

September 30, 2005

Dear Shareholder:

We are pleased to report to you that the Board of AmerInst Insurance Group, Ltd. ("AmerInst" or the "Company") has declared the Company's forty-first consecutive dividend payable on September 30, 2005 to shareholders of record on September 1, 2005. Please note that going forward the Board has changed the dividend schedule to be made semi-annually, on September 15<sup>th</sup> and March 15<sup>th</sup> of each year. The enclosed represents the first semi-annual dividend payment at \$1.30 per share.

The balance of this letter reports on the Company's financial performance, value to shareholders, an update from the most recent Board of Directors meeting and other relevant information.

### **Financial Performance**

The Company recorded a net income of \$285,592 for the second quarter of 2005 compared to a net loss of \$326,045 for the same period of 2004. We recorded net income of \$603,328 for the six months ended June 30, 2005 compared to a net loss of \$249,800 for the six months ended June 30, 2004. This improvement was due to an increase in our net premiums earned, a decrease in our recorded losses, and an improvement of our investment returns. The book value per share at June 30, 2005 was \$72.59 compared to the audited book value of \$74.28 at December 31, 2004.

Our earned premiums for the second quarter of 2005 were \$2,301,932 compared to \$2,207,270 for the second quarter of 2004. Our net premiums earned for the first six months of 2005 were \$4,466,848 compared to \$4,256,420 for 2004. We recorded losses and loss adjustment expenses for the second quarter of 2005 of \$1,636,189 compared to \$1,764,244 for the second quarter of 2004, which is due to a decrease of our loss ratio from 79.9% for the second quarter of 2004 to 71.1% for the second quarter of 2005. We recorded losses and loss adjustment expenses of \$3,151,630 for the six months ended June 30, 2005 compared to \$3,400,935 for the six months ended June 30, 2004. The loss ratio represents our management's current estimate of the effective loss rate, selected in consultation with our independent consulting actuary.

We recorded net investment income of \$302,878 in the second quarter of 2005 compared to \$165,194 for the same period of 2004, an increase of \$137,684 or 83.3%. These results were primarily due to an increase in dividend income generated by the equity portfolio and an increase in net investment income generated by the fixed income portfolio. Net investment income through June 30, 2005 was \$538,052 compared to \$493,197 for the same period of 2004. We realized capital gains of \$536,815 during the quarter ended June 30, 2005, compared to \$89,876 in capital gains in the same period of 2004. We realized capital gains of \$962,224 during the six months ended June 30, 2005, compared to \$187,051 in capital gains in the same period of 2004.

Policy acquisition costs continued at the contractual rate. Other operating and management expenses increased from \$379,438 in the second quarter of 2004 to \$540,083 in the second quarter of 2005. We recorded operating and management expenses of \$893,755 during the six months ended June 30, 2005 compared to \$646,058 in the same period of 2004. The increase was primarily due to legal expenses attributable to the shareholder proposals incurred in 2005 compared to 2004. All quarterly data is available in our Form 10-Q for the six months ended June 30, 2005. We urge you to read the entire filing located at [http://www.AmerInst.bm/latest\\_sec\\_filings.asp](http://www.AmerInst.bm/latest_sec_filings.asp) or call our shareholder relations department at 1-800-422-8141 to order a copy by mail.

### **Shareholder Value**

Shareholders who originally invested \$25.00 per share in 1987 have received more than their original investment back in full (\$37.80 per share) and are continuing to benefit from the annual dividend payout and steady increases in the redemption value of their stock. Periodically, the Company compares its performance relative to other reinsurance companies. According to a recent comparison, AmerInst's operating performance and balance sheet ratios were ranked in the top quartile.

As you may know, the company has received permission from the Bermuda Monetary Authority to purchase common shares from individual shareholders who have died or retired from the practice of public accounting, and on a negotiated case-by-case basis without limit. Shareholders interested in selling their shares through either of these programs should contact our Shareholder Services Division: **AmerInst Insurance Group, Ltd. – Shareholder Services, P.O. Box 1330, Montpelier, VT 05601-1330, Tel: 1-800-422-8141/Fax: 802-229-6280, E-mail: [AmerInst@vim.usarisk.com](mailto:AmerInst@vim.usarisk.com).**

### **Annual Meeting Report**

The Annual General Meeting of the Company's shareholders was held on June 2, 2005 in Bermuda:

- Jeffrey I. Gillman, Irvin F. Diamond, Jerrell A. Atkinson, and John T. Schiffman were re-elected as directors of the Company.
- The shareholders re-appointed Deloitte & Touche as the Company's independent auditor.
- The shareholder proposal to maximize shareholder value by selling the Company was officially defeated 80% to 20%. Based on the number of shareholders voting, 411 opposed the resolution to 225 in favor of it, respectively representing 58% opposed and 42% in favor, excluding shares owned by Investco.
- The shareholder proposal to prohibit Investco from voting the shares of AmerInst it owns was officially defeated 72% to 28%. Based on the number of shareholders voting, 336 shareholders voted in favor and 316 voted in opposition, respectively representing 60% in favor and 40% opposed, excluding shares owned by Investco. Taking into account only shares not owned by Investco, including shares not voted or abstained, the vote in favor of the resolution was 23.4%.

### **Voting Policy**

Because a majority of the shareholders, excluding Investco, both in terms of shares owned and by head count favored the restriction, your Board decided to study the issues involved in Investco voting the AmerInst shares it owns. In my letter of June 15, 2005, I announced this would be taken up at the Board's September meeting.

In an effort to create liquidity, AmerInst's policy for many years has been to purchase shares of deceased and retiring shareholders at a fixed formula price and from other shareholders at negotiated prices. One of the reasons for domiciling in Bermuda was to permit Investco to purchase those shares using untaxed earnings, which facilitated the purchase of a greater number of shares than otherwise would be practical.

Under Bermuda law, AmerInst shares owned by Investco are not Treasury shares, but remain issued and outstanding. This results in their being part of Investco's investment portfolio, which is included in the "regulatory capital" of its parent, AmerInst Insurance Company Ltd. ("AIC"). This regulatory capital is increased when Investco receives AmerInst dividends, and will be increased if Investco sells any of the AmerInst shares at a gain.

It has been proposed that the shares purchased by Investco be cancelled. As of June 30, 2005, this would reduce AIC's regulatory capital by \$5.8 million or 25%. This reduction would have serious adverse consequences. First, it could jeopardize AmerInst's A.M.Best rating of A-1, which is important to CNA, the current source of almost all of AmerInst's premium income. The reduced regulatory capital would potentially limit the ability of AmerInst to accept additional premium from CNA or other cedants. It would also limit AmerInst's ability to directly underwrite malpractice policies if the market for accountants' professional liability insurance should severely harden. The potential impact on the relationship with CNA and the ability to provide stand-by underwriting capacity are directly contrary to the explicit purposes for which AmerInst was organized. For these reasons, the suggestion to cancel the AmerInst shares owned by Investco would be harmful to AmerInst and to all small accounting firms and individual practitioners.

Read literally, the shareholder's resolution would unconditionally preclude any voting of AmerInst shares by Investco. This is impractical because it was necessary for Investco to vote some of its shares to attain a quorum at the 2005 Annual Meeting, as well as for other Annual Meetings held since AmerInst became domiciled in Bermuda. If Investco could not vote the shares, it would be necessary to adjourn the meeting and recirculate proxies at considerable additional cost. Bermuda law requires each Bermuda company to conduct a general meeting each year.

Certain amendments of AmerInst By-laws and certain transactions, such as corporate amalgamations, require super-majority voting of all shares issued and outstanding. These requirements could not be met unless Investco voted some or all of its AmerInst shares.

Shareholder voting is also required for the election of directors and for shareholder resolutions. After extended discussion, the AmerInst Board has adopted a policy under which Investco will not vote AmerInst shares in director elections, except to attain a quorum, and will not vote its shares on shareholder resolutions wherein more than 50% of all of the shares outstanding, other than Investco shares, vote in favor of the resolution.

Although the focus has been on Investco's purchases of AmerInst shares to provide liquidity, some shareholders have expressed interest in purchasing AmerInst shares from Investco. Although SEC rules do not prohibit private sales of the shares of a public company, such as AmerInst, to "qualified investors," the Board has commenced

investigating the complex SEC issues involved in a public sale to shareholders and/or other investors.

#### **Other Information**

AmerInst plays a critical role in ensuring stability in the accountants' professional liability insurance market. We believe that the value inherent in being a public company, subject to the highest regulatory standards and rigorous supervision by the SEC, far outweighs the increased costs associated with Sarbanes-Oxley compliance. AmerInst takes very seriously our obligation to future generations of CPAs, and has adopted a conservative investment philosophy to ensure that the company operates with a strong capital foundation and can continue to fulfill its role for years to come.

Shareholder inquiries, requests for change of mailing or e-mail address, transfer, name change, and redemption of shares due to death, retirement or disability should continue to be referred to our Shareholder Services Division: **AmerInst Insurance Group, Ltd. – Shareholder Services, P.O. Box 1330, Montpelier, VT 05601-1330, Tel: 1-800-422-8141/Fax: 802-229-6280, E-mail: [AmerInst@vim.usarisk.com](mailto:AmerInst@vim.usarisk.com).**

AmerInst needs your up-to-date e-mail address and contact information. Please go to the website at <http://www.Amerinst.bm> and click on »Contact Us to update your records. In 2005, we introduced a shareholder newsletter, "AmerInst Advisor", to keep you abreast of the latest company reports.

Sincerely,

A handwritten signature in black ink, appearing to read "Ronald S. Katch". The signature is fluid and cursive, with a large initial "R" and "K".

Ronald S. Katch, CPA  
Chairman