college preparatory market, an emphasis is placed on cash accumulation in order to manage the high costs associated with higher education which enhances the company's position as a qualified student lender. In the military market, this product line is targeted toward recruits as a means to build retirement savings and, like the college preparatory market, supplement the cost of higher

Asphalt Paving
Auto Dismantler
Boat Builder
Building Materials Dealer
Cabinet Shops/Woodworking
Community Action
  Committees
Cleaning Products/Soap
Concrete Construction (Light)
Concrete Products: Block,
  Brick, Mix
Concrete Paving
Cotton Gin
Equipment Manufacturing
Electrical Contractor
Employment Agency
Floor Covering Contractor
Frame Carpentry
Furniture Manufacturer/
  Dealer
Glass Dealers/Installer
Grading/Land Clearing
Heating/Air-Conditioning
Home Health-Care
Insulation Installer
Landscaping/Lawn Care
Machine Shop
Metal Goods Fabricator
Metal Goods Manufacturer
Metal Shop
Meat Product Processor
Millwright
Mobile Home Manufacturer
Painter
Pallet Manufacturer
Paper Manufacturer/Processor
Paper Hanger
Plastic Goods Manufacturer
Plumber
Prefab Metal Building
  Manufacturer
Sawmill
Telephone Utility
Tent/Awning Maker
Trim Carpenter
Wholesaler
Wood Products Manufacturer

education after completion of their military service. The company's niche markets utilize a tightly controlled distribution system with a heavy emphasis on agent training in order to insure proper market conduct.

The family market is served through traditional life products and supplemental health products such as accident and cancer insurance. We believe this market is under served as more and more of our competitors concentrate on high-end markets. Our ongoing commitment to serving the needs of the traditional family market should provide for continuing increases in premium income from this market in the years ahead.

Emerging trends indicate that the payroll deduction market, or work-site marketing, is the fastest growing entity in the delivery of traditional insurance products. While Bankers Fidelity has offered all of its life and supplemental health products through payroll deduction for a number of years, the company began a re-engineering process of this division more than two years ago with the end result being the introduction this year of our Benefits Plus series of payroll deduction products. Much of the groundwork was accomplished through our association with an experienced, outside consultant whose knowledge of the payroll deduction market was instrumental in the development of new products as well as the repackaging of proven products. Through this relationship, Benefits Plus was brought to market offering full Section 125 support as well as new products such as Term Ten and Term Ten Plus competitive, ten-year level term products, Flex-I-Care Plus - a no nonsense, medical indemnity plan designed to provide benefits for physician office visits and emergency room care. Optional benefits for this product include lump-sum, first day hospital coverage, daily hospital indemnity and accidental death benefits. In addition, our proven products such as accident expense, cancer and disability have been repackaged to enhance the new look of this series.

Overall, Banker's Fidelity is solidly positioned for continued growth in its chosen markets. The company's planned expansion into new states, as well as a defined, focused approach to each of its markets, resulted in a solid 29% increase in new sales during 1996, when the life insurance industry as a whole only experienced growth in the 5% range. We expect the Life Company's new sales to continue to grow in the 20% range for the foreseeable future and to play a vital role in Atlantic American Corporation's continued growth.

Property and Casualty Division

With the addition of the American Southern Insurance Company, the property and casualty division of Atlantic American Corporation now represents 68% of the company's total revenues and is the single largest contributor to the company's profitability. American Southern has a strong tradition as one of the most successful property and casualty insurance companies in the industry, offering a variety of property and casualty coverages with an emphasis on commercial automobile liability. Public-entity business, as well as large accounts that can be specially priced and customized, make up the majority of American Southern's automobile liability book of business. These specialized product offerings give American Southern a competitive advantage by allowing it great flexibility and a unique variable cost structure.

These strengths have attributed to American Southern's outstanding performance in its first full year as a subsidiary of Atlantic American, but the primary reason for its fine performance can be attributed to its experienced management team and the strong relationships that they have established with their clients over the years. The company has also taken steps to enhance its ability to expand its customer base by recently adding an additional marketing executive to its existing marketing team.

American Southern exemplifies the type of company that Atlantic American Corporation considers in a potential acquisition. It has an excellent product, a dedicated and experienced management group, and a solid customer base which immediately contributed to Atlantic American's financial performance.

Georgia Casualty & Surety Company, which will celebrate its 50th anniversary next year, focuses on workers' compensation and commercial coverages in select jurisdictions and industries in the southeastern United States. Georgia Casualty has always taken a proactive position with its insureds to utilize all available cost containment techniques to control the ultimate costs of their workers' compensation programs. These initiatives include sponsoring educational programs on work-site safety, utilizing medical peer review, enforcing fee schedule and PPO reductions and emphasizing early medical intervention with serious claims. These efforts, among many others, have helped Georgia Casualty control and contain the cost of workers' compensation for its clients. By ensuring that each injured worker gets the best medical care at the earliest possible time so that lost time from work is reduced to an absolute minimum, Georgia Casualty has been able to reduce its insureds' ultimate claims costs which will soon improve their premium costs. This successful approach has allowed Georgia Casualty to grow its voluntary book of business by 17% in a very soft market and improve its margins at the same time.

Georgia Casualty targets manufacturing businesses, service industries, and various construction industries; however, our underwriting team, most of whom have been with our company over twenty years, have the technical and regional knowledge necessary to allow Georgia Casualty to write diverse accounts in many specialized industries overlooked by our competition. This underwriting approach has produced outstanding results and has allowed Georgia Casualty to continue to grow with outstanding loss ratios in virtually all lines of business. Georgia Casualty has also benefited from its regional emphasis. By keeping its underwriting concentration in a region it knows well, Georgia Casualty has a competitive advantage in being able to respond quickly and with specialized knowledge of our customers, their businesses and their locality.

Georgia Casualty and American Southern, two companies with a focused vision on their markets and customers, will continue to make significant contributions to the growth and profitability of Atlantic American Corporation.

DIRECTORS

J. MACK ROBINSON
Chairman
Atlantic American Corporation

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

SAMUEL E. HUDGINS
Principal, Percival Hudgins & Company, LLC

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

CHARLES B. WEST
Chairman, West Lumber Company

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

DOM H. WYANT
Of Counsel, Jones, Day, Reavis & Pogue

OFFICERS

J. MACK ROBINSON
Chairman

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

JOHN W. HANCOCK
Senior Vice President and Treasurer

CLARK W. BERRYMAN
Vice President, Information Services

JANIE L. RYAN
Corporate Secretary

MICHAEL J. BRASSER
Assistant Vice President, Internal Audit

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share and Per Share Data)

ASSETS	December 31, 1996	December 31, 1995
Cash, including short-term investments of $41,614 and $12,498	$ 45,499	$ 15,069
Investments	142,485	168,117
Receivables:		
Reinsurance	26,854	22,467
Other (net of allowance for doubtful accounts: $1,151 and $1,260)	16,301	18,567
Deferred acquisition costs	15,179	14,899
Other assets	4,576	4,125
Goodwill	2,100	2,250
Total assets	$252,994	$245,494

LIABILITIES AND SHAREHOLDERS' EQUITY

	1996	1995
Insurance reserves and policy funds	$149,198	$143,847
Accounts payable and accrued expenses	9,049	8,010
Debt payable ($1,058 and $6,358 due to affiliates)	35,611	44,921
Net obligation to discontinued operations	-	953
Minority interest	-	1,285
Total liabilities	193,858	199,016
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	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; 18,712,167 shares issued in 1996 and 1995 and 18,684,217 shares outstanding in 1996 and 18,679,400 shares outstanding in 1995	18,712	18,712
Additional paid-in capital	54,062	46,531
Accumulated deficit	(31,426)	(34,446)
Net unrealized investment gains	17,713	15,589
Treasury stock, at cost, 27,950 shares in 1996 and 32,767 shares in 1995	(89)	(72)
Total shareholders' equity	59,136	46,478
Total liabilities and shareholders' equity	$252,994	$245,494

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

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, Except Per Share Data)

	Year Ended December 31,		
Revenue:	1996	1995	1994
Insurance premiums	$86,025	$43,373	$41,701
Investment income	11,457	6,566	6,628
Realized investment gains, net	1,589	1,731	870
Total revenue	99,071	51,670	49,199
Benefits and expenses:			
Insurance benefits and losses incurred	54,281	24,689	21,955
Commissions and underwriting expenses	26,959	15,249	13,355
Interest expense	3,292	2,458	1,968
Other	6,724	6,190	5,404
Total benefits and expenses	91,256	48,586	42,682
Income before income tax provision (benefit), discontinued operations and extraordinary gain	7,815	3,084	6,517
Income tax provision (benefit)	204	(34)	(1,632)
Income from continuing operations	7,611	3,118	8,149
(Loss) income from discontinued operations, net	(4,447)	(10,094)	1,121
Income (loss) before extraordinary gain	3,164	(6,976)	9,270
Extraordinary gain	-	-	100
Net income (loss) before preferred stock dividends	3,164	(6,976)	9,370
Preferred stock dividends	(1,521)	(315)	(315)
Net income (loss) applicable to common stock	$ 1,643	$(7,291)	$ 9,055
Weighted average common shares outstanding	18,856	18,671	18,511
Net income (loss) per common share data:			
Continuing operations	$ .32	$ .15	$ .43
Discontinued operations	(.23)	(.54)	.06
Extraordinary gain	-	-	-
Net income (loss)	$ .09	$ (.39)	$ .49

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

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In Thousands, Except Per Share Data)	Preferred Stock(1)	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Net Unrealized Investment Gains	Treasury Stock	Total
Balance, December 31, 1993	$ 30	$ 18,399	$ 33,600	$ (36,822)	$ 10,599	$ -	$ 25,806
Net income	-	-	-	9,370	-	-	9,370
Cash dividends paid on preferred stock	-	-	(315)	-	-	-	(315)
Stock options exercised	-	15	4	-	-	-	19
Decrease in unrealized investment gains	-	-	-	-	(4,858)	-	(4,858)
Balance, December 31, 1994	30	18,414	33,289	(27,452)	5,741	-	30,022
Net loss	-	-	-	(6,976)	-	-	(6,976)
Cash dividends paid on preferred stock	-	-	(315)	-	-	-	(315)
Purchase of 78,148 shares for treasury	-	-	-	-	-	(174)	(174)
Issuance of 343,606 shares for employee benefit plans and stock options	-	298	291	(18)	-	102	673
Conversion of debt payable to preferred stock	134	-	13,266	-	-	-	13,400
Increase in unrealized investment gains	-	-	-	-	9,848	-	9,848
Balance, December 31, 1995	164	18,712	46,531	(34,446)	15,589	(72)	46,478
Net income	-	-	-	3,164	-	-	3,164
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
Increase in unrealized investment gains	-	-	-	-	2,124	-	2,124
Balance, December 31, 1996	$ 164	$ 18,712	$ 54,062	$ (31,426)	$ 17,713	$ (89)	$ 59,136

(1) Includes Series A and B preferred stock

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

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
(In Thousands, Except per Share Data)	1996	1995	1994
Cash flows from operating activities:			
Net income (loss)	$ 3,164	$ (6,976)	$ 9,370
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Amortization of deferred acquisition costs	8,184	3,721	3,008
Acquisition costs deferred	(8,464)	(2,985)	(2,895)
Realized investment gains	(1,589)	(1,731)	(870)
Increase (decrease) in reserves	5,352	(1,203)	(12,939)
Loss (income) from discontinued operations, net	4,447	10,094	(1,121)
Depreciation and amortization	1,102	547	370
Deferred income taxes	-	-	(1,000)
Minority interest	-	285	63
(Increase) decrease in receivables, net	(3,870)	997	(3,793)
Extraordinary gain from extinguishment of debt	-	-	(100)
(Decrease) increase in other liabilities	(694)	177	472
Other, net	811	319	(366)
Net cash provided (used) by continuing operations	8,443	3,245	(9,801)
Net cash (used) provided by discontinued operations	(5,902)	(9,177)	2,291
Net cash provided (used) by operating activities	2,541	(5,932)	(7,510)
Cash flows from investing activities:			
Proceeds from investments sold	44,445	21,027	17,805
Proceeds from investments matured, called or redeemed	40,868	17,004	7,099
Investments purchased	(54,632)	(32,909)	(32,514)
Acquisition of minority interest	(846)	(1,012)	-
Sale of Leath Furniture, Inc., net	3,646	-	-
Acquisition of American Southern Insurance Company, net of $5,497 of cash acquired	-	(17,273)	-
Additions to property and equipment	(1,616)	(1,107)	(1,270)
Net cash provided (used) by continuing operations	31,865	(14,270)	(8,880)
Net cash used by discontinued operations	(440)	(2,551)	(6,691)
Net cash provided (used) by investing activities	31,425	(16,821)	(15,571)
Cash flows from financing activities:			
Proceeds from issuance of notes payable	-	-	675
Proceeds from issuance of bank financing	11,352	22,642	-
Preferred stock dividends	(315)	(315)	(315)
Proceeds from exercise of stock options	85	600	19
Purchase of treasury shares	(338)	(174)	-
Repayments of debt	(20,662)	(675)	-
Net cash (used) provided by continuing operations	(9,878)	22,078	379
Net cash provided by discontinued operations	6,342	9,345	4,303
Net cash (used) provided by financing activities	(3,536)	31,423	4,682
Net increase (decrease) in cash and cash equivalents	30,430	8,670	(18,399)
Cash and cash equivalents at beginning of year:			
Continuing operations	15,069	4,016	22,318
Discontinued operations	-	2,383	2,480
Total	5,069	6,399	24,798
Cash and cash equivalents at end of year:			
Continuing operations	45,499	15,069	4,016
Discontinued operations	-	-	2,383
Total	$ 45,499	$ 15,069	$ 6,399
Supplemental cash flow information:			
Cash paid for interest	$ 3,763	$ 3,096	$ 900
Cash paid for income taxes	$ 116	$ 128	$ 115
Debt to seller for purchase of American Southern Insurance Company	$ -	$ 11,352	$ -

Debt payable converted to preferred stock..	$ -	$ 13,400	$ -

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

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 majority-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 13). All significant intercompany accounts and transactions have been eliminated in consolidation.

At December 31, 1996, the Company had five insurance subsidiaries, which include American Southern Insurance Company and its wholly owned subsidiary American Safety Insurance Company (collectively known as "American Southern"), Atlantic American Life Insurance Company, Bankers Fidelity Life Insurance Company and Georgia Casualty & Surety Company. American Southern was acquired on December 31, 1995 (see Note 7). Assets and liabilities are not classified, in accordance with insurance industry practice, and certain prior year amounts have been reclassified to conform to the 1996 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 earned premiums so as to result in recognition of profits over the lives of the contracts in proportion to premiums earned. 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 (principally commissions, advertising and certain issue expenses). 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 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: (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 and updated, and changes to the estimated liability are recorded in the statement of operations in the year in which such changes are known.

Goodwill

Goodwill resulting from the acquisition of American Southern is amortized over a 15 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 American Southern's 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. If a decline in the value of a common stock, preferred stock, 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 shareholders' equity and, accordingly, have no effect on net income (loss).

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 when those changes are enacted. The provision for income taxes represents the total of income taxes paid or payable for the current year, plus the change in deferred taxes during the year.

Net Income (Loss) Per Common Share

Net income (loss) per common share is computed on the basis of the weighted average number of common shares and common equivalent shares outstanding during the year applied to net income (loss) after preferred dividends. The weighted average number of shares outstanding was 18,856,000 in 1996, 18,671,000 in 1995 and 18,511,000 in 1994. The effect of convertible subordinated notes and convertible preferred stock was anti-dilutive in each of these years.

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.

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:

1996	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
Bonds:				
U.S. Treasury Securities and Obligations of U.S. Government Corporations and Agencies......	$ 67,370	$ 275	$ 443	$ 67,538
Obligations of states and political subdivisions....	3,496	86	168	3,578
Corporate securities........	14,717	272	272	14,717
Mortgage-backed securities (government guaranteed)...	5,727	-	51	5,778
	91,310	$ 633	$ 934	$ 91,611
Common and preferred stocks.	37,762	$ 19,348	$ 1,334	$ 19,748
Mortgage loans (estimated fair value of $7,732).....	6,812			
Policy and student loans....	6,555			
Real estate.................	46			
Investments..............	142,485			
Short-term investments......	41,614			
Total investments.........	$184,099			

1995	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
Bonds:				
U. S. Treasury Securities and Obligations of U. S. Government Corporations and Agencies......	$ 70,553	$ 408	$ 19	$ 70,164
Obligations of states and political subdivisions....	21,947	6	270	22,211
Corporate securities........	19,817	386	77	19,508
Mortgage-backed securities (government guaranteed)...	996	-	36	1,032
	113,313	$ 800	$ 402	$112,915
Common and preferred stocks ..	42,116	$ 15,824	$ 633	$ 26,925
Mortgage loans (estimated fair value of $7,291).......	6,952			
Policy and student loans......	5,690			
Real estate...................	46			
Investments................	168,117			
Short-term investments........	12,498			
Total investments..........	$180,615			

DECEMBER 31, 1996, 1195 AND 1994 (Dollars in Thousands, Except Per Share Data)

NOTE 2. INVESTMENTS (CONTINUED)

Bonds having an amortized cost of $13,578 and $13,373 were on deposit with insurance regulatory authorities at December 31, 1996 and 1995, respectively, in accordance with statutory requirements.

The amortized cost and carrying value of bonds and short-term investments at December 31, 1996 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..........................	$ 56,732	$ 56,905
Due after one year through five years............	19,439	19,416
Due after five years through ten years...........	37,666	37,804
Due after ten years..............................	13,360	13,322
Varying maturities...............................	5,727	5,778
Totals.......................................	$ 132,924	$ 133,225

Investment income was earned from the following sources:

	1996	1995	1994
Bonds......................................	$ 6,728	$ 3,549	$ 3,267
Common and preferred stocks.................	1,622	1,205	1,603
Mortgage loans.............................	863	791	722
CDs and commercial paper....................	1,443	548	604
Other......................................	801	473	432
Total investment income.................	11,457	6,566	6,628
Less investment expenses................	(452)	(424)	(465)
Net investment income.......................	$11,005	$ 6,142	$ 6,163

A summary of realized investment gains (losses) follows:

	1996				1995				1994		
	Stocks	Bonds	Limited Partnership	Total	Stocks	Bonds	Limited Partnership	Total	Stocks	Bonds	Total
Gains..............	$1,910	$ 73	$ 17	$2,000	$1,743	$ 35	$ 363	$2,141	$1,150	$ 5	$1,155
Losses.............	(411)	-	-	(411)	(73)	(9)	-	(82)	(260)	(25)	(285)
Write-downs.........	-	-	-	-	(162)	(166)	-	(328)	-	-	-
Total realized investment gains (losses), net...	$1,499	$ 73	$ 17	$1,589	$1,508	$(140)	$ 363	$1,731	$ 890	$ (20)	$ 870

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

	1996	1995	1994
Common and preferred stocks.............	$ 9,734	$10,199	$ 9,163
Bonds..................................	25,335	1,730	-
Student loans..........................	6,053	7,278	7,845
Other investments......................	3,323	1,820	797
Total proceeds	$44,445	$21,027	$17,805

The single investment which exceeds 10% of shareholders' equity at December 31, 1996 was a common stock investment in the Wachovia Corporation with a carrying value of $18,506 and a cost basis of $3,428.

The Company's bond portfolio included 97% of investment grade securities at December 31, 1996 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 casualty losses as well as loss adjustment expenses.

			Amount of Insurance in Force	
	1996	1995	1996	1995
Future policy benefits				
Life insurance policies				
Individual and group life:				
Ordinary........................	$ 22,451	$ 20,806	$256,482	$221,450
Mass market......................	9,364	9,578	21,409	22,896
Individual annuities.............	856	887	-	-

	32,671	31,271	$277,891	$244,346
Accident and health insurance policies	3,714	5,034		
	36,385	36,305		
Unearned premiums	25,100	24,140		
Losses and claims	84,074	79,514		
Other policy liabilities	3,639	3,888		
Total policy liabilities	$149,198	$143,847		

Annualized premiums for accident and health insurance policies were $15,884 and $16,595 at December 31, 1996 and 1995, respectively.

NOTE 3. INSURANCE RESERVES AND POLICY FUNDS (CONTINUED)

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.

Morbidity assumptions for hospital indemnity insurance are based on the 1974 hospital and surgical tables and the 1959 DBD tables, while morbidity assumptions for Medicare supplement insurance are based on industry studies and the Company's experience. Hospital indemnity mortality and withdrawal assumptions are based on the Ultimate 65-70 tables and the Linton Lapse tables. Medicare supplement mortality and withdrawal assumptions are based on Company experience.

Losses and Claim Reserves -

Until September 30, 1991, the Company participated in the National Workers' Compensation Reinsurance Pool, which is a national reinsurance fund for policies allocated to insurers under various states' workers' compensation assigned risk laws for companies that cannot otherwise obtain coverage. On December 30, 1994, the Company satisfied its obligation with respect to all outstanding and future claims associated with the Company's participation for a cash payment of $9,057. The redundancy in the losses and claims reserves, as a result of its settlement, of $4,870 reduced the 1994 provision for insurance benefits and losses incurred by a corresponding amount.

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

	1996	1995
Balance at January 1	$ 79,514	$ 40,730
Less: Reinsurance recoverables	(22,467)	(12,334)
Net balance at January 1	57,047	28,396
Incurred related to:		
Current year	57,481	17,017
Prior years	(4,802)	5,364
Total incurred	52,679	22,381
Paid related to:		
Current year	28,279	13,743
Prior years	24,227	8,398
Total paid	52,506	22,141
Reserves acquired due to acquisition, net	-	28,411
Net balance at December 31	57,220	57,047
Plus: Reinsurance recoverables	26,854	11,893
Reinsurance recoverables acquired due to acquisition	-	10,574
Balance at December 31	$ 84,074	$ 79,514

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

	1996	1995
Total incurred claims	$ 52,679	$ 22,381
Cash surrender value and matured endowments	1,522	975
Death benefits	80	1,333
Total insurance benefits and losses incurred	$ 54,281	$ 24,689

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 79% of the reinsurance receivables are due from three reinsurers as of December 31, 1996. Reinsurance receivables of $14,400 are with National Reinsurance Corporation, "A++" (Superior), $3,600 are with First Colony Life Insurance Company, "A++" (Superior), and $3,200 are with Pennsylvania Manufacturers Association Insurance Company, "A+" (Superior). In the opinion of management, the Company's reinsurers are financially stable and allowances for uncollectible amounts are established against reinsurance receivables, if appropriate. Premiums assumed of $25,800 include a state contract for premiums of $15,400 (17.9% of total earned premiums). The contract had a five-year term at inception and was renewed for a second five-year term that will expire January 31, 1998.

DECEMBER 31, 1996, 1195 AND 1994 (Dollars in Thousands, Except Per Share Data)

NOTE 4. REINSURANCE (CONTINUED)

The Company has no assurance that the contract will be renewed for a third term. However, the Company's ten-year experience in servicing this business provides an advantage that could affect renewal. The following table reconciles premiums written to premiums earned and summarizes the components of insurance benefits and losses incurred.

	1996	1995	1994
Premiums written	$ 70,295	$ 46,773	$ 45,230
Plus - premiums assumed	25,739	-	-
Less - premiums ceded	(9,074)	(3,037)	(2,461)
Net premiums written	86,960	43,736	42,769
Change in unearned premiums	(960)	(230)	(826)
Change in unearned premiums ceded	25	(133)	(242)
Net change in unearned premiums	(935)	(363)	(1,068)
Net premiums earned	$ 86,025	$ 43,373	$ 41,701
Provision for benefits and losses incurred	$ 58,801	$ 25,999	$ 22,923
Reinsurance loss recoveries	(4,520)	(1,310)	(968)
Insurance benefits and losses incurred	$ 54,281	$ 24,689	$ 21,955

NOTE 5. INCOME TAXES

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

	1996	1995	1994
Federal income tax provision at statutory rate of 35%	$ 2,735	$ 1,079	$ 2,281
Tax exempt interest and dividends received deductions	(413)	(391)	(431)
Reduction of deferred taxes	-	-	(1,000)
Change in asset valuation allowance - Utilization of net operating loss	(2,260)	(731)	(2,622)
Alternative minimum tax	142	9	140
Provision (benefit) for income taxes from continuing operations	204	(34)	(1,632)
Provision for income taxes from discontinued operations	-	-	1,086
Total provision (benefit) for income taxes	$ 204	$ (34)	$ (546)

Deferred tax liabilities and assets at December 31, 1996 and 1995 are comprised of the following:

	Tax Effect 1996	Tax Effect 1995
Deferred tax liabilities:		
Deferred acquisition costs	$ (3,585)	$ (3,416)
Net unrealized investment gains	(6,199)	(5,456)
Total deferred tax liabilities	$ (9,784)	$ (8,872)
Deferred tax assets:		
Net operating loss carryforwards	$ 17,856	$ 23,693
Insurance reserves	7,702	7,466
Bad debts	404	441
Total deferred tax assets	$ 25,962	$ 31,600
Asset valuation allowance	(16,178)	(22,728)
Net deferred tax assets	$ -	$ -

The components of the provision (benefit) are:

	1996	1995	1994
Continuing operations			
Current - Federal	$ 204	$ (34)	$ (632)
Deferred - Federal	-	-	(1,000)
Discontinued operations			
Current:			
Federal	-	-	816

State	-	-	270
Total	$ 204	$ (34)	$ (546)

The Internal Revenue Service ("IRS") examined the 1983 and 1984 federal income tax returns of the Company, and the Company entered into litigation with the IRS regarding claims for additional taxes related primarily to intercompany reinsurance transactions. In 1994, the Company reached a favorable settlement with the IRS on all disputed matters, and there was an expiration of a time limitation with respect to another potential tax liability. The settlement with the IRS resulted in no tax payments by the Company and, accordingly, the deferred tax reserves were reduced by $1,000. However, in 1995 the Company made an interest payment of $202 related to the case.

At December 31, 1996, the Company has regular tax loss carryforwards of approximately $51,018 expiring generally between 2000 and 2009.

The Company has determined, based on its earnings history, that an asset valuation allowance of $16,178 should be established against its net deferred tax assets at December 31, 1996. The Company's asset valuation allowance decreased by $6,550 during 1996, due primarily to the utilization of net loss carryforwards in the current year from profitable operations and the gain on sale of the discontinued operations. 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

NOTE 5. INCOME TAXES (CONTINUED)

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. The Company files a consolidated federal income tax return with its subsidiaries.

NOTE 6. CREDIT ARRANGEMENTS

	1996	1995
Arrangements with affiliates		
Notes payable with payment of $3,000 in 2001 and final payment of $2,300 in 2002 (weighted average interest rate of 9.5% at December 31, 1995)......................	$ -	$ 5,300
Total affiliated arrangements.........................	$ -	$ 5,300
Arrangements with non-affiliates		
8% Convertible subordinated notes due May 15, 1997 ($1,058 held by affiliates at December 31, 1996 and 1995)......	$ 5,617	$ 5,627
Note payable to bank due December 31, 2000 (interest rate at prime, 8.25% and 8.50% at December 31, 1996 and 1995, respectively)....................................	18,642	22,642
Note payable to bank at prime plus 1/2% (8.75%) due December 31, 2000.......................................	11,352	-
Note payable at prime (8.5%) and accrued interest due October 11, 1996...................................	-	11,352
Total non-affiliated arrangements.....................	$35,611	$39,621
Total arrangements		
Due within one year......................................	$ 9,617	$13,352
Long-term debt...	$25,994	$31,569

The 8% convertible subordinated notes are convertible into an aggregate of 513,000 shares of common stock at a price of $10.94 per share. The notes are redeemable at the Company's option at declining premiums until May 15, 1997. The Company anticipates that the funds to be used to retire the $5,600 in outstanding principal will come from internal funds and bank financing.

The note payable to bank due December 31, 2000, is payable in four quarterly payments of $1,000 in 1997 through 2000 with the balance due at maturity. Interest is paid quarterly in arrears.

The note payable to the seller of American Southern (see Note 7) due October 11, 1996, was repaid with an additional advance by the same bank which holds the note due December 31, 2000. The rate on the advance is prime plus 1/2%, but will change to the prime rate of interest effective February 1, 1997, as the Company repaid $4,000 on the original bank note before January 31, 1997. The Company is required to maintain certain financial covenants including, among others, ratios that relate funded debt to consolidated total capitalization, cash flow to debt service, as well as comply with limitations on capital expenditures and debt obligations. The Company was in compliance with all of the convenants associated with the debt payable to bank at December 31, 1996.

Maturities

The Company's principal payments on credit arrangements outstanding at December 31, 1996 are as follows:

Year	Amount
1997	$ 9,617
1998	4,000
1999	4,000
2000	17,994
	$35,611

NOTE 7. ACQUISITION OF AMERICAN SOUTHERN INSURANCE COMPANY

On December 31, 1995, the Company acquired a 100% ownership interest in American Southern for approximately $34,000 ($22,648 in cash and a note to seller of $11,352). Accordingly, the assets and liabilities of American Southern are included in the accompanying 1996 and 1995 balance sheets; however, the results of operations were only included beginning January 1, 1996. American Southern operates as a multi-line property and casualty insurance company primarily engaged in the sale of state and municipality automobile insurance.

The acquisition was accounted for as a purchase transaction and, accordingly, the purchase price was allocated to assets and liabilities based on their estimated fair values as of the date of acquisition. The excess of the consideration paid over the estimated fair values of net assets acquired in the amount of $2,250 was recorded as goodwill and is amortized on a straight-line basis over 15 years.

The following unaudited pro forma summary combines the consolidated results of operations of the Company and American Southern as if the acquisition had taken place at the beginning of the following periods after giving effect to certain adjustments. These adjustments include adjustments to increase interest expense on funds used by the Company to purchase American Southern, the amortization of goodwill, a reduction in American Southern's income tax expense due to the Company's intercompany tax-sharing agreement and the effect of the conversion of

DECEMBER 31, 1996, 1195 AND 1994 (Dollars in Thousands, Except Per Share Data)

NOTE 7. ACQUISITION OF AMERICAN SOUTHERN INSURANCE COMPANY (CONTINUED)

$13,400 in debt into 134,000 shares of Series B Preferred Stock (see Note 11). This pro forma information is not necessarily indicative of the results of operations that would have occurred had the acquisition taken place at the beginning of the periods.

	1995	1994
Revenue	$ 95,855	$ 90,040
Net (loss) income:		
Continuing operations	$ 6,865	$ 12,889
Discontinued operations	(10,094)	1,121
Extraordinary gain	-	100
Net (loss) income	$ (3,229)	$ 14,110
Net (loss) income per common share data:		
Continuing operations	$ .29	$ .62
Discontinued operations	(.54)	.06
Net (loss) income	$ (.25)	$ .68

In connection with the December 31, 1995 acquisition of American Southern, the following assets and liabilities were acquired:

Cash, short-term investments and investments	$ 72,414
Receivables, net	16,716
Deferred acquisition costs	2,082
Goodwill	2,250
Other assets	901
Total assets	94,363
Unearned premiums	16,170
Losses and claims	38,985
Short-term debt	11,352
Other policy liabilities	1,600
Other payables	3,374
Total liabilities	71,481
Net assets	$ 22,882

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 net assets and operating results of these discontinued operations. 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 and financial position are attributable to discontinued operations:

	1996	1995	1994
Results of Operations:			
Net sales	$ 45,502	$ 113,265	$117,554
(Loss) income from discontinued operations	$ (7,885)	$ (6,656)	$ 1,121
(Provision) benefit for discontinued operations	$ 3,438	$ (3,438)	-
Net (loss) income from discontinued operations	$ (4,447)	$ (10,094)	$ 1,121
Net (loss) income per share from discontinued operations	$ (.23)	$ (.54)	$ .06
Financial Position:			
Merchandise inventory		$ 26,089	$ 25,008
Property and equipment, net		21,655	21,459
Goodwill		9,304	10,483
Other assets		8,447	7,774
Total liabilities		(66,448)	(56,705)
Net assets of discontinued operations		$ (953)	$ 8,019

NOTE 9. COMMITMENTS AND CONTINGENCIES

Litigation

The Company and its subsidiaries are party 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 $1,222, $1,013 and $1,080 in 1996, 1995 and 1994, respectively. The Company's future minimum lease obligations under non-cancelable operating leases are as follows:

Year Ending December 31,	
1997	$ 808
1998	789
1999	771
2000	590
2001	544
Thereafter	1,378
Total	$4,880

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. Prior to the 1992 Plan, the shareholders had approved the Company's 1987 Stock Option Plan ("1987 Plan") which provided for a maximum of 500,000 options subject to issuance. No options have been issued under the 1987 Plan since the adoption of the 1992 Plan. Any unexercised options under the 1987 Plan expire by the terms of the plan on February 24, 1997. The 1992 Plan provides that options of common stock of the Company may be granted at an option price not less than 85% of the fair market value of the shares on the date of grant. 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% in each of the following two years. In 1996, the Company adopted a Director's Plan which granted 30,000 options with immediate vesting six months after the grant date.

A summary of the status of the Company's stock option plans at December 31, 1996 and 1995, is as follows:

	1996		1995	
	Shares	Weighted Avg. Ex. Price	Shares	Weighted Avg. Ex. Price
Options outstanding, beginning of year	430,141	$ 1.74	745,442	$ 1.76
Options granted	276,000	2.47	125,000	2.50
Options exercised	(76,750)	1.11	(309,651)	1.93
Options canceled or expired	(4,000)	1.44	(130,650)	2.08
Options outstanding, end of year	625,391	2.14	430,141	1.74
Options exercisable	441,141	1.98	333,766	1.59

The Company accounts for these plans in accordance with APB Opinion No. 25 and the disclosure provisions of Statement of Financial Accounting Standards No. 123 ("SFAS 123"), and accordingly no compensation cost has been recognized since the option price approximated fair value. If compensation cost had been recognized in accordance with the provisions of SFAS 123, the Company's net income (loss) and earnings (loss) per share would have been as follows:

	1996	1995
Net income (loss):		
As reported	$ 3,164	$ (6,976)
Pro forma	2,899	(6,994)
Earnings (loss) per share:		
As reported	$ 0.09	$ (0.39)
Pro forma	0.07	(0.39)

The method of accounting set forth in SFAS 123 has only been applied to options granted after January 1, 1995, and therefore the resulting pro forma compensation cost may not be representative of that to be expected in future years.

Of the 625,391 options outstanding at December 31, 1996, 224,391 have exercise prices between $1.00 and $1.875 with a weighted average exercise price of $1.54, a weighted average remaining contractual life of 2.0 years and all are currently exercisable. 125,000 options have an exercise price of $2.50 with a remaining contractual life of 3.8 years and 93,750 are currently exercisable. 246,000 options have exercise prices between $2.375 and $3.3125 with a weighted average exercise price of $2.38, a weighted average remaining contractual life of 4.2 years and 123,000 are currently exercisable. The remaining 30,000 options have an exercise price of $3.25 with a remaining contractual life of 4.8 years, and none are currently exercisable.

The weighted average fair value of options granted estimated on the date of grant using the Black-Scholes option pricing model is $1.11 and $1.25 for grants in 1996 and 1995 respectively, based on expected dividend yields of zero; expected lives of 5 years; risk free interest rates of 6.13% and 5.79%; and expected volatility of 39.80% and 48.75%, for the years ended Decmeber 31, 1996 and 1995, 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 for 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 to the plan has been funded by reissuance of the Company's treasury stock and was approximately $102 and $72 in 1996 and 1995, respectively.

Defined Benefit Pension Plans

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 year ended December 31, 1996 included the following components:

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NOTE 10. EMPLOYEE BENEFIT PLANS (CONTINUED)

Service costs	$ 103
Interest costs	204
Actual return on plan assets	(185)
Net amortization and deferral	14
	$ 136

The following assumptions were used to measure the projected benefit obligation for the benefit plans at December 31, 1996 and 1995:

	1996	1995
Discount rate to determine the projected benefit obligation................	7.75%	7.25%
Expected long-term rate of return on plan assets used to determine net periodic pension cost...............................	8.00%	8.00%

The following table sets forth the benefit plans' funded status at December 31, 1996 and 1995:

	1996	1995
Actuarial present value of benefit obligation:		
Vested benefit obligation.......................	$ 1,862	$ 1,467
Non-vested benefit obligation...................	7	26
Accumulated benefit obligation....................	1,869	1,493
Effect of projected future compensation levels....	901	611
Projected benefit obligation......................	2,770	2,104
Plan assets at fair value.........................	2,371	2,343
Projected benefit obligation in excess of (less than) plan assets.........................	399	(239)
Unrecognized net loss.............................	272	(416)
Unrecognized net transition obligation and prior service costs...................................	(9)	457
Accrued (prepaid) pension cost....................	$ 118	$ (198)

NOTE 11. PREFERRED STOCK

Annual dividends on the Series A Convertible Preferred Stock ("Series A Preferred Stock") are $10.50 per share and are cumulative. The Series A Preferred Stock is convertible into approximately 752,000 shares of the Company's common stock at a conversion price of $3.99 per share and is redeemable at the Company's option at declining premiums until March 15, 1997, and thereafter at $100 per share, plus unpaid dividends.

As part of the American Southern acquisition and effective December 31, 1995, the Company issued 134,000 shares of Series B Preferred Stock ("Series B Preferred Stock") having a stated value of $100 per share. Annual dividends to be paid 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 ratio of $3.99 per share. The Series B Preferred Stock is redeemable at the option of the Company.

NOTE 12. 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; (v) certain notes are considered surplus rather than debt; (vi) valuation allowances are established against investments; and (vii) goodwill is limited to 10% of an insurer's surplus, subject to a ten year amortization period.

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

	1996	1995	1994
Life and Health............................	$ 1,315	$ 3,021	$ 2,643
Property and Casualty......................	7,567	1,466(1)	5,091(1)
Net income.................................	$8,882	$ 4,487	$ 7,734
Life and Health............................	$25,792	$24,724	$19,858
Property and Casualty......................	42,416	38,995	9,663(1)
Surplus....................................	$68,208	$63,719	$29,521

(1) Excludes American Southern which was acquired effective December 31, 1995.

Under the Insurance Code of the State of Georgia, dividend payments to the Company by its insurance subsidiaries have certain limitations without the prior approval of the Insurance Commissioner. In 1996, dividend payments by the insurance companies in excess of $7,500 would have required prior approval. The Company received dividends of $6,850 and $2,684 in 1996 and 1995, respectively, from its insurance subsidiaries. Approval from the Insurance Commissioner was required for $2,250 of the 1996 dividend paid by Atlantic American Life due to the accumulated statutory deficit. No dividends were paid in 1994. As of December 31, 1996 and 1995, the Company's subsidiaries must individually maintain minimum statutory capital and surplus of $3,000. In 1997, dividend payments by the insurance companies in excess of $10,100 would require prior approval.

NOTE 12. STATUTORY REPORTING (CONTINUED)

For statutory purposes, in April of 1994, Georgia Casualty received permission from the Georgia Insurance Department to (1) close out its accumulated deficit in its unassigned funds account, (2) have the Company contribute its remaining $11,200 in surplus notes to capital, and (3) in the future to pay up to the maximum dividends allowed under the applicable regulations. This transaction in effect was a statutory recapitalization of the casualty subsidiary.

NOTE 13. 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. 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, 1996, 1995 and 1994, the Company paid $957, $960, and $1,044, respectively, under the lease.

A majority of the financing of the Company has historically been through affiliates of the Company or its Chairman, in the form of debt and the Series A Preferred Stock. Effective December 31, 1995, the Company issued 134,000 shares of Series B Preferred Stock in exchange for cancellation of approximately $13,400 in outstanding debt to the Company's Chairman and certain of his affiliates (see Note 11).

The Company has mortgage loans to finance properties owned by its discontinued furniture subsidiary. At December 31, 1996 and 1995, the balance of mortgage loans owed to various of the Company's insurance subsidiaries was $6,391 and $6,400, respectively. For 1996, 1995 and 1994, interest on the mortgage loans totaled $688, $730, and $650, respectively.

Certain members of management are on the Board of Directors of Bull Run Corporation and Gray Communications Systems, Inc. At both December 31, 1996 and 1995, the Company owned 600,000 common shares of Bull Run Corporation and 236,040 common shares of Gray Communications Systems, Inc.

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 $5,300. Gulf Capital is controlled by certain affiliates of the Company.

Delta Life Insurance Company purchases credit life insurance policies with face amounts greater than $50 from Atlantic American Life Insurance. Atlantic American Life receives premiums for these policies from Delta Life and pays benefits directly to policyholders. At December 31, 1996 1995, the face amount of these policies was $416 and $310, respectively and the reserve balance was $9 and $7, respectively.

NOTE 14. SEGMENT INFORMATION

The following summary sets forth the Company's business segments by revenue, income (loss) before income tax provision (benefit), discontinued operations, and extraordinary gain and assets. The Company, after discontinuation of its furniture segment, operates in three segments: Property and Casualty Insurance, Life Insurance, and Accident and Health Insurance.

	Property and Casualty	Life	Accident and Health	Discontinued Operations	Other	Adjustments and Eliminations	Consolidated
Revenue							
1996	$ 67,468	$ 14,450	$ 16,972	$ -	$ 144	$ 37	$ 99,071
1995	21,532(1)	12,435	18,508	-	2	(807)	51,670
1994	17,808(1)	11,225	20,745	-	2	(581)	49,199
Income (loss) before income tax provision (benefit), discontinued operations, and extraordinary gain							
1996	8,834	2,012	431	-	(3,588)	126	7,815
1995	2,353(1)	2,033	1,025	-	(2,419)	92	3,084
1994	5,880(1)	1,199	1,100	-	(1,783)	121	6,517
Assets							
1996	160,502	74,798	15,884	-	1,810	-	252,994
1995	150,505	71,532	19,603	-	3,854	-	245,494
1994	53,462(1)	61,703	22,339	8,019	3,217	-	148,740

(1) Excludes American Southern which was acquired effective December 31, 1995.

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NOTE 15. 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, 1996 and 1995:

	1996				1995 (1)			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	$ 24,773	$ 24,414	$ 25,681	$ 24,203	$ 11,911	$ 12,772	$ 13,588	$ 13,399
Income:								
Income before income tax (provision) benefit, net	$ 1,977	$ 1,849	$ 2,169	$ 1,820	$ 228	$ 723	$ 1,207	$ 926
Income tax (provision) benefit, net	-	(59)	(101)	(44)	(9)	-	-	43
Continuing operations	1,977	1,790	2,068	1,776	219	723	1,207	969
Discontinued operations	-	(4,447)	-	-	225	(3,205)	(1,404)	(5,710)(2)
Net income (loss)	$ 1,977	$ (2,657)	$. 2,068	$ 1,776	$ 444	$ (2,482)	$ (197)	$ (4,741)
Per common share data:								
Continuing operations	$ .08	$ .08	$ .09	$ .07	$ .01	$ .03	$ .06	$ .05
Discontinued operations	-	(.24)	-	-	.01	(.17)	(.07)	(.30)
Net income (loss)	$ .08	$ (.16)	$ .09	$ .07	$ .02	$ (.14)	$ (.01)	$ (.25)

(1)Excludes American Southern which was acquired effective December 31, 1995.
(2)Includes provision for discontinued operations of $3,438 (see Note 8).

NOTE 16. DISCLOSURES ABOUT FAIR VALUE 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.

	1996		1995	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and short-term investments	$45,499	$45,499	$15,069	$15,069
Bonds	91,310	91,310	113,313	113,313
Common and preferred stocks	37,762	37,762	42,116	42,116
Mortgage loans	6,812	7,732	6,952	7,291
Insurance premiums receivable	13,485	13,485	11,878	11,878
Liabilities:				
Debt - affiliated	1,058	952	6,358	6,490
- non-affiliated	34,553	34,097	38,563	37,877
Accounts payable and accrued liabilities	9,049	9,049	8,010	8,010

The fair value estimates as of December 31, 1996 and 1995 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.

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

Cash, Short-term Investments, Insurance Premiums Receivable, Payable, Accounts Payable, and Accrued Liabilities

The carrying amount approximates fair value.

Bonds, Common and Preferred Stocks

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 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 similar issues or on the current rates offered for debt having the same or similar returns and remaining maturities.

NOTE 17. SUBSEQUENT EVENT

Effective January 1, 1997 the Company's two life and health insurance companies, Bankers Fidelity Life Insurance Company and Atlantic American Life Insurance Company, were consolidated in a merger, with Bankers Fidelity Life Insurance Company being the surviving corporation.

Management's Discussion and Analysis of
Financial Condition and Results of Operations

Management's discussion of financial condition and results of operations for the three years ended December 31, 1996, 1995, and 1994 analyzes the results of operations, consolidated financial condition, liquidity and capital resources of Atlantic American Corporation (the "Company" or "Parent Company") and consolidated subsidiaries American Southern Insurance Company ("American Southern"), Atlantic American Life Insurance Company and Bankers Fidelity Life Insurance Company (collectively the "Life and Health Division") and Georgia Casualty & Surety Company ("Georgia Casualty" and together with American Southern, the "Casualty Division"). Effective January 1, 1997, Atlantic American Life Insurance Company was merged into Bankers Fidelity Life Insurance Company (see Note 17 of the Notes to Consolidated Financial Statements). The following discussion should be read in conjunction with the consolidated financial statements and notes thereto.

OVERVIEW

Atlantic American Corporation's net income for 1996 was $3.2 million ($.09 per share), compared to a net loss of $7.0 million ($.39 per share), in 1995, and net income of $9.4 million ($.49 per share), in 1994. The increase in earnings in 1996 was attributable to the insurance operations which had net income of $7.6 million compared to $3.1 million in 1995 and $8.1 million in 1994, primarily due to the inclusion of American Southern's 1996 earnings ($4.3 million). 1994 earnings included recognition of redundant reserves of $4.9 million following the settlement of a significant portion of the insurance segment's workers' compensation insurance liabilities.

ACQUISITION

On December 31, 1995, the Company acquired American Southern for an aggregate of $34.0 million. American Southern, a highly rated property and casualty insurance company which specializes in state and municipality automobile insurance, was acquired to complement the Company's position as a niche insurance holding company. American Southern's balance sheet has been consolidated in the Company's December 31, 1996 and 1995 balance sheets, while results of operations and cash flows are not reflected until 1996 (see Note 7 of the Notes to Consolidated Financial Statements).

DISCONTINUED OPERATIONS

In early 1996, the Company announced its intent to sell its furniture operations. The furniture division, which consisted of Leath Furniture, Inc. ("Leath") and its subsidiaries, Modernage Furniture, Inc. and Jefferson Home Furniture Company, Inc., suffered severe losses in light of 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 13 of the Notes to Consolidated Financial Statements).

Leath's operating losses for 1995 totaled $6.7 million, compared to earnings of $1.1 million in 1994. The Company recorded an additional charge to earnings of $3.4 million in 1995 for estimated losses to be incurred prior to disposition, bringing the total loss from discontinued operations in 1995 to $10.1 million. The losses anticipated prior to disposition were inadequate, and 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, 1996, 1995, and 1994 by company and line of business.
American Southern is included only for 1996.

Insurance Premium by Company by Line
(in thousands)

	Year Ended December 31,					
	1996		1995		1994	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Life and Health Companies:						
Ordinary Life	$ 8,937	10.39%	$ 7,037	16.22%	$ 6,716	16.11%
Mass Market Life	1,303	1.51%	1,260	2.91%	1,395	3.35%
Total Life	10,240	11.90%	8,297	19.13%	8,111	19.46%
Medicare Supplement	11,560	13.44%	11,882	27.39%	13,347	32.01%
Convalescent Care/ Short-Term Care	955	1.11%	1,191	2.75%	1,385	3.32%
Medical Surgical	160	0.19%	211	0.49%	289	0.69%
Cancer	1,982	2.30%	2,221	5.12%	2,457	5.89%
Hospital Indemnity	282	0.33%	337	0.77%	414	0.99%
Accident Expense	677	0.79%	790	1.82%	892	2.14%
Disability	122	0.14%	142	0.33%	155	0.37%
Total Accident and Health	15,738	18.30%	16,774	38.67%	18,939	45.41%
Total Life and Health Companies	25,978	30.20%	25,071	57.80%	27,050	64.87%
Georgia Casualty:						
Workers' Compensation	13,826	16.07%	14,954	34.48%	11,958	28.68%
Business Automobile	2,550	2.96%	1,436	3.31%	1,054	2.53%
General Liability	1,152	1.34%	1,025	2.36%	1,065	2.55%
Property	1,269	1.48%	887	2.05%	574	1.38%
Total Georgia Casualty	18,797	21.85%	18,302	42.20%	14,651	35.13%
American Southern:						
Automobile Physical Damage	4,865	5.66%				
Automobile Liability	30,889	35.91%				
General Liability	1,947	2.26%				
Property	3,461	4.02%				
Surety	88	0.10%				
Total American Southern	41,250	47.95%				
Total Consolidated	$86,025	100.00%	$43,373	100.00%	$41,701	100.00%

Premium revenues increased 98% in 1996 to $86.0 million from $43.4 million in 1995 and $41.7 million in 1994. Inclusion of American Southern's earnings accounted for 96.7% of the increased premium revenue in 1996, or $41.3 million. Medicare supplement and workers' compensation have historically made up the majority of insurance premium revenue, while the addition of American Southern's automobile liability category made it the largest portion of 1996 premiums, representing 35.9% of total premiums. The Life and Health Division's premiums increased in 1996 by $907,000, after decreasing by $2.0 million in 1995 and $1.1 million in 1994. The main reason for the increase was a $1.9 million increase in ordinary life premiums in 1996, combined with an accident and health premiums decrease of only $1.0 million in 1996. Accident and health premiums improved principally because Medicare supplement decreased only $322,000 in 1996 compared to $1.5 million in 1995. This was caused mainly by the introduction of a new Medicare supplement product with lower commissions and preferred underwriting classification. For the first time since 1986, annualized premiums for the Life and Health Division increased from the preceding year to $26.7 million for 1996, compared to $26.3 million for 1995 and $28.7 million for 1994. Georgia Casualty's premiums increased in 1996 to $18.8 million from $18.3 million in 1995 and $14.7 million in 1994. increases occurred in all lines for Georgia Casualty in 1996 except workers' compensation, which declined to $13.8 million from $15.0 million in 1995 and increased from $12.0 million in 1994. The decline from 1995 was due to a decrease of $1.6 million in net earned premiums from direct-assignment workers' compensation policies, over which Georgia Casualty has no control.

Investment income increased to $11.5 million in 1996 while it remained constant at $6.6 million for 1995 and 1994. The inclusion of American Southern for the first time in 1996 accounted for $4.3 million of the total increase. Management has continued to focus on increasing the Company's investments in short and medium maturity bonds and government backed securities. The carrying value of funds available for investment (which include cash, short-term investments, bonds, and common and preferred stocks) at December 31, 1996, increased approximately $4.8 million from 1995, primarily due to cash provided by operations of $8.4 million.

Realized investment gains were $1.6 million for 1996, compared to $1.7 million for 1995 and $870,000 for 1994. The changes in realized investment gains for these periods were primarily the result of adjustments made in the investment portfolio to increase the yield on invested assets.

Benefits and Expenses

Total insurance benefits and losses increased to $54.3 million in 1996 from $24.7 million in 1995 and $22.0 million in 1994. An increase of $27.9 million in 1996 was attributed to the Casualty Division, and $1.7 million was attributed to the Life and Health Division. The Casualty Division's increase is due to inclusion of American Southern's benefits and losses, accounting for $28.6 million of the increase, offset by a decrease in Georgia Casualty's benefits and losses of $698,000. The Life and Health Division's 1996 increase is mainly caused by an increase in reserves and claims resulting from increased life premiums, whereas 1995 reflected a decrease in reserves due to the elimination of a block of life insurance business sold through funeral homes.

As a percentage of premium revenue, insurance benefits and losses increased to 63.1% in 1996 from 56.9% in 1995 and 52.6% in 1994. The Life and Health Division's percentages increased to 54.0% in 1996 from 49.1% in 1995 and decreased from 57.1% in 1994. Georgia Casualty's percentages decreased to 62.0% in 1996 from 67.5% in 1995 and 77.2% in 1994. American Southern's percentage was 69.3% in its first year of operations as a subsidiary of the Company.

Commission and underwriting expenses increased to $27.0 million in 1996 from $15.2 million in 1995 and $13.3 million in 1994. The inclusion of American Southern accounted for $10.3 million of the $11.7 million increase in 1996. As a percentage of premium revenue, commission and underwriting expenses decreased to 31.3% in 1996 from 35.2% in 1995 and 32.0% in 1994. The Company had a net deferral of deferred acquisition costs of $280,000 in 1996 compared to a net amortization of deferred acquisition costs in 1995 of $736,000 and $113,000 in 1994. The net deferral of acquisition costs in 1996 was due to increased life sales, which have high first year commissions. The increase in the amortization of deferred acquisition costs in 1995 was due mainly to the elimination of the block of funeral home business. Underwriting expenses increased to $13.4 million in 1996 from $7.8 million in 1995 and $7.0 million in 1994. The increase in 1996 underwriting expense was primarily attributable to $4.3 million from newly acquired American Southern. Commissions have risen in the past three years from $6.4 million in 1994 and $6.7 million in 1995 to $13.8 million in 1996 due to the increased premiums in the Casualty Division, increased life insurance sales, and the acquisition of American Southern ($6.0 million of the 1996 increase in commissions).

Interest expense increased to $3.3 million in 1996 from $2.5 million in 1995 and $2.0 million in 1994. The increase in 1996 was due to the financing of the American Southern acquisition. Other expense increased by $534,000 in 1996 to $6.7 million, and by $786,000 in 1995 to $6.2 million from $5.4 million in 1994. The primary cause of the increase in other expense in 1996 was due to increased expenses of the Parent Company, primarily due to legal expenses. The increase in 1995 other expense was due in part to an increase of $248,000 in the expenses related to claims of the Company's self-insured employee group medical plan.

The Company's net tax provision of $204,000 in 1996 was for alternative minimum taxes, while the tax benefit in 1995 consisted of $9,000 of alternative minimum taxes offset by a benefit of $43,000 from overpayments of alternative taxes in the prior year. The Company's tax benefit in 1994 was $1.6 million, consisting primarily of the Company's reduction of its deferred tax balance in the insurance division by $350,000 upon settlement of a tax case with the IRS regarding tax years 1983 and 1984 and by $650,000 upon expiration of a time limitation with respect to another potential tax liability.

LIQUIDITY AND CAPITAL RESOURCES

The major cash needs of the Company are for the payment of claims and expenses as they come due and maintaining adequate statutory capital and surplus to satisfy state regulatory requirements. 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 $8.9 million in 1996 compared to $4.5 million in 1995 and $7.7 million in 1994. The 1996 statutory results were due to a profit of $5.6 million from American Southern, $2.0 million from Georgia Casualty, and $1.3 million from the Life and Health Division. The 1995 statutory results were due to a profit of $1.5 million from Georgia Casualty and a profit of $3.0 million in the Life and Health Division. The 1994 statutory results were comprised of a profit of $5.1 million in the Casualty Division (which includes the $4.9 million redundancy realized on the settlement of the workers' compensation liability previously discussed) and a profit of $2.6 million in the Life and Health Division.

Statutory results differ from the generally accepted accounting principles ("GAAP") results of operations for the Casualty Division due to the deferral of acquisition costs and interest expense on surplus notes being a direct charge to surplus and not an income statement item. The Life and Health Division's statutory results differ from GAAP primarily due to deferral of acquisition costs and different reserve methods. Management attempts to keep the maximum premium to surplus ratio at three to one for Georgia Casualty. As of December 31, 1996, Georgia Casualty had annualized premiums of $18.8 million and surplus of $13.6 million. Georgia Casualty's statutory surplus is no longer a concern since it has more than adequate statutory surplus due to a statutory recapitalization completed in the second quarter of 1994. In conjunction with the recapitalization, Georgia Casualty no longer pays the Company interest on the surplus notes that were subsequently converted to equity. The Company received dividends of $1.0 million in 1996 and $2.0 million in 1995 from Georgia Casualty.

On April 1, 1996, the Company completed a merger transaction pursuant to which the Company acquired the remaining publicly-held interest in Bankers Fidelity that the Company did not own. As a result of the merger, the Company owns 100% of the equity of Bankers Fidelity, and the public shareholders of Bankers Fidelity received $6.25 in cash per share, for an aggregate payout of approximately $1.3 million. The source of funds for the payment of the merger consideration, together with an estimated $225,000 in related expenses, was Bankers Fidelity's surplus account.

On November 26, 1996, the Company acquired the remaining publicly-held interest in Georgia Casualty. The transaction was completed through the merger of a newly formed wholly-owned subsidiary of the Company into Georgia Casualty, with Georgia Casualty being the surviving corporation in the merger. As a result of the transaction, the Company owns 100% of the equity of Georgia Casualty, and the remaining public shareholders of Georgia Casualty received $9.00 in cash per share, for an aggregate payout of approximately $20,000.

In connection with the acquisition of American Southern 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, of which $22.6 million was immediately drawn on December 31, 1995, to finance the cash portion of the purchase price. The remaining amount was borrowed on October 11, 1996 to finance the $11.4 million balance of the purchase price due on that date. At December 31, 1996, the Company had outstanding borrowings under the Credit Agreement of $30.0 million, of which approximately $4.0 million will become due and payable during 1997. 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.

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 did not pay the cumulative dividends on this preferred stock during 1996, nor does it intend to pay such dividends in 1997. At December 31, 1996, the Company had accrued but not paid dividends on its Series B preferred stock totaling $1.2 million.

The Company provides certain administrative and other services to each of its insurance subsidiaries. The amounts charged to and paid by the subsidiaries remained constant at $5.6 million in 1996 and 1995, but increased approximately $140,000 from 1994. In addition, the Company has a formal tax-sharing agreement between the Company and its insurance subsidiaries, to which American Southern was added in 1996. A net total of $3.4 million and $1.4 million were paid to the Company under the tax-sharing agreement in 1996 and 1995, 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 $51 million at December 31, 1996. Approximately 93% of the investment assets of the insurance subsidiaries, including American Southern, 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 its insurance subsidiaries are limited to the accumulated statutory earnings of the individual insurance subsidiaries. At December 31, 1996, Georgia Casualty had $8.5 million of accumulated statutory earnings, Bankers Fidelity Life had $7.0 million of accumulated statutory earnings, Atlantic American Life had $1.4 million of accumulated statutory deficit, and American Southern had $18.4 million of accumulated statutory earnings. The Company believes that the fees and charges 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. The Company anticipates that the funds to be used to retire the $5.6 million in outstanding principal amount of the Company's 8% convertible subordinated notes due May 15, 1997, will come from internal funds and bank financing. 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.

Net cash provided by operating activities totaled $8.4 million in 1996, compared to $3.2 million in 1995 and net cash used of $9.8 million in 1994. The Company incurred a total of $1.6 million in 1996 and $1.1 million in 1995 for additions to property and equipment, which mainly represent leasehold improvements and additions to the new computer system. Cash and short-term investments attributable to continuing operations increased from $4.0 million at December 31, 1994, to $15.1 million at December 31, 1995, due to the $3.2 million of cash provided by operations, net investment proceeds of $5.1 million, and the acquisition of American Southern's cash balance of $5.5 million at December 31, 1995. Cash and short-term investments increased to $45.5 million in 1996, an increase of $30.4 million due primarily to the sale of American Southern's tax free investments and reinvestment of the proceeds in short-term investments. This shift of American Southern's investments from long-term to short-term also accounts for the decrease in total investments (excluding short-term investments) to $142.5 million at December 31, 1996. Total investments (excluding short-term investments) increased to $168.1 million at December 31, 1995, from $96.4 million at December 31, 1994, due primarily to the purchase of American Southern.

DEFERRED TAXES

At December 31, 1996, the Company had a net cumulative deferred tax asset of zero. The net cumulative deferred tax asset consists of $26.0 million of deferred tax assets, offset by $9.8 million of deferred tax liabilities, and a $16.2 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. However, 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.

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 insurance segment attempts, in establishing its premiums, to anticipate the potential impact of inflation. For competitive reasons, however, premiums cannot be increased to anticipate inflation, in which event the Company's inflation costs would be absorbed. Inflation also affects the rate of investment return on the Company's investment portfolio with a corresponding effect on investment income.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders of
Atlantic American Corporation:

We have audited the accompanying consolidated balance sheets of Atlantic American Corporation (a Georgia corporation) and subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1996. 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 did not audit the 1995 consolidated balance sheet of American Southern Insurance Company, which reflects total assets of 38% of the consolidated 1995 assets. That balance sheet was audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the 1995 amounts included for that entity, is based solely on the report of the other auditors.

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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on the audits and the report of other auditors, the financial statements (pages 8 through 32) referred to above present fairly, in all material respects, the financial position of Atlantic American Corporation and subsidiaries as of December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Atlanta, Georgia
March 14, 1997

SUBSIDIARIES

Bankers Fidelity Life Insurance Company
J. MACK ROBINSON
Chairman
EUGENE CHOATE
President
HILTON H. HOWELL, JR.
Executive Vice President
JOHN W. HANCOCK
Senior Vice President and Treasurer
ANTHONY D. CHAPMAN
Vice President and Chief Marketing Officer, Agency Division
ROBERT E. OREAN
Vice President and Actuary
SHARON A. BUSCH
Assistant Vice President
PATRICIA F. MAYNE
Assistant Treasurer
JANIE L. RYAN
Assistant Secretary
GAIL T. ARNOLD
Assistant Secretary
Georgia Casualty & Surety Company
J. MACK ROBINSON
Chairman and President
HILTON H. HOWELL, JR.
Executive Vice President
LINDA S. COOK
Vice President, Secretary and Treasurer
GEORGE G. CLEMENTS
Vice President, Claims
SANDRA W. DOAR
Vice President, Underwriting
JACK R. BAKER
Assistant Vice President
JANIE L. RYAN
Assistant Secretary
American Southern Insurance Company
American Safety Insurance Company
ROY S. THOMPSON, JR.
Chairman
CALVIN L. WALL
Vice Chairman and Chief Executive Officer
SCOTT G. THOMPSON
President and Chief Financial Officer
THOMAS J. WHITTY
Senior Vice President, Claims
DAVID I. WEEKS
General Vice President
WANDA J. HULSEY
Vice President, Underwriting
BRIAN G. HAURYLAK
Vice President
JOHN R. HUOT
Vice President
GLENDA N. BATES
Treasurer
GAIL A. PARSONS
Secretary and Vice President
FRANK J. CICCONE
Vice President
ERNEST E. GRANT, JR.
Vice President
WILLIAM E. LYNCH
Vice President
BRIAN C. MOSS
Vice President
MICHAEL D. WINSTON
Vice President
TERESA P. GANN
Assistant Secretary

MARKET INFORMATION (UNAUDITED)

The common stock of the Company is traded in the over-the-counter market and is quoted on the NASDAQ National Market under the symbol "AAME". As of December 31, 1996, the Company had approximately 6,536 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. No common stock dividends have been paid since 1988.

	1996		1995	
	High	Low	High	Low
First quarter................	$3 1/4	$2 1/8	$2 3/4	$2
Second quarter...............	4	2 3/4	2 1/2	2
Third quarter................	3 5/8	3	2 7/8	1 7/8
Fourth quarter...............	3 5/8	3	3	2 1/8

	1996	1995	1994	1993	1992
December 31, stock price					

close per share............	$3 1/16	$2 5/16	$2 1/4	$1 3/4	$1 5/8
Stock price percentage of change from prior year.....	+32.4%	+2.8%	+28.6%	+8%	+116%

Shareholder Information

Annual Meeting

Atlantic American's annual meeting of shareholders will be held on Tuesday, May 6, 1997, 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 7, 1997, are entitled to vote at the meeting. 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.

Atlantic
American
Corporation

4370 Peachtree Road, N.E.
Atlanta, Georgia 30319-3000
Telephone: 404-266-5500
Telecopier: 404-266-5596
404-266-5699

EXHIBIT 21.1

SUBSIDIARIES OF THE REGISTRANT

Subsidiary	State of Incorporation
American Safety Insurance Company	Georgia
American Southern Insurance Company	Georgia
Atlantic American Life Insurance Company	Georgia
Bankers Fidelity Life Insurance Company	Georgia
Georgia Casualty & Surety Company	Georgia

EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included and incorporated by reference in this Form 10-K into the Company's previously filed registration statements (33-56866) on Form S-8.

ARTHUR ANDERSEN LLP

Atlanta, Georgia
March 14, 1997

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1,000

YEAR
DEC-31-1996
DEC-31-1996
0
91,310
91,310
37,762
6,812
46
142,485
45,499
26,854
15,179
252,994
120,459
25,100
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35,611
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164
18,712
40,260
252,994
86,025
11,457
1,589
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54,281
26,959
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7,815
(204)
7,611
(4,447)
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57,481
(4,802)
28,279
24,227
84,074
0