



SMARTER
CHOICES

24th Annual Report

AmerInst
INSURANCE
GROUP, LTD.





Corporate Profile

AmerInst Insurance Group, Ltd. (“AmerInst” or “the Company”) is a Bermuda company established in July 1998. AmerInst is an insurance holding company with four principal subsidiaries: AmerInst Insurance Company, Ltd., AmerInst Investment Company, Ltd., and AmerInst Mezco, Ltd. in Bermuda, and AmerInst Professional Services, Limited in the United States. AmerInst Insurance Company, Ltd. reinsures professional liability insurance policies. Most of the shareholders of AmerInst are Certified Public Accountants or with CPA firms. AmerInst is a company that provides professional liability insurance for professional services firms.

Directors

Irvin F. Diamond

CPA
Senior Principal
REDW Business & Financial Resources, LLC

Jeffry I. Gillman

CPA
President
Gillman & Shapiro, P.A.

Stuart H. Grayston

Retired Insurance Executive

Jerome A. Harris

CPA
Managing Partner
Harris Consulting Group, LLC

David R. Klunk

CPA
Partner
Reinsel Kuntz Leshner LLP

Thomas B. Lillie

CPA
Director
Lewis and Knopf

David N. Thompson

Inactive CPA
Chief Executive Officer
E-Insure Services, Inc.

Officers

Chairman

Irvin F. Diamond

Vice Chairman

Jerome A. Harris

President

Stuart H. Grayston

Treasurer & Chief Financial Officer

Thomas R. McMahon

Secretary

Cilma Lamb

Assistant Secretary

**Waterstreet Corporate
Services Ltd.**

Assistant Secretary

David N. Thompson

Chairman Emeritus

Ronald S. Katch

CHAIRMAN'S REPORT



My fellow shareholders...

We are pleased to share our results with you and discuss some of the major factors that influenced our performance over the past year. As market volatility and economic challenges continue, many insurers are experiencing a more difficult climate to manage their businesses and raise capital. Believing that uncertainty can also create opportunities, we brought our professional liability insurance program for small law firms and solo practitioners online in January 2011. Results are progressing in line with revised forecasts and we are encouraged by the response.

As shareholders, you have been supportive of our efforts by recommending our products. We continue to focus on fulfilling our vision of professional liability insurance with affordable protection that is designed for small business. The advent of virtual technology, combined with our state of the art web-based program, is enabling accountants and lawyers to purchase insurance online and to manage their accounts from any location they choose. This enables us to achieve our goal: to engage customers, deliver what they want and need, and help them to make better business decisions.

PURSuing OPPORTUNITY

In its second year of operation, our wholly-owned subsidiary, AmerInst Professional Services, Limited (APSL), reached a turning point. In the 4th quarter of 2011, we wrote total premium of \$601,186 compared to \$154,860 in 2010. In that same period, the premium for accountants' professional liability insurance increased 218% year over year, with an impressive 90% renewal rate.

Under our existing agency agreement, APSL acts as the exclusive agent for Crum & Forster Insurance Group (C&F) to solicit, underwrite, quote, bind, issue, cancel, non-renew and endorse accountants' and lawyers' professional liability insurance coverage in all 50 states of the United States and the District of Columbia. Well-regarded for its financial strength, C&F is rated "A" (Excellent) by A. M. Best Co. The company is a provider of unique specialty insurance offerings and has been writing professional liability coverage for over 25 years.

Clearly, the professional liability insurance market is volatile and subject to unpredictable underwriting results. With a new business plan still in its formative years, it is difficult for us to predict the amount of revenue that will be generated under our existing agency agreement with C&F. Furthermore, our investment results are dependent on factors such as interest rates that cannot be controlled; and current market conditions and instability in global credit markets present additional risks which can adversely affect our financial condition. In spite of these concerns, we remain optimistic that our consistent approach and long-term track record will sustain our growth in the years ahead.

LEVERAGING OUR KNOWLEDGE AND EXPERIENCE

Our Company was created by CPAs for CPAs and was a reinsurer of the AICPA plan for two decades. We have leveraged our knowledge, expertise and relationships to accelerate our expansion into the professional liability insurance market. Our

accountants program is designed for sole practitioners and small firms. Focusing on price and protection, we have eliminated the cause of expensive malpractice suits by excluding large firms and those that perform public audits from our pool of insureds. Many of those companies tend to have high risk and greater claims severity.

90%

**Our renewal rate
for policyholders
from 2010 – 2011**

\$601,186

Total premium written in 4th quarter 2011

We recently launched a new Web 2.0 home page design for accountants. It streamlines the navigation process and provides quicker access to indications and quote information. Eliminating many of the manual steps that most professional liability insurance companies still employ allows us to pass greater cost savings on to our policyholders.

01.01.11

**Date that we began writing
lawyers' professional liability insurance**

Obtaining comprehensive coverage online is easy, fast, secure and paperless. Policyholders can experience electronic signature processing, pay premiums online and receive email verification - on their terms, whether they are in their office, traveling or in the privacy of their homes.

PROTECTION FOR SMALL LAW FIRMS

Through the years, we have become well versed in the complexities of the accounting profession. It seemed a logical extension to expand our program to solo and small law firms so that they could protect their assets with quality insurance coverage - at competitive rates they can afford. Our claims-made professional liability policy has limit and deductible options (and a host of features and benefits) tailored to their needs.

50

**Nationwide presence: licensed for accountants' and
lawyers' professional liability coverage in all 50 states
of the United States and the District of Columbia.**

A streamlined Web-based process includes online access to policy information, as well as superior claims, loss control and risk management services. For those who prefer a more personal touch, in-house licensed professional liability specialists are available to answer questions about what to expect when purchasing a policy, what is included in the program, limits of liability, exclusions or simply, how to manage an online account.

For more information about the smarter choices that are available or to renew a current policy, visit www.protexureaccountants.com or www.protexurelawyers.com.

A COMMITMENT TO SHAREHOLDERS

Financial strength and stability is essential for any insurance organization. We continue to reiterate the importance of our "A-" (Excellent) rating from A. M. Best Co. because that represents a vote of confidence in a company's ability to meet its obligations to policyholders and shareholders. Our rating was reaffirmed by A. M. Best in 2011, with an outlook that is stable. This reflects the Company's strong capitalization and experienced management team, as well as its niche expertise as a reinsurer of professional liability policies.

218%

**Increase in
accountants' premium
written year over year**

We also take pride in our record of paying consecutive dividends since 1995. The Company paid two semi-annual dividends in March and September 2011 of \$0.47 per share. However, some belt tightening forced us to lower our dividend in March 2012 to \$0.25 per share. This will allow us to maintain our A. M. Best Co. rating, continue to fund our new start-up operation and conserve surplus needed for the Company's reinsurance activities.

As APSL moves into its third year of operation, we extend our thanks to those who have contributed to our progress. Thank you to our shareholders and employees for your commitment and support.

We value the trust that you place in us and look forward to serving your professional liability needs in the years to come.

Sincerely,



Irvin F. Diamond, CPA/PFS, CFP®
Chairman

This Chairman's Letter contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, among others, statements about our beliefs, plans, objectives, goals, expectations, estimates and intentions that are subject to significant risks and uncertainties and are subject to change based on various factors, many of which are beyond our control. The words "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan," "target," "goal," and similar expressions are intended to identify forward-looking statements, as well as specific statements regarding (i) our ability to continue meeting our obligations to policyholders and shareholders, (ii) the progress and high percentage of policy renewals with our accountants' and lawyers' professional liability programs, (iii) our ability to maintain our A.M. Best Co. rating at or above its current level, and (iv) our ability to declare and pay dividends to our shareholders in the future. Some or all of the events or results anticipated by these forward-looking statements may not occur. Factors that could cause actual results to differ materially include difficult economic conditions and unexpected changes in insurance laws and regulations. Additional risk factors related to Amerinst and an investment in our common stock are contained in our filings with the Securities and Exchange Commission, including our annual report on Form 10-K for the year ended December 31, 2011. Amerinst does not undertake any duty nor does it intend to update the results of these forward-looking statements.

Protection for Generations of Professional Firms

RESULTS FOR THE YEAR

We recorded a net loss of \$1,069,160 and \$1,101,793 in 2011 and 2010, respectively. The net loss recorded for the year ended December 31, 2011 was largely attributable to operating and management expenses incurred by APSL, which were partially offset by net realized gains on investments and the recognition of the additional recoveries associated with the Arbitration, as defined in the Company's 10-K. The net loss recorded during the year ended December 31, 2010 was largely attributable to operating and management expenses incurred by APSL, which were partially offset by net realized gains on investments.

Our net premiums earned were \$412,840 for the year ended December 31, 2011 compared to \$157,140 for the year ended December 31, 2010, an increase of \$255,700 or 162.7%. The net premiums earned during 2011 and 2010 were attributable to net premium cessions from C&F under the Reinsurance Agreement, as defined in the Company's 10-K, in the amounts of \$423,364 and \$42,990 and to revisions to CAMICO premium estimates for prior years in the amounts of (\$10,524) and \$114,150, respectively. The increase in net premiums earned under the Reinsurance Agreement resulted from increased cessions from C&F in 2011, as a result of a higher level of underwriting activity under the Agency Agreement, as defined in the Company's 10-K, resulting from the continued and successful marketing of the program by APSL.

For the years ended December 31, 2011 and 2010, we recorded commission income under the Agency Agreement of \$388,488 and \$85,051, respectively, an increase of \$303,437 or 356.8%. This increase resulted from a higher volume of premiums written under the Agency Agreement in 2011.

We recorded net investment income of \$409,434 for the year ended December 31, 2011 compared to \$405,210 for the year ended December 30, 2010, an increase of \$4,224 or 1.0%. The increase is primarily attributable to the decrease in investment managers' fees that resulted from the reduction in the investment portfolio and a decrease in the amortization of premium on fixed income securities in 2011 as a result of (1) the purchase of securities with lower coupon rates and premiums and (2) the maturity of older securities with higher coupon rates and premiums. Annualized investment yield, calculated as total interest and dividends divided by the net average amount of total investments and cash and cash equivalents, was 1.6% in 2011, a marginal increase from the 1.4% yield earned in 2010.

As of December 31, 2011, our total investments were \$22,745,550, a decrease of \$3,813,939, or 14.4%, from \$26,559,489 at December 31, 2010. The decrease was primarily due to sales of certain equity securities, the maturity of two fixed

maturity securities and the decrease in the fair value of certain equity securities as a result of adverse market conditions. The cash and cash equivalents balance decreased from \$970,697 at December 31, 2010 to \$904,485 at December 31, 2011, a decrease of \$66,212 or 6.8%. The amount of cash and cash equivalents varies depending on the maturities of fixed term investments and on the level of funds invested in money market funds. The restricted cash and cash equivalents balance increased from \$84,256 at December 31, 2010 to \$435,924 at December 31, 2011, an increase of \$351,668 or 417.4%. The increase is due to the timing of sales and maturities of investments held as restricted cash at December 31, 2011 that have not yet been reinvested.

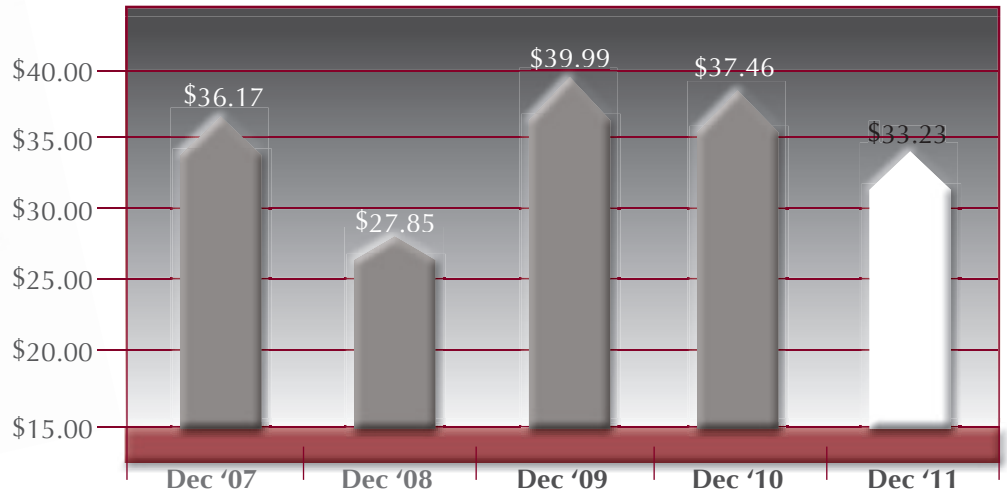
For the year ended December 31, 2011, we recorded loss and loss adjustment recoveries of \$153,028 as a result of the recognition of the additional recoveries awarded to the Company following the Arbitration in the amount of \$315,299, net of loss and loss adjustment expenses that resulted from reserves of \$328,580 established pursuant to the Reinsurance Agreement offset by favorable development on CAMICO and PDIC. For the year ended December 31, 2010, we recorded loss and loss adjustment expenses of \$26,869 that resulted from reserves of \$32,000 established pursuant to the Reinsurance Agreement offset by favorable development on CAMICO and PDIC.

We recorded policy acquisition costs of \$156,599 for the year ended December 31, 2011 compared to policy acquisition recoveries of \$12,209 for the year ended December 31, 2010. Policy acquisition costs, which are primarily ceding commissions paid to the ceding insurer, are established as a percentage of premiums written; therefore, any increase or decrease in premiums written will result in a similar increase or decrease in policy acquisition costs. The policy acquisition costs recorded for the year ended December 31, 2011 were 37.3% of the premiums earned under the Reinsurance Agreement of \$423,364, net of policy acquisition recoveries in the amount of \$1,192 that were attributable to the revisions to the CAMICO premium estimates for prior years as noted above. The policy acquisition recoveries recorded during the year ended December 31, 2010 were attributable to recoveries in the amount of \$28,116 in relation to the revisions to the CAMICO premium estimates for prior years, net of policy acquisition costs representing 37.0% of the premiums earned under the Reinsurance Agreement of \$42,990.

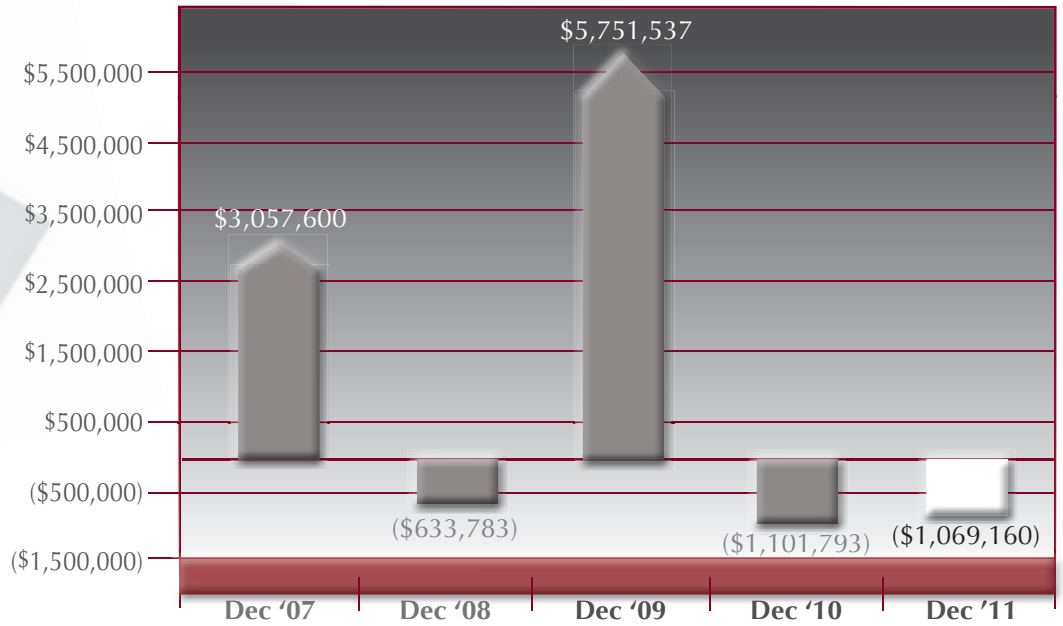
The Company expensed operating and management expenses of \$4,056,243 and \$4,091,078 during 2011 and 2010, respectively. The decline is largely attributable to a reduction in professional and marketing expenses incurred by APSL during the year compared to 2010 as a result of APSL bringing in-house most of its marketing and promotional work and reducing its reliance on third party contractors and service providers.

The book value per share of the Company's outstanding shares at December 31 was \$33.23 per share in 2011 and \$37.46 per share in 2010. The Company paid dividends during 2011 of \$615,993 consisting of semi-annual dividends paid in March and October of \$.47 per share. On March 2, 2012, the Board of Directors declared a semi-annual dividend of \$.25 per share to be paid on or before March 30, 2012 to shareholders of record on February 29, 2012.

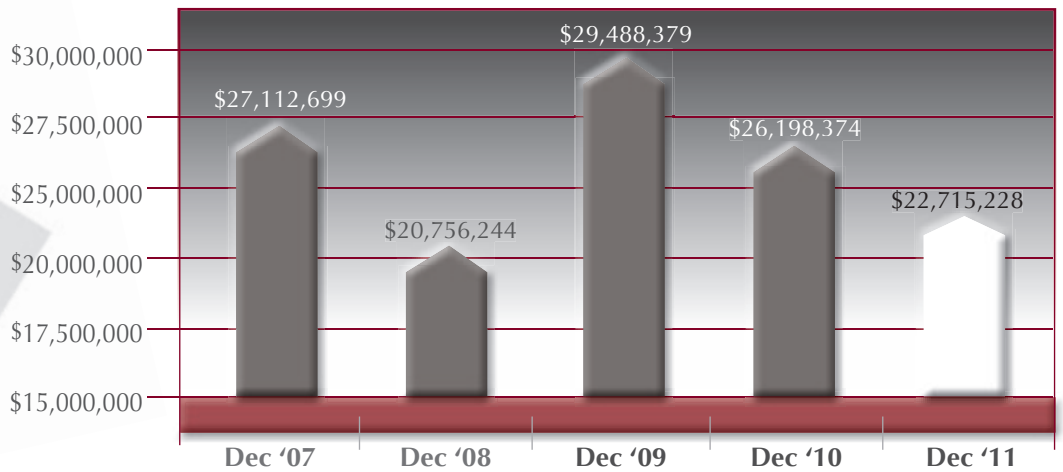
BOOK
VALUE
PER
SHARE



NET
INCOME
(LOSS)



SHARE-
HOLDERS'
EQUITY



**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

(Mark One)

Annual report pursuant to section 13 or 15 (d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2011

or

Transition report pursuant to section 13 or 15 (d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____.

000-28249

(Commission file number)

AMERINST INSURANCE GROUP, LTD.

(Exact Name of Registrant as Specified in its Charter)

BERMUDA

(State or other jurisdiction of
Incorporation or Organization)

98-0207447

(I.R.S. Employer
Identification No.)

c/o Cedar Management Limited
25 Church Street, Continental Building
P.O. Box HM 1601, Hamilton, Bermuda
(Address of Principal Executive Offices)

HMGX
(Zip Code)

(441) 295-6015

(Registrant's telephone number)

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

Securities registered pursuant to Section 12(g) of the Act:

COMMON SHARES, PAR VALUE \$1.00 PER SHARE

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. YES NO

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 NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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 Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check is a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

As of March 1, 2012, the registrant had 995,253 common shares, \$1.00 par value per share outstanding. The aggregate market value of the common stock held by non-affiliates of the Registrant as of the last business day of the Registrant's most recently completed second fiscal quarter was \$24,894,751 based on book value as of June 30, 2011.

Documents Incorporated by Reference

**Incorporated
By Reference
In Part No.**

Portions of the Company's Proxy Statement in connection with the Annual General Meeting of Shareholders to be held on May 31, 2012

III

AMERINST INSURANCE GROUP, LTD.

**Annual Report on Form 10-K
For the year ended December 31, 2011**

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Introductory Note

Caution Concerning Forward-Looking Statements

Certain statements contained in this Form 10-K, or otherwise made by our officers, including statements related to our future performance, ability to successfully implement our business plan, and our outlook for our businesses and respective markets, projections, statements of our management's plans or objectives, forecasts of market trends and other matters, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, and contain information relating to us that is based on the beliefs of our management as well as assumptions made by, and information currently available to, our management. The words "expect," "believe," "may" and similar expressions as they relate to us or our management are intended to identify forward-looking statements. Such statements reflect our management's current views with respect to future events and are subject to certain risks, uncertainties and assumptions that could cause actual results to differ materially from those reflected in any forward-looking statements. Our actual future results may differ materially from those set forth in our forward-looking statements. Factors that might cause such actual results to differ materially from those reflected in any forward-looking statements include, but are not limited to, the factors discussed in detail in Part I, Item 1A. "Risk Factors" and Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this form 10-K, as well as:

- our ability to generate increased revenues and positive earnings in future periods;
- the occurrence of catastrophic events with a frequency or severity exceeding our expectations;
- a decrease in the level of demand for insurance and reinsurance or an increase in the supply of reinsurance capacity;
- the successful implementation of our new business plan without a significant depletion of our cash resources, the maintenance of sufficient capital levels and the retention of our current A.M. Best rating;
- a worsening of the current global economic market conditions and global credit crisis and changing rates of inflation and other economic conditions;
- increased competitive pressures, including the consolidation and increased globalization of reinsurance providers;
- actual losses and loss expenses exceeding our loss reserves, which are necessarily based on the actuarial and statistical projections of ultimate losses;
- increased rate pressure on premiums;
- adequacy of our risk management and loss limitation methods;
- the integration of businesses we may acquire or new business ventures we may start;
- acts of terrorism, political unrest, outbreak of war and other hostilities or other non-forecasted and unpredictable events;
- changes in the legal or regulatory environments in which we operate; and
- other risks, including those risks identified in any of our other filings with the Securities and Exchange Commission.

The foregoing review of important factors should not be construed as exhaustive and should be read in conjunction with other cautionary statements that are included herein. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect our management's analysis only as of the date they are made. We undertake no obligation to release publicly the results of any future revisions we may make to forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

PART I

Item 1. Business

General

Unless otherwise indicated by the context, in this annual report we refer to AmerInst Insurance Group, Ltd. and its subsidiaries as the “Company,” “AmerInst,” “we” or “us.” “AMIC Ltd.” means AmerInst’s wholly-owned subsidiary, AmerInst Insurance Company, Ltd. “APSL” means AmerInst Professional Services, Limited, a Delaware corporation and wholly-owned subsidiary of AmerInst Mezco, Ltd. (“Mezco”) which is a wholly-owned subsidiary of AmerInst. “Investco” means AmerInst Investment Company, Ltd., a subsidiary of AMIC Ltd. “AMIG” means our predecessor entity, AmerInst Insurance Group, Inc., a Delaware corporation. Our principal offices are c/o Cedar Management Limited, 25 Church Street, Continental Building, P.O. Box HM 1601, Hamilton, Bermuda, HM GX.

AmerInst, a Bermuda holding company, was formed in 1998. Our mission is to be a company that provides insurance protection for professional service firms and engages in investment activities. AmerInst has two operating segments: (1) reinsurance activity, which includes investments and other activities, and (2) insurance activity, which offers professional liability solutions to professional service firms. The revenues of the reinsurance activity operating segment and the insurance activity operating segment were \$2,601,937 and \$388,717 for the year ended December 31, 2011 compared to \$2,918,696 and \$85,249 for the year ended December 31, 2010, respectively. The revenues for both operating segments were derived from business operations in the United States other than interest income on bank accounts maintained in Bermuda.

Entry into Agency Agreement

On September 25, 2009, APSL entered into an agency agreement (the “Agency Agreement”) with The North River Insurance Company, United States Fire Insurance Company, Crum & Forster Indemnity Company, Crum and Forster Insurance Company, and Crum & Forster Specialty Insurance Company (collectively, “C&F”) pursuant to which C&F appointed APSL as its exclusive agent for the purposes of soliciting, underwriting, quoting, binding, issuing, cancelling, non-renewing and endorsing accountants’ professional liability and lawyers’ professional liability insurance coverage in all 50 states of the United States and the District of Columbia. The initial term of the Agency Agreement is for four years with automatic one-year renewals thereafter.

Entry into Reinsurance Agreement

We conduct our reinsurance business through AMIC Ltd., our subsidiary, which is a registered insurer in Bermuda. On September 25, 2009, AMIC Ltd. entered into a professional liability quota share agreement with C&F (the “Reinsurance Agreement”) pursuant to which C&F agreed to cede, and AMIC Ltd. agreed to accept as reinsurance, a 50% quota share of C&F’s liability under insurance written by APSL on behalf of C&F and classified by C&F as accountants’ professional liability and lawyers’ professional liability, subject to AMIC Ltd.’s surplus limitations. The initial term of the Reinsurance Agreement is for four years with automatic one-year renewals thereafter.

Historical Relationship with CNA

Historically, the primary business activity of our wholly-owned insurance subsidiary, AMIC Ltd., had been to act as a reinsurer of professional liability insurance policies that were issued under the Professional Liability Insurance Plan sponsored by the American Institute of Certified Public Accountants (“AICPA”). The AICPA plan offers professional liability coverage to accounting firms and individual CPAs in all 50 states.

Our reinsurance activity depends upon agreements with outside parties. AMIG, our predecessor entity, began our reinsurance relationship with CNA Financial Corporation (“CNA”) in 1993.

On January 5, 2009, AMIC Ltd. received written notice from CNA that CNA did not intend to renew the reinsurance program encompassed by the AmerInst Insurance Company Limited Accountants Professional Liability Treaty and the Value Plan Policies Accountants Professional Liability Quota Share Treaty (the “Reinsurance Treaties”). In 2008, the business relationship with CNA accounted for approximately 95% of AmerInst’s net premiums earned.

On May 15, 2009, AMIC Ltd. and CNA entered into a Commutation Agreement whereby, effective January 1, 2009, in exchange for a payment of a portion of the reserves which we had previously set aside, CNA assumed responsibility for prior years’ undetermined and unpaid liabilities.

Historical Relationship with CAMICO

From June 1, 2005 through May 31, 2009, we were a party to a reinsurance contract with CAMICO Mutual Insurance Company (“CAMICO”), a California-based writer of accountants’ professional liability business.

We decided not to renew the CAMICO contract and permitted the contract to expire pursuant to its terms on May 31, 2009. We remain potentially liable for claims related to coverage through May 31, 2009.

VSC Payment

On July 22, 2009, the Company received a payment of \$500,891 from FFG Insurance Company, formerly known as Virginia Surety Company (“VSC”), in satisfaction of certain recoveries not previously remitted by VSC under retrocession contracts between the Company and VSC for the years 1989-1993. The \$500,891 payment was recorded as a decrease in losses and loss adjustment expenses for the year ended December 31, 2009. Following this payment, the Company initiated arbitration with VSC (the “Arbitration”) to seek additional recoveries in respect of unpaid losses, unpaid premiums, fees and interest. During the arbitration, VSC conceded that \$25,785 in unpaid premiums was due and a payment was remitted to the Company. On October 8, 2011, the Company was formally awarded \$289,514 as a result of the Arbitration’s final outcome. The award represented unpaid losses of \$241,943, fees of \$11,280 and interest of \$36,291. The total net award of \$315,299 from VSC was recorded as a decrease in losses and loss adjustment expenses in the third quarter of 2011.

Attorneys’ Professional Liability Coverage

On January 1, 2003, we entered into a 15% participation of Professionals Direct Insurance Company’s (“PDIC”) attorneys’ professional liability first excess cover. This participation terminated on December 31, 2003. The final reported claim was closed during 2011, and although we no longer anticipate, we will be liable for further claims related to this period of coverage, there is a remote possibility further claims could be reported.

Third-party Managers and Service Providers

Cedar Management Limited provides the day-to-day services necessary for the administration of our business. Our agreement with Cedar Management Limited renewed for one year beginning January 1, 2012 and ending December 31, 2012. Mr. Stuart Grayston, our President, was formerly a director and officer of Cedar Management Limited, and Mr. Thomas R. McMahon, our Treasurer and Chief Financial Officer, is a shareholder, officer, director and employee of Cedar Management Limited.

Mowery & Schoenfeld, LLC, an accounting firm affiliated with a former director and chairman emeritus, provides accounting functions to APSL. Our agreement with Mowery & Schoenfeld, LLC renewed for one year beginning January 1, 2012 and ending December 31, 2012, pursuant to a letter of understanding dated February 20, 2012. While the letter of understanding has no termination notice clause, it can be terminated by either party.

The Country Club Bank of Kansas City, Missouri, provides portfolio management of fixed-income securities and directs our investments pursuant to guidelines approved by us. Harris Associates L.P. and Aurora Investment Management, LLC provide discretionary investment advice with respect to our equity investments. We have retained Oliver Wyman, an independent casualty actuarial consulting firm, to render advice regarding actuarial matters.

Competition

Our main competition comes from brokers and agents that service accountants and attorneys; for accountants, primarily AON Corporation, a large international corporation with 36,000 employees in over 120 countries which has a relationship with CNA Financial Corporation, and CAMICO Mutual Insurance Company, a California-based writer of accountants' professional liability insurance. In the lawyers market, there are several competitors varying by state including CNA, Hanover, Travelers, Darwin and State Bar programs.

Licensing and Regulation

The rates and terms of reinsurance agreements generally are not subject to regulation by any governmental authority. This is in contrast to direct insurance policies, the rates and terms of which are subject to regulation by state insurance departments. As a practical matter, however, the rates charged by primary insurers place a limit upon the rates that can be charged by reinsurers.

AmerInst, through its wholly-owned subsidiary, AMIC Ltd., is subject to regulation under the insurance laws of Bermuda, where AMIC Ltd. and AmerInst are domiciled.

APSL, a Delaware corporation, subsidiary of Mezco and a managing general underwriter responsible for offering professional liability solutions to professional service firms, continues to work closely with C&F to secure regulatory approval from various state insurance departments. As of December 31, 2011, APSL has received regulatory approval to act as an insurance agent in 50 states and the District of Columbia.

Bermuda Regulation

AMIC Ltd., as a licensed Bermuda insurance company, is subject to regulation under The Insurance Act of 1978, as amended, and Related Regulations (collectively, the "Insurance Act"), which provide that no person shall conduct insurance business, including reinsurance, in or from Bermuda unless registered as an insurer under the Insurance Act by the Bermuda Monetary Authority ("BMA"). In deciding whether to grant registration, the BMA has discretion to act in the public interest. The BMA is required by the Insurance Act to determine whether an applicant for registration is a fit and proper body to be engaged in insurance business and, in particular, whether it has, or has available to it, adequate knowledge and expertise. In connection with registration, the BMA may impose conditions relating to the writing of certain types of insurance.

The Insurance Act requires, among other things, that Bermuda insurance companies meet and maintain certain standards of liquidity and solvency, file periodic reports in accordance with the Bermuda Statutory Accounting Rules, produce annual audited statutory financial statements and annual audited financial statements prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") or International Financial Reporting Standards ("IFRS") and maintain a minimum level of statutory capital and surplus. All Bermuda insurers must also comply with the BMA's Insurance Code of Conduct ("ICIC"), which came into force on July 1, 2011. The ICIC establishes duties, requirements and standards to be complied with under the Act. Failure to comply with the requirements of the ICIC will be a factor taken into account by the BMA in determining whether an insurer is conducting its business in a sound and prudent manner under the Act. In general, the regulation of insurers in Bermuda relies heavily upon the directors and managers of a Bermuda insurer, each of whom must certify annually that the insurer meets the solvency, liquidity and capital requirements of the Insurance Act. Furthermore, the BMA is vested with powers to supervise, investigate and intervene in the affairs of Bermuda insurance companies. Significant aspects of the Bermuda insurance regulatory framework are described below.

An insurer's registration may be canceled by the BMA on grounds specified in the Insurance Act, including the failure of the insurer to comply with the obligations of the Insurance Act or if, in the opinion of the BMA, the insurer has not been carrying on business in accordance with sound insurance principles.

Every registered insurer must appoint an independent auditor approved by the BMA. That auditor must annually audit and report on the statutory financial statements and the statutory financial return of the insurer, both of which are required to be filed annually with the BMA. The approved auditor may be the same person or firm that audits the insurer's financial statements and reports for presentation to its shareholders.

The Insurance Act provides that the statutory assets of an insurer must exceed its statutory liabilities by an amount greater than the prescribed minimum solvency margin. Pursuant to the Insurance Act, AMIC Ltd. is registered as a Class 3A insurer and, as such: (i) is required to maintain a minimum solvency margin equal to the greatest of: (x) \$1,000,000, (y) 20% of net premiums written in its current financial year up to \$6,000,000 plus 15% of net premiums written in its current financial year over \$6,000,000, or (z) 15% of loss reserves; (ii) is required to file annually with the BMA a statutory financial return together with a copy of its statutory financial statements which includes a report of the independent auditor concerning its statutory financial statements, a declaration of the statutory ratios, and the related solvency certificate, an opinion of a loss reserve specialist in respect of its loss and loss expense provisions and audited annual financial statements prepared in accordance U.S. GAAP or IFRS, all within four months following the end of the relevant financial year; (iii) is prohibited from declaring or paying any dividends during any financial year if it is in breach of its minimum solvency margin or minimum liquidity ratio or if the declaration or payment of such dividends would cause it to fail to meet such margin or ratio (if it fails to meet its minimum solvency margin or minimum liquidity ratio on the last day of any financial year, it will be prohibited, without the approval of the BMA, from declaring or paying any dividends during the next financial year); (iv) is prohibited, without the approval of the BMA, from reducing by 15% or more its total statutory capital, as set out in its previous year's financial statements; and (v) if it appears to the BMA that there is a risk of an AMIC Ltd. becoming insolvent or that AMIC Ltd. is in violation of the Insurance Act or any conditions imposed upon AMIC Ltd.'s registration, the BMA may, in addition to the restrictions specified above, direct it not to declare or pay any dividends or any other distributions or may restrict AMIC Ltd. from making such payments to such extent as the BMA deems appropriate.

All Class 3A insurers are also required to maintain available statutory capital and surplus at a level equal to or in excess of their enhanced capital requirement ("ECR"). The applicable ECR is established by reference to either The Bermuda Solvency Capital Requirement, which employs a standard mathematical model that can relate more accurately the risks taken on by insurers to the capital that is dedicated to their business, or a BMA-approved internal capital model.

The Insurance Act also provides a minimum liquidity ratio for general business. An insurer engaged in general business is required to maintain the value of its relevant assets at not less than 75% of the amount of its relevant liabilities. Relevant assets include cash and time deposits, quoted investments, unquoted bonds and debentures, first liens on real estate, investment income due and accrued, accounts and premiums receivable and reinsurance balances receivable. There are certain categories of assets which, unless specifically permitted by the BMA, do not automatically qualify such as advances to affiliates, real estate and collateral loans. The relevant liabilities are total general business insurance reserves and total other liabilities less deferred income tax and sundry liabilities (by interpretation, those not specifically defined).

The BMA may appoint an inspector with extensive powers to investigate the affairs of an insurer if the BMA believes that an investigation is required in the interest of the insurer's policyholders or persons who may become policyholders. In order to verify or supplement information otherwise provided to him, the BMA may direct an insurer to produce documents or information in relation to matters connected with the insurer's business.

If it appears to the BMA that there is a risk of an insurer becoming insolvent, or if the insurer is in violation of the Insurance Act or the regulations or of any condition imposed on its registration as an insurer, the BMA

may direct the insurer in certain respects, including not to take on any new insurance business; not to vary any insurance contract if the effect would be to increase the insurer's liabilities; not to make certain investments; to realize certain investments; to maintain in, or transfer to and to keep in the custody of, a specified bank, certain assets; not to declare or pay any dividends or other distributions or to restrict the making of such payments; and/or to limit its premiums.

As a Bermuda insurer, we are required to maintain a principal office in Bermuda and to appoint and maintain a Principal Representative in Bermuda. For the purpose of the Insurance Act, our principal office is c/o Cedar Management Limited, 25 Church Street, Continental Building, P.O. Box HM 1601, Hamilton HMGX, Bermuda, which is our Principal Representative in Bermuda. An insurer may only terminate the appointment of its Principal Representative with a reason acceptable to the BMA, and the Principal Representative may not cease to act as such, unless the BMA is given 21 days' notice in writing of the intention to do so. It is the duty of the Principal Representative, upon determining that there is a likelihood of the insurer for which it acts becoming insolvent or it coming to his knowledge, or his having reason to believe, that an "event" has occurred, to provide verbal notification immediately, and make a report in writing to the BMA setting out all the particulars of the case that are available to him within 14 days. Examples of such an "event" include, but not limited to, failure by the insurer to comply substantially with a condition imposed upon the insurer by the BMA relating to a solvency margin or liquidity or other ratio.

Except for business related to APSL, our business is conducted from offices in Hamilton, Bermuda. We manage our investments, directly and through AMIC Ltd., through independent investment advisors in the U.S. or other investment markets as needed and appropriate. We do not operate as an investment manager or as a broker-dealer requiring registration under investment advisory or securities broker regulations in the U.S., Bermuda or otherwise. The directors and officers of AMIC Ltd. negotiate reinsurance treaties for acceptance in Bermuda. Among other matters, the following business functions are conducted from our Bermuda offices: (i) communications with our shareholders, including financial reports; (ii) communications with the general public of a nature other than advertising; (iii) solicitation of the sale by us or any of our subsidiaries of shares in any of such entities; (iv) accepting subscriptions of new shareholders of the Company; (v) maintenance of principal corporate records and original books of account; (vi) audit of original books of account; (vii) disbursement of funds in payment of dividends, claims, legal fees, accounting fees, and officers' and directors' fees; (viii) arrangement for and conduct of meetings of our shareholders and directors and shareholders and directors of our subsidiaries; and (ix) execution of repurchases of our shares and shares of our subsidiaries. Except for our APSL office, we do not maintain an office or place of business in the United States.

AMIC Ltd.'s ability to pay dividends to AmerInst is subject to the provisions of the Bermuda insurance and companies laws and the requirement to provide the ceding companies with collateral. Under the Companies Act, AMIC Ltd. would be prohibited from declaring or paying a dividend at December 31, 2011 if such payment would reduce the realizable value of its assets to an amount less than the aggregate value of its liabilities, issued share capital, and share premium accounts. As of December 31, 2011, approximately \$32 million was available for the declaration of dividends to shareholders. However, due to the requirement to provide the ceding companies with collateral, approximately \$22 million was available for the payment of dividends to the shareholders. In addition, AMIC Ltd. must be able to pay its liabilities as they become due in the ordinary course of its business after the payment of a dividend. Our ability to pay dividends to our shareholders and to pay our operating expenses is dependent on cash dividends from our subsidiaries. The payment of such dividends by AMIC Ltd., including its subsidiary Investco, to us is also limited under Bermuda law by the Insurance Act and Related Regulations which require that AMIC Ltd. maintain minimum levels of solvency and liquidity as described above. For the years ended December 31, 2011 and 2010 these requirements have been met as follows:

| | Statutory Capital & Surplus | | Relevant Assets | |
|-----------------------------|--|---------------|------------------------|---------------|
| | <u>Minimum</u> | <u>Actual</u> | <u>Minimum</u> | <u>Actual</u> |
| December 31, 2011 | \$1,000,000 | \$33,315,313 | \$9,342,872 | \$10,815,518 |
| December 31, 2010 | \$1,000,000 | \$32,209,291 | \$9,231,848 | \$10,869,403 |

AMIC Ltd. writes more than 50% unrelated business and consequently, in accordance with the requirements of the Insurance Amendment Act 2008, is registered as a Class 3A insurer.

Customers

Our only sources of income, other than our investment portfolio, are our Agency Agreement and Reinsurance Agreement. Without such agreements, we believe current levels of investment income would provide enough revenue to continue operations while the Company evaluated other reinsurance and insurance opportunities.

Employees

At December 31, 2011, APSL had 15 employees, 9 full-time salaried employees and 6 employees who are paid hourly wages. Neither AmerInst, nor any of our other subsidiaries have any employees.

Loss Reserves

Our loss reserves, changes in aggregate reserves for the last two years, and loss reserve development as of the end of each of the last ten years, are discussed in Item 7 of this Report, "Management's Discussion and Analysis of Financial Condition and Results of Operations," Note 2 to our Consolidated Financial Statements included in Item 8 of this Report, and Note 5 to our Consolidated Financial Statements.

Developing Business

AmerInst has filed an application with the U.S. Patent and Trade Office for a patent on a unique financing concept called RINITIS™ that it has developed to securitize insurance and reinsurance risk, involving property, casualty, life and health. Such securitization would be by equity and debt financing of Bermuda special purpose companies licensed as reinsurers. It is AmerInst's intention to grant patent licenses to the special purpose companies and investment banking organizations which will market the securities. In addition to the license royalties, AmerInst would manage the special purpose companies for a fee and at its option could invest in them as well. However, AmerInst may not be issued a patent, and, even if so, may not be able to license such patent.

In addition to the patent application, AmerInst has obtained a trademark under which the concept will be marketed.

The disclosure of RINITIS™ as a separate operating segment was discontinued in the fourth quarter of 2010 for it no longer met the quantitative thresholds as prescribed by Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 280, "Segment Reporting".

Available Information

We file annual, quarterly, and current reports, proxy statements and other information with the Securities and Exchange Commission ("SEC" or the "Commission"). You may read any document we file with the Commission at the Commission's public reference room at 100 F Street, NE, Washington, DC 20549. Please call the Commission at 1-800-SEC-0330 for information on the public reference room. The Commission maintains an internet site that contains annual, quarterly, and current reports, proxy and information statements and other information that issuers (including AmerInst) file electronically with the Commission. The Commission's internet site is www.sec.gov.

Our internet site is www.amerinst.bm. We make available free of charge through our internet site our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to the Securities Exchange Act of 1934, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Commission. You will need to have on your

computer the Adobe Acrobat Reader® software to view these documents, which are in PDF format. If you do not have Adobe Acrobat Reader, a link to Adobe's internet site, from which you can download the software, is provided. We also make available, through our internet site, via links to the Commission's internet site, statements of beneficial ownership of our equity securities filed by our directors, officers, 10% or greater shareholders and others under Section 16 of the Securities Exchange Act. In addition, we post on www.amerinst.bm our Memorandum of Association, our Bye-Laws, our Statement of Share Ownership Policy, Charters for our Audit Committee and Governance and Nominations Committee, as well as our Code of Business Conduct and Ethics. You can request a copy of these documents, excluding exhibits, at no cost, by writing or telephoning us c/o Cedar Management Limited, 25 Church Street, Continental Building, P.O. Box HM 1601, Hamilton, Bermuda HMGX, Attention: Investor Relations (441) 295-6015. The information on our internet site is not incorporated by reference into this report.

Item 1A. Risk Factors

You should consider carefully the following risk factors before deciding whether to invest in our common stock. Our business, including our operating results and financial condition, could be harmed by any of these risks. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business. The value of our common stock could decline due to any of these risks, and you may lose all or part of your investment. In assessing these risks you should also refer to the other information contained in our filings with the SEC, including our financial statements and related notes.

We have incurred net losses for 2010 and 2011 and may incur further losses if we are unable to generate significant revenues under our existing agency and reinsurance agreements.

We incurred net losses of \$2.3 million and \$1.2 million for the years ended December 31, 2011 and December 31, 2010, respectively, primarily due to the loss of our most significant customer in 2009. On January 5, 2009, AMIC Ltd., our wholly-owned subsidiary, received written notice from CNA that CNA did not intend to renew its reinsurance agreement with us regarding the AICPA Plan. In 2008, our business relationship with CNA accounted for over 95% of our net premiums earned. On May 15, 2009, AMIC Ltd. and CNA entered into a Commutation and Release Agreement whereby, effective January 1, 2009, in exchange for a payment of a portion of the reserves which we had previously set aside, CNA assumed responsibility for prior years' undetermined and unpaid liabilities.

Effective September 25, 2009, APSL, a wholly-owned subsidiary of AmerInst Mezco, Ltd. which is a wholly-owned subsidiary of AmerInst, entered into the Agency Agreement with C&F pursuant to which C&F appointed APSL as its exclusive agent for the purposes of soliciting, underwriting, quoting, binding, issuing, cancelling, non-renewing and endorsing accountants' professional liability and lawyers' professional liability insurance coverage in all 50 states of the United States and the District of Columbia. Also on September 25, 2009, AMIC Ltd. entered into the reinsurance agreement with C&F pursuant to which C&F agrees to cede and AMIC Ltd. agrees to accept as reinsurance a fifty percent (50%) quota share of C&F's liability under insurance written by APSL on behalf of C&F and classified by C&F as accountants' professional liability and lawyers' professional liability.

Because our new business plan is still in its formative years, the Agency Agreement and Reinsurance Agreement and our ability to generate revenue under either agreement is unproven, neither agreement may result in material revenue or profit which would adversely affect our financial condition and results of operations.

If our agreements with C&F are terminated or C&F chooses not to renew them, our ability to generate revenue would be adversely affected.

We anticipate that the great majority of our revenue in the near future will be derived from (i) the commissions earned by APSL, a wholly-owned subsidiary of Mezco which is a wholly-owned subsidiary of

AmerInst, through the Agency Agreement with C&F and (ii) the reinsurance activity under the Reinsurance Agreement between AMIC Ltd., our wholly-owned subsidiary, and C&F. Therefore if C&F should terminate or choose not to renew one or both of those agreements or should renew them on terms less favorable to us, our ability to generate revenue may be adversely affected.

We participate in a potentially unprofitable, unstable industry.

The professional liability insurance industry is volatile and often sees fluctuations both in the frequency and severity of claims, particularly severity. This is aggravated by the casualty insurance cycle, which over a period of years varies from a hard market with high or increasing premiums charged for risk, to a soft market with low or decreasing premiums being charged. The combination of volatility and insurance cycle variation results in a high degree of unpredictability of underwriting results from year to year. Because as a reinsurer, we will be directly influenced by the premium competition in the primary market, and as a quota share reinsurer, we will be directly dependent on the underwriting results of our cedants, our revenue could be adversely affected by factors beyond our control.

Our industry is highly competitive and we may not be able to compete successfully in the future.

Our industry is highly competitive and subject to pricing cycles that can be pronounced. We compete solely in the United States reinsurance and insurance markets. Most of our competitors have greater financial resources than we do and have established long term and continuing business relationships throughout the industry, which can be a significant competitive advantage. If we are unable to successfully compete against these companies our profitability could be adversely affected.

Our investment return may not be sufficient to offset underwriting losses which could negatively impact our net income.

Our investment income is subject to variation due to fluctuations of market interest rates on our fixed-income portfolio, and fluctuations of stock prices in our equity portfolio. If such investment income is not sufficient to offset potential underwriting losses or our capital is not sufficient to absorb adverse underwriting and/or investment results, our profitability would be adversely affected.

Our inability to retain senior executives and other key personnel could adversely affect our business.

The successful implementation of our new business plan is dependent upon our ability to retain APSL senior executives and other qualified employees. In November 2009, we entered into an employment agreement with Mr. Kyle Nieman, President and CEO of APSL. Mr. Nieman has more than 25 years of insurance industry experience. In addition, a number of AmerInst's operating activities as well as certain management functions are performed by outside parties. If such outside parties and our key employees were not to renew their relationship with us, or only upon terms that were not acceptable to us, our business could be harmed.

Your ownership of our shares does not guarantee insurance coverage.

The ownership of our common shares by an accounting firm, legal firm or individual practitioner will not guarantee that such firm or individual will thereafter be able to obtain professional liability insurance under other policies reinsured by AMIC Ltd., or that such insurance will be competitively priced.

There is no market for our shares and our shares are subject to restrictions on transfer.

There is currently no market for our common shares and it is unlikely that a market will develop. Our common shares are not listed on any stock exchange or automated quotation system. Under our Bye-Laws, our Board of Directors has the authority to prohibit all transfers of our shares. Further, because an integral part of the value of our common shares is our commitment to utilize the insurance capacity of AMIC Ltd. for the benefit of our shareholders, it is unlikely that any individual or entity other than sole practitioners, accounting firms and legal firms would be interested in purchasing our common shares.

Reinsurance may not be available to us which could increase our risk of incurring losses.

In order to limit the effect of large and multiple losses on our financial condition, AMIC Ltd. may, in the future, seek reinsurance for its own account. From time to time, market conditions have limited the availability of reinsurance, and in some cases have prevented insurers and reinsurers from obtaining the types and amounts of reinsurance which they consider adequate for their business needs. If AMIC Ltd. is unable to obtain the desired amounts of reinsurance, or, if it is able to obtain such reinsurance only on terms not sufficiently favorable to operate profitably, we could be adversely affected.

Difficult conditions in the economy generally may materially and adversely affect our business and results of operations, and these conditions may not improve in the near future.

Current market conditions and the instability in the global credit markets present additional risks and uncertainties for our business. Depending on market conditions going forward, we could incur substantial additional realized and unrealized losses in future periods, which could have an adverse impact on our results of operations and financial condition. The recent market volatility may also make it more difficult to value certain of our securities if trading becomes less frequent. As such, valuations may include assumptions or estimates that may have significant period-to-period changes that could have a material adverse effect on our results of operations or financial condition.

Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.

Despite the security measures taken by Cedar Management Limited, our management company, APSL and our consultants, their information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise their networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, and regulatory penalties and damage our reputation, which could adversely affect our business.

We may be impacted by claims relating to the recent financial market turmoil.

We reinsure professional liability insurance for certified public accountants and attorneys. The financial institutions and financial services segment has been particularly impacted by the recent financial market turmoil. As a result, accountants and lawyers that service this industry may be subject to additional claims. This may give rise to increased litigation, including class action suits, which may involve clients of parties for which we provide reinsurance. To the extent we have claims relating to these events, it could cause substantial volatility in our financial results and could have a material adverse effect on our financial condition and results of operations.

Actual claims may exceed our reserves for losses and loss expenses which could cause our earnings to be overstated.

Our success depends on our ability to accurately assess the risks associated with the businesses that we reinsure. We establish loss reserves to cover our estimated liability for the payment of all losses and loss expenses incurred with respect to the policies we write. Loss reserves do not represent an exact calculation of liability. Rather, loss reserves are estimates of what we expect the ultimate resolution and administration of claims will cost. These estimates are based on actuarial and statistical projections and on our assessment of currently available data, as well as estimates of future trends in claims severity and frequency, judicial theories of liability and other factors. Loss reserve estimates are refined as experience develops and claims are reported and resolved. Establishing an appropriate level of loss reserves is an inherently uncertain process. It is therefore possible that our reserves at any given time will prove to be inadequate.

We have estimated our net losses based on actuarial analysis of claims information. Actual losses may vary from those estimated and will be adjusted in the period in which further information becomes available. To the extent we determine that actual losses or loss expenses exceed our expectations and reserves reflected in our financial statements, we will be required to increase our reserves to reflect our changed expectations. Material additions to our reserves would adversely impact our net income and capital in future periods while having the effect of overstating our current period earnings.

Legislative and regulatory requirements could have a material adverse effect on our business.

We and our subsidiaries are required to comply with a wide variety of laws and regulations applicable to insurance or reinsurance companies. The insurance and regulatory environment, in particular for offshore insurance and reinsurance companies, has become subject to increased scrutiny in many jurisdictions, including in the United States. In the past, there have been Congressional and other initiatives in the United States regarding increased supervision and regulation of the insurance industry. It is not possible to predict the future impact of changes in laws and regulations on our operations. The cost of complying with any new legal requirements could have a material adverse effect on our business.

Our Bermuda insurance subsidiary, AMIC Ltd., is registered as a Class 3A insurer and is subject to regulation and supervision in Bermuda. The applicable Bermuda statutes and regulations generally are designed to protect insureds and ceding insurance companies rather than shareholders or noteholders. Among other things, those statutes and regulations require AMIC Ltd. to:

- meet and maintain certain standards of liquidity and solvency,
- file periodic reports in accordance with the Bermuda Statutory Accounting Rules,
- produce annual audited statutory financial statements,
- produce annual audited U.S. GAAP statements,
- comply with the ICIC, and
- comply with restrictions on payments of dividends and reductions of capital.

Our Bermuda entities could become subject to regulation or taxation in the United States.

None of our Bermuda entities are licensed or admitted as an insurer, nor accredited as a reinsurer, in any jurisdiction in the United States. However, we anticipate that in the near future the majority of our revenue will be derived from (i) commissions earned by APSL, our Delaware subsidiary, through the Agency Agreement with C&F and (ii) the Reinsurance Agreement between AMIC Ltd. and C&F which represent a group of companies domiciled primarily in the United States. We conduct our insurance business through offices in Bermuda and do not maintain an office, nor do our personnel solicit insurance business, resolve claims or conduct other insurance business, in the United States. While we do not believe we are in violation of insurance laws of any jurisdiction in the United States, we cannot be certain that inquiries or challenges to our insurance and reinsurance activities will not be raised in the future. It is possible that, if we were to become subject to any laws of this type at any time in the future, we would not be in compliance with the requirements of those laws.

We believe that our non-U.S. companies have operated and will continue to operate their respective businesses in a manner that will not cause them to be subject to U.S. tax (other than U.S. federal excise tax on insurance and reinsurance premiums and withholding tax on specified investment income from U.S. sources) on the basis that none of them are engaged in a U.S. trade or business. However, there are no definitive standards under current law as to those activities that constitute a U.S. trade or business and the determination of whether a non-U.S. company is engaged in a U.S. trade or business is inherently factual. Therefore, it is possible that the U.S. Internal Revenue Service might contend that one or more of our non-U.S. companies is engaged in a U.S. trade or business. If AMIC Ltd. or any of our other non-U.S. companies is engaged in a U.S. trade or business and does not qualify for benefits under the applicable income tax treaty, such company may be subject

to (i) U.S. federal income taxation at regular corporate rates on its premium income from U.S. sources and investment income that is effectively connected with its U.S. trade or business, and (ii) a U.S. federal branch profits tax at the rate of 30% on the earnings and profits attributable to such income. All of the premium income from U.S. sources and a significant portion of such company's investment income may be subject to U.S. federal income and branch profits taxes.

If AMIC Ltd. or any of our other non-U.S. companies is engaged in a U.S. trade or business and qualifies for benefits under the United States-Bermuda tax treaty, U.S. federal income taxation of such subsidiary will depend on whether (i) it maintains a U.S. permanent establishment and (ii) the relief from taxation under the treaty generally applies to non-premium income. We believe that AMIC Ltd. has operated and will continue to operate its business in a manner that will not cause it to maintain a U.S. permanent establishment. However, the determination of whether an insurance company maintains a U.S. permanent establishment is inherently factual. Therefore, it is possible that the U.S. Internal Revenue Service might successfully assert that any of our Bermuda entities maintains a U.S. permanent establishment. In such case, such Bermuda entity may be subject to U.S. federal income tax at regular corporate rates and branch profit tax. Furthermore, although the provisions of the treaty clearly apply to premium income, it is uncertain whether they generally apply to other income of a Bermuda insurance company as well.

We believe U.S. federal income tax, if imposed, would be based on effectively connected or attributable income of a non-U.S. company computed in a manner generally analogous to that applied to the income of a U.S. corporation, except that all deductions and credits claimed by a non-U.S. company in a taxable year can be disallowed if the company does not file a U.S. federal income tax return for such year. Penalties may be assessed for failure to file such return. If any of our non-U.S. companies is subject to such U.S. federal taxation, our financial condition and results of operations could be materially adversely affected.

As a shareholder of our company, you may have greater difficulties in protecting your interests than as a shareholder of a U.S. corporation.

The Companies Act, which applies to us and our Bermuda subsidiaries, differs in material respects from laws generally applicable to U.S. corporations and their shareholders. These differences may result in your having greater difficulties in protecting your interests as a shareholder of our company than you would have as a shareholder of a U.S. corporation. This affects, among other things, the circumstances under which transactions involving an interested director are voidable, whether an interested director can be held accountable for any benefit realized in a transaction with the Company, what approvals are required for business combinations by the Company with a large shareholder or a wholly-owned subsidiary, what rights you may have as a shareholder to enforce specified provisions of the Companies Act or our Bye-laws, and the circumstances under which we may indemnify our directors and officers.

A downgrade in our A.M. Best rating or that of C&F could impair our ability to sell insurance policies or those of C&F.

Our new business plan met A.M. Best's higher capitalization requirements, which mandate a more conservative level of risk based capital. A.M. Best is the most widely recognized insurance company rating agency. In September 2011, A.M. Best affirmed AMIC Ltd.'s financial strength rating of "A-" (Excellent). A.M. Best also affirmed that the outlook assigned to the rating is stable.

Some policyholders are required to obtain insurance coverage from insurance companies that have an "A-" (Excellent) rating or higher from A.M. Best. Additionally, many producers are prohibited from placing insurance or reinsurance with companies that are rated below "A-" (Excellent) by A.M. Best. A.M. Best assigns ratings that represent an independent opinion of a company's ability to meet its obligations to policyholders that is of concern primarily to policyholders, brokers and agents, and its rating and outlook should not be considered an investment recommendation. Because A.M. Best continually monitors companies with regard to their ratings, our

ratings could change at any time, and any downgrade of our current rating may impair our ability to sell insurance policies and, ultimately, our financial condition and operating results.

If A.M. Best requires us to increase our capital in order to maintain our rating and we are unable to raise the required amount of capital to be contributed to our subsidiaries, A.M. Best may downgrade our rating.

Similarly, if C&F's A.M. Best's rating should ever be downgraded, this could adversely affect our ability to solicit, underwrite, quote, bind, issue or endorse accountants' professional liability and lawyers' professional liability insurance coverage under our Agency Agreement with C&F or to reinsure under the Reinsurance Agreement a 50% quota share of C&F's liability under insurance written by APSL on behalf of C&F and classified by C&F as accountants' professional liability and lawyers' professional liability.

Anti-takeover provisions could make it more difficult for a third party to acquire us, which makes your investment more illiquid.

Investco, our subsidiary, currently owns approximately 31.3% of our outstanding shares of common stock and has the ability to purchase additional shares. Shares owned by Investco remain outstanding and can be voted by Investco at our direction, which may hinder or prohibit a change in control transaction not approved by us.

In addition, because our Statement of Share Ownership Policy limits each shareholder other than Investco to owning no more than 20,000 shares of our common stock, and our Bye-laws permit our board of directors to implement provisions requiring board approval of all transfers of common stock, it may be difficult for any individual or entity to obtain voting control of AmerInst.

Finally, our Bye-laws provide for a classified board of directors which could have the effect of delaying or preventing a change of control or management.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties*Lease commitments*

APSL leases office space in Lisle, Illinois under a non cancellable lease agreement. The lease is renewable at the option of the lessee under certain conditions. Minimum lease payments, subsequent to December 31, 2011, are as follows:

| | |
|------------|------------------|
| 2012 | \$ 55,801 |
| 2013 | 57,646 |
| 2014 | 59,568 |
| 2015 | 61,553 |
| 2016 | 15,513 |
| | <u>\$250,081</u> |

Item 3. Legal Proceedings.

The Company is not a party to any material legal proceedings.

Item 4. Mine Safety Disclosures

Not Applicable.

PART II**Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities**

AmerInst currently does not have a public market for its common stock, but the Company has historically caused Investco to purchase shares from the Company's shareholders upon their death, disability or retirement from the practice of public accounting. The repurchase price has historically been set to the year-end net book value per share for the most recently completed fiscal year reduced by the amount of any dividends already paid on the repurchased shares during the calendar year of the repurchase and any dividends the shareholder would be entitled to receive on the repurchased shares that have not been paid. In addition, the BMA has authorized Investco to purchase shares on a negotiated case-by-case basis, and Investco has typically negotiated share repurchases when requested by Company shareholders.

On February 25, 2011, the Board of Directors amended and restated AmerInst's Statement of Share Ownership Policy to better manage the Company's expenditures from year to year. Under the new policy that became effective immediately, the Company will limit Investco's repurchase of Company stock to \$500,000 per calendar year. In addition, Investco will only be authorized to repurchase shares, without Board approval, from shareholders upon their death, disability or retirement from the practice of public accounting. Except as approved by the Board, negotiated purchases that do not satisfy these criteria will be discontinued for the foreseeable future.

The Bermuda Monetary Authority has authorized Investco to purchase the Company's common shares from shareholders who have died or retired from the practice of public accounting and also on a negotiated basis. Through December 31, 2011, Investco had purchased 141,526 common shares from shareholders who had died or retired for a total purchase price of \$3,860,345. The following table shows information relating to the purchase of shares from shareholders who have died or retired from the practice of accounting as described above during the three month period ended December 31, 2011.

| | <u>Total Number of Shares Purchased</u> | <u>Average Price Paid Per Share</u> | <u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Program</u> | <u>Maximum Number of Shares That May Yet Be Purchased Under the Plans or Program</u> |
|---------------------|---|---|--|--|
| October 2011 | — | — | — | N/A |
| November 2011 | — | — | — | N/A |
| December 2011 | 11,730 | \$36.52 | 11,730 | N/A |
| Total | 11,730 | \$36.52 | 11,730 | N/A |

From time to time, Investco has also purchased common shares in privately negotiated transactions. Through December 31, 2011, Investco had purchased an additional 75,069 common shares in such privately negotiated transactions for a total purchase price of \$1,109,025. No such transactions occurred during the three month period ended December 31, 2011.

As of December 31, 2011, there were 1,816 holders of record of our common shares. Our Board of Directors had adopted a dividend policy to pay quarterly dividends subject to legally available funds and Board approval. Beginning in September 2005, our Board of Directors amended the dividend policy to pay semi-annual dividends of \$0.47 per share. During 2011, the dividend amount paid was reduced by \$39,513, which represented a write back of uncashed dividends issued prior to 2006 to shareholders that we have been unable to locate. During 2010, the total dividend amount paid was reduced by \$38,611, which represented a write back of uncashed dividends issued prior to 2005 to shareholders that we were unable to locate. During 2011 and 2010, we total paid ordinary cash dividends of \$615,993 and \$647,913, respectively, net of the write back, representing two semi-annual payments of \$0.47 per share. The declaration of dividends by our Board of Directors is dependent upon our capacity to insure or reinsure business, profitability, financial condition, and other factors which the Board of Directors may deem appropriate. As described under "Item 1. – Business", under Bermuda law, AMIC Ltd. is prohibited from declaring or paying any dividend to AmerInst if such payment would reduce the net realizable value of its assets to an amount less than the aggregate value of its liabilities, issued share capital and share premium accounts. In addition, AMIC Ltd. must be able to pay its liabilities as they fall due after the payment of a dividend.

Item 6. Selected Financial Data

Not applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis ("MD&A") provides supplemental information, which sets forth the major factors that have affected our financial condition and results of operations and should be read in conjunction with our consolidated financial statements and notes thereto included in this Form 10-K. The MD&A is divided into subsections entitled "Business Overview," "Critical Accounting Policies," "Results of Operations," "Liquidity and Capital Resources" and "Losses and Loss Adjustment Expenses."

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, including this MD&A section, contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, among others, statements about our beliefs, plans, objectives, goals, expectations, estimates and intentions that are subject to significant risks and uncertainties and are subject to change based on various factors, many of which are beyond our control. The words “may,” “could,” “should,” “would,” “believe,” “anticipate,” “estimate,” “expect,” “intend,” “plan,” “target,” “goal,” and similar expressions are intended to identify forward-looking statements.

All forward-looking statements, by their nature, are subject to risks and uncertainties. Our actual future results may differ materially from those set forth in our forward-looking statements. Please see the Introductory Note and Item 1A “Risk Factors” of this Form 10-K for a discussion of factors that could cause our actual results to differ materially from those in the forward-looking statements. However, the risk factors listed in Item 1A “Risk Factors” or discussed in this Form 10-K should not be construed as exhaustive and should be read in conjunction with other cautionary statements that are included herein. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect our management’s analysis only as of the date they are made. We undertake no obligation to release publicly the results of any future revisions we may make to forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

The following discussion addresses our financial condition and results of operations for the periods and as of the dates indicated.

Business Overview

We are an insurance holding company based in Bermuda owned primarily by accounting firms, persons associated with accounting firms, and individual CPA practitioners. We were formed in response to concerns about the pricing and availability of accountants’ professional liability insurance in a difficult or “hard” market. Our mission is to be a company that provides insurance protection for professional service firms and engages in investment activities. Through APSL, a Delaware corporation and a wholly-owned subsidiary of Mezco which is a wholly-owned subsidiary of AmerInst, we act as the exclusive agent for C&F for the purposes of soliciting, underwriting, quoting, binding, issuing, cancelling, non-renewing and endorsing accountants’ professional liability and lawyers’ professional liability insurance coverage in all 50 states of the United States and the District of Columbia. We conduct our reinsurance business through AMIC Ltd., our wholly-owned subsidiary, which is a registered insurer in Bermuda. We are prepared, subject to obtaining the required licenses and registrations, to act as a direct issuer of accountants’ professional liability insurance policies. Our investment portfolio is held in and managed by Investco, which is a subsidiary of AMIC Ltd.

AmerInst has two operating segments: (1) reinsurance activity, which includes investments and other activities, and (2) insurance activity, which offers professional liability solutions to professional service firms. See Note 12, Segment Information, of the notes to the consolidated financial statements contained in Item 12 of this annual report on Form 10-K for financial information concerning these segments.

The reinsurance segment had revenues of \$2,601,937 for the year ended December 31, 2011 and \$2,918,696 for the year ended December 31, 2010. Total losses and expenses for this segment were \$1,379,756 for the year ended December 31, 2011 and \$1,452,800 for the year ended December 31, 2010. This resulted in segment income of \$1,222,181 and \$1,465,896 for the years ended December 31, 2011 and 2010, respectively.

The insurance segment had revenues of \$388,717 for the year ended December 31, 2011 and \$85,249 for the year ended December 31, 2010. Operating and management expenses were \$2,680,058 for the year ended December 31, 2011 and \$2,652,938 for the year ended December 31, 2010. This resulted in segment losses of \$2,291,341 and \$2,567,689 for the years ended December 31, 2011 and 2010, respectively.

AmerInst has filed an application with the U.S. Patent and Trademark Office for a patent on a unique financing concept called RINITIS™ that it has developed to securitize insurance and reinsurance risk, involving property, casualty, life and health. Such securitization would be by equity and debt financing of Bermuda special purpose companies licensed as reinsurers. It is AmerInst's intention to grant patent licenses to the special purpose companies and investment banking organizations which will market the securities. In addition to the license royalties, AmerInst would manage the special purpose companies for a fee, and at its option could invest in them as well. However, AmerInst may not be issued a patent, and even if so, may not be able to license such patent.

In addition to the patent application, AmerInst has obtained a trademark under which the concept will be marketed.

The disclosure of RINITIS™ as a separate operating segment was discontinued in the fourth quarter of 2010 as it no longer met the quantitative thresholds prescribed by ASC 280, "Segment Reporting".

Our results of operations for the years ended December 31, 2011 and December 31, 2010 are discussed below.

We operate our business with no long-term debt, no capital lease obligations, no purchase obligations, and no off-balance sheet arrangements required to be disclosed under applicable rules of the SEC. AmerInst's access to operating cash flows is from the payment of dividends from its subsidiaries.

Critical Accounting Policies

Basis of Presentation

The preparation of financial statements in conformity with generally accepted accounting principles 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. The major estimates reflected in the Company's financial statements include but are not limited to the liability for loss and loss adjustment expenses and other than temporary impairment of investments.

Unpaid Losses and Loss Adjustment Expense Reserves

The amount that we record as our liability for loss and loss adjustment expenses is a major determinant of net income each year. As discussed in more detail below under the heading "Losses and Loss Adjustment Expenses," the amount that we have reserved is based on actuarial estimates which were prepared as of December 31, 2011. Based on data received from the ceding companies (the insurance companies whose policies we reinsure) our independent actuary produces a range of estimates with a "low," "central" and "high" estimate of the loss and loss adjustment expenses. As of December 31, 2011, the range of actuarially determined liability for loss and loss adjustment expense reserves was as follows: the low estimate was \$0.8 million, the high estimate was \$1.1 million, and the central estimate was \$1.0 million. We selected reserves of \$1,043,443 as of December 31, 2011, which is between the central and high end of the range. Due to our concerns about the severity and volatility of the type of business we reinsure and the length of time that it takes for claims to be reported and ultimately settled, our management's policy has been to reserve conservatively at the higher end of the actuarial estimates.

Other than Temporary Impairment of Investments

Declines in the fair value of investments below cost are evaluated for other than temporary impairment losses. The evaluation for other than temporary impairment losses is a quantitative and qualitative process which is subject to risks and uncertainties in the determination of whether declines in the fair value of investments are other than temporary. The risks and uncertainties include the Company's intent and ability to hold the security,

changes in general economic conditions, the issuer's financial condition or near term recovery prospects, and the effects of changes in interest rates. AmerInst's accounting policy requires that a decline in the value of a security below its cost basis be assessed to determine if the decline is other than temporary. If so, the security is deemed to be impaired and a charge is recorded in net realized losses equal to the difference between the fair value and the cost basis of the security. The fair value of the impaired investment becomes its new cost basis.

Results of Operations

We recorded a net loss of \$1,069,160 and \$1,101,793 in 2011 and 2010, respectively.

The net loss recorded for the year ended December 31, 2011 was largely attributable to operating and management expenses incurred by APSL, which were partially offset by net realized gains on investments and the recognition of the additional recoveries associated with the Arbitration. The net loss recorded during the year ended December 31, 2010 was largely attributable to operating and management expenses incurred by APSL, which were partially offset by net realized gains on investments.

Our net premiums earned were \$412,840 for the year ended December 31, 2011 compared to \$157,140 for the year ended December 31, 2010, an increase of \$255,700 or 162.7%. The net premiums earned during 2011 and 2010 were attributable to net premium cessions from C&F under the Reinsurance Agreement in the amounts of \$423,364 and \$42,990 and to revisions to CAMICO premium estimates for prior years in the amounts of \$(10,524) and \$114,150, respectively. The increase in net premiums earned under the Reinsurance Agreement resulted from increased cessions from C&F in 2011, as a result of a higher level of underwriting activity under the Agency Agreement resulting from the continued and successful marketing of the program by APSL.

For the years ended December 31, 2011 and 2010, we recorded commission income under the Agency Agreement of \$388,488 and \$85,051, respectively, an increase of \$303,437 or 356.8%. This increase resulted from a higher volume of premiums written under the Agency Agreement in 2011.

We recorded net investment income of \$409,434 for the year ended December 31, 2011 compared to \$405,210 for the year ended December 30, 2010, an increase of \$4,224 or 1.0%. The increase is primarily attributable to the decrease in investment managers' fees that resulted from the reduction in the investment portfolio and a decrease in the amortization of premium on fixed income securities in 2011 as a result of (1) the purchase of securities with lower coupon rates and premiums and (2) the maturity of older securities with higher coupon rates and premiums. Annualized investment yield, calculated as total interest and dividends divided by the net average amount of total investments and cash and cash equivalents, was 1.6% in 2011, a marginal increase from the 1.4% yield earned in 2010.

Sales of securities during the year ended December 31, 2011 resulted in realized gains on investments net of impairment of \$1,779,892 compared to \$2,356,544 during the year ended December 31, 2010, a decrease of \$576,652 or 24.5%. The decrease in realized gains primarily related to decreased sales of equity securities in an unrealized gain position in 2011 compared to 2010.

Unrealized gain on investments was \$5,256,349 at December 31, 2011 compared to \$6,477,553 at December 31, 2010. We consider our entire investment portfolio to be available for sale and accordingly all investments are reported at fair value, with changes in net unrealized gains and losses reflected as an adjustment to accumulated other comprehensive income. The decrease in unrealized gain on investments was due primarily to the reduction in the value of the Company's equity portfolio. Declines in the fair value of investments below cost are evaluated for other than temporary impairment losses. The evaluation for other than temporary impairment losses is a quantitative and qualitative process which is subject to risks and uncertainties in the determination of whether declines in the fair value of investments are other than temporary. The risks and uncertainties include changes in general economic conditions, the issuer's financial condition or near term recovery prospects, and the effects of changes in interest rates. Our accounting policy requires that a decline in

the fair value of a security below its cost basis be assessed to determine if the decline is other than temporary. If so, the security is deemed to be impaired, and a charge is recorded in net realized losses equal to the difference between the fair value and the cost basis of the security. The fair value of the impaired investment becomes its new cost basis.

The composition of the investment portfolio at December 31, 2011 and 2010 is as follows:

| | <u>2011</u> | <u>2010</u> |
|---|-------------|-------------|
| U.S. government agency securities | 6% | 7% |
| Obligations of state and political subdivisions | 38 | 32 |
| Corporate debt securities | 1 | 2 |
| Equity securities (including the hedge fund) | <u>55</u> | <u>59</u> |
| | <u>100%</u> | <u>100%</u> |

For the year ended December 31, 2011, we recorded loss and loss adjustment recoveries of \$153,028 as a result of the recognition of the additional recoveries awarded to the Company following the Arbitration in the amount of \$315,299, net of loss and loss adjustment expenses that resulted from reserves of \$328,580 established pursuant to the Reinsurance Agreement offset by favorable development on CAMICO and PDIC. For the year ended December 31, 2010, we recorded loss and loss adjustment expenses of \$26,869 that resulted from reserves of \$32,000 established pursuant to the Reinsurance Agreement offset by favorable development on CAMICO and PDIC.

We will continue to monitor our reserve for losses and loss expenses for any new claims information and adjust our reserve for losses and loss expenses accordingly.

We recorded policy acquisition costs of \$156,599 for the year ended December 31, 2011 compared to policy acquisition recoveries of \$12,209 for the year ended December 31, 2010. Policy acquisition costs, which are primarily ceding commissions paid to the ceding insurer, are established as a percentage of premiums written; therefore, any increase or decrease in premiums written will result in a similar increase or decrease in policy acquisition costs. The policy acquisition costs recorded for the year ended December 31, 2011 were 37.3% of the premiums earned under the Reinsurance Agreement of \$423,364, net of policy acquisition recoveries in the amount of \$1,192 that were attributable to the revisions to the CAMICO premium estimates for prior years as noted above. The policy acquisition recoveries recorded during the year ended December 31, 2010 were attributable to recoveries in the amount of \$28,116 in relation to the revisions to the CAMICO premium estimates for prior years, net of policy acquisition costs representing 37.0% of the premiums earned under the Reinsurance Agreement of \$42,990.

The Company expensed operating and management expenses of \$4,056,243 and \$4,091,078 during 2011 and 2010, respectively. The decline is largely attributable to a reduction in professional and marketing expenses incurred by APSL during the year compared to 2010 as a result of APSL bringing in-house most of its marketing and promotional work and reducing its reliance on third party contractors and service providers.

Fair Value of Investments

The following tables show the fair value of the Company's investments in accordance with ASC 820, "Fair Value Measurements and Disclosures" as of December 31, 2011 and 2010.

| | Carrying amount | Total fair value | Fair value measurement using: | | |
|---|---------------------|---------------------|--|---|---|
| | | | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| December 31, 2011 | | | | | |
| Fixed maturity investments: | | | | | |
| U.S. government agency securities | \$ 1,454,105 | \$ 1,454,105 | \$ — | \$ 1,454,105 | \$ — |
| Obligations of state and political subdivisions | 8,665,534 | 8,665,534 | | 8,665,534 | |
| Corporate debt securities . . . | 329,208 | 329,208 | | 329,208 | |
| Total fixed maturity investments | 10,448,847 | 10,448,847 | | | |
| Equity securities (excluding the hedge fund) | 10,900,770 | 10,900,770 | 10,900,770 | | |
| Hedge fund | 1,395,933 | 1,395,933 | | | 1,395,933 |
| Total equity securities | 12,296,703 | 12,296,703 | | | |
| Total investments | <u>\$22,745,550</u> | <u>\$22,745,550</u> | <u>\$10,900,770</u> | <u>\$10,448,847</u> | <u>\$1,395,933</u> |

| | Carrying amount | Total fair value | Fair value measurement using: | | |
|---|---------------------|---------------------|--|---|---|
| | | | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| December 31, 2010 | | | | | |
| Fixed maturity investments: | | | | | |
| U.S. government agency securities | \$ 1,959,588 | \$ 1,959,588 | \$ — | \$ 1,959,588 | \$ — |
| Obligations of state and political subdivisions | 8,465,737 | 8,465,737 | | 8,465,737 | |
| Corporate debt securities . . . | 504,156 | 504,156 | | 504,156 | |
| Total fixed maturity investments | 10,929,481 | 10,929,481 | | | |
| Equity securities (excluding the hedge fund) | 14,145,124 | 14,145,124 | 14,145,124 | | |
| Hedge fund | 1,484,884 | 1,484,884 | | | 1,484,884 |
| Total equity securities | 15,630,008 | 15,630,008 | | | |
| Total investments | <u>\$26,559,489</u> | <u>\$26,559,489</u> | <u>\$14,145,124</u> | <u>\$10,929,481</u> | <u>\$1,484,884</u> |

There were no transfers between Levels 1 and 2 during the years ended December 31, 2011 and 2010.

The following is a reconciliation of the beginning and ending balance of investments measured at fair value on a recurring basis using significant unobservable (Level 3) inputs for the year ended December 31, 2011 and 2010.

| | <u>2011</u> | <u>2010</u> |
|--|--------------------|--------------------|
| Balance classified as Level 3, beginning of year | \$1,484,884 | \$1,389,737 |
| Total gains or losses included in earnings: | — | — |
| Net realized gains | — | — |
| Change in fair value of hedge fund investments | (88,951) | 95,147 |
| Purchases or sales | — | — |
| Transfers in and/or out of Level 3 | — | — |
| Ending balance | <u>\$1,395,933</u> | <u>\$1,484,884</u> |

There were no transfers into or from the Level 3 hierarchy during the years ended December 31, 2011 and 2010.

The Company assesses whether declines in the fair value of its fixed maturity investments classified as available-for-sale represent impairments that are other-than-temporary by reviewing each fixed maturity investment that is impaired and (1) determining if the Company has the intent to sell the fixed maturity investment or if it is more likely than not that the Company will be required to sell the fixed maturity investment before its anticipated recovery; and (2) assessing whether a credit loss exists, that is, where the Company expects that the present value of the cash flows expected to be collected from the fixed maturity investment are less than the amortized cost basis of the investment.

The Company had no planned sales of its fixed maturity investments classified as available-for-sale that were in an unrealized loss position at December 31, 2011. In assessing whether it is more likely than not that the Company will be required to sell a fixed maturity investment before its anticipated recovery, the Company considers various factors including its future cash flow requirements, legal and regulatory requirements, the level of its cash, cash equivalents, short term investments and fixed maturity investments available for sale in an unrealized gain position, and other relevant factors. For the year ended December 31, 2011, the Company did not recognize any other-than-temporary impairments due to required sales.

In evaluating credit losses, the Company considers a variety of factors in the assessment of a fixed maturity investment including: (1) the time period during which there has been a significant decline below cost; (2) the extent of the decline below cost and par; (3) the potential for the fixed maturity investment to recover in value; (4) an analysis of the financial condition of the issuer; (5) the rating of the issuer; and (6) failure of the issuer of the fixed maturity investment to make scheduled interest or principal payments.

If we conclude a security is other-than-temporarily impaired, we write down the amortized cost of the security to fair value, with a charge to net realized investment gains (losses) in the Consolidated Statement of Operations. Gross unrealized losses on the investment portfolio as of December 31, 2011 and December 31, 2010, relating to two and six fixed maturity securities and two and no equity securities, amounted to \$39,791 and \$84,406, respectively. This decrease was primarily attributable to the increase in the fair value of fixed maturity securities as a result of the decline in interest rates during the year. The Company has the intent and ability to hold these securities either to maturity or until the fair value recovers above the adjusted cost. The unrealized losses on these available for sale fixed maturity securities were not as a result of credit, collateral or structural issues. As a result of the decline in fair value below cost, the Company recorded a total other-than-temporary impairment charge of \$152,450 and \$123,310 on two equity securities during the years ended December 31, 2011 and 2010, respectively.

Our fixed income, equity and hedge fund portfolios are invested in accordance with a written Investment Policy Statement adopted by our Board of Directors. We engage professional advisors to manage day to day investment matters under the oversight of our Investment Committee.

Our fixed income portfolio is managed with the target objectives of achieving an annualized rate of return for the trailing 5-year period of 250 basis points over the Consumer Price Index, and total returns commensurate with Merrill Lynch's U.S. Domestic Index. Our overall fixed income portfolio is required to have at least an "A" S&P rating, an "A2" Moody's rating or an equivalent rating from comparable rating agencies.

Our equity securities are managed by an external large cap value advisor. Our investment approach is to focus on increasing the fair market value of our equity securities by investing in companies that may or may not be paying a dividend but whose market values may increase over time. Some of the key factors we consider in a prospective company to invest in include the discount to value and the quality of the management team.

Our equity portfolios are managed with the target objectives of achieving an annualized rate of return over a trailing 3-year to 5-year period of 400 basis points over the Consumer Price Index, total returns at least equal to representative benchmarks such as the various S&P indices, and a ranking in the top half of the universe of other actively managed equity funds with similar objectives and risk profiles.

Our hedge fund portfolio is managed to reduce overall portfolio risk and it is required to invest over all major strategies.

Under existing accounting principles generally accepted in the United States, we are required to recognize certain assets at their fair value in our consolidated balance sheets. This includes our fixed maturity investments and equity securities. In accordance with the Fair Value Measurements and Disclosures Topic of FASB's ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon whether the inputs to the valuation of an asset or liability are observable or unobservable in the market at the measurement date, with quoted market prices being the highest level (Level 1) and unobservable inputs being the lowest level (Level 3). A fair value measurement will fall within the level of the hierarchy based on the input that is significant to determining such measurement. The three levels are defined as follows:

- **Level 1:** Observable inputs to the valuation methodology that are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- **Level 2:** Observable inputs to the valuation methodology other than quoted market prices (unadjusted) for identical assets or liabilities in active markets. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical assets and liabilities in markets that are not active and inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- **Level 3:** Inputs to the valuation methodology that are unobservable for the asset or liability.

At each measurement date, we estimate the fair value of the security using various valuation techniques. We utilize, to the extent available, quoted market prices in active markets or observable market inputs in estimating the fair value of our investments. When quoted market prices or observable market inputs are not available, we utilize valuation techniques that rely on unobservable inputs to estimate the fair value of investments. The following describes the valuation techniques we used to determine the fair value of investments held as of December 31, 2011 and what level within the fair value hierarchy each valuation technique resides;

- **U.S. government agency securities:** Comprised primarily of bonds issued by the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank and the Federal

National Mortgage Association. The fair values of U.S. government agency securities are priced using the spread above the risk-free U.S. Treasury yield curve. As the yields for the risk-free U.S. Treasury yield curve are observable market inputs, the fair values of U.S. government agency securities are included in the Level 2 fair value hierarchy. AmerInst considers that there is a liquid market for the types of securities held. Broker quotes are not used for fair value pricing.

- **Obligations of state and political subdivisions:** Comprised of fixed income obligations of state and local governmental municipalities. The fair values of these securities are based on quotes and current market spread relationships, and are included in the Level 2 fair value hierarchy. AmerInst considers that there is a liquid market for the types of securities held. Broker quotes are not used for fair value pricing.
- **Corporate debt securities:** Comprised of bonds issued by corporations. The fair values of these securities are based on quotes and current market spread relationships, and are included in the Level 2 fair value hierarchy. AmerInst considers that there is a liquid market for the types of securities held. Broker quotes are not used for fair value pricing.
- **Equity securities, at fair value:** Comprised primarily of investments in the common stock of publicly traded companies in the U.S. All of the Company's equities are included in the Level 1 fair value hierarchy. The Company receives prices based on closing exchange prices from independent pricing sources to measure fair values for the equities.
- **Hedge fund:** Comprised of a hedge fund whose objective is to seek attractive long-term returns with lower volatility by investing in a range of diversified investment strategies. The fund invests in a diversified pool of hedge fund managers, generally across six different strategies: long/short equities, long/short credit, macro, multi-strategy opportunistic, event-driven, and portfolio hedge. The fair value of the hedge fund is based on the net asset value of the fund as reported by the external fund manager. The use of net asset value as an estimate of the fair value for investments in certain entities that calculate net asset value is a permitted practical expedient. The fair value of our hedge fund is included in the Level 3 fair value hierarchy.

To validate prices, we complete quantitative analyses to compare the performance of the above investments to the performance of appropriate benchmarks, with significant differences identified and investigated.

There have been no material changes to any of our valuation techniques from what was used as of December 31, 2010. Since the fair value of a financial instrument is an estimate of what a willing buyer would pay for our asset if we sold it, we will not know the ultimate value of our financial instruments until they are sold. We believe the valuation techniques utilized provide us with the best estimate of the price that would be received to sell our assets or transfer our liabilities in an orderly transaction between participants at the measurement date.

Though current market conditions appear to have improved recently, there is still the potential for further instability. This could present additional risks and uncertainties for our business and make it more difficult to value certain of our securities if trading becomes less frequent. As such, valuations may include assumptions and estimates that may have significant period-to-period changes that could have a material adverse effect on our results of operations or financial condition.

As of December 31, 2011, our total investments were \$22,745,550, a decrease of \$3,813,939, or 14.4%, from \$26,559,489 at December 31, 2010. The decrease was primarily due to sales of certain equity securities, the maturity of two fixed maturity securities and the decrease in the fair value of certain equity securities as a result of adverse market conditions. The cash and cash equivalents balance decreased from \$970,697 at December 31, 2010 to \$904,485 at December 31, 2011, a decrease of \$66,212 or 6.8%. The amount of cash and cash equivalents varies depending on the maturities of fixed term investments and on the level of funds invested in money market funds. The restricted cash and cash equivalents balance increased from \$84,256 at December 31,

2010 to \$435,924 at December 31, 2011, an increase of \$351,668 or 417.4%. The increase is due to the timing of sales and maturities of investments held as restricted cash at December 31, 2011 that have not yet been reinvested. The ratio of cash and total investments to total liabilities at December 31, 2011 was 8.25:1, compared to a ratio of 11.04:1 at December 31, 2010.

The decrease in total cash and investments at December 31, 2011, compared to December 31, 2010 resulted primarily from (1) net cash outflows to fund the operations of APSL, (2) \$576,789 related to share repurchases during 2011, (3) dividends of \$615,993 paid during 2011 and (4) the decrease in the fair value of certain equity securities as a result of adverse market conditions. These reductions were partially offset by positive cash inflows in relation to net investment income.

Liquidity and Capital Resources

Our cash needs consist of settlement of losses and expenses under our reinsurance treaties and funding day-to-day operations. During the continued implementation of our business plan, our management expects to meet these cash needs from cash flows arising from our investment portfolio. Because substantially all of our assets are marketable securities, we expect that we will have sufficient flexibility to provide for unbudgeted cash needs which may arise without resorting to borrowing, subject to regulatory limitations.

Because of CNA's election not to renew its reinsurance agreement with AMIC Ltd. in 2009, we experienced a significant decrease in our net premiums earned which has adversely affected our revenues over the past two years. As a result we have experienced a decrease in our total investments in 2010 and 2011 due to net cash outflows in order to fund our operational expenses. The reduction in the value of our investment portfolio has been accompanied by a corresponding reduction in our shareholders' equity during this two-year period. Unless we are able to significantly increase our revenues under new or existing agency and/or reinsurance agreements in future periods, we would expect the value of our investment portfolio and our shareholders' equity to continue to decrease as investment assets are used to cover our revenue shortfall.

The assumed reinsurance balances receivable represents the current assumed premiums receivable less commissions payable to the fronting carriers and recoveries in relation to reinsurance contracts. As of December 31, 2011, the balance was \$183,518 compared to \$45,909 as of December 31, 2010. The increase resulted from a higher level of premiums assumed under the Reinsurance Agreement.

The assumed reinsurance payable represents current reinsurance losses payable to the fronting carriers. As of December 31, 2011, the balance was \$86,685 compared to \$76,918 as of December 31, 2010. This balance fluctuates due to the timing of reported losses.

Deferred policy acquisition costs, which represent the deferral of ceding commission expense related to premiums not yet earned, increased from \$35,060 at December 31, 2010 to \$146,226 at December 31, 2011. The increase in deferred policy acquisition costs in 2011 was due to the increase in both net premiums written and unearned premiums assumed under the Reinsurance Agreement compared to the prior year. The ceding commission rate under the Reinsurance Agreement is approximately 37%.

Prepaid expenses and other assets were \$378,257 at December 31, 2011, an increase of 121.7% from December 31, 2010. The balance primarily relates to (1) prepaid directors' and officers' liability insurance costs, (2) prepaid directors' retainer and (3) premiums due to APSL under the Agency Agreement. The increase in the balance was attributable to an increase in premiums due to APSL arising from a higher level of underwriting activity under the Agency Agreement in 2011.

Accrued expense and other liabilities primarily represents premiums payable by APSL to C&F under the Agency Agreement and expenses accrued relating largely to professional fees. The balance increased from \$1,126,409 at December 31, 2010 to \$1,396,332 at December 31, 2011, an increase of \$269,923 or 24%. The increase in the balance was attributable to an increase in premiums payable by APSL to C&F as a result of a higher level of underwriting activity under the Agency Agreement in 2011.

AmerInst paid two semi-annual dividends of \$0.47 per share during 2011 and 2010. During 2011, the total dividend amount was reduced by \$39,513, which represents a write back of uncashed dividends issued prior to 2006 to shareholders that we have been unable to locate. During 2010, the total dividend amount was reduced by \$38,611, which represents a write back of uncashed dividends issued prior to 2005 to shareholders that we were unable to locate. Since AmerInst began paying consecutive dividends in 1995, our original shareholders have received approximately \$18.87 in cumulative dividends per share, which when measured by a total rate of return calculation has resulted in an effective annual rate of return of approximately 9.85% from the inception of the Company, based on a per share purchase price of \$8.33 paid by the original shareholders, and using a book value of \$33.23 per share as of December 31, 2011.

Total dividends declared were \$615,993 and \$647,913 in 2011 and 2010, respectively, net of the recorded write backs. Continuation of dividend payments is subject to the Board of Directors' continuing evaluation of our level of surplus compared to our capacity to accept more business. One of our objectives is to retain sufficient surplus to enable the successful implementation of our new business plan.

AMIC Ltd.'s ability to pay dividends to AmerInst is subject to the provisions of the Bermuda insurance and companies laws and the requirement to provide the ceding companies with collateral. Under the Companies Act, AMIC Ltd. would be prohibited from declaring or paying a dividend at December 31, 2011 if such payment would reduce the realizable value of its assets to an amount less than the aggregate value of its liabilities, issued share capital, and share premium accounts. As of December 31, 2011, approximately \$32 million was available for the declaration of dividends to shareholders. However, due to the requirement to provide the ceding companies with collateral, approximately \$22 million was available for the payment of dividends to the shareholders. In addition, AMIC Ltd. must be able to pay its liabilities as they fall due after the payment of a dividend. Our ability to pay dividends to common shareholders and to pay our operating expenses is dependent on cash dividends from our subsidiaries. The payment of such dividends by AMIC Ltd., including its subsidiary Investco, to us is also limited under Bermuda law by the Insurance Act and Related Regulations which require that AMIC Ltd. maintain minimum levels of solvency and liquidity. For the years ended December 31, 2011 and 2010 these requirements have been met as follows:

| | Statutory Capital & Surplus | | Relevant Assets | |
|-----------------------------|--------------------------------|--------------|-----------------|--------------|
| | Minimum | Actual | Minimum | Actual |
| December 31, 2011 | \$1,000,000 | \$33,315,313 | \$9,342,872 | \$10,815,518 |
| December 31, 2010 | \$1,000,000 | \$32,209,291 | \$9,231,848 | \$10,869,403 |

The Bermuda Monetary Authority has authorized Investco to purchase the Company's common shares from shareholders who have died or retired from the practice of public accounting and on a negotiated basis. Through March 1, 2012, Investco had purchased 141,526 common shares from shareholders who had died or retired for a total purchase price of \$3,860,345. From time to time, Investco has also purchased shares in privately negotiated transactions. Through that date, Investco had purchased an additional 75,069 common shares in such privately negotiated transactions for a total purchase price of \$1,109,025.

Losses and Loss Adjustment Expenses

The consolidated financial statements include our estimated liability for unpaid losses and loss adjustment expenses ("LAE") for our insurance operations. LAE is determined utilizing both case-basis evaluations and actuarial projections, which together represent an estimate of the ultimate net cost of all unpaid losses and LAE incurred through December 31 of each year. These estimates are subject to the effect of trends in future claim severity and frequency. The estimates are continually reviewed and, as experience develops and new information becomes known, the liability is adjusted as appropriate, and reflected in current financial reports. The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and LAE. Future average severity is projected based on historical trends adjusted for anticipated changes in underwriting standards, policy provisions and general economic trends. These anticipated trends are monitored based on actual developments and are modified as necessary.

An actuarial review and projection was performed for us by our independent actuary as of December 31, 2011. We review the actuarial estimates throughout the year for the possible impact on our financial position.

Loss reserves relate only to accountants' and attorneys' professional liability from PDIC, CAMICO and C&F programs, and were calculated under the methodologies described below.

PDIC was a new program for the Company in 2003. The relationship with the carrier of that insurance ended on December 31, 2003. Therefore, policies written during 2003 are the only ones we have reinsured. To calculate the policy year ultimate losses and allocated loss adjustment expenses for PDIC the actuary applied incurred loss development, incurred Bornhuetter-Ferguson ("BF"), and expected loss methods to the actual PDIC experience. In the calculations, the actuary used industry incurred loss and allocated loss adjustment expenses development patterns and an *a priori* loss and allocated loss adjustment expenses ratio for use in the BF and expected loss and allocated loss adjustment expenses method calculations. The *a priori* loss and allocated loss adjustment expenses ratio was selected judgmentally based on the Company's unpaid claim liability review as of December 31, 2010. The actuary judgmentally selected low and high scenario loss ratio estimates around the central loss ratio estimates. The low and high scenario ultimate loss and allocated loss adjustment expenses estimates were calculated by multiplying net earned premium through December 31, 2011 by the low and high scenario loss ratio selections. The final reported claim was closed during 2011 and although we no longer anticipate we will be liable for further claims related to this period of coverage, there is a remote possibility further claims could be reported.

CAMICO was a new program for the Company in 2005. To calculate the policy year ultimate losses and allocated loss adjustment expenses for CAMICO the actuary applied paid and incurred loss development, paid and incurred BF, and expected loss and allocated loss adjustment expenses ratio methods to the actual CAMICO experience as of December 31, 2011. In the calculations, the actuary used industry benchmark paid and incurred loss and allocated loss adjustment expenses development patterns. The *a priori* loss and allocated loss adjustment expenses ratios used in the BF and expected loss and allocated loss adjustment expenses method calculations were selected judgmentally based on the Company's unpaid claim liability review of CAMICO experience as of December 31, 2010. Low and high scenario ultimate loss and allocated loss adjustment expense estimates were calculated by selecting and applying lower and higher *a priori* loss and allocated loss adjustment expense ratios for use in the actuarial methods, and by selecting low and high estimates of ultimate loss and allocated loss adjustment expense amounts from the results of the applied actuarial methods.

C&F was a new program for the Company in 2010. To calculate the policy year ultimate losses and allocated loss adjustment expenses for C&F, the actuary applied incurred loss development, incurred BF, and expected loss and allocated loss adjustment expense ratio methods to the actual C&F experience as of December 31, 2011. In the calculations, the actuary used an industry benchmark incurred loss and allocated loss adjustment expense development pattern. The *a priori* loss and allocated loss adjustment expenses ratio used in the BF and expected loss and allocated loss adjustment expense method calculations was selected based on previous work performed for AmerInst related to the pricing of accountants' professional liability insurance. The actuary judgmentally selected low and high scenario loss ratio estimates around the central loss ratio estimate. The low and high scenario ultimate loss and allocated loss adjustment expense estimates were calculated by multiplying net earned premium through December 31, 2011 by the low and high scenario loss ratio selections.

The following table shows the development of the estimated liability for the previous ten years of the Company's operations:

ANALYSIS OF LOSS AND LOSS ADJUSTMENT EXPENSES DEVELOPMENT
(Thousands of US Dollars)

| | Year Ended December 31, | | | | | | | | | | |
|--|-------------------------|----------|----------|----------|----------|----------|----------|----------|---------|---------|---------|
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| Gross Liability for Loss and LAE Reserves | \$29,243 | \$30,479 | \$28,724 | \$29,702 | \$28,885 | \$28,161 | \$27,411 | \$24,416 | \$1,510 | \$1,203 | \$1,043 |
| Reinsurance Recoverable for Unpaid Loss and LAE Reserves | 674 | 674 | — | — | — | — | — | — | — | — | — |
| Net Liability for Unpaid Losses and LAE Reserves | \$28,569 | \$29,805 | \$28,724 | \$29,702 | \$28,885 | \$28,161 | \$27,411 | \$24,416 | \$1,510 | \$1,203 | \$1,043 |

| | Year Ended December 31, | | | | | | | | | | |
|--|-------------------------|----------|----------|----------|----------|----------|----------|----------|---------|---------|------|
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| Losses Re-estimated as of: | | | | | | | | | | | |
| One Year Later | \$27,993 | \$25,193 | \$27,210 | \$27,454 | \$26,323 | \$25,521 | \$22,139 | \$21,104 | \$1,490 | \$1,110 | — |
| Two Years Later | 23,514 | 23,676 | 24,962 | 24,893 | 23,493 | 19,780 | 18,006 | 20,957 | 1,399 | | |
| Three Years Later | 21,997 | 21,429 | 22,400 | 22,062 | 17,752 | 15,143 | 17,803 | 20,873 | | | |
| Four Years Later | 19,750 | 18,867 | 19,570 | 16,321 | 13,916 | 15,011 | 17,740 | | | | |
| Five Years Later | 17,188 | 16,037 | 13,836 | 14,115 | 13,844 | 14,931 | | | | | |
| Six Years Later | 14,688 | 11,783 | 12,976 | 14,076 | 13,784 | | | | | | |
| Seven Years Later | 11,221 | 11,120 | 12,953 | 13,974 | | | | | | | |
| Eight Years Later | 10,707 | 11,120 | 12,894 | | | | | | | | |
| Nine Years Later | 10,707 | 11,120 | | | | | | | | | |
| Ten Years Later | 10,707 | | | | | | | | | | |
| Cumulative Redundancy (Deficiency) | 17,862 | 18,685 | 15,830 | 15,728 | 15,101 | 13,230 | 9,671 | 3,543 | 111 | 93 | — |
| Cumulative Amount Paid Through: | | | | | | | | | | | |
| One Year Later | 3,851 | 3,697 | 3,557 | 4,678 | 3,820 | 3,314 | 3,970 | 19,902 | 334 | 322 | — |
| Two Years Later | 6,600 | 6,165 | 6,943 | 7,729 | 6,166 | 6,310 | 17,208 | 20,195 | 656 | | |
| Three Years Later | 8,145 | 7,915 | 8,995 | 9,049 | 8,176 | 14,653 | 17,406 | 20,427 | | | |
| Four Years Later | 8,736 | 8,954 | 9,690 | 10,225 | 13,675 | 14,759 | 17,540 | | | | |
| Five Years Later | 9,174 | 9,079 | 10,149 | 13,957 | 13,687 | 14,830 | | | | | |
| Six Years Later | 9,240 | 9,205 | 12,885 | 13,969 | 13,747 | | | | | | |
| Seven Years Later | 9,299 | 11,120 | 12,892 | 13,974 | | | | | | | |
| Eight Years Later | 10,707 | 11,120 | 12,894 | | | | | | | | |
| Nine Years Later | 10,707 | 11,120 | | | | | | | | | |
| Ten Years Later | 10,707 | | | | | | | | | | |

The above table of losses re-estimated has been prepared on a net basis—i.e., loss and loss adjustment expenses and reinsurance recoveries receivable have not been grossed-up. The table has been prepared on a net basis due to the relative immateriality of reinsurance balances when considered in relation to total loss and loss adjustment expense reserves, and due to the costs of providing such information relative to any benefits of providing it.

The above table presents the development of balance sheet liabilities for 2001 through 2011 as of year-end 2011, and includes the CNA program liabilities through 2008. The top line of the table shows the original recorded unpaid liability for losses and LAE recorded at the balance sheet date for each of the indicated years. This liability represents the estimated amount of losses and LAE for claims arising in all prior years, both paid

and unpaid at the balance sheet date, including losses that had been incurred, but not yet reported, to the Company. The upper portion of the table shows the experience as of the end of each succeeding year. The estimate is increased or decreased as more information becomes known about the frequency and severity of claims.

The “cumulative redundancy (deficiency)” represents the aggregate change in the estimates over all prior years. For example, the 2005 liability has developed a \$15,101,000 redundancy which has been reflected in income in subsequent years as the reserves were re-estimated.

The lower section of the table shows the cumulative amount paid in respect of the previously recorded liability as of the end of each succeeding year. For example, the 2005 year end liability was originally \$28,885,000. As of December 31, 2011, we had paid \$13,747,000 of the currently estimated \$13,784,000 of losses and LAE that had been incurred for 2005 and prior years through the end of 2011; thus an estimated \$37,000 in losses incurred through 2005 remain unpaid as of the current financial statement date.

In evaluating this information, it should be understood that each amount includes the effects of all changes in amounts for prior periods. This table does not present accident or policy year development data, which readers may be more accustomed to analyzing. Conditions and trends that have affected development of liabilities in the past may not necessarily occur in the future. Accordingly, it may not be appropriate to extrapolate future redundancies or deficiencies based on this table.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements required to be disclosed under Item 303(a)(4) of Regulation S-K promulgated by the Securities and Exchange Commission.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 8. Financial Statements and Supplementary Data

The financial statements required by this Item are listed below:

INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

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|--|-------------|
| Financial Statements: | |
| Report of Independent Registered Public Accounting Firm | 32 |
| Consolidated Balance Sheets | 33 |
| Consolidated Statements of Operations and Other Comprehensive Loss | 34 |
| Consolidated Statements of Changes in Shareholders' Equity | 35 |
| Consolidated Statements of Cash Flows | 36 |
| Notes to the Consolidated Financial Statements | 37 |
| Financial Statement Schedules: | |
| Schedule I, Consolidated Summary of Investments | 56 |

Schedules II, III, IV, V, and VI are omitted as they are inapplicable, immaterial, or because the required information may be found in the audited consolidated financial statements and notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
of AmerInst Insurance Group, Ltd.

We have audited the accompanying consolidated balance sheets of AmerInst Insurance Group, Ltd. and subsidiaries (the “Company”) as of December 31, 2011 and 2010, and the related consolidated statements of operations and other comprehensive loss, changes in shareholders’ equity and cash flows for the years then ended. Our audits also included the financial statement schedule listed in the Index and included in Item 15. These financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of AmerInst Insurance Group, Ltd. and subsidiaries as of December 31, 2011 and 2010 and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Deloitte & Touche Ltd.

Hamilton, Bermuda
March 29, 2012

AMERINST INSURANCE GROUP, LTD.
CONSOLIDATED BALANCE SHEETS
December 31, 2011 and 2010
(expressed in U.S. dollars)

| | 2011 | 2010 |
|--|---------------------|---------------------|
| ASSETS | | |
| Investments (Notes 3 and 4): | | |
| Fixed maturity investments, at fair value (amortized cost \$9,914,515 and \$10,739,265) | \$10,448,847 | \$10,929,481 |
| Equity securities, at fair value (cost \$7,574,686 and \$9,342,671) | 12,296,703 | 15,630,008 |
| TOTAL INVESTMENTS | 22,745,550 | 26,559,489 |
| Cash and cash equivalents | 904,485 | 970,697 |
| Restricted cash and cash equivalents | 435,924 | 84,256 |
| Assumed reinsurance premiums receivable | 183,518 | 45,909 |
| Accrued investment income | 94,539 | 117,226 |
| Property and equipment (Note 5) | 745,784 | 716,230 |
| Deferred policy acquisition costs | 146,226 | 35,060 |
| Prepaid expenses and other assets | 378,257 | 170,606 |
| TOTAL ASSETS | \$25,634,283 | \$28,699,473 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| LIABILITIES | | |
| Unpaid losses and loss adjustment expenses (Note 6) | \$ 1,043,443 | \$ 1,203,016 |
| Unearned premiums | 392,595 | 94,756 |
| Assumed reinsurance payable | 86,685 | 76,918 |
| Accrued expenses and other liabilities | 1,396,332 | 1,126,409 |
| TOTAL LIABILITIES | \$ 2,919,055 | \$ 2,501,099 |
| COMMITMENTS AND CONTINGENCIES | | |
| SHAREHOLDERS' EQUITY | | |
| Common shares, \$1 par value, 2011 and 2010: 2,000,000 shares authorized, 995,253 issued and outstanding | \$ 995,253 | \$ 995,253 |
| Additional paid-in-capital | 6,287,293 | 6,287,293 |
| Retained earnings | 17,411,533 | 19,096,686 |
| Accumulated other comprehensive income | 5,256,349 | 6,477,553 |
| Shares held by Subsidiary (311,633 and 295,881 shares) at cost | (7,235,200) | (6,658,411) |
| TOTAL SHAREHOLDERS' EQUITY | 22,715,228 | 26,198,374 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$25,634,283 | \$28,699,473 |

See accompanying notes to the consolidated financial statements.

AMERINST INSURANCE GROUP, LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND
OTHER COMPREHENSIVE LOSS
years ended December 31, 2011 and 2010
(expressed in U.S. dollars)

| | <u>2011</u> | <u>2010</u> |
|---|----------------------|----------------------|
| REVENUES | | |
| Net premiums earned | \$ 412,840 | \$ 157,140 |
| Commission income | 388,488 | 85,051 |
| Net investment income (Note 4) | 409,434 | 405,210 |
| Net realized gain on investments (Note 4) | <u>1,779,892</u> | <u>2,356,544</u> |
| TOTAL REVENUES | <u>2,990,654</u> | <u>3,003,945</u> |
| LOSSES AND EXPENSES | | |
| Losses and loss adjustment (recoveries) expenses (Note 6) | (153,028) | 26,869 |
| Policy acquisition costs (recoveries) | 156,599 | (12,209) |
| Operating and management expenses (Note 9) | <u>4,056,243</u> | <u>4,091,078</u> |
| TOTAL LOSSES AND EXPENSES | <u>4,059,814</u> | <u>4,105,738</u> |
| LOSS BEFORE TAX | <u>(1,069,160)</u> | <u>(1,101,793)</u> |
| Income tax expense (Note 10) | — | — |
| NET LOSS AFTER TAX | (1,069,160) | (1,101,793) |
| OTHER COMPREHENSIVE LOSS | | |
| Net unrealized holding gains arising during the period | 558,688 | 2,223,044 |
| Reclassification adjustment for (gains) included in net (loss) | <u>(1,779,892)</u> | <u>(2,356,544)</u> |
| OTHER COMPREHENSIVE LOSS | <u>(1,221,204)</u> | <u>(133,500)</u> |
| COMPREHENSIVE LOSS | <u>\$(2,290,364)</u> | <u>\$(1,235,293)</u> |
| BASIC AND DILUTED LOSS PER SHARE | <u>\$ (1.54)</u> | <u>\$ (1.52)</u> |
| Weighted average number of common shares outstanding for the year | <u>693,423</u> | <u>723,690</u> |

See accompanying notes to the consolidated financial statements.

AMERINST INSURANCE GROUP, LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
years ended December 31, 2011 and 2010
(expressed in U.S. dollars)

| | <u>Common Shares</u> | <u>Additional Paid-in Capital</u> | <u>Retained Earnings</u> | <u>Accumulated Other Comprehensive Income (Losses)</u> | <u>Shares Held by Subsidiary</u> | <u>Total Shareholders' Equity</u> |
|--|--------------------------|---|------------------------------|--|--|---|
| BALANCE AT JANUARY 1, | | | | | | |
| 2010 | \$995,253 | \$6,287,293 | \$20,846,392 | \$ 6,611,053 | \$(5,251,612) | \$29,488,379 |
| Net loss | — | — | (1,101,793) | — | — | (1,101,793) |
| Other comprehensive loss | | | | | | |
| Unrealized losses on securities, net of reclassification adjustment | — | — | — | (133,500) | — | (133,500) |
| Purchase of shares by subsidiary | — | — | — | — | (1,406,799) | (1,406,799) |
| Dividends (\$0.94 per share) | — | — | (647,913) | — | — | (647,913) |
| BALANCE AT DECEMBER 31, | | | | | | |
| 2010 | <u>\$995,253</u> | <u>\$6,287,293</u> | <u>\$19,096,686</u> | <u>\$ 6,477,553</u> | <u>\$(6,658,411)</u> | <u>\$26,198,374</u> |
| Net loss | — | — | (1,069,160) | — | — | (1,069,160) |
| Other comprehensive loss | | | | | | |
| Unrealized losses on securities, net of reclassification adjustment | — | — | — | (1,221,204) | — | (1,221,204) |
| Purchase of shares by subsidiary | — | — | — | — | (576,789) | (576,789) |
| Dividends (\$0.94 per share) | — | — | (615,993) | — | — | (615,993) |
| BALANCE AT DECEMBER 31, | | | | | | |
| 2011 | <u>\$995,253</u> | <u>\$6,287,293</u> | <u>\$17,411,533</u> | <u>\$ 5,256,349</u> | <u>\$(7,235,200)</u> | <u>\$22,715,228</u> |

See accompanying notes to the consolidated financial statements.

AMERINST INSURANCE GROUP, LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
years ended December 31, 2011 and 2010
(expressed in U.S. dollars)

| | <u>2011</u> | <u>2010</u> |
|---|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | \$(1,069,160) | \$(1,101,793) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Amortization of net premiums on investments | 43,856 | 73,996 |
| Depreciation and amortization on property and equipment | 174,186 | 65,433 |
| Net realized gains on sale of investments | (1,779,892) | (2,356,544) |
| Changes in assets and liabilities: | | |
| Assumed reinsurance premiums receivable | (137,609) | (45,909) |
| Funds deposited with a reinsurer | — | 113,382 |
| Accrued investment income | 22,687 | (26,375) |
| Deferred policy acquisition costs | (111,166) | (35,060) |
| Prepaid expenses and other assets | (207,651) | 44,492 |
| Liability for losses and loss adjustment expenses | (159,573) | (307,462) |
| Unearned premiums | 297,839 | 94,756 |
| Assumed reinsurance payable | 9,767 | (71,932) |
| Accrued expenses and other liabilities | 269,923 | 399,090 |
| Net cash used in operating activities | <u>(2,646,793)</u> | <u>(3,153,926)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Movement in restricted cash and cash equivalents | (351,668) | 649,764 |
| Purchases of property and equipment | (203,740) | (681,506) |
| Purchases of available-for-sale securities | (3,036,872) | (6,724,710) |
| Proceeds from sales of available-for-sale securities | 6,365,643 | 8,438,258 |
| Proceeds from maturities of fixed maturity investments | 1,000,000 | 1,025,000 |
| Net cash provided by investing activities | <u>3,773,363</u> | <u>2,706,806</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Dividends paid | (615,993) | (647,913) |
| Purchase of shares by subsidiary, net | (576,789) | (1,406,799) |
| Net cash used in financing activities | <u>(1,192,782)</u> | <u>(2,054,712)</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (66,212) | (2,501,832) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 970,697 | 3,472,529 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 904,485</u> | <u>\$ 970,697</u> |

See accompanying notes to the consolidated financial statements.

AMERINST INSURANCE GROUP, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

AmerInst Insurance Group, Ltd., (“AmerInst” or the “Company”) was formed under the laws of Bermuda in 1998. The Company, through its wholly-owned subsidiary AmerInst Insurance Company, Ltd. (“AMIC Ltd.”) and its predecessor AmerInst Insurance Company, Inc. (“AIIC Inc.”), were engaged in the reinsurance of claims-made insurance policies of participants in an American Institute of Certified Public Accountants (“AICPA”) sponsored insurance program that provides accountants’ professional liability insurance coverage (“AICPA Plan”) through December 31, 2008.

The reinsurance activity of AMIC Ltd. depends upon agreements entered into with outside parties.

Entry into Agency Agreement

On September 25, 2009, APSL entered into an agency agreement (the “Agency Agreement”) with The North River Insurance Company, United States Fire Insurance Company, Crum & Forster Indemnity Company, Crum and Forster Insurance Company, and Crum & Forster Specialty Insurance Company (collectively, “C&F”) pursuant to which C&F appointed APSL as its exclusive agent for the purposes of soliciting, underwriting, quoting, binding, issuing, cancelling, non-renewing and endorsing accountants’ professional liability and lawyers’ professional liability insurance coverage in all 50 states of the United States and the District of Columbia. The initial term of the Agency Agreement is for four years with automatic one year renewals.

Entry into Reinsurance Agreement

We conduct our reinsurance business through AMIC Ltd., our subsidiary, which is a registered insurer in Bermuda. On September 25, 2009, AMIC Ltd. entered into a professional liability quota share agreement with C&F (the “Reinsurance Agreement”) pursuant to which C&F agreed to cede and AMIC Ltd. agreed to accept as reinsurance a 50% quota share of C&F’s liability under insurance written by APSL on behalf of C&F and classified by C&F as accountants’ professional liability and lawyers’ professional liability, subject to AMIC Ltd.’s surplus limitations. The initial term of the Reinsurance Agreement is for four years with automatic one-year renewals thereafter.

Historical Relationship with CNA

Historically, the primary business activity of our wholly owned insurance subsidiary, AMIC Ltd., had been to act as a reinsurer of professional liability insurance policies that were issued under the Professional Liability Insurance Plan sponsored by the AICPA. The AICPA plan offers professional liability coverage to accounting firms and individual CPAs in all 50 states.

Our reinsurance activity depends upon agreements with outside parties. AMIG, our predecessor entity, began our reinsurance relationship with CNA in 1993.

On January 5, 2009, AMIC Ltd. received written notice from CNA that CNA did not intend to renew the reinsurance program encompassed by the Reinsurance Treaties. In 2008, the business relationship with CNA accounted for approximately 95% of AmerInst’s net premiums earned.

On May 15, 2009, AMIC Ltd. and CNA entered into a Commutation Agreement whereby, effective January 1, 2009, in exchange for a payment of a portion of the reserves which we had previously set aside, CNA assumed responsibility for prior years’ undetermined and unpaid liabilities.

AMERINST INSURANCE GROUP, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Historical Relationship with CAMICO

From June 1, 2005 through May 31, 2009, we were a party to a reinsurance contract with CAMICO Mutual Insurance Company (“CAMICO”), a California-based writer of accountants’ professional liability business.

We decided not to renew the CAMICO contract and permitted the contract to expire pursuant to its terms on May 31, 2009. We remain potentially liable for claims related to coverage through May 31, 2009.

VSC Payment

On July 22, 2009, the Company received a payment of \$500,891 from FFG Insurance Company, formerly known as Virginia Surety Company (“VSC”), in satisfaction of certain recoveries not previously remitted by VSC under retrocession contracts between the Company and VSC for the years 1989-1993. The \$500,891 payment was recorded as a decrease in losses and loss adjustment expenses for the year ended December 31, 2009. Following this payment, the Company initiated arbitration with VSC (the “Arbitration”) to seek additional recoveries in respect of unpaid losses, unpaid premiums, fees and interest. During the arbitration, VSC conceded that \$25,785 in unpaid premiums was due and a payment was remitted to the Company. On October 8, 2011, the Company was formally awarded \$289,514 as a result of the Arbitration’s final outcome. The award represented unpaid losses of \$241,943, fees of \$11,280 and interest of \$36,291. The total net award of \$315,299 from VSC was recorded as a decrease in losses and loss adjustment expenses in the third quarter of 2011.

Attorney’s Professional Liability Coverage

On January 1, 2003, we entered into a 15% participation of Professionals Direct Insurance Company’s (PDIC) attorneys’ professional liability 1st excess cover. This participation terminated on December 31, 2003. The final reported claim was closed during 2011 and although we no longer anticipate we will be liable for further claims related to this period of coverage, there is a remote possibility further claims could be reported.

RINITS™

AmerInst has filed an application for a U.S. patent on a unique financing concept called RINITS™ that it has developed to securitize insurance and reinsurance risk, involving property, casualty, life and health. Such securitization would be by equity and debt financing of Bermuda special purpose companies licensed as reinsurers. It is AmerInst’s intention to grant patent licenses to the special purpose companies and investment banking organizations which will market the securities. In addition to the license royalties, AmerInst would manage the special purpose companies for a fee and at its option could invest in them as well. However, AmerInst may not be issued a patent, and, even if so, may not be able to license such patent.

In addition to the patent application, AmerInst has obtained a trademark under which the concept will be marketed.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and include the accounts of AmerInst and its operating wholly-owned subsidiaries, AmerInst Mezco, Ltd. (“Mezco”), AMIC Ltd., APSL and AmerInst Investment Company, Ltd. (“Investco”). Intercompany accounts and transactions have been eliminated on consolidation.

AMERINST INSURANCE GROUP, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America 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. The major estimates reflected in the Company's financial statements include but are not limited to the liability for loss and loss adjustment expenses.

Premiums

Premiums assumed are earned on a pro rata basis over the terms of the underlying policies to which they relate. Premiums assumed relating to the unexpired portion of policies in force at the balance sheet date are recorded as unearned premiums.

Deferred policy acquisition costs

Ceding commissions related to assumed reinsurance agreements are deferred and amortized pro rata over the terms of the underlying policies to which they relate.

Liability for losses and loss adjustment expenses

The liability for unpaid losses and loss adjustment expenses includes case basis estimates of reported losses plus supplemental amounts for projected losses incurred but not reported (IBNR), calculated based upon loss projections utilizing certain actuarial assumptions and AMIC Ltd.'s historical loss experience supplemented with industry data. The aggregate liability for unpaid losses and loss adjustment expenses at year end represents management's best estimate, based upon the available data, of the amount necessary to cover the ultimate cost of loss, based upon an actuarial analysis prepared by independent actuaries. However, because of the volatility inherent in professional liability coverage, actual loss experience may not conform to the assumptions used in determining the estimated amounts for such liability at the balance sheet date. Accordingly, the ultimate liability could be significantly in excess of or less than the amount indicated in the financial statements. As adjustments to these estimates become necessary, such adjustments are reflected in current operations. AMIC Ltd. does not discount its loss reserves for purposes of these financial statements.

The anticipated effect of inflation is implicitly considered when estimating liabilities for unpaid losses and loss adjustment expenses. Future average severities are projected based on historical trends adjusted for anticipated trends, are monitored based on actual developments and are modified if necessary.

Investments

AmerInst classifies all of its investments as available-for-sale. Accordingly, AmerInst reports these securities at their estimated fair values with unrealized holding gains and losses being reported as other comprehensive income. Realized gains and losses on sales of investments are accounted for by specifically identifying the cost and are reflected in the income statement in the period of sale.

Declines in the fair value of investments below cost are evaluated for other than temporary impairment losses. The evaluation for other than temporary impairment losses is a quantitative and qualitative process which is subject to risks and uncertainties in the determination of whether declines in the fair value of investments are other than temporary. The risks and uncertainties include the Company's intent and ability to hold the security, changes in general economic conditions, the issuer's financial condition or near term recovery prospects, and the effects of changes in interest rates. AmerInst's accounting policy requires that a decline in the value of a security

AMERINST INSURANCE GROUP, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

below its cost basis be assessed to determine if the decline is other than temporary. If so, the security is deemed to be impaired and a charge is recorded in net realized losses equal to the difference between the fair value and the cost basis of the security. The fair value of the impaired investment becomes its new cost basis.

Cash and cash equivalents

For purposes of the statements of cash flows, AmerInst considers all money market funds and highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment are depreciated using the straight-line method with estimated useful lives ranging from 3 to 7 years. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for normal maintenance and repairs are expensed as incurred.

Developmental costs for internal use software are capitalized in accordance with the provisions of ASC 350-40, generally, when the preliminary project stage is completed, management commits to funding and it is probable that the project will be completed and the software will be used to perform the functions intended. Capitalized internal use software costs are amortized on a straight-line basis over their estimated useful lives, generally for a period not to exceed 5 years.

Income taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the periods in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided if it is more likely than not that some or all of the deferred tax assets will not be realized. Management evaluates the reliability of the deferred tax assets and assesses the need for additional valuation allowance annually.

Net income per common share

Basic earnings per share is determined as net income available to common shareholders divided by the weighted average number of common shares outstanding for the period. There are no dilutive securities.

New Accounting Pronouncements

Accounting Standards Not Yet Adopted

Fair Value Measurement and Disclosures

In May 2011, the Financial Accounting Standards Board (“FASB”) issued amendments to disclosure requirements for common fair value measurement. These amendments, effective for the interim and annual periods beginning on or after December 15, 2011 (early adoption is prohibited), result in a common definition of fair value and common requirements for measurement and disclosure under U.S. GAAP and IFRS. Consequently, the amendments change some fair value measurement principles and disclosure requirements. The implementation of this amended accounting guidance is not expected to have a material impact on the consolidated financial statements.

AMERINST INSURANCE GROUP, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Comprehensive Income

In June 2011, the FASB issued new guidance revising the manner in which entities present comprehensive income in their financial statements. The option to report other comprehensive income and its components in the statement of changes in shareholders' equity is eliminated. Components of comprehensive income may be reported in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. The new requirements will become effective for the interim and annual periods beginning on or after December 15, 2011 and require retrospective application; early adoption is permitted. As the new guidance does not change the items that constitute net income and/or other comprehensive income, the timing of reclassifications from other comprehensive income to net income or the earnings per share computation, we expect that adoption of this guidance will not impact our results of operations, financial condition or liquidity.

The Company has determined that all other recently issued accounting pronouncements do not apply to its operations.

3. PLEDGED ASSETS

Pursuant to the reinsurance agreements, AMIC Ltd. is required to provide the ceding companies with collateral to secure its obligations to them. At December 31, 2011 and 2010 AMIC Ltd. provided CAMICO with a Letter of Credit held by Comerica Bank with supporting investments with a carrying value of \$2,813,484 and \$2,713,631, respectively. Also, at December 31, 2011 and 2010, AMIC Ltd. had provided C&F with a Section 114 Trust, held by Comerica Bank, with restricted cash and cash equivalents and investments with a carrying value of \$7,321,378 and \$7,039,652, respectively.

4. INVESTMENTS

The cost or amortized cost, gross unrealized holding gains and losses, and estimated fair value of fixed maturity investments, by major security type, and equity securities at December 31, 2011 and 2010 are as follows:

| | <u>Cost or Amortized Cost</u> | <u>Gross Unrealized Gains</u> | <u>Gross Unrealized Losses</u> | <u>Estimated Fair Value</u> |
|--|---------------------------------------|---------------------------------------|--|-------------------------------------|
| December 31, 2011 | | | | |
| Fixed maturity investments: | | | | |
| U.S. government agency securities | \$ 1,446,223 | \$ 7,882 | \$ — | \$ 1,454,105 |
| Obligations of states and political subdivisions | 8,135,268 | 531,523 | (1,257) | 8,665,534 |
| Corporate debt securities | 333,024 | — | (3,816) | 329,208 |
| Total fixed maturity investments | <u>9,914,515</u> | <u>539,405</u> | <u>(5,073)</u> | <u>10,448,847</u> |
| Equity securities | 6,574,686 | 4,360,802 | (34,718) | 10,900,770 |
| Hedge fund | 1,000,000 | 395,933 | — | 1,395,933 |
| Total equity securities | <u>7,574,686</u> | <u>4,756,735</u> | <u>(34,718)</u> | <u>12,296,703</u> |
| Total investments | <u>\$17,489,201</u> | <u>\$5,296,140</u> | <u>\$(39,791)</u> | <u>\$22,745,550</u> |

AMERINST INSURANCE GROUP, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

| | <u>Cost or Amortized Cost</u> | <u>Gross Unrealized Gains</u> | <u>Gross Unrealized Losses</u> | <u>Estimated Fair Value</u> |
|--|---------------------------------------|---------------------------------------|--|-------------------------------------|
| December 31, 2010 | | | | |
| Fixed maturity investments: | | | | |
| U.S. government agency securities | \$ 1,931,335 | \$ 28,253 | \$ — | \$ 1,959,588 |
| Obligations of states and political subdivisions | 8,307,102 | 243,041 | (84,406) | 8,465,737 |
| Corporate debt securities | 500,828 | 3,328 | — | 504,156 |
| Total fixed maturity investments | <u>10,739,265</u> | <u>274,622</u> | <u>(84,406)</u> | <u>10,929,481</u> |
| Equity securities | 8,342,671 | 5,802,453 | — | 14,145,124 |
| Hedge fund | 1,000,000 | 484,884 | — | 1,484,884 |
| Total equity securities | <u>9,342,671</u> | <u>6,287,337</u> | <u>—</u> | <u>15,630,008</u> |
| Total investments | <u>\$20,081,936</u> | <u>\$6,561,959</u> | <u>\$(84,406)</u> | <u>\$26,559,489</u> |

The following tables summarize the Company's fixed maturity and equity securities in an unrealized loss position and the aggregate fair value and gross unrealized loss by length of time the security has continuously been in an unrealized loss position:

| | <u>12 months or greater</u> | | <u>Less than 12 months</u> | | <u>Total</u> | |
|---|-------------------------------------|------------------------------|---------------------------------|------------------------------|---------------------------------|------------------------------|
| | <u>Estimated Fair Value</u> | <u>Unrealized Losses</u> | <u>Estimated Fair Value</u> | <u>Unrealized Losses</u> | <u>Estimated Fair Value</u> | <u>Unrealized Losses</u> |
| December 31, 2011 | | | | | | |
| Fixed maturity investments: | | | | | | |
| U.S. government agency securities | \$— | \$— | \$ — | \$ — | \$ — | \$ — |
| Obligations of states and political subdivisions | — | — | 200,046 | (1,257) | 200,046 | (1,257) |
| Corporate debt securities | — | — | 329,208 | (3,816) | 329,208 | (3,816) |
| Total fixed maturity investments | <u>—</u> | <u>—</u> | <u>529,254</u> | <u>(5,073)</u> | <u>529,254</u> | <u>(5,073)</u> |
| Equity securities | — | — | 864,871 | (34,718) | 864,871 | (34,718) |
| Hedge fund | — | — | — | — | — | — |
| Total equity securities | <u>—</u> | <u>—</u> | <u>864,871</u> | <u>(34,718)</u> | <u>864,871</u> | <u>(34,718)</u> |
| Total investments | <u>\$—</u> | <u>\$—</u> | <u>\$1,394,125</u> | <u>\$(39,791)</u> | <u>\$1,394,125</u> | <u>\$(39,791)</u> |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

As of December 31, 2011, there were approximately four securities in an unrealized loss position with an estimated fair value of \$1,394,125. Of these securities, no securities have been in an unrealized loss position for 12 months or greater. As of December 31, 2011, none of these securities were considered to be other than temporarily impaired. The Company has no intent to sell and it is not more likely than not that the Company will be required to sell these securities before their fair values recover above the adjusted cost. The unrealized losses from these securities were not a result of credit, collateral or structural issues.

| | <u>12 months or greater</u> | | <u>Less than 12 months</u> | | <u>Total</u> | |
|--|-----------------------------|--------------------------|-----------------------------|--------------------------|-----------------------------|--------------------------|
| | <u>Estimated Fair Value</u> | <u>Unrealized Losses</u> | <u>Estimated Fair Value</u> | <u>Unrealized Losses</u> | <u>Estimated Fair Value</u> | <u>Unrealized Losses</u> |
| December 31, 2010 | | | | | | |
| Fixed maturity investments: | | | | | | |
| U.S. government agency securities . . . | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Obligations of states and political subdivisions | 497,924 | (2,445) | 1,573,160 | (81,961) | 2,071,084 | (84,406) |
| Corporate debt securities | — | — | — | — | — | — |
| Total fixed maturity investments | <u>497,924</u> | <u>(2,445)</u> | <u>1,573,160</u> | <u>(81,961)</u> | <u>2,071,084</u> | <u>(84,406)</u> |
| Equity securities | — | — | — | — | — | — |
| Hedge fund | — | — | — | — | — | — |
| Total equity securities | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| Total investments | <u>\$497,924</u> | <u>\$(2,445)</u> | <u>\$1,573,160</u> | <u>\$(81,961)</u> | <u>\$2,071,084</u> | <u>\$(84,406)</u> |

As of December 31, 2010, there were approximately six securities in an unrealized loss position with an estimated fair value of \$2,071,084. Of these securities, there is one security that has been in an unrealized loss position for 12 months or greater. As of December 31, 2010, none of these securities were considered to be other than temporarily impaired. The unrealized losses from these securities were not a result of credit, collateral or structural issues.

The cost or amortized cost and estimated fair value of fixed maturity investments at December 31, 2011 and 2010 by contractual maturity are shown below. Expected maturities may differ from contractual maturities as borrowers may have the right to call or prepay obligations without penalties.

| | <u>Amortized Cost</u> | <u>Estimated Fair Value</u> |
|--|-----------------------|-----------------------------|
| December 31, 2011 | | |
| Due in one year or less | \$ 510,949 | \$ 516,938 |
| Due after one year through five years | 5,885,709 | 6,210,596 |
| Due after five years through ten years | 3,517,857 | 3,721,313 |
| Due after ten years | — | — |
| Total | <u>\$9,914,515</u> | <u>\$10,448,847</u> |

AMERINST INSURANCE GROUP, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

| | <u>Amortized Cost</u> | <u>Estimated Fair Value</u> |
|--|---------------------------|---------------------------------|
| December 31, 2010 | | |
| Due in one year or less | \$ 1,001,198 | \$ 1,002,080 |
| Due after one year through five years | 7,398,409 | 7,633,631 |
| Due after five years through ten years | 2,339,658 | 2,293,770 |
| Due after ten years | — | — |
| Total | <u>\$10,739,265</u> | <u>\$10,929,481</u> |

Information on sales and maturities of investments during the twelve months ended December 31, 2011 and 2010 are as follows:

| | <u>2011</u> | <u>2010</u> |
|--|-------------|-------------|
| Total proceeds on sales of available-for-sale securities | \$6,365,643 | \$8,438,258 |
| Total proceeds from maturities of fixed maturity investments | 1,000,000 | 1,025,000 |
| Gross gains on sales | 1,955,672 | 3,394,772 |
| Gross losses on sales | (23,330) | (914,918) |
| Impairment losses | (152,450) | (123,310) |

Fair Value of Investments

The following tables show the fair value of the Company's investments in accordance with ASC 820, "Fair Value Measurements and Disclosures" as of December 31, 2011 and 2010.

| | <u>Carrying amount</u> | <u>Total fair value</u> | <u>Fair value measurement using:</u> | | |
|---|----------------------------|-----------------------------|---|--|--|
| | | | <u>Quoted prices in active markets for identical assets (Level 1)</u> | <u>Significant other observable inputs (Level 2)</u> | <u>Significant unobservable inputs (Level 3)</u> |
| December 31, 2011 | | | | | |
| U.S. government agency securities | \$ 1,454,105 | \$ 1,454,105 | \$ — | \$ 1,454,105 | \$ — |
| Obligations of state and political subdivisions | 8,665,534 | 8,665,534 | | 8,665,534 | |
| Corporate debt securities | <u>329,208</u> | <u>329,208</u> | | 329,208 | |
| Total fixed maturity investments | <u>10,448,847</u> | <u>10,448,847</u> | | | |
| Equity securities (excluding the hedge fund) | 10,900,770 | 10,900,770 | 10,900,770 | | |
| Hedge fund | <u>1,395,933</u> | <u>1,395,933</u> | | | 1,395,933 |
| Total equity securities | <u>12,296,703</u> | <u>12,296,703</u> | | | |
| Total investments | <u>\$22,745,550</u> | <u>\$22,745,550</u> | <u>\$10,900,770</u> | <u>\$10,448,847</u> | <u>\$1,395,933</u> |

AMERINST INSURANCE GROUP, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

| | Carrying amount | Total fair value | Fair value measurement using: | | |
|---|---------------------|---------------------|--|---|---|
| | | | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| December 31, 2010 | | | | | |
| U.S. government agency securities | \$ 1,959,588 | \$ 1,959,588 | \$ — | \$ 1,959,588 | \$ — |
| Obligations of state and political subdivisions | 8,465,737 | 8,465,737 | | 8,465,737 | |
| Corporate debt securities | 504,156 | 504,156 | | 504,156 | |
| Total fixed maturity investments . . . | <u>10,929,481</u> | <u>10,929,481</u> | | | |
| Equity securities (excluding the hedge fund) | 14,145,124 | 14,145,124 | 14,145,124 | | |
| Hedge fund | 1,484,884 | 1,484,884 | | | 1,484,884 |
| Total equity securities | <u>15,630,008</u> | <u>15,630,008</u> | | | |
| Total investments | <u>\$26,559,489</u> | <u>\$26,559,489</u> | <u>\$14,145,124</u> | <u>\$10,929,481</u> | <u>\$1,484,884</u> |

There were no transfers between Levels 1 and 2 during the years ended December 31, 2011 and 2010.

The following is a reconciliation of the beginning and ending balance of investments measured at fair value on a recurring basis using significant unobservable (Level 3) inputs for the year ended December 31, 2011 and 2010.

| | 2011 | 2010 |
|--|--------------------|--------------------|
| Balance classified as Level 3, beginning of year | \$1,484,884 | \$1,389,737 |
| Total gains or losses included in earnings: | — | — |
| Net realized gains | — | — |
| Change in fair value of hedge fund investments | (88,951) | 95,147 |
| Purchases or sales | — | — |
| Transfers in and/or out of Level 3 | — | — |
| Ending balance | <u>\$1,395,933</u> | <u>\$1,484,884</u> |

There were no transfers into or from the Level 3 hierarchy during the years ended December 31, 2011 and 2010.

Under existing accounting principles generally accepted in the United States, we are required to recognize certain assets at their fair value in our consolidated balance sheets. This includes our fixed maturity investments and equity securities. In accordance with the Fair Value Measurements and Disclosures Topic of FASB's ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon whether the inputs to the valuation of an asset or liability are observable or unobservable in the market at the measurement date, with quoted market prices being the highest level (Level 1) and unobservable inputs being the lowest level (Level 3). A fair value measurement will fall within the level of the hierarchy based on the input that is significant to determining such measurement. The three levels are defined as follows:

- **Level 1:** Observable inputs to the valuation methodology that are quoted prices (unadjusted) for identical assets or liabilities in active markets.

AMERINST INSURANCE GROUP, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

- **Level 2:** Observable inputs to the valuation methodology other than quoted market prices (unadjusted) for identical assets or liabilities in active markets. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical assets and liabilities in markets that are not active and inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- **Level 3:** Inputs to the valuation methodology that are unobservable for the asset or liability.

At each measurement date, we estimate the fair value of the security using various valuation techniques. We utilize, to the extent available, quoted market prices in active markets or observable market inputs in estimating the fair value of our investments. When quoted market prices or observable market inputs are not available, we utilize valuation techniques that rely on unobservable inputs to estimate the fair value of investments. The following describes the valuation techniques we used to determine the fair value of investments held as of December 31, 2011 and what level within the fair value hierarchy each valuation technique resides;

- **U.S. government agency securities:** Comprised primarily of bonds issued by the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank and the Federal National Mortgage Association. The fair values of U.S. government agency securities are priced using the spread above the risk-free U.S. Treasury yield curve. As the yields for the risk-free U.S. Treasury yield curve are observable market inputs, the fair values of U.S. government agency securities are included in the Level 2 fair value hierarchy. AmerInst considers that there is a liquid market for the types of securities held. Broker quotes are not used for fair value pricing.
- **Obligations of state and political subdivisions:** Comprised of fixed income obligations of state and local governmental municipalities. The fair values of these securities are based on quotes and current market spread relationships, and are included in the Level 2 fair value hierarchy. AmerInst considers that there is a liquid market for the types of securities held. Broker quotes are not used for fair value pricing.
- **Corporate debt securities:** Comprised of bonds issued by corporations. The fair values of these securities are based on quotes and current market spread relationships, and are included in the Level 2 fair value hierarchy. AmerInst considers that there is a liquid market for the types of securities held. Broker quotes are not used for fair value pricing.
- **Equity securities, at fair value:** Comprised primarily of investments in the common stock of publicly traded companies in the U.S. All of the Company's equities are included in the Level 1 fair value hierarchy. The Company receives prices based on closing exchange prices from independent pricing sources to measure fair values for the equities.
- **Hedge fund:** Comprised of a hedge fund whose objective is to seek attractive long-term returns with lower volatility by investing in a range of diversified investment strategies. The fund invests in a diversified pool of hedge fund managers, generally across six different strategies: long/short equities, long/short credit, macro, multi-strategy opportunistic, event-driven, and portfolio hedge. The fair value of the hedge fund is based on the net asset value of the fund as reported by the external fund manager. The use of net asset value as an estimate of the fair value for investments in certain entities that calculate net asset value is a permitted practical expedient. The fair value of our hedge fund is included in the Level 3 fair value hierarchy.

To validate prices, we complete quantitative analyses to compare the performance of the above investments to the performance of appropriate benchmarks, with significant differences identified and investigated.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

There have been no material changes to any of our valuation techniques from what was used as of December 31, 2010. Since the fair value of a financial instrument is an estimate of what a willing buyer would pay for our asset if we sold it, we will not know the ultimate value of our financial instruments until they are sold. We believe the valuation techniques utilized provide us with the best estimate of the price that would be received to sell our assets or transfer our liabilities in an orderly transaction between participants at the measurement date.

Though current market conditions appear to have improved recently, there is still the potential for further instability which could present additional risks and uncertainties for our business and make it more difficult to value certain of our securities if trading becomes less frequent. As such, valuations may include assumptions and estimates that may have significant period-to-period changes that could have a material adverse effect on our results of operations or financial condition.

Major categories of net interest and dividend income are summarized as follows:

| | <u>2011</u> | <u>2010</u> |
|--|-------------------|-------------------|
| Interest earned: | | |
| Fixed maturity investments | \$ 346,425 | \$ 339,113 |
| Short term investments and cash and cash equivalents | 342 | 1,957 |
| Dividends earned | 199,679 | 217,045 |
| Investment expenses | <u>(137,012)</u> | <u>(152,905)</u> |
| Net investment income | <u>\$ 409,434</u> | <u>\$ 405,210</u> |

5. PROPERTY AND EQUIPMENT

Property and equipment, associated with APSL, at December 31, 2011 and 2010 at cost, less accumulated depreciation and amortization, totaled \$745,784 and \$716,230, respectively as follows:

| | <u>Cost</u> | <u>Accumulated Depreciation and Amortization</u> | <u>Total</u> |
|------------------------------|------------------|--|------------------|
| December 31, 2011 | | | |
| Leasehold improvements | \$ 1,865 | \$ 1,083 | \$ 782 |
| Furniture and fixtures | 25,184 | 6,870 | 18,314 |
| Office equipment | 18,123 | 5,066 | 13,057 |
| Computer equipment | 10,829 | 3,703 | 7,126 |
| Computer software | 2,670 | 668 | 2,002 |
| Internal use software | <u>926,732</u> | <u>222,229</u> | <u>704,503</u> |
| Total | <u>\$985,403</u> | <u>\$239,619</u> | <u>\$745,784</u> |

| | <u>Cost</u> | <u>Accumulated Depreciation and Amortization</u> | <u>Total</u> |
|------------------------------|------------------|--|------------------|
| December 31, 2010 | | | |
| Leasehold improvements | \$ 1,865 | \$ 518 | \$ 1,347 |
| Furniture and fixtures | 25,184 | 3,272 | 21,912 |
| Office equipment | 18,123 | 2,477 | 15,646 |
| Computer equipment | 10,829 | 1,537 | 9,292 |
| Internal use software | <u>725,662</u> | <u>57,629</u> | <u>668,033</u> |
| Total | <u>\$781,663</u> | <u>\$ 65,433</u> | <u>\$716,230</u> |

AMERINST INSURANCE GROUP, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

6. LIABILITY FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

Details of the liability for unpaid losses and loss adjustment expenses at December 31, 2011 and 2010 are as follows:

| | <u>2011</u> | <u>2010</u> |
|---------------------------------|--------------------|--------------------|
| Case basis estimates | \$ 382,662 | \$ 523,889 |
| Incurred But Not Reported | 660,781 | 679,127 |
| Totals | <u>\$1,043,443</u> | <u>\$1,203,016</u> |

Liability for losses and loss adjustment expense activity is as follows:

| | <u>2011</u> | <u>2010</u> |
|-----------------------------------|--------------------|--------------------|
| Liability—beginning of year | \$1,203,016 | \$1,510,478 |
| Incurred related to: | | |
| Current year | 275,504 | 32,000 |
| Prior years | (428,532) | (5,131) |
| Total incurred | <u>(153,028)</u> | <u>26,869</u> |
| Paid related to: | | |
| Current year | — | — |
| Prior years | (6,545) | (334,331) |
| Total paid | <u>(6,545)</u> | <u>(334,331)</u> |
| Liability—end of year | <u>\$1,043,443</u> | <u>\$1,203,016</u> |

As a result of the change in estimates of insured events in prior years, the provision for losses and loss adjustment expenses decreased by \$428,532 and \$5,131 in 2011 and 2010, respectively. The 2011 decrease resulted from (1) favorable development on the CAMICO and PDIC treaties and (2) the recoveries from VSC as a result of the Arbitration's final outcome, partially offset by reserves established pursuant to the Reinsurance Agreement. The decrease in 2010 resulted from favorable development on CAMICO and PDIC treaties, partially offset by reserves established under the Reinsurance Agreement.

7. SHAREHOLDERS' EQUITY

AmerInst currently does not have a public market for its common stock, but the Company has historically caused Investco to purchase shares from the Company's shareholders upon their death, disability or retirement from the practice of public accounting. The repurchase price has been equal to the year-end net book value per share for the most recently completed fiscal year reduced by the amount of any dividends already paid on the repurchased shares during the calendar year of the repurchase and any dividends the shareholder would be entitled to receive on the repurchased shares that have not been paid. In addition, the BMA has authorized Investco to purchase shares on a negotiated case-by-case basis, and Investco has typically negotiated share repurchases when requested by Company shareholders.

On February 25, 2011, the Board of Directors amended and restated AmerInst's Statement of Share Ownership Policy to better manage the Company's expenditures from year to year. Under the new policy that became effective immediately, the Company will limit Investco's repurchase of Company stock to \$500,000 per calendar year. In addition, Investco will only be authorized to repurchase shares, without Board approval, from shareholders upon their death, disability or retirement from the practice of public accounting. Except as approved

AMERINST INSURANCE GROUP, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

by the Board, negotiated purchases that do not satisfy these criteria will be discontinued for the foreseeable future. At the Board meeting, the Board approved all outstanding requests for repurchase of shares amounting to \$300,359, and for the remainder of 2011, authorized Investco to repurchase shares up to \$500,000.

8. PREMIUMS WRITTEN

Premiums written were \$710,679 and \$251,896 during 2011 and 2010, respectively. The premiums written during the year ended December 31, 2011 and 2010 were attributable to premium cessions from C&F under the Reinsurance Agreement in the amount of \$721,203 and \$137,746 and to revisions to CAMICO premium estimates for prior years in the amount of \$(10,524) and \$114,150, respectively. The increase in premiums written under the Reinsurance Agreement resulted from increased cessions from C&F in 2011, as a result of a higher level of underwriting activity under the Agency Agreement resulting from the continued and successful marketing of the program by APSL.

9. OPERATING AND MANAGEMENT EXPENSES

With the exception of APSL, AmerInst, AMIC Ltd., Mezco and Investco have no employees. Their operating activities, as well as certain management functions, are performed by contracted professional service providers. Cedar Management Limited provides AmerInst and AMIC Ltd. certain management, administrative and operations services under the direction of AmerInst's Board of Directors pursuant to an agreement. The agreement may be terminated by either party upon not more than 90 days nor less than 60 days prior written notice. Mr. Stuart Grayston, our President, was formerly a director and officer of Cedar Management Limited, and Mr. Thomas R. McMahon, our Treasurer and Chief Financial Officer, is a shareholder, officer, director and employee of Cedar Management Limited. The company paid Cedar Management Limited \$320,000 and \$335,000 in fees during 2011 and 2010, respectively.

Operating and management expenses include compensation paid to members of the Board of Directors and various committees of the Board totaling \$466,247 in 2011 and \$431,809 in 2010.

10. TAXATION

Under current Bermuda law, the Company and its subsidiaries are not required to pay taxes in Bermuda on either income or capital gains. The Company has received an undertaking from the Bermuda government that, in the event of income or capital gains taxes being imposed, the Company will be exempted from such taxes until the year 2035. However, APSL which is a Delaware corporation domiciled in the State of Illinois is subject to taxation in the United States.

Deferred income taxes, arising from APSL, reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. As of December 31, 2011 and 2010, management set up full valuation allowances against the deferred tax assets as disclosed below since the success of APSL was not certain and therefore, it was more likely than not that a tax benefit would not be realized.

| | 2011 | 2010 |
|---|------------------|------------------|
| Capitalized start-up expenses | \$ 266,000 | \$ 286,221 |
| Operating loss carryforwards | 2,153,000 | 1,033,000 |
| Depreciation and amortization | (184,000) | — |
| Deferred tax assets before valuation allowance | 2,235,000 | 1,319,221 |
| Valuation allowance | (2,235,000) | (1,319,221) |
| Deferred tax assets net of valuation allowance | \$ — | \$ — |

AMERINST INSURANCE GROUP, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

11. DIVIDEND RESTRICTIONS AND STATUTORY REQUIREMENTS

AMIC Ltd.'s ability to pay dividends to AmerInst is subject to the provisions of the Bermuda insurance and companies laws and the requirement to provide the ceding companies with collateral. Under the Companies Act, AMIC Ltd. would be prohibited from declaring or paying a dividend at December 31, 2011 if such payment would reduce the realizable value of its assets to an amount less than the aggregate value of its liabilities, issued share capital, and share premium accounts. As of December 31, 2011, approximately \$32 million was available for the declaration of dividends to shareholders. However, due to the requirement to provide the ceding companies with collateral, approximately \$22 million was available for the payment of dividends to the shareholders. In addition, AMIC Ltd. must be able to pay its liabilities as they fall due after the payment of a dividend. Our ability to pay dividends to common shareholders and to pay our operating expenses is dependent on cash dividends from our subsidiaries. The payment of such dividends by AMIC Ltd., including its subsidiary Investco, to us is also limited under Bermuda law by the Insurance Act and Related Regulations which require that AMIC Ltd. maintain minimum levels of solvency and liquidity.

AmerInst's ability to pay common shareholders' dividends and its operating expenses is dependent on cash dividends from AMIC Ltd. and its other subsidiaries. The payment of such dividends by AMIC Ltd. to AmerInst is limited under Bermuda law by the Bermuda Insurance Act 1978 and Related Regulations, as amended, which require that AMIC Ltd. maintain minimum levels of solvency and liquidity. For the years ended December 31, 2011 and 2010 these requirements have been met. The minimum required statutory capital and surplus was \$1,000,000 and \$1,000,000 and actual statutory capital and surplus was \$33,315,313 and \$32,209,291 at December 31, 2011 and 2010, respectively. The minimum required level of relevant assets was \$9,342,872 and \$9,231,848 and actual relevant assets was \$10,815,518 and \$10,869,403 at December 31, 2011 and 2010, respectively. Statutory loss for the years ended December 31, 2011 and 2010 was \$209,202 and \$294,498, respectively.

12. UNAUDITED CONDENSED QUARTERLY FINANCIAL DATA

| <u>2011</u> | <u>FIRST QUARTER</u> | <u>SECOND QUARTER</u> | <u>THIRD QUARTER</u> | <u>FOURTH QUARTER</u> |
|--|--------------------------|---------------------------|--------------------------|---------------------------|
| Net premiums earned | \$ 45,490 | \$ 80,071 | \$ 96,283 | \$ 190,996 |
| Commission income | 72,609 | 71,736 | 91,529 | 152,614 |
| Net investment income | 95,344 | 117,481 | 96,128 | 100,481 |
| Net realized gain | 816,768 | 499,371 | 84,653 | 379,100 |
| Total revenues | <u>\$1,030,211</u> | <u>\$ 768,659</u> | <u>\$ 368,593</u> | <u>\$ 823,191</u> |
| Net loss | \$ (178,925) | \$(415,165) | \$(333,209) | \$(141,861) |
| Basic and diluted net loss per share | \$ (0.25) | \$ (0.60) | \$ (0.48) | \$ (0.21) |
| | | | | |
| <u>2010</u> | <u>FIRST QUARTER</u> | <u>SECOND QUARTER</u> | <u>THIRD QUARTER</u> | <u>FOURTH QUARTER</u> |
| Net premiums earned | \$ 96,410 | \$ 2,193 | \$ 29,555 | \$ 28,982 |
| Commission income | 1,257 | 11,064 | 29,281 | 43,449 |
| Net investment income | 77,172 | 117,699 | 70,739 | 139,600 |
| Net realized gain | 312,368 | 630,843 | 665,369 | 747,964 |
| Total revenues | <u>\$ 487,207</u> | <u>\$ 761,799</u> | <u>\$ 794,944</u> | <u>\$ 959,995</u> |
| Net loss | \$ (434,829) | \$(347,072) | \$(114,595) | \$(205,297) |
| Basic and diluted net loss per share | \$ (0.59) | \$ (0.47) | \$ (0.16) | \$ (0.30) |

AMERINST INSURANCE GROUP, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

13. SEGMENT INFORMATION

AmerInst has two operating segments: 1) reinsurance activity, which also includes investments and other activities, and 2) insurance activity, which offers professional liability solutions to professional service firms under the Agency Agreement with C&F.

The disclosure of RINITIS™ as a separate operating segment was discontinued in the fourth quarter of 2010 as it no longer met the quantitative thresholds prescribed by ASC 280, “Segment Reporting”.

| | December 31, 2011 | | |
|-------------------------------------|--------------------------------|------------------------------|---------------|
| | Reinsurance Segment | Insurance Segment | Total |
| Revenues | \$2,601,937 | \$ 388,717 | \$ 2,990,654 |
| Total losses and expenses | \$1,379,756 | \$ 2,680,058 | \$ 4,059,814 |
| Segment income (loss) | \$1,222,181 | \$(2,291,341) | \$(1,069,160) |
| Identifiable assets | \$ — | \$ 745,784 | \$ 745,784 |
| | December 31, 2010 | | |
| | Reinsurance Segment | Insurance Segment | Total |
| Revenues | \$2,918,696 | \$ 85,249 | \$ 3,003,945 |
| Total losses and expenses | \$1,452,800 | \$ 2,652,938 | \$ 4,105,738 |
| Segment income (loss) | \$1,465,896 | \$(2,567,689) | \$(1,101,793) |
| Identifiable assets | \$ — | \$ 716,230 | \$ 716,230 |

14. STOCK COMPENSATION

AmerInst Professional Services Limited (“APSL”), a subsidiary of AmerInst, has entered into employment agreements with four key members of senior management, which grant them phantom shares of the Company. Under these agreements, these employees were initially granted a total of 75,018 phantom shares of the Company on the date of their employment. The phantom shares are eligible for phantom dividends paid at the same rate as regular dividends on the Company’s common shares. The phantom dividends may be used only to purchase additional phantom shares with the purchase price of such phantom shares being the net book value of the Company’s actual common shares as of the end of the previous quarter. During the year ended December 31, 2011, 1,987 phantom shares were granted arising from the dividends declared on the Company’s common shares. 78,872 phantom shares were outstanding at December 31, 2011.

The employees’ interest in the phantom shares initially granted as well as any additional shares granted from dividends declared will vest on January 1, 2015. The liability payable to the employees under this phantom share plan is equal to the value of the phantom shares based on the net book value of the Company’s actual common shares at the end of the previous quarter less the initial value and is payable in cash upon the earlier of the employee attaining 65 years of age or within 60 days of death or permanent disability, including if such death or permanent disability occurs before January 1, 2015.

The liability relating to these phantom shares is recalculated quarterly based on the net book value of the Company’s common shares at the end of each quarter. As a result of the overall decrease in the book value of the Company’s common shares since the grant dates, no liability has been recorded by the Company relating to these phantom shares at December 31, 2011.

AMERINST INSURANCE GROUP, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

15. COMMITMENTS AND CONTINGENCIES

In December 2009, APSL entered into a non-cancellable operating lease for office space in Lisle, Illinois. The lease is renewable at the option of the lessee under certain conditions. Future lease payments for the years ended December 31 are as follows:

| | |
|------------|------------------|
| 2012 | \$ 55,801 |
| 2013 | 57,646 |
| 2014 | 59,568 |
| 2015 | 61,553 |
| 2016 | <u>15,513</u> |
| | <u>\$250,081</u> |

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There have been no changes in, or disagreements with, accountants on accounting and financial disclosure. Our retention of Deloitte & Touche Ltd. has been ratified by our Audit Committee and our shareholders. There have been no disagreements with Deloitte & Touche Ltd. with respect to any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

As of December 31, 2011, the end of the period covered by this Annual Report on Form 10-K, our management, including our President and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our President and Chief Financial Officer each concluded that as of December 31, 2011, the end of the period covered by this Annual Report on Form 10-K, we maintained effective disclosure controls and procedures.

Management's Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining effective internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Under the supervision and with the participation of management, including the President and Chief Financial Officer, we conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation under the framework in Internal Control—Integrated Framework, our management has concluded we maintained effective internal control over financial reporting, as such term is defined in Securities Exchange Act of 1934 Rule 13a-15(f), as of December 31, 2011.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting can also be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Management is also responsible for the preparation and fair presentation of the consolidated financial statements and other financial information contained in this report. The accompanying consolidated financial statements were prepared in conformity with U.S. generally accepted accounting principles and include, as necessary, best estimates and judgments by management.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to the permanent exemption granted to the Company under the existing SEC rules. Consequently, this annual report does not include an attestation report of the Company's registered public accounting firm.

Change in Internal Control.

Our management, including the President and Chief Financial Officer, has reviewed our internal control. There have been no significant changes in our internal control during our most recently completed fiscal quarter that materially affected, or is likely to materially affect our internal control over financial reporting.

Item 9B. Other Information

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 of Form 10-K with respect to identification of directors and officers is incorporated by reference from the information contained in the section captioned “Election of Directors” in the Company’s definitive Proxy Statement for the Annual General Meeting of Shareholders to be held on May 31, 2012 (the “Proxy Statement”), a copy of which we intend to file with the SEC within 120 days after the end of the year covered by this Annual Report on Form 10-K. The Company has two executive officers, one of which is a director of the Company.

Code of Ethics

We have a Code of Business Conduct and Ethics that applies to all directors, officers and employees, including our principal executive officer and our principal financial officer. You can find our Code of Business Conduct and Ethics on our internet site, www.amerinst.bm. We will post any amendments to the Code of Business Conduct and Ethics and any waivers that are required to be disclosed by the rules of the SEC on our internet site.

Section 16 Compliance

Information appearing under the caption “Other Matters—Section 16(a) Beneficial Ownership Reporting Compliance” in the Proxy Statement is incorporated herein by reference.

Audit Committee

Information appearing under the captions “Election of Directors—Meetings and Committees of the Board” and “—Report of the Audit Committee” in the Proxy Statement is incorporated herein by reference.

Item 11. Executive Compensation

The information required by Item 11 of Form 10-K is incorporated by reference from the information contained in the section captioned “Election of Directors—Executive and Director Compensation” in the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The information required by Item 12 of Form 10-K is incorporated by reference from the information contained in the section captioned “Other Matters—Security Ownership of Certain Beneficial Owners and Management” in the Company’s Proxy Statement relating to its Annual General Meeting to be held on May 31, 2012.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 of Form 10-K is incorporated by reference from the information contained in the sections captioned “Other Matters—Certain Relationships and Related Transactions” and “Election of Directors” in the Company’s Proxy Statement relating to its Annual General Meeting to be held on May 31, 2012.

Item 14. Principal Accountant Fees and Services

The information required by Item 14 of Form 10-K is incorporated by reference from the information in the section captioned “Appointment of Auditors” in the Company’s Proxy Statement relating to its Annual General Meeting to be held on May 31, 2012.

PART IV

Item 15. Exhibits and Financial Statement Schedules

- (a)(1) See Index to Financial Statements and Schedules on page 31.
- (a)(2) See Index to Financial Statements and Schedules on page 31.
- (a)(3) See Index to Exhibits set forth on pages 58 – 59.
- (b) See Index to Exhibits.
- (c) See Index to Financial Statements and Schedules on page 31.

INVESTMENTS—SCHEDULE I

AmerInst Insurance Group, Ltd.

**Consolidated Summary of Investments
as of December 31, 2011**

| <u>Type of investment</u> | <u>Cost (1)</u> | <u>Fair Value</u> | <u>Amount at which shown on the Balance Sheet</u> |
|---|-----------------|-------------------|---|
| Fixed maturity investments: | | | |
| Bonds: | | | |
| U.S government and agencies and authorities | \$ 1,446,223 | \$ 1,454,105 | \$ 1,454,105 |
| States, municipalities and political subdivisions | 8,135,268 | 8,665,534 | 8,665,534 |
| Corporate debt securities | 333,024 | 329,208 | 329,208 |
| Total fixed maturities | 9,914,515 | 10,448,847 | 10,448,847 |
| Equities: | | | |
| Common stocks: | | | |
| Bank, trust and insurance companies | 824,580 | 994,830 | 994,830 |
| Hedge fund, industrial, miscellaneous and all other | 6,750,106 | 11,301,873 | 11,301,873 |
| Total equity securities | 7,574,686 | 12,296,703 | 12,296,703 |
| Total investments | \$17,489,201 | \$22,745,550 | \$22,745,550 |

- (1) Adjusted cost of equity securities, taking into account other than temporary impairment charges, and, as to fixed maturities, original cost reduced by repayments and adjusted for amortization of premiums or accrual of discounts.

INDEX TO EXHIBITS

Year ended December 31, 2011

| <u>Exhibit Number</u> | <u>Description</u> |
|-----------------------|---|
| 3(i) | Memorandum of Association of AmerInst Insurance Group Ltd.—incorporated by reference herein to Exhibit 3.1 of the Registrant’s Registration Statement on Form S-4 (filed 3/2/99) (No. 333-64929) |
| 3(ii) | Bye-laws of the Company—incorporated by reference herein to Exhibit 3.2 of the Registrant’s Registration Statement on Form S-4A (filed 6/29/99) (No. 333-64929) |
| 4.1 | Section 47 of the Company’s Bye-laws—included in Exhibit 3(ii) hereto |
| 4.2 | Statement of Share Ownership Policy—incorporated by reference herein to Exhibit 4.1 of the Registrant’s Current Report on Form 8-K (filed 12/18/08) (No. 000-28249) |
| 10.2 | Agreement between Country Club Bank and AIIC—incorporated by reference herein to Exhibit 10.2 of AMIG’s Annual Report on Form 10-K (filed 3/30/92) (No. 000-17676) |
| 10.4 | Investment Advisory Agreement For Discretionary Accounts between AmerInst Insurance Company and Harris Associates L.P. dated as of January 22, 1996, as amended by the Amendment to Investment Advisory Agreement for Discretionary Accounts dated as of April 2, 1996—incorporated by reference herein to the Registrant’s Quarterly Report on Form 10-Q (filed 11/13/98) (No. 000-28249) |
| 10.5 | Director Compensation Summary* |
| 10.6 | Management Agreement between USA Risk Group (Bermuda), Ltd., Cedar Management Limited and AMIC Ltd. dated July 1, 2008—incorporated herein by reference to the Registrant’s Annual Report on Form 10-K (filed 3/31/09) (No. 000-28249) |
| 10.7 | Addenda to Management Agreement between USA Risk Group (Bermuda), Ltd., Cedar Management Limited and AMIC Ltd. effective July 1, 2008—incorporated herein by reference to Exhibit 10.18 of the Registrant’s Annual Report on Form 10-K (filed 3/31/09) (No. 000-28249) |
| 10.8 | Addendum to Management Agreement between USA Risk Group (Bermuda), Ltd., Cedar Management Limited and AMIC Ltd. effective January 1, 2010—incorporated herein by reference to Exhibit 10.15 of the Registrant’s Annual Report on Form 10-K (filed 3/29/10) (No. 000-28249) |
| 10.9 | Addendum to Management Agreement between USA Risk Group (Bermuda), Ltd., Cedar Management Limited and AMIC Ltd. effective January 1, 2011—incorporated herein by reference to Exhibit 10.15 of the Registrant’s Annual Report on Form 10-K (filed 3/25/11) (No. 000-28249) |
| 10.10 | Employment Agreement effective November 24, 2009 between AmerInst Professional Services, Limited and F. Kyle Nieman III effective November 24, 2009—incorporated herein by reference to Exhibit 10.16 of the Registrant’s Annual Report on Form 10-K (filed 3/29/10) (No. 000-28249) |
| 10.11 | Agency Agreement effective September 25, 2009 among AmerInst Professional Services, Limited, The North River Insurance Company, United States Fire Insurance Company, Crum & Forster Indemnity Company, Crum and Forster Insurance Company, and Crum & Forster Specialty Insurance Company—incorporated by reference herein to Exhibit 10.1 of the Registrant’s Quarterly Report on Form 10-Q (filed 11/13/09) (No. 000-28249) |
| 10.12 | Professional Liability Quota Share Agreement dated September 25, 2009 among AmerInst Insurance Company, Ltd., The North River Insurance Company, United States Fire Insurance Company, Crum & Forster Indemnity Company, Crum and Forster Insurance Company, and Crum & Forster Specialty Insurance Company—incorporated by reference herein to Exhibit 10.2 of the Registrant’s Quarterly Report on Form 10-Q (filed 11/13/09) (No. 000-28249) |

| <u>Exhibit Number</u> | <u>Description</u> |
|-----------------------|--|
| 10.13 | Addendum to Management Agreement between USA Risk Group (Bermuda), Ltd., Cedar Management Limited and AMIC Ltd. effective January 1, 2012* |
| 10.14 | Addendum to Management Agreement between Cedar Management Limited and AMIC Ltd. effective January 1, 2012* |
| 21.1 | Subsidiaries of the Registrant* |
| 31.1 | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002* |
| 31.2 | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002* |
| 32.1 | Certification of Stuart H. Grayston pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002* |
| 32.2 | Certification of Thomas R. McMahon pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002* |
| 101.INS | XBRL Instance Document* |
| 101.SCH | XBRL Instance Document* |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document* |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document* |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document* |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document* |

* Filed electronically herewith

Corporate Information

AmerInst Insurance Group, Ltd.

Continental Building
25 Church Street
P.O. Box HM 1601
Hamilton HM GX, Bermuda

Legal Counsel

Appleby

Canon's Court
22 Victoria Street
P.O. Box HM 1179
Hamilton HM EX, Bermuda

Gunster, Yoakley & Stewart, P.A.

777 S. Flagler Drive, Suite 500E
West Palm Beach, FL 33401

Bates Carey Nicolaidis LLP

191 North Wacker Drive, Suite 2400
Chicago, IL 60606

Transfer Agent and Registrar

Butterfield Fulcrum Group (Bermuda) Limited

Rosebank Centre
11 Bermudiana Road
Pembroke HM 08, Bermuda

Independent Auditors

Deloitte & Touche Ltd.

Corner House
Church & Parliament Streets
P.O. Box HM 1556
Hamilton HM FX, Bermuda

Annual Report on Form 10-K

Copies of the AmerInst Insurance Group, Ltd. 2011 Annual Report on Form 10-K filed with the Securities and Exchange Commission are available without charge to stockholders upon written request to:

AmerInst Insurance Group, Ltd.

c/o Cedar Management Limited
P.O. Box HM 1601
Hamilton HM GX, Bermuda

The Form 10-K is included within this 2011 Annual Report and is also available on the Securities and Exchange Commission's Internet site at <http://www.sec.gov> and on the AmerInst Internet site at <http://www.amerinst.bm>.

Investor Information

Shareholder inquiries, requests for transfer, name changes and redemption of shares due to death, retirement or disability should be referred to our Shareholder Services Division:

AmerInst Insurance Group, Ltd.

c/o Cedar Management Limited
P.O. Box HM 1601
Hamilton HM GX, Bermuda

Shareholder Communications: (800) 422-8141

Fax: (441) 295-1702

E-mail: amerinst@cedar.bm

Web: <http://www.amerinst.bm>

Annual Meeting

*The 2012 Annual Meeting of Shareholders will be held at
10:00 a.m. on Thursday, May 31, 2012 at:*

*Newstead Belmont Hills
27 Harbour Road
Paget, Bermuda*

Shareholders are encouraged to attend.



AmerInst Insurance Group, Ltd.

Continental Building
25 Church Street
P.O. Box HM 1601
Hamilton HM GX, Bermuda