



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

FORM 10-Q

(Mark One)

Quarterly report pursuant to section 13 or 15 (d) of the Securities Exchange Act of 1934

For the Quarterly Period ended September 30, 2009.

Transition report pursuant to section 13 or 15 (d) of the Securities Exchange Act of 1934.

For the transition period from to .

Commission file number 000-28249

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) 296-3973  
(Telephone number)

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 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  (Do not check if a smaller reporting company)

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 November 2, 2009, the registrant had 995,253 common shares, \$1.00 par value per share, outstanding.



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**AMERINST INSURANCE G**  
**FORM 10-Q**

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### Introductory Note

#### Caution Concerning Forward-Looking Statements

Certain statements contained in this Form 10-Q, or otherwise made by our officers, including statements related to our future performance, ability to create and implement a new 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 Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this form 10-Q, as well as:

- the occurrence of catastrophic events with a frequency or severity exceeding the Company's expectations;
- a decrease in the level of demand for reinsurance or an increase in the supply of reinsurance capacity;
- the successful creation and implementation of the Company's new business plan;
- 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 the Company's loss reserves, which are necessarily based on the actuarial and statistical projections of ultimate losses;
- 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—FINANCIAL INFORMATION****Item 1. Financial Statements.****AMERINST INSURANCE GROUP, LTD.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited, expressed in U.S. dollars)

	As of September 30, 2009	As of December 31, 2008
<b>ASSETS</b>		
<b>INVESTMENTS</b>		
Fixed maturity investments, at fair value (amortized cost \$6,900,716 and \$28,471,984)	\$ 7,113,250	\$29,130,756
Equity securities, at fair value (cost \$10,695,568 and \$14,831,578)	16,763,890	16,904,168
<b>TOTAL INVESTMENTS</b>	<b>23,877,140</b>	<b>46,034,924</b>
Cash and cash equivalents	6,377,846	887,107
Restricted cash and cash equivalents	691,544	316,841
Assumed reinsurance premiums receivable	—	352,085
Funds deposited with a reinsurer	113,381	113,382
Accrued investment income	212,782	330,794
Deferred policy acquisition costs	—	1,044,347
Prepaid expenses and other assets	201,083	228,435
<b>TOTAL ASSETS</b>	<b>\$31,473,776</b>	<b>\$49,307,915</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Unpaid losses and loss adjustment expenses	\$ 852,351	\$24,416,157
Unearned premiums	—	3,619,371
Reinsurance balances payable	128,144	—
Accrued expenses and other liabilities	602,064	516,143
<b>TOTAL LIABILITIES</b>	<b>1,582,559</b>	<b>\$28,551,671</b>
<b>STOCKHOLDERS' EQUITY</b>		
Common shares, \$1 par value, 2009 and 2008: 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	21,545,757	15,757,104
Accumulated other comprehensive income	6,280,856	2,731,362
Shares held by Subsidiary (256,611 and 250,035 shares) at cost	(5,217,942)	(5,014,768)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>29,891,217</b>	<b>20,756,244</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$31,473,776</b>	<b>\$49,307,915</b>

See the accompanying notes to the unaudited condensed consolidated financial statements.



AMERINST INSURANCE GROUP, LTD.

CONDENSED CONSOLIDATED STATEMENTS OF  
OPERATIONS, COMPREHENSIVE INCOME (LOSS)  
AND RETAINED EARNINGS  
(Unaudited, expressed in U.S. dollars)

	Nine Months Ended Sept 30, 2009	Nine Months Ended Sept 30, 2008	Three Months Ended Sept 30, 2009	Three Months Ended Sept 30, 2008
<b>REVENUE</b>				
Net premiums earned	\$ 3,227,147	\$ 6,230,098	\$ 171,272	\$ 2,061,362
Net investment income	671,789	1,112,680	64,463	346,360
Net realized gain (loss) on investments	1,864,139	(1,835,788)	1,780,292	(865,735)
<b>TOTAL REVENUE</b>	<b>5,763,075</b>	<b>5,506,990</b>	<b>2,016,027</b>	<b>1,541,987</b>
<b>LOSSES AND EXPENSES</b>				
Losses and loss adjustment (recoveries) expenses	(3,623,591)	4,376,600	(434,372)	1,458,546
Policy acquisition costs	859,364	1,774,739	1,713	594,485
Operating and management expenses	2,076,398	1,763,053	650,262	511,121
<b>TOTAL LOSSES AND EXPENSES</b>	<b>(687,829)</b>	<b>7,914,392</b>	<b>217,603</b>	<b>2,564,152</b>
<b>NET INCOME (LOSS)</b>	<b>\$ 6,450,904</b>	<b>\$ (2,407,402)</b>	<b>\$ 1,798,424</b>	<b>\$ (1,022,165)</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Net unrealized holding gains (losses) arising during the period	5,413,633	(4,810,130)	3,627,205	(2,012,764)
Reclassification adjustment for (gains) losses included in net income (loss)	(1,864,139)	1,835,788	(1,780,292)	865,735
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>	<b>3,549,494</b>	<b>(2,974,342)</b>	<b>1,846,913</b>	<b>(1,147,029)</b>
<b>COMPREHENSIVE INCOME (LOSS)</b>	<b>\$10,000,398</b>	<b>\$ (5,381,744)</b>	<b>\$ 3,645,337</b>	<b>\$ (2,169,194)</b>
<b>RETAINED EARNINGS, BEGINNING OF PERIOD</b>				
Net income (loss)	6,450,904	(2,407,402)	1,798,424	(1,022,165)
Dividends	(662,251)	(673,514)	(313,300)	(321,458)
<b>RETAINED EARNINGS, END OF PERIOD</b>	<b>\$21,545,757</b>	<b>\$13,983,485</b>	<b>\$21,545,757</b>	<b>\$13,983,485</b>
<b>Per share amounts</b>				
Net income (loss) basic and diluted	\$ 8.69	\$ (3.22)	\$ 2.43	\$ (1.37)
Dividends	\$ 0.94	\$ 0.94	\$ 0.47	\$ 0.47
Weighted average number of shares outstanding for the entire period (for basic and diluted)	741,930	747,443	739,996	745,839

See the accompanying notes to the unaudited condensed consolidated financial statements.

**AMERINST INSURANCE GROUP, LTD.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited, expressed in U.S. dollars)**

	Nine Months Ended Sept 30, 2009	Nine Months Ended Sept 30, 2008
<b>OPERATING ACTIVITIES</b>		
Net Cash (Used in) Provided by Operating Activities	\$(18,939,601)	\$ 716,874
<b>INVESTING ACTIVITIES</b>		
Movement in restricted cash and cash equivalents	(374,703)	370,193
Purchases of investments	(11,828,311)	(22,312,623)
Proceeds from sales of investments	36,401,295	17,800,486
Proceeds from maturities of fixed maturity investments	1,097,484	3,800,000
Net Cash Provided by (Used in) Investing Activities	25,295,765	(341,944)
<b>FINANCING ACTIVITIES</b>		
Purchase of shares by subsidiary, net	(203,174)	(129,154)
Dividends paid	(662,251)	(673,514)
Net Cash Used in Financing Activities	(865,425)	(802,668)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	5,490,739	(427,738)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	\$ 887,107	\$ 1,778,798
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	\$ 6,377,846	\$ 1,351,060



## AMERINST INSURANCE GROUP, LTD.

### NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS September 30, 2009

#### Basis of Presentation

The condensed consolidated financial statements included herein have been prepared by AmerInst Insurance Group, Ltd. (“AmerInst”) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“Commission”), and reflect all adjustments consisting of normal recurring accruals, which are, in the opinion of management, necessary for a fair presentation of the results of operations for the periods shown. These statements are condensed and do not incorporate all the information required under accounting principles generally accepted in the United States (“U.S. GAAP”) to be included in a full set of financial statements. It is suggested that these condensed statements be read in conjunction with the audited consolidated financial statements at and for the year ended December 31, 2008 and notes thereto, included in AmerInst’s Annual Report on Form 10-K for the year then ended.

#### Critical Accounting Policies

The Company’s critical accounting policies are discussed in Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2008.

#### Entry into Agency Agreement

Effective September 25, 2009, AmerInst Professional Services, Limited (“APSL”), a Delaware corporation and wholly-owned subsidiary of AmerInst Mezco, Ltd., which is a wholly-owned subsidiary of AmerInst, 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 within the 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. No underwriting activity has occurred through September 30, 2009.

#### Entry into Reinsurance Agreement

On September 25, 2009, AmerInst’s wholly-owned subsidiary, AmerInst Insurance Company, Ltd. (“AMIC Ltd.”) entered into a professional liability quota share agreement (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, subject to AMIC Ltd. surplus limitations. The initial term of the Reinsurance Agreement is for four years with automatic one year renewals. No underwriting activity has occurred through September 30, 2009.

#### Historical Relationship with CNA

On January 5, 2009, AMIC Ltd. received written notice from CNA Financial Corporation (“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”). The reinsurance activity of AMIC Ltd. historically depended primarily upon these agreements with CNA. In 2008, the business relationship with CNA accounted for over 95% of AmerInst’s net premiums earned.

On May 15, 2009, AMIC Ltd. and CNA entered into a Commutation and Release Agreement (“Commutation Agreement”) whereby:

- AMIC Ltd. paid to CNA \$20,550,000 on May 22, 2009;
- CNA released and discharged AMIC Ltd. from any claims or liabilities whatsoever under, arising out of, or in any way related to past Reinsurance Treaties;
- AMIC Ltd. released and discharged CNA from any claims or liabilities whatsoever under, arising out of, or in any way related to the past Reinsurance Treaties;
- All rights, duties, liabilities, and obligations of AMIC Ltd. and CNA under the current Reinsurance Treaties were discharged;
- The 2009 Reinsurance Treaties were rescinded and terminated retroactive to their inception; and
- The 2009 Reinsurance Treaties were voided as though they never existed.



The Company has reduced its estimated liability for unpaid losses and loss adjustment expenses by approximately \$5,400,000 to reflect the impact of the Commutation Agreement.





Included in net income for the nine months ended September 30, 2009 is earned premium of approximately \$2,800,000, losses and loss adjustment expenses and policy acquisition costs of approximately \$2,000,000 and \$800,000, respectively, relating to the commuted treaties. Since the Commutation Agreement rescinded and terminated the 2009 Reinsurance Treaties retroactive to their inception, such treaties are not recorded in these unaudited condensed consolidated financial statements.

### Historical Relationship with CAMICO

On June 1, 2009, AMIC Ltd's reinsurance contract with CAMICO Mutual Insurance Company ("CAMICO") expired and we decided not to renew the contract and permitted it to expire pursuant to its terms. In 2008, the business relationship with CAMICO accounted for approximately 5% of AmerInst's net premiums earned. However, 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 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. The Company and VSC are in dispute with respect to over \$500,000 in additional recoveries, fees and interest, which the Company currently expects to resolve via arbitration.

### New Accounting Pronouncements – Accounting Standards Adopted

On September 15, 2009, the Company adopted Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") Topic 105, "Generally Accepted Accounting Principles" ("ASC 105" or "The Codification"). ASC 105 is a replacement to FASB Statement No. 162, "The Hierarchy of Generally Accepted Accounting Principles," ("SFAS 162") which became effective on November 13, 2008, and identified the sources of accounting principles and the framework for selecting the principles used in preparing financial statements in conformity with U.S. GAAP. It also arranged these sources of U.S. GAAP in a hierarchy for users to apply. ASC 105 provides for a single source of authoritative U.S. GAAP recognized by the FASB to be applied to nongovernmental entities in the preparation of financial statements. The Codification carries the same level of authority and supersedes SFAS 162 and all other accounting and reporting standards. The U.S. GAAP hierarchy has been modified to include two levels of U.S. GAAP: authoritative and non-authoritative.

In May 2009, the Company adopted the provisions of the FASB ASC Topic 855, "Subsequent Events" ("ASC 855"), which requires the disclosure of the date after the balance sheet date but before financial statements are issued or available to be issued through which an entity has evaluated subsequent events and the basis for that date, that is, whether the date represents the date the financial statements were issued or were available to be issued. ASC 855 also alerts all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. We evaluated subsequent events to November 13, 2009, the date the accompanying financial statements were issued.

On April 1, 2009, the Company adopted the provisions of the FASB ASC 820-10-35, "Fair Value Measurements and Disclosures- Overall -Subsequent Measurement" ("ASC 820-10-35"), ASC 825-10-50, "Financial Instruments – Overall – Disclosure" ("ASC 825-10-50"), and ASC 320-10-35, "Investments – Debt and Equity Securities – Overall – Subsequent Measurement" ("ASC 320-10-35") intended to provide additional application guidance and enhance disclosures regarding fair value measurements and impairments of securities.

ASC 820-10-35 relates to determining fair values when there is no active market or where the price inputs being used represent distressed sales. It reaffirms what the objective of fair value measurement is to reflect how much an asset would be sold for in an orderly transaction (as opposed to a distressed or forced transaction) at the date of the financial statements under current market conditions. Specifically, it reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive.

ASC 825-10-50 enhances consistency in financial reporting by increasing the frequency of fair value disclosures. The guidance relates to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet at fair value. Prior to issuing this standard, fair values for these assets and liabilities were only disclosed annually. ASC 825-10-50 now requires these disclosures on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value.

ASC 320-10-35 provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. The guidance is intended to bring greater consistency to the timing of impairment



recognition, and provide greater clarity to investors about the credit and noncredit components of impaired debt securities that are not expected to be sold. The measure of impairment in comprehensive income remains at fair value. ASC 320-10-35 also requires increased and more timely disclosures sought by investors regarding expected cash flows, credit losses, and an aging of securities with unrealized losses.

The adoption of these provisions did not have a material impact on the Company’s consolidated financial statements.

The Company has determined that all other recently issued accounting pronouncements will not have a material impact on its consolidated financial statements, or do not apply to its operations.

**Segment Information**

AmerInst has three operating segments: 1) reinsurance activity, 2) RINITSTM, its insurance financing product, which is in the marketing phase of development, and 3) insurance activity under the Agency Agreement. The insurance segment was identified as a new segment effective September 25, 2009 following the finalization of the Agency Agreement between APSL and C&F.

The results for the reinsurance activity were as follows:

	Nine Months Ended Sept 30, 2009	Nine Months Ended Sept 30, 2008	Three Months Ended Sept 30, 2009	Three Months Ended Sept 30, 2008
Revenues	\$ 5,763,075	\$ 5,506,990	\$2,016,027	\$ 1,541,987
Total losses and expenses	(1,210,213)	7,551,208	12,667	2,441,059
Segment income (loss)	6,973,288	(2,044,218)	2,003,360	(899,072)

The RINITSTM segment offers a mechanism to securitize insurance and reinsurance risk, involving property, casualty, life and health lines of insurance. This segment as of September 30, 2009, had generated no revenue. Operating and management expenses are as follows:

	Nine Months Ended Sept 30, 2009	Nine Months Ended Sept 30, 2008	Three Months Ended Sept 30, 2009	Three Months Ended Sept 30, 2008
Operating and management expenses—segment loss	\$ 158,222	\$ 363,184	\$ 27,503	\$ 123,093

The insurance segment offers accountants’ professional liability and lawyers’ professional liability insurance coverage. This segment as of September 30, 2009, had generated no revenue. Operating and management expenses are as follows:

	Nine Months Ended Sept 30, 2009	Nine Months Ended Sept 30, 2008	Three Months Ended Sept 30, 2009	Three Months Ended Sept 30, 2008
Operating and management expenses—segment loss	\$ 364,162	\$ —	\$ 177,433	\$ —

The combined total net income (loss) for these segments is as follows:

	Nine Months Ended Sept 30, 2009	Nine Months Ended Sept 30, 2008	Three Months Ended Sept 30, 2009	Three Months Ended Sept 30, 2008
Total net income (loss)	\$ 6,450,904	\$(2,407,402)	\$1,798,424	\$(1,022,165)



**Fair Value of Investments**

In accordance with the Fair Value Measurements and Disclosures Topic of the ASC, the following table shows the fair value of the Company's investments and where in the fair value hierarchy the fair value measurements are included as of September 30, 2009.

	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)
U.S. government agency securities:					
Mortgage-backed securities	\$ —	\$ —	\$ —	\$ —	\$ —
Non-mortgage-backed securities	2,329,440	2,329,440		2,329,440	
Obligations of state and political subdivisions	4,254,762	4,254,762		4,254,762	
Corporate securities	529,048	529,048		529,048	
Total fixed maturity investments	<u>7,113,250</u>	<u>7,113,250</u>			
Equity securities (other than hedge fund)	15,441,246	15,441,246	15,441,246		
Hedge fund	1,322,644	1,322,644			1,322,644
Total equity securities	<u>16,763,890</u>	<u>16,763,890</u>			
Total investments	<u>\$23,877,140</u>	<u>\$23,877,140</u>	<u>\$15,441,246</u>	<u>\$ 7,113,250</u>	<u>\$ 1,322,644</u>

The following is a reconciliation of the beginning and ending balance of investments using significant unobservable inputs (Level 3) for the three months ended September 30, 2009 and September 30, 2008.

	Fair value measurement using significant unobservable inputs (Level 3) hedge fund Three Months ended Sept 30, 2009	Fair value measurement using significant unobservable inputs (Level 3) hedge fund Three Months ended Sept 30, 2008
Balance classified as Level 3, beginning of period	\$ 1,253,618	\$ 1,460,570
Total gains or losses included in earnings:		
Net realized gains	—	—
Change in fair value of hedge fund investments	69,026	(71,113)
Purchases or sales	—	—
Transfers in and/or out of Level 3	—	—
Ending balance, end of period	<u>\$ 1,322,644</u>	<u>\$ 1,389,457</u>

The following is a reconciliation of the beginning and ending balance of investments using significant unobservable inputs (Level 3) for the nine months ended September 30, 2009 and September 30, 2008.

	Fair value measurement using significant unobservable inputs (Level 3) hedge fund Nine Months ended Sept 30, 2009	Fair value measurement using significant unobservable inputs (Level 3) hedge fund Nine Months ended Sept 30, 2008
Balance classified as Level 3, beginning of period	\$ 1,152,548	\$ 1,487,266
Total gains or losses included in earnings:		
Net realized gains	—	—
Change in fair value of hedge fund		



investments	170,096	(97,809)
Purchases or sales	—	—
Transfers in and/or out of Level 3	—	—
Ending balance, end of period	<u>\$ 1,322,644</u>	<u>\$ 1,389,457</u>



Upon the adoption of ASC 320 effective April 1, 2009, the Company changed its quarterly process for assessing whether declines in the fair value of its fixed maturity investments represented impairments that are other-than-temporary. The process now includes reviewing each fixed maturity investment that is impaired and determining: (1) if the Company has the intent to sell the fixed maturity investment or (2) if it is more likely than not that the Company will be required to sell the fixed maturity investment before its anticipated recovery; and (3) 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 investment classified as available-for-sale as at September 30, 2009. 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 three months ended September 30, 2009, 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 September 30, 2009 amounted to \$4,421 compared to \$33,016 as of December 31, 2008. This decrease was mainly attributable to fixed income and equity securities which we determined were not other than temporarily impaired. 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 change in unrealized losses from these 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 \$847,889 and \$1,289,285 on 28 and 27 equity securities during the nine months ended September 30, 2009 and 2008, respectively.

**INVESTMENTS**

The cost or amortized cost, gross unrealized holding gains and losses, and estimated fair value of investments in fixed maturity investments, by major security type, and equity securities at September 30, 2009 and December 31, 2008 is as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>September 30, 2009</b>				
Fixed maturity investments:				
Obligations of states and political subdivisions	\$ 4,080,658	\$ 176,650	\$ (2,546)	\$ 4,254,762
Corporate debt securities	507,896	21,152	—	529,048
U.S. government agency securities	2,312,162	19,153	(1,875)	2,329,440
Total fixed maturity investments	6,900,716	216,955	(4,421)	7,113,250
Equity securities	9,695,568	5,745,678	—	15,441,246
Hedge fund	1,000,000	322,644	—	1,322,644
Total equity securities	10,695,568	6,068,322	—	16,763,890
Total investments	\$17,596,284	\$6,285,277	\$ (4,421)	\$23,877,140
<b>December 31, 2008</b>				
Fixed maturity investments:				
Obligations of states and political subdivisions	\$20,940,760	\$ 559,499	\$ (4,992)	\$21,495,267
U.S. government agency securities	7,531,224	104,265	—	7,635,489
Total fixed maturity investments	28,471,984	663,764	(4,992)	29,130,756
Equity securities	13,831,578	1,948,066	(28,024)	15,751,620
Hedge fund	1,000,000	152,548	—	1,152,548
Total equity securities	14,831,578	2,100,614	(28,024)	16,904,168
Total investments	\$43,303,562	\$2,764,378	\$(33,016)	\$46,034,924



The gross unrealized loss on investments at September 30, 2009 is categorized as follows:

	12 months or greater		Less than 12 months		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
September 30, 2009						
Fixed maturity investments:						
Obligations of states and political subdivisions	\$ —	\$ —	\$ 522,454	\$ (1,875)	\$ 522,454	\$ (1,875)
Corporate debt securities	—	—	—	—	—	—
U.S. government agency securities	—	—	998,125	(2,546)	988,125	(2,546)
Total fixed maturity investments	—	—	1,520,579	(4,421)	1,520,579	(4,421)
Equity securities	—	—	—	—	—	—
Hedge fund	—	—	—	—	—	—
Total equity securities	—	—	—	—	—	—
Total investments	\$ —	\$ —	\$ 1,520,579	\$ (4,421)	\$ 1,520,579	\$ (4,421)

As of September 30, 2009, there were approximately 3 securities in an unrealized loss position with an estimated fair value of \$1,520,579. Of these securities, there are no securities that have been in an unrealized loss position for 12 months or greater. As of September 30, 2009, 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 gross unrealized loss on investments at December 31, 2008 is categorized as follows:

	12 months or greater		Less than 12 months		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
December 31, 2008						
Fixed maturity investments:						
Obligations of states and political subdivisions	\$ —	\$ —	\$ 1,718,215	\$ (4,992)	\$ 1,718,215	\$ (4,992)
Corporate debt securities	—	—	—	—	—	—
U.S. government agency securities	—	—	—	—	—	—
Total fixed maturity investments	—	—	1,718,215	(4,992)	1,718,215	(4,992)
Equity securities	105,959	(5,635)	935,013	(22,389)	1,040,972	(28,024)
Hedge fund	—	—	—	—	—	—
Total equity securities	105,959	(5,635)	935,013	(22,389)	1,040,972	(28,024)
Total investments	\$ 105,959	\$ (5,635)	\$ 2,653,228	\$ (27,381)	\$ 2,759,187	\$ (33,016)



As of December 31, 2008, there were approximately 9 securities in an unrealized loss position with an estimated fair value of \$2,759,187. Of these securities, there was 1 security that had been in an unrealized loss position for 12 months or greater with an estimated fair value of \$105,959. As of December 31, 2008, 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 September 30, 2009 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.

	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 525,000	\$ 522,454
Due after one year through five years	4,063,554	4,261,357
Due after five years through ten years	—	—
Due after ten years	—	—
Subtotal	4,588,554	4,783,811
U.S. government agency securities	2,312,162	2,329,439
Total	<u>\$ 6,900,716</u>	<u>\$ 7,113,250</u>

Information on sales and maturities of investments are as follows:

	September 30, 2009	December 31, 2008
Total proceeds on sales of securities	\$36,401,295	\$20,456,120
Total proceeds from maturities of fixed maturity investments	1,097,484	4,975,000
Gross gains on sales	3,709,650	1,225,335
Gross losses on sales	(997,622)	(1,767,121)
Impairment losses	(847,889)	(4,016,465)

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

	September 30, 2009	December 31, 2008
Interest earned:		
Fixed maturity investments	\$ 556,388	\$ 1,340,972
Cash and cash equivalents	5,617	42,552
Dividends earned	238,889	325,970
Investment expenses	(129,105)	(226,321)
Net investment income	<u>\$ 671,789</u>	<u>\$ 1,483,173</u>

**Item 2. 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 operation and should be read in conjunction with our consolidated financial statements and notes thereto included in this Form 10-Q.

Certain statements contained in this Form 10-Q, including this MD&A section, 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.

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-Q 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-Q 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.

## OVERVIEW

Unless otherwise indicated by the context, in this quarterly 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 (“APSL”), a Delaware corporation and wholly-owned subsidiary of AmerInst Mezco, Ltd. 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 availability of insurance for the Certified Public Accountant (“CPA”) profession, and that engages in investment activities. Our investment portfolios is held and managed by Investco.

### *Entry into Agency Agreement*

Effective 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 within the 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. No underwriting activity has occurred through September 30, 2009.

### *Entry into Reinsurance Agreement*

We conduct our reinsurance business through AMIC Ltd., our subsidiary, which is a registered insurer in Bermuda. Our relationship with CNA Financial Corporation (“CNA”) terminated effective December 31, 2008 and our relationship with CAMICO Mutual Insurance Company (“CAMICO”), a California-based writer of accountants’ professional liability business, expired effective June 1, 2009. Those two relationships provided 100% of AmerInst’s net premiums earned in 2008. Please see the “Historical Relationship with CNA” and “Historical Relationship with CAMICO” sections below for discussion of the termination of our reinsurance agreements with CNA and CAMICO, respectively. On September 25, 2009, AMIC Ltd. entered into a professional liability quota share 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, subject to AMIC Ltd. surplus limitations. The initial term of the Reinsurance Agreement is for four years with automatic one year renewals. No underwriting activity has occurred under the Reinsurance Agreement through September 30, 2009.

### *Historical Relationship with CNA*

Historically, the primary business activity of our wholly owned insurance company subsidiary, AMIC Ltd., has been to act as a reinsurer of professional liability insurance policies that are 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. In August 1993, AMIG, our predecessor entity, began our reinsurance relationship with CNA, taking a 10% participation of the first \$1,000,000 of liability of each policy written under the AICPA plan. Effective December 1999, we began taking a 10% share of CNA’s “value plan” business. The “value plan” provided for separate limits up to \$1,000,000 for losses and separate limits up to \$1,000,000 for expenses per occurrence and \$2,000,000 in the aggregate. The maximum limits under the “value plan” were \$2,000,000 per occurrence and \$4,000,000 in the aggregate.

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 and Release Agreement (the “Commutation Agreement”) whereby:

- AMIC Ltd. paid to CNA \$20,550,000 on May 22, 2009;





- CNA released and discharged AMIC Ltd. from any claims or liabilities whatsoever under, arising out of, or in any way related to past Reinsurance Treaties;
- AMIC Ltd. released and discharged CNA from any claims or liabilities whatsoever under, arising out of, or in any way related to the past Reinsurance Treaties;
- All rights, duties, liabilities, and obligations of AMIC Ltd. and CNA under the current Reinsurance Treaties were discharged;
- The 2009 Reinsurance Treaties were rescinded and terminated retroactive to their inception; and
- The 2009 Reinsurance Treaties were void as though they never existed.

The Company has reduced its estimated liability for unpaid losses and loss adjustment expenses by approximately \$5,400,000 to reflect the impact of the Commutation Agreement.

Included in net income for the nine months ended September 30, 2009 is earned premium of approximately \$2,800,000, losses and loss adjustment expenses and policy acquisition costs of approximately \$2,000,000 and \$800,000, respectively, relating to the commuted treaties. Since the Commutation Agreement rescinded and terminated the 2009 Reinsurance Treaties retroactive to their inception, such treaties are not recorded in these unaudited condensed consolidated financial statements.

### ***Historical Relationship with CAMICO***

Effective June 1, 2005, we accepted a 5% share in the first excess layer of \$2,000,000 excess of \$1,000,000 of CAMICO. Effective June 1, 2007, the contract renewed with our share amended to 2.5%, but of a \$4,000,000 excess \$1,000,000 layer. Effective June 1, 2008, the contract renewed with similar expiring terms.

Effective June 1, 2009, we decided not to renew the CAMICO contract and permitted the contract to expire pursuant to its terms. In 2008, the business relationship with CAMICO accounted for approximately 5% of AmerInst's net premiums earned. 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 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. The Company and VSC are in dispute with respect to over \$500,000 in additional recoveries, fees and interest, which the Company currently expects to resolve via arbitration.

### ***Attorney's Professional Liability Coverage***

Effective January 1, 2003, we entered into a 15% quota share participation of the attorneys' professional liability coverage provided by Professionals Direct Insurance Company. This participation terminated on December 31, 2003. We remain potentially liable for claims related to this period of coverage.

### ***Third-party Managers and Service Providers***

Cedar Management Limited provides the day-to-day services necessary for the administration of our business. Effective July 1, 2008, USA Risk Group (Bermuda) Ltd., our former manager, acquired a majority interest in Cedar Management Limited, a Bermuda based captive manager. Following the acquisition, the business operations of USA Risk Group (Bermuda) Ltd. and Cedar Management Limited were combined and operate as Cedar Management Limited. Shareholder services are conducted by USA Risk Group of Vermont, Inc., an affiliate of Cedar Management Limited. Our agreement with Cedar Management Limited renewed for one year beginning January 1, 2009 and ending December 31, 2009.

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 Milliman USA, an independent casualty actuarial consulting firm, to render advice regarding actuarial matters.

## **OPERATIONS**

### **Three months ended September 30, 2009 compared to three months ended September 30, 2008:**

We recorded net income of \$1,798,424 for the quarter ended September 30, 2009 compared to a net loss of \$1,022,165 for the quarter ended September 30, 2008. The net income recorded for the quarter ended September 30, 2009 is mainly attributable to net realized gain on investments, and a decrease in losses and loss adjustment expenses and policy acquisition costs as a result of the



finalization of the Commutation Agreement with CNA and the recovery from VSC, offset by a reduction in net premiums, all as discussed above and below in further detail.



Our net premiums earned for the quarter ended September 30, 2009 were \$171,272 compared to \$2,061,362 for the quarter ended September 30, 2008, a decrease of \$1,890,090 or 91.7%. This decrease is due to the 2009 Reinsurance Treaties being rescinded and terminated retroactive to their inception.

We recorded net investment income of \$64,463 for the quarter ended September 30, 2009 compared to \$346,360 for the quarter ended September 30, 2008, a decrease of \$281,897 or 81.4%. The decline in net investment income is due to a lower amount invested in 2009 compared to 2008. Annualized investment yield, calculated as total interest and dividends divided by the net average amount of total investments, was 0.9% for the quarter ended September 30, 2009 compared to 2.6% for the quarter ended September 30, 2008.

Sales of securities during the quarter ended September 30, 2009, net of impairment, resulted in realized gains on investments of \$1,780,292 compared to losses of \$865,735 during the quarter ended September 30, 2008. The significant increase in realized gains recorded in the third quarter of 2009 primarily related to realized gains on the sale of equity securities.

For the quarter ended September 30, 2009 we recorded loss and loss adjustment recoveries of \$434,372 as a result of the recognition of the payment of \$500,891 received from VSC in satisfaction of certain recoveries not previously remitted by VSC under retrocession contracts between AMIC Ltd. and VSC for the years 1989-1993. To determine the loss ratio for the third quarter of 2008 we multiplied an estimated loss ratio of 70% times the AICPA Professional Liability Insurance Plan net premiums earned and the CAMICO net premiums earned.

We expensed policy acquisition costs of \$1,713 in the third quarter of 2009 compared to \$594,485 for the same period of 2008, a decrease of \$592,772 or 99.7%. The decrease in policy acquisition costs is due to a decrease in net premiums earned. These costs were 1% and 28.8% of net premiums earned for the quarter ended September 30, 2009 and 2008, respectively. Policy acquisition costs are the sum of ceding commissions paid to ceding companies determined contractually pursuant to reinsurance agreements and federal excise taxes paid on premiums written to ceding companies.

We expensed operating and management expenses of \$650,262 for the quarter ended September 30, 2009 compared to \$511,121 for the quarter ended September 30, 2008, an increase of \$139,141 or 27.2%. The primary reason for this increase was due to increases in directors fees and expenses, management and professional fees, business development expenses and start-up costs of our new business venture.

AmerInst has three operating segments: 1) reinsurance activity, 2) RINITSTM, its insurance financing product, which is in the marketing phase of development, and 3) insurance activity under the Agency Agreement. The reinsurance segment had revenues of \$2,016,027 for the quarter ended September 30, 2009 and \$1,541,987 for the quarter ended September 30, 2008. Total losses and expenses for this segment were \$12,667 for the quarter ended September 30, 2009 and \$2,441,059 for the quarter ended September 30, 2008. This resulted in segment income of \$2,003,360 for the quarter ended September 30, 2009 and segment loss of \$899,072 for the period ended September 30, 2008.

The RINITSTM segment offers a mechanism to securitize insurance and reinsurance risk, involving property, casualty, life and health lines of insurance. This segment as of September 30, 2009 had generated no revenue. Operating and management expenses in the marketing phase of development were \$27,503 for the quarter ended September 30, 2009 and \$123,093 for the quarter ended September 30, 2008.

The insurance segment offers accountants' professional liability and lawyers' professional liability insurance coverage. This segment as of September 30, 2009 had generated no revenue. Operating and management expenses were \$177,433 for the quarter ended September 30, 2009 and no expenses were incurred for the quarter ended September 30, 2008.

**Nine months ended September 30, 2009 compared to nine months ended September 30, 2008:**

We recorded net income of \$6,450,904 for the nine months ended September 30, 2009 compared to net loss of \$2,407,402 for the nine months ended September 30, 2008. The net income recorded for the nine months ended September 30, 2009 is mainly attributable to the reduction of approximately \$5,400,000 in loss and loss adjustment expenses in recognition of the positive development recorded as a result of updating the estimated liability for unpaid losses and loss adjustment expenses on the finalization of the Commutation Agreement with CNA, as discussed above and below in further detail.

Our net premiums earned were \$3,227,147 for the nine months ended September 30, 2009 compared to \$6,230,098 for the nine months ended September 30, 2008. The change of \$3,002,951 represented a 48.2% decrease. This decrease is due to the 2009 Reinsurance Treaties being rescinded and terminated retroactive to their inception.

We recorded realized gains, net of impairment, of \$1,864,139 during the nine months ended September 30, 2009 compared to \$1,835,788 in realized losses, including impairment losses, in the same period of 2008. The significant increase in realized gains



recorded in 2009 relates to realized gain on sale of fixed income and equity securities. Net investment income through September 30, 2009 was \$671,789 compared to \$1,112,680 for the same period of 2008. The decline in net investment income is due to a lower amount invested in 2009 compared to 2008. Annualized investment yield was approximately 2.3% for the nine months ended September 30, 2009 and 2.8% for the first nine months of 2008.

For the nine months ended September 30, 2009 we recorded loss and loss adjustment recoveries of \$3,623,591 as a result of, (1) the reduction in loss reserves related to the CNA treaty following the determination of the ultimate settlement amount in view of the finalization of the Commutation Agreement, and (2) the recognition of the payment of \$500,891 received from VSC in satisfaction of certain recoveries not previously remitted by VSC under retrocession contracts between AMIC Ltd. and VSC for the years 1989-1993. To determine total losses for the nine months of 2008, we multiplied an estimated loss ratio of 70% times the AICPA Professional Liability Insurance Plan net premiums earned and the CAMICO net premiums earned. Our actual overall loss ratio for the year ended December 31, 2008 was 15.1%.

We expensed policy acquisition costs of \$859,364 for the nine months ended September 30, 2009 compared to \$1,774,739 for the nine months ended September 30, 2008, a decrease of \$915,375 or 51.6%. These costs were 26.6% of premiums earned for the nine-month period ended September 30, 2009 and 28.5% for the nine-month period ended September 30, 2008. The decrease in policy acquisition costs in 2009 was due to the decrease in net premiums earned. Policy acquisition costs are the sum of ceding commissions paid to ceding companies, which are determined contractually pursuant to reinsurance agreements, and federal excise taxes paid on premiums written to ceding companies.

AmerInst has three operating segments: 1) reinsurance activity, 2) RINITSTM, its insurance financing product, which is in the marketing phase of development, and 3) insurance activity under the Agency Agreement.

The reinsurance segment had revenues of \$5,763,075 for the nine months ended September 30, 2009 and \$5,506,990 for the nine months ended September 30, 2008. Total losses and expenses for this segment were \$(1,210,213) for the nine months ended September 30, 2009 and \$7,551,208 for the nine months ended September 30, 2008. This resulted in segment income of \$6,973,288 for the nine months ended September 30, 2009 and segment loss of \$2,044,218 for the nine months ended September 30, 2008.

The RINITSTM segment offers a mechanism to securitize insurance and reinsurance risk, involving property, casualty, life and health lines of insurance. This segment as of September 30, 2009 had generated no revenue. Operating and management expenses in the marketing phase of development were \$158,222 for the nine months ended September 30, 2009 and \$363,184 for the nine months ended September 30, 2008.

The insurance segment offers accountants' professional liability and lawyers' professional liability insurance coverage. This segment as of September 30, 2009 had generated no revenue. Operating and management expenses were \$364,162 for the nine months ended September 30, 2009 and no expenses were incurred for the nine months ended September 30, 2008.

## FINANCIAL CONDITION AND LIQUIDITY

Under existing accounting principles generally accepted in the United States, we are required to recognize certain assets at their fair value in our condensed consolidated balance sheets. This includes our fixed maturity investments and equity securities. In accordance with the Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board Accounting Standards Codification ("ASC"), 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. Fair Value Measurements and Disclosures Topic of the ASC, 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 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 financial instruments 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 September 30, 2009 and what level within the fair value hierarchy the 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 relationship, 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. 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, activist, and portfolio hedge. The fair value of the hedge fund is based on the net asset value of the fund as reported by the fund manager. 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 overall investment portfolio to the performance of an appropriate benchmark, 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, 2008. 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.

In late 2008 and into 2009, the capital markets were illiquid, reflecting uncertainties associated with the mortgage crisis, worsening economic conditions, widening of credit spreads, bankruptcies and government intervention in large financial institutions. Though current market conditions appear to have stabilized and even improved recently resulting in realized and unrealized gains in our investment portfolio, 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.

As of September 30, 2009, our total investments were \$23,877,140, a decrease of \$22,157,784, or 48.1%, from \$46,034,924 at December 31, 2008. The decrease was primarily due to the sale of investments from the Company's fixed income investment portfolio, which had a fair value of \$21,376,953 on May 15, 2009, to fund the payment to CNA of \$20,550,000 as required by the Commutation Agreement. The cash and cash equivalents balance increased from \$887,107 at December 31, 2008 to \$6,377,846 at September 30, 2009, an increase of \$5,490,739, or 86.1%. 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 mutual funds. The restricted cash and cash equivalents balance increased from \$316,841 at December 31, 2008 to \$691,544 at September 30, 2009, an increase of \$374,703. The increase is due to the timing of sales and maturities of investments held as restricted cash at September 30, 2009 that have not yet been reinvested. The ratio of cash and total investments to total liabilities at September 30, 2009 was 19.55:1, compared to a ratio of 1.65:1 at December 31, 2008. The ratio results at September 30, 2009 are due to the reduction in loss reserves arising from the CNA commutation.

As noted in "Historical Relationship with CNA" section above, the Company paid to CNA \$20,550,000 on May 22, 2009. Subsequent to the payment of this settlement, the Company will continue to meet its cash flow requirements from its investment portfolios and the investment income that it earns on these, and the Company believes it will continue to remain in compliance with the minimum solvency and liquidity requirement of the insurance regulations of Bermuda. Management believes the Company will have sufficient existing resources to meet future operating expenses and implement its new business plan.



The Bermuda Monetary Authority previously authorized Investco, a wholly-owned subsidiary of AmerInst, to purchase up to 20% of the Company's common shares from individuals who have died or retired from the practice of public accounting and on a negotiated case-by-case basis. Through November 2, 2009 Investco had purchased 97,030 common shares from individuals who have died or retired for a total purchase price of \$2,107,088. In addition, through that date, Investco had purchased in negotiated transactions at various prices 66,615 common shares for a total purchase price of \$875,111.

### Cash Dividends

We paid a semi-annual dividend of \$0.47 per share during the first and third quarters of 2009. The third quarter dividend amount has been reduced by \$33,862 for 2009 and \$29,080 for 2008, which represents a write-back of uncashed dividends issued prior to the year 2003 to shareholders that we have been unable to locate. Since AmerInst began paying consecutive dividends in 1995, our original shareholders have received \$16.96 in cumulative dividends per share. When measured by a total rate of return calculation this has resulted in an effective annual rate of return of approximately 10.9% from the inception of the Company, based on a per share purchase price of \$8.33 paid by the original shareholders, and using an unaudited book value of \$40.47 per share as of September 30, 2009.

### Critical Accounting Policies

The Company's critical accounting policies are discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2008.

### 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](http://www.sec.gov).

Our internet site is [www.amerinst.bm](http://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](http://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) 296-3973. The information on our internet site is not incorporated by reference into this report.

### Item 4. Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Principal Executive Officer and our Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15 under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our Principal Executive Officer and our Principal Financial Officer concluded that our disclosure controls and procedures are effective. There has been no change in our internal control over financial reporting identified in that evaluation that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



**Part II—OTHER INFORMATION**

**Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

There have been no material changes in our risk factors from those disclosed in our 2008 Annual Report on Form 10-K other than the following:

*Now that our agreement with CNA, our primary insurer, has terminated, if we are unable to successfully implement our new business plan, our ability to generate revenue will be materially adversely affected.*

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, we completed our commutation negotiations and executed the Commutation and Release Agreement with CNA 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.

We are currently implementing a new business plan. 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 within the 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. No underwriting activity has occurred through September 30, 2009 under either the Agency Agreement or Reinsurance Agreement.

Because we have only recently entered into 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. Even if we are able to generate material revenue and or profit from these agreements, we may not be able to do so for a significant period of time.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

From time to time, the Company has repurchased shares of its common shares from individual shareholders who have died or retired from the practice of accounting. Through November 2, 2009, Investco had repurchased 97,030 common shares pursuant to such program.

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 September 30, 2009:

	<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>
July 2009	2,397	\$ 27.85	2,397	N/A
August 2009	—	—	—	N/A
September 2009	—	—	—	N/A
Total	2,397	\$ 27.85	2,397	N/A

From time to time, Investco has also purchased common shares in privately negotiated transactions. Through November 2, 2009, Investco had repurchased 66,615 common shares pursuant to such program.

The following table shows information relating to the purchase of shares from shareholders in privately negotiated transactions as described above during the three month period ended September 30, 2009:

	<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>
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July 2009	312	\$ 19.50	312	N/A
August 2009	—	—	—	N/A
September 2009	—	—	—	N/A
Total	312	\$ 19.50	312	N/A



**Item 4. Submission of Matters to a Vote of Security Holders**

**Item 6. Exhibits**

(a) Exhibits

See Index to Exhibits immediately following the signature page.





**AMERINST INSURANCE GROUP, LTD.**

**INDEX TO EXHIBITS**

**Filed with the Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2009**

<u>Exhibit Number</u>	<u>Description</u>
10.1	Agency Agreement effective September 25, 2009 between 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
10.2	Professional Liability Quota Share Agreement dated September 25, 2009 between 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*
31.1	Certification of Stuart Grayston pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Thomas R. McMahon pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Stuart 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.

\* Certain provisions are subject to a Request for Confidential Treatment.



**Exhibit 10.1**

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**AGENCY AGREEMENT**

This Agency Agreement (the “Agreement”) is effective as of 12:01 a.m. Eastern Time on the 24th day of September, 2009 (“Effective Date”), between The North River Insurance Company, Crum & Forster Indemnity Company, Crum and Forster Insurance Company, Crum & Forster Specialty Insurance Company and United States Fire Insurance Company, (hereinafter collectively referred to as the “Company”) and AmerInst Professional Services, Limited (hereinafter referred to as the “Agent”).

**WHEREAS**, Company are duly licensed insurance companies in various states of the United States; and

**WHEREAS**, Agent has expertise in soliciting, marketing, underwriting and issuing Accountants Professional Liability Coverage and Lawyers Professional Liability Coverage which meet the unique insurance needs of accounting and law firms; and

**WHEREAS**, Company may enter into reinsurance agreements with certain reinsurers (the “Reinsurers”) reinsuring the business covered under this Agreement (“Reinsurance Agreement(s)").

**NOW, THEREFORE**, In consideration of the mutual promises contained herein and other good and valuable consideration, Company and Agent agree as follows:

**1. APPOINTMENT/AUTHORITY**

- 1.1 Subject to the terms and limitations contained in this Agreement, Company hereby appoints Agent 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 coverages. Agent accepts this



appointment to act exclusively for Company for the purposes of soliciting, underwriting, quoting, binding, issuing, cancelling, non-renewing and endorsing policies or contracts of insurance and endorsements thereto (individually a "Policy" or collectively, the "Policies") within the fifty (50) states of the United States and the District of Columbia (the "Territory"), on such forms and subject to the conditions and limitations, and in accordance with Company's guidelines, program manuals, procedures, instructions, and authority limits, as set forth in Exhibit A attached to this Agreement and incorporated herein by reference. The Company in its sole discretion may amend Exhibit A from time to time.

- 1.2 Subject to the limitations contained in this Agreement, Agent is authorized to and shall act on behalf of the Company in performing all acts necessary to effectuate the solicitation, underwriting, quoting, binding, issuing, cancelling, non-renewing and endorsing of the Policies, including:
  - a. underwriting and servicing Policies on forms and at rates approved by Company; and
  - b. collecting, receiving, accounting for and remitting premiums to Company on the Policies; and
  - c. conducting any other related activities or services incidental or necessary to the solicitation, underwriting, quotation, binding, issuance, cancellation, non-renewing and endorsing of Policies covered hereunder.



- 1.3 Company, at its sole discretion, will file rates and forms with those insurance departments requiring such filings. Communication and correspondence with the various insurance departments or other regulatory authorities relating to rate and form filings will be solely by or through Company.
- 1.4 Nothing contained herein shall create the relationship of employer and employee between Company and Agent or between Agent and any other representative of Company. Except as set forth herein, Company shall have no right of control over Agent as to the time, means, or manner of Agent's performance of its duties and obligations hereunder. Agent shall conduct itself and its business under the terms of this Agreement solely as an independent contractor.
- 1.5 Agent shall have no authority or obligation to handle claims arising out of the Policies, including investigating, adjusting, handling, administering, paying, resisting and/or settling any lawsuits or claims; except, however, that if Agent receives notice of claim under a policy, it will immediately forward such notice in accordance with the procedure detailed in Exhibit B to this Agreement, which is incorporated herein by reference.

**2. TERM OF AGREEMENT**

The initial term of this Agreement shall be for a period of four (4) years, commencing on the Effective Date ("Initial Term"), and shall be automatically renewed for successive additional term(s) of one (1) year each ("Successive Term[s]") unless terminated earlier as set forth in Article 10. below. The Initial Term and the successive Term(s) shall be referred to individually or collectively as the "Term(s)."





**3. LIMITATIONS OF AUTHORITY**

- 3.1 With respect to the Policies which Agent is now or may in the future be authorized to solicit, underwrite, quote, bind, issue, cancel, non-renew and endorse under this Agreement, Agent shall not solicit, quote, bind, issue or endorse the following:
  - a. Policies which are not in accordance with the express terms of this Agreement, or the Underwriting Guidelines attached hereto as Exhibit A and incorporated herein by reference, or outside the scope of or excluded by any reinsurance agreement applicable to the Policies;
  - b. Policies which are not in compliance with the applicable forms, rules, rates, or filings of Company or with the laws and regulations in effect in the Territory.
- 3.2 In the event that Agent binds a Policy prohibited by Article 3.1 above without the prior written approval of Company, Agent will immediately take such actions as are necessary to eliminate or minimize Company's exposure as an insurer on such Policy.
- 3.3 Agent shall have no authority to bind, commit, or enter into agreements on behalf of Company to obtain reinsurance or retrocession agreements of any type with respect to the Policies, and shall have no authority to commit Company to participate in insurance or reinsurance pools or syndicates.



- 3.4 Agent shall not solicit, underwrite, quote, bind or issue for any other insurer, Policies that are within the scope of this Agreement.
- 3.5 Agent shall not act as an insurer for any insureds, and this Agreement shall not be construed as an insurance policy or any contract or agreement of indemnity of insureds.
- 3.6 Agent may not offset any balance due from Company to Agent against any amounts due from Agent to Company under this Agreement or under any other contract with Company.
- 3.7 Agent, including any parent or affiliated entity, shall not finance or extend premium financing for any Policy. Notwithstanding, Agent may arrange for premium financing through a third-party.
- 3.8 Agent shall not appoint or authorize other underwriters, brokers, producers or any other person or entity to perform the functions described in Article 1.2 (Appointment/Authority) of this Agreement or extend underwriting authority to any person or entity without Company's prior consent.
- 3.9 Agent shall not jointly employ with Company any individual who is employed by Company.
- 3.10 Agent shall not submit to another insurer, agent or broker any applications for Accountants Professional Liability Coverage or Lawyers Professional Liability Coverage which do not qualify under the Underwriting Guidelines



set forth in Exhibit A, without first submitting such application to the Company for consideration, and allowing Company first right of refusal to accept such application outside the scope of this Agreement.

3.11 Except as provided in Article 11.6 (Arbitration) of this Agreement, Agent shall not take legal action in connection with any matter pertaining to the business of Company including, but not limited to, the Policies. Agent shall promptly notify Company of any legal action or threat of legal action involving Company or Agent with respect to Policies or any other matters which are within the scope of this Agreement.

**4. GENERAL RIGHTS AND OBLIGATIONS OF AGENT**

- 4.1 Agent represents and warrants that during the Term of this Agreement and thereafter while providing any continuing services hereunder, it holds and will maintain the licenses required by all regulatory authority(ies) having jurisdiction over it to perform all obligations under this Agreement, and will not perform any services under this Agreement for which a license is required unless such license is in full force and effect.
- 4.2 Agent shall be responsible for its compliance with applicable laws, regulations, rules, and requirements.
- 4.3 Agent represents and warrants that (i) the business within the scope of this Agreement is not subject to any other entity's or person's known claim of interest including, but not limited to, a claim by contract or common law right, and (ii) Agent's underwriting and acceptance of business under this Agreement is not in violation of any duty or obligation it owes to any other entity or person.



- 4.4 Agent shall keep separate, true, accurate, and complete records of all transactions including, but not limited to, (i) correspondence with policyholders, producers, and the Company, (ii) commissions paid to producers; and (iii) Agent's financial statements and tax records.
- 4.5 Agent shall maintain all records and accounts pertaining to the business within the scope of this Agreement, including, but not limited to, policyholder information, underwriting files, financial documents, and records relating to Agent's Premium Trust Account, during the Term and thereafter while providing any continuing services hereunder, in a manner and form as mutually agreed upon or as required by Company to be compatible with Company's internal systems and in accordance with Generally Accepted Accounting Principles and insurance regulatory practices. Such records shall be maintained for a period of not less than seven (7) years (or such longer period as Company may request) after termination of this Agreement, and in such manner and form as may be required by Company's record retention guidelines. At the end of such seven (7) year period, Agent shall return the originals of Company's records to Company, whether in paper or electronic data form.
- 4.6 During the Term of this Agreement and notwithstanding its termination, the Company may audit, examine and copy Agent's records and accounts pertaining to the Policies during normal business hours upon no less than



ten (10) business days advance notice. Agent will make such records available for examination by Company, its reinsurers, or any state insurance department or regulatory body which so requires. Additionally, Agent shall permit authorized employees and representatives of Company to review the operations of Agent, both at its place of business and in the field, in order to evaluate the quality of Agent's operations and its compliance with its obligation under this Agreement.

- 4.7 Agent shall provide Company, in an electronic format and within thirty (30) days of Company's request, data that Company may require in order to report to boards, bureaus, associations and states. The form for such information shall be as shown in Exhibit C, attached hereto and incorporated herein by reference.
- 4.8 Agent and Company each shall notify the other within two (2) business days of notice or receipt of any complaint received from any state insurance department or other regulatory authority relating to the Policies, whether against Company, Agent, or its producers. Agent shall provide Company with a proposed written response to each complaint and a copy of all documentation relating to such complaint including, but not limited to, a written summary of all facts relevant to such complaint. Company will then respond, or authorize Agent to respond, to such complaint in such form as Company determines, in Company's sole discretion, to be necessary. The parties will work together to promptly and adequately respond to any such complaint. Agent agrees not to contact any state



insurance department or other regulatory authority, on behalf of the Company, directly or indirectly, with regard to the Policies, business, rate or form filings. Notwithstanding the foregoing, Agent may contact or respond to any insurance department or other regulatory authority as respects matters solely involving Agent's capacity or performance as an agent or producer.

- 4.9 Since Agent and its employees are independent contractors and not employees of Company, all agency expenses including, but not limited to, Agent's office rent; transportation; salaries; utilities; furniture; fixtures; equipment; telephone; attorney or other legal fees; postage; promotional advertising and public relations expenses; printing costs of proposals, premium notices, records, and reports; inspection fees; retail credit reports and any other documents required to fulfill the obligations of Agent under this Agreement; commissions, fees, or countersignature fees due to producers; and Agent's license fees (for both acquiring and maintaining required licenses) and occupational taxes, whether billed to Agent or Company, shall be the sole liability of Agent, unless assumption of such expense by Company is agreed to in writing by Company.
- 4.10 Agent shall not charge or commit Company to any expense, agreement, payment, debt, settlement, or obligation other than as expressly provided by this Agreement without the prior written consent of Company. All supplies and other materials provided to Agent by Company to be used by Agent in connection with the Policies shall remain the property of Company and shall be returned immediately upon request.



4.11 Agent shall notify Company in writing:

- a. ten (10) days prior to any change of ownership of five percent (5%) or more of the outstanding stock of or other ownership interest in Agent; and
- b. ten (10) days prior to any change in control of Agent or the owner of a controlling interest in Agent not related to the transfer of shares of or other ownership interest in Agent.

4.12 If Company provides access to Company information through computer access, Agent shall be responsible for maintaining the security and integrity of such information and of Company's systems including, but not limited to, using its best efforts to avoid introducing into Company's systems any virus or other harmful agent.

4.13 Agent agrees to furnish Company with annual financial statements compiled in accordance with Generally Accepted Accounting Principles ("GAAP"). Should Agent obtain audited financial statements, Agent agrees to furnish such audited financial statements to Company, together with all notes and schedules attached thereto. Such financial statements shall be furnished to Company within three (3) months following the close of Agent's fiscal year. Agent also agrees to furnish Company with annual consolidated audited financial statements of the holding company which is Agent's ultimate corporate parent, prepared on a GAAP basis.



4.14 Agent may not use the name, logo, or service mark of Company or any of its affiliates in any advertising, promotional material, or in any material disseminated by Agent, without the prior written consent of Company. Further, Agent shall provide all marketing materials relating to the business within the scope of this Agreement, including those used by producers, and brokers, to Company for review and approval prior to publication. Agent shall maintain copies and provide an original to Company of any advertisement or other materials relating to the business within the scope of this Agreement, along with full details concerning where, when, and how it was or will be used. Agent shall be liable for any liability of or costs incurred by the Company as a result of unauthorized advertisement or other unapproved materials. Agent agrees not to utilize any advertising or sales forms and materials referring to Company or its products which deviate in any manner from those approved by Company.

4.15 During the Term, Agent shall employ Kyle Nieman (“Nieman”) who will function as the ultimate supervisor over all underwriting performed by Agent and all of Agent’s other obligations under this Agreement. Should Nieman no longer function in this capacity and Company and Agent do not agree on a replacement for Nieman within sixty (60) days after Nieman ceases to function in such capacity, Company may terminate this Agreement in accordance with Article 10.2.k.

**5. PREMIUMS, ACCOUNTING AND REPORTING**

5.1 Agent will submit to Company a monthly premium bordereau in the form provided in Exhibit D attached hereto and incorporated herein by





reference, no later than ten (10) days following the end of the month in which each Policy is effective. Agent shall remit funds to Company in accordance with the monthly premium bordereaux no later than forty-five (45) days following the end of the month in which each Policy is effective. Agent shall also maintain on a continuous basis during the term of this Agreement, and make available to the Company upon request, a Policy Register in the form attached hereto as Exhibit E, and incorporated herein by reference.

- 5.2 All premiums for the Policies collected by or due from Agent are the property of Company and shall be held in trust on behalf of Company in a fiduciary capacity (“Premium Trust Funds”). Such premiums shall be deposited and maintained in an interest-bearing account in a non-affiliated bank approved by Company in writing (“Premium Trust Account”) which meets the “Premium Trust Account Guidelines”, a copy of which is set forth in Exhibit F attached hereto and incorporated herein by reference. Agent shall be responsible for full compliance with all applicable laws, regulations, rules, and requirements regarding the Premium Trust Funds. Interest on Premium Trust Funds accrued until such amounts are due to Company as set forth below shall be payable to Agent. The Premium Trust Account shall be maintained in an amount at least equal to the premiums (unpaid to Company), and return premiums (unpaid to policyholders or insureds) collected by or due from Agent. After such funds have been deposited into the Premium Trust Account, Agent may deduct from such account the Commission allowed pursuant to Article 6.1 below.



- 5.3 Agent shall be responsible for payment to the Company premiums on all Policies written under this Agreement, regardless of whether Agent collects such premium from a producer or policyholder, and Agent hereby guarantees payment to Company of all such uncollected premiums, net of Commission allowed under Article 6.1 below.
- 5.4 Agent shall have no interest in the premium collected for Policies under this Agreement and shall make no deductions other than for the appropriate Commission. Agent shall not use premiums relating to Policies for any purpose whatsoever other than payment to Company or return to policyholders, including, but not limited to, paying expenses of Agent.

**6. COMPENSATION OF AGENT**

- 6.1 Subject to compliance by Agent with the terms and conditions of this Agreement, Company shall allow Commission to Agent subject to the Commission Schedule attached hereto as Exhibit G and incorporated by reference. The Commissions payable to Agent pursuant to this Agreement, and interest on the Premium Trust Account as provided in Article 5.2, shall be Agent's sole compensation for performance of its obligations under this Agreement. Agent may not receive any other form of compensation in connection with the business covered under this Agreement without the Company's prior written consent.



6.2 Commission paid to Agent on canceled Policies and reduced premiums shall be refunded to Company at the same rate at which such Commission was originally paid to Agent.

**7. GENERAL RIGHTS AND OBLIGATIONS OF COMPANY**

- 7.1 Company shall have the sole right to respond to any state insurance department or other regulatory authority complaint or inquiry, after consulting with Agent as provided in Article 4.8 of this Agreement. The provisions of this Article 7.1 do not restrict the ability of Agent to contact or respond to any insurance department or other regulatory authority as respects matters solely involving Agent's capacity as an agent or producer.
- 7.2 Company may combine or offset any balances or funds owed by Agent to Company against any balances or funds owed to Agent by Company under this Agreement or any other agreement between the parties.
- 7.3 If Agent provides access to Agent information through computer access, Company shall be responsible for maintaining the security and integrity of such information and of Agent's systems including, but not limited to, using its best efforts to avoid introducing into Agent's systems any virus or other harmful agent.
- 7.4 Notwithstanding Agent's authority to effect cancellation of Policies, Company retains the right to cancel or otherwise terminate a Policy.



7.5 Company shall reimburse Agent for the cost of obtaining reports required by Company for purposes of risk evaluation pursuant to Company's Underwriting Guidelines.

**8. CONFIDENTIAL INFORMATION**

8.1 Any information as may have been or shall be provided by Company to Agent, including the rates, forms, policies, program manuals, manuals, underwriting guidelines, program analysis, claim and loss information, claims adjusting techniques, underwriting records, personal information of policyholders, shall be considered confidential and proprietary to Company and shall be considered trade secrets of Company (the "Company Confidential Information"). The Company Confidential Information is furnished to Agent only to facilitate the performance of Agent's duties pursuant to this Agreement. Agent warrants that any Company Confidential Information provided hereunder shall be used only for the purpose provided herein and that Agent shall make no other use of such Company Confidential Information. Agent agrees to maintain the confidentiality of the Company Confidential Information and shall not knowingly cause or permit any officer, employee, agent, or any third party to use, copy, modify, sell, transfer, cause to be used, copied, modified, sold, or transferred, or otherwise make available the Company Confidential Information, directly or indirectly, except as expressly provided for herein, for any purpose, without prior written consent of Company. If Company gives Agent any written authorization to make any disclosure of Company Confidential Information, Agent will do so only within the limits and to the extent of such written authorization.



- 8.2 Agent shall be responsible for maintaining the security and integrity of the Company Confidential Information. Additionally, Agent shall be responsible for ensuring that Agent's employees, agents, and representatives are aware of the sensitive and proprietary nature of the Company Confidential Information, of the importance of confidentiality, and of the conditions described in this Agreement.
- 8.3 Any information as may have been or shall be provided by Agent to Company, including the rates, forms, policies, renewals, expirations, program manuals, manuals, underwriting guidelines, program analysis, loss and risk analysis, claim and loss information, compiled loss experience data, track inspection data, claims adjusting techniques, underwriting records and data, customer information and personal information of policyholders, shall be considered confidential and proprietary to Agent and shall be considered trade secrets of Agent (the "Agent Confidential Information"). The Agent Confidential Information is furnished to Company only to facilitate the performance of Company's duties pursuant to this Agreement. Company warrants that any Agent Confidential Information provided hereunder shall be used only for the purpose provided herein and that Company shall make no other use of such Agent Confidential Information. Company agrees to maintain the confidentiality of the Agent Confidential Information and shall not



knowingly cause or permit any officer, employee, agent, or any third party to use, copy, modify, sell, transfer, cause to be used, copied, modified, sold, or transferred, or otherwise make available the Agent Confidential Information, directly or indirectly, except as expressly provided for herein, for any purpose, without prior written consent of Agent. If Agent gives Company any written authorization to make any disclosure of Agent Confidential Information, Company will do so only within the limits and to the extent of such written authorization.

- 8.4 Company shall be responsible for maintaining the security and integrity of the Agent Confidential Information. Additionally, Company shall be responsible for ensuring that Company's employees, agents, and representatives are aware of the sensitive and proprietary nature of the Agent Confidential Information, of the importance of confidentiality, and of the conditions described in this Agreement.

This Article 8 shall survive termination of this Agreement.

**9. INSURANCE AND INDEMNITY**

- 9.1 Agent is required to maintain in full force and effect the following policies issued by an insurer rated no less than "A-", Class X by A. M. Best Company during the Term of this Agreement and thereafter while Agent has any obligations hereunder:
  - a. Errors and Omissions insurance covering Agent and its employees in the minimum amount of Five Million Dollars (\$5,000,000) each claim or occurrence, with a deductible or self-insured retention not to exceed Ten Thousand Dollars (\$10,000) each claim or occurrence;



- b. Fidelity insurance covering Agent and its employees in the minimum amount of Two Million Dollars (\$2,000,000) with a per occurrence deductible not to exceed Five Thousand Dollars (\$5,000);
- c. Commercial General Liability insurance (including personal and advertising injury coverage) covering Agent and its employees in the minimum amount of One Million Dollars (\$1,000,000) per occurrence;
- d. The insurance described in a. – c. immediately above shall be maintained by Agent at its sole cost and expense and shall be primary and noncontributing coverage with regard to any valid and collectible insurance available to Company. Agent agrees to notify Company immediately when it receives notice of nonrenewal or cancellation, increased deductibles or self-insured retentions or decreased coverage. On or before January 30 of each year during the Term of this Agreement, and while Agent has any continuing obligations hereunder, Agent shall furnish to Company proof of such insurance. Agent further agrees to notify Company promptly of any claim brought under any such policy which arises out of or is connected with the Policies.



- 9.2 Agent hereby agrees to defend, indemnify, and hold Company harmless from and against all claims, actions, causes of action, liability, or loss which result from any acts, errors, or omissions of Agent, or the servants, employees, representatives, producers, or brokers of Agent, in the performance or failure to perform Agent's duties or obligations under this Agreement, whether or not such acts, errors or omissions are negligent, reckless or intentional. Agent further agrees that in the event Company is in violation of any state statute, regulation, or other law due to acts, errors, or omissions of Agent, or the servants, employees, representatives, producers or brokers of Agent, then Agent shall assume the responsibility and liability for such act, error or omission and shall indemnify and hold Company harmless for such liability and loss. Loss shall include, but not be limited to, all damages, costs, expenses, reasonable attorneys' fees and expenses, penalties, fines, direct or consequential damages, judgments (including punitive damages and multiplied damages), and any other expense incurred by Company. This Article 9.2 shall survive termination of this Agreement.
- 9.3 Company hereby agrees to defend, indemnify, and hold Agent harmless from and against all claims, actions, causes of action, liability, or loss which result from any acts, errors, or omissions of Company, or the servants, employees, representatives, producers, or brokers of Company, in the performance or failure to perform Company's duties or obligations under this Agreement, whether or not such acts, errors or omissions are negligent, reckless or intentional. Company further agrees that in the





event Agent is in violation of any state statute, regulation, or other law due to acts, errors, or omissions of Company, or the servants, employees, representatives, producers or brokers of Company, then Company shall assume the responsibility and liability for such act, error or omission and shall indemnify and hold Agent harmless for such liability and loss. Loss shall include, but not be limited to, all damages, costs, expenses, reasonable attorneys' fees and expenses, penalties, fines, direct or consequential damages (including punitive damages and multiplied damages), judgments and any other expense incurred by Agent.

This Article 9.3 shall survive termination of this Agreement.

- 9.4 Upon the assertion by any third party of any claim against Company that may be indemnifiable under Article 9.2 of this Agreement, Company shall promptly notify the Agent, in the manner provided in Article 11.1 of this Agreement, of the existence of such claim; provided, however, that failure to give timely notice shall not be deemed to be a waiver of the claim to the extent that Agent has not been prejudiced by such failure to give timely notice. If the Agent believes in good faith that there is a valid defense to such claim and a reasonable chance of succeeding thereon and notifies the Company to that effect, the Company shall give Agent a reasonable opportunity to defend and/or settle such claim at its own expense and with counsel mutually selected by the Agent and the Company, or if counsel cannot be mutually selected, then selected by the Agent; provided, however, that if any such settlement would have an adverse effect on the



Company, the Agent shall not settle such claim without the prior written consent of the Company, which shall not be unreasonably withheld. The Company shall at all times have the full right to participate in any such defense at its own expense. If the Agent, within a reasonable time after receiving notice of a claim from the Company, fails to defend, the Company shall have the right, but not the obligation, to undertake the defense, compromise or settlement of such claim, for the account of Agent. Company and Agent shall make available to each other such information and render such assistance as may be required for the defense and/or settlement of the claim.

- 9.5 Upon the assertion by any third party of any claim against Agent that may be indemnifiable under Article 9.3 of this Agreement, Agent shall promptly notify the Company, in the manner provided in Article 11.1 of this Agreement, of the existence of such claim; provided, however, that failure to give timely notice shall not be deemed to be a waiver of the claim to the extent that Company has not been prejudiced by such failure to give timely notice. If the Company believes in good faith that there is a valid defense to such claim and a reasonable chance of succeeding thereon and notifies the Agent to that effect, the Agent shall give Company a reasonable opportunity to defend and/or settle such claim at its own expense and with counsel mutually selected by the Company and the Agent, or if counsel cannot be mutually selected, then selected by the Company; provided, however, that if any such settlement would have an adverse effect on the Agent, the Company shall not settle such claim



without the prior written consent of the Agent, which shall not be unreasonably withheld. The Agent shall at all times have the full right to participate in any such defense at its own expense. If the Company within a reasonable time after receiving notice of a claim from the Agent, fails to defend, the Agent shall have the right, but not the obligation, to undertake the defense, compromise or settlement of such claim, for the account of Company. Agent and Company shall make available to each other such information and render such assistance as may be required for the defense and/or settlement of the claim.

**10. TERMINATION**

10.1 At any time during the Term hereof, either party may terminate this Agreement without cause upon twelve (12) months prior written notice to the other, but in no event may this Agreement be terminated under this Article 10.1 prior to the end of the twenty-fourth (24<sup>th</sup>) month following the Effective Date.

10.2 Termination by Company. Notwithstanding Article 10.1, Company may immediately, upon written notice to Agent, terminate this Agreement for cause, in the event any of the following occurs:

- a. Agent, or its parent or any affiliated corporation becomes insolvent, institutes or acquiesces in the institution of any bankruptcy, financial reorganization, or liquidation proceeding or any such proceeding is instituted against Agent or its parent corporation and remains undismisssed for thirty (30) days (Agent shall immediately notify Company of same.); or



- b. Agent, or the owner of a controlling interest in Agent, sells, exchanges, transfers, assigns, consolidates, pledges or causes to be sold, exchanged, transferred, assigned, consolidated, or pledged, fifty percent (50%) or more of the stock, ownership interest or assets of Agent, or any entity controlling Agent, to a third party (except any entity owned more than fifty percent [50%] by AmerInst Insurance Group, Limited, its parent or any of its subsidiaries) without the prior written consent of Company. (Agent shall immediately notify Company of such sale, exchange, transfer assignment, consolidation or pledge); or
- c. Agent fails to render timely and proper reports or premium accounting as required, or to remit premiums when due, after Company has provided Agent ten (10) days written notice of such failure; or
- d. Agent fails to maintain Premium Trust Funds in the amount or manner required by Article 5 of this Agreement; or
- e. Agent engages in acts or omissions constituting abandonment, fraud, insolvency, misappropriation of funds, material misrepresentation, or gross or willful misconduct; or
- f. Agent's license or certificate of authority is cancelled, suspended, or is declined renewal by any regulatory body having jurisdiction



over Agent if, after ninety (90) days, Agent fails to remedy such loss of license or certificate of authority. Agent shall immediately notify Company of such cancellation, suspension or non-renewal. As of the effective date of such cancellation, suspension or nonrenewal, Agent shall immediately cease soliciting, underwriting, quoting, binding, issuing, cancelling non-renewing, and endorsing Policies until its license or certificate of authority is reinstated or renewed during such ninety (90) day period; or

- g. Agent materially breaches this Agreement, and Company has provided to Agent written notice of such breach and Agent has failed to cure within a thirty (30) day period after such notice; or
- h. Agent fails to permit Company to inspect or audit any records or files relating to the Policies; or
- i. Company determines that due to any judicial, legislative, or regulatory acts, the business covered under this Agreement has becomes illegal; or
- j. Company receives or gives Notice of Termination of reinsurance of Company for the Policies, provided Company allows Agent no less than ninety (90) days to secure alternative or replacement reinsurance reasonably acceptable to Company); or
- k. Failure, inability or unavailability of Nieman to function as the ultimate supervisor over all underwriting performed by Agent and all of Agent's other obligations under this Agreement. Should Nieman



no longer function in this capacity, Company and Agent shall, within sixty (60) days after Nieman fails, is unable or is unavailable to function in such capacity, select a mutually acceptable replacement for Nieman. Should Company and Agent fail to do so, Company may thereafter terminate this Agreement.

1. Company's loss ratio (ratio of Loss plus Loss Adjustment Expense plus IBNR to Gross Earned Premium) exceeds eighty per cent (80%) as an average over two (2) successive accident years. Such loss ratio will first be calculated for the preceding two (2) accident years at the end of the ninth (9<sup>th</sup>) quarter of the term of this Agreement, and then calculated on a rolling quarterly basis thereafter for the preceding two successive accident years. Should this loss ratio target be met or exceeded, Company and Agent will undertake a loss ratio remediation program of no fewer than sixty (60) days, after which Company may terminate this Agreement.

10.3 Termination by Agent. Notwithstanding Article 10.1 above, upon thirty (30) days written notice to Company, Agent may terminate this Agreement for cause, in the event any of the following occurs:

- a. A.M. Best assigns Company a rating below A-; or
- b. Company, or its parent company institutes or acquiesces in the institution of any bankruptcy, financial reorganization or liquidation proceeding, or any such proceeding is instituted against Company and remains undismissed for thirty (30) days; provided, however,



Company may substitute for itself as a party to this Agreement an affiliated company(ies) with a Best's rating of A- or better and licenses and approved forms and rate filings in all jurisdictions in which Agent operates or solicits business subject to this Agreement; or

- c. Company's license or certificate of authority is cancelled or declined renewal by any regulatory body within the Territory where Company is issuing Policies hereunder, if after ninety (90) days Company fails to renew or have such license reinstated; provided, however, Company may substitute for itself as a party to this Agreement an affiliated company(ies) with a Best's rating of A- or better and licenses and approved forms and rate filings in all jurisdictions in which Agent operates or solicits business subject to this Agreement; or
- d. Company engages in acts or omissions constituting abandonment, fraud, insolvency, misappropriation of funds, material misrepresentation, or gross or willful misconduct; or
- e. Company materially breaches this Agreement, and Agent has provided to Company written notice of such breach and Company has failed to cure within a thirty (30) day period after such notice; or
- f. Company sells or otherwise disposes of the Accountants and Lawyers Professional Liability Insurance covered under this Agreement to a nonaffiliated entity without the consent of Agent.



10.4 Continued Servicing. In the event this Agreement is terminated, then Agent shall, without additional compensation and at no expense to Company, continue to perform all necessary services regarding Policies previously issued by Agent on behalf of Company in accordance with the provisions of this Agreement until all such Policies have been completely cancelled, non-renewed, or otherwise terminated; provided, however, that Company may, in its sole discretion, immediately suspend or terminate Agent's continuing service obligations hereunder.

Agent's continuing service obligations after termination of the Agreement shall include, but not be limited to:

- a. the issuance and countersignature of appropriate endorsements to Policies when so authorized in writing by Company, provided that such endorsements shall not increase Company's liability or extend the term of any Policy; and
- b. the timely issuance of all applicable cancellation and/or non-renewal notices in full compliance with all applicable insurance code(s) or regulations and in accordance with any written instructions that may be issued by Company;
- c. the collection and remittance of all premiums due, and payment of return premiums due, on the Policies hereunder; and
- d. provide at Company's request, unrestricted access by Company via Agent's website or transmission to Company via digital means, both of which permit printing of electronically stored information, copies





of all Policy materials and related underwriting documentation. At Company's request and expense, Agent will provide Company with paper copies of all Policy materials and related underwriting documentation.

If Agent fails in any respect to fulfill any of the continuing service obligations set forth in this Article 10.4, then Agent shall reimburse Company for any expense Company incurs to service or arrange for the servicing of the Policies issued by Agent or such amounts may be offset by Company against commission which may be due Agent; provided further, that if Agent fails to comply with its obligations under Article 10.4 d., Agent acknowledges that Company has no adequate remedy at law and consents to issuance of an injunction against Agent compelling it to fulfill its obligations under Article 10.4 d.

- 10.5 Upon Company providing written notice of termination to Agent hereunder, Company is authorized to deal directly with all other persons or entities with respect to the Policies, including but not limited to, the right to collect from and to return premiums directly to all producers, brokers, or insureds.
- 10.6 Notwithstanding anything to the contrary in this Agreement, if Agent breaches this Agreement, Company upon written notice to Agent may immediately suspend some or all of the authority of Agent under this Agreement. Additionally, Company may suspend the authority of Agent during the pendency of any dispute regarding termination or suspension, and such suspension shall not be considered a breach by Company of this Agreement.



- 10.7 Any termination of this Agreement as provided above shall only terminate the duty of each party to prospectively perform this Agreement, excepting only Agent's continued service as provided for in Article 10.4., and shall not prevent the enforcement of either party's rights and remedies as regards any breach or non-performance occurring prior to such termination.
- 10.8 Company expressly recognizes and acknowledges that Agent has developed, over many years and at substantial expense and investments, a significant book of business which Agent brought to Company at the inception of the relationship between Agent and Company and which Agent continues to expand and develop. If, after Company's or Agent's termination of this Agreement without cause under Article 10.1, or Company's termination of this Agreement for cause other than under Article 10.2 c. – e. inclusive, or Agent's termination of this Agreement for cause under Article 10.3, Agent has satisfied its monetary and reporting obligations to Company under Article 5 of this Agreement, the use and control of expirations on Policies written under this Agreement, as between Company and Agent, shall be considered the sole and exclusive property of Agent. Company shall have no right of ownership or control of any such expirations. Further, Company shall not communicate with any producer, broker, insurance, reinsurance company, policyholder or



sponsoring organization (nor use for itself), for the purpose of solicitation or otherwise, any client lists or expirations pertaining to the Policies under this Agreement. Company and/or Company's successor in interest, for a period of two (2) years following termination of this Agreement, will not:

- a. directly or indirectly, knowingly solicit Accountants or Lawyers Professional Liability Insurance from any specific policyholder issued such insurance by Agent for Company pursuant to the terms of this Agreement, which coverage is in force as of the date of such termination or during the two (2) years immediately preceding such termination. Nothing in this Article 10.8.a. prohibits Company from quoting and/or underwriting Accountants or Lawyers Professional Liability Insurance policies submitted to Company in the normal course of business, provided, however, that Company has not provided any entity submitting such accounts for Company's consideration any information regarding insureds or prospects previously serviced by Agent; or
- b. directly or indirectly, knowingly solicit Accountants or Lawyers Professional Liability Insurance from any producer who placed such insurance with Company through Agent during the year immediately preceding such termination; or
- c. influence, induce or attempt to influence or induce any employee of Agent or Company to terminate his or her employment with Agent; or



- d. influence, induce or attempt to influence or induce any insurance producer to sever his/her contractual or customary relationship with Agent and place Accountants or Lawyers Professional Liability Insurance directly or indirectly with Company.

Notwithstanding the foregoing, all financial, policy, and other records of business covered hereunder shall continue to be maintained by Agent in accordance with Article 4.4 and 4.5 of this Agreement, provided to Company in accordance with Article 4.7 of this Agreement, and available to Company as provided in Article 4.6 of this Agreement. Notwithstanding the foregoing, until such time as Agent has paid Company all premiums due, and has paid all return premiums due on business covered by this Agreement, ownership of expirations and renewals of such business shall be vested with the Company.

**11. GENERAL PROVISIONS**

- 11.1 Notice. Except as otherwise set forth herein, any notice required under this Agreement must be in writing and either sent by overnight mail, facsimile, or personally delivered. Notice shall be effective upon the earlier of actual receipt by the addressee or five (5) days after mailing to the other party. Notice shall be sent to:

Agent: F. Kyle Nieman III  
AmerInst Professional Services, Ltd.  
520 Lake Cook Road  
Suite 510  
Deerfield, IL 60015  
Facsimile: (847) 267-0606



Company: Donald R. Fischer  
Senior Vice President  
Executive Products Division  
Crum & Forster  
305 Madison Avenue  
Morristown, NJ 07962-1973  
Facsimile: (888) 258-3052

- 11.2 Integration, Waiver, and Amendment. This Agreement, inclusive of exhibits, constitutes the entire agreement between Company and Agent and supersedes any and all other agreements, either oral or written, between Company and Agent with respect to the Policies. No waiver by either party to enforce any provision of this Agreement will be effective unless made in writing and signed by an authorized officer of Company or Agent and shall be effective only as to the specifically stated matter waived. Subject to Company's right in its sole discretion to amend Exhibit A from time to time, as provided in Article 1.1 above, no amendment to this Agreement will be effective unless made in writing and signed by the parties hereto, specifying the effective date of such amendment.
- 11.3 Remedies Not Exclusive. No right or remedy set forth in this Agreement is exclusive of any other right or remedy but shall be in addition to every other right and remedy given under this Agreement or existing now or hereafter at law or equity.
- 11.4 Severability. Wherever possible, each provision of this Agreement will be interpreted in such a manner and to such an extent as to be effective and valid under applicable law. If any provision is prohibited by or invalid under applicable law, such provision will be ineffective only to the extent of such prohibition or invalidity.



11.5 Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without regard to its rules regarding conflict of laws.

11.6 Arbitration. All disputes or controversies between Company and Agent arising out of or in connection with this Agreement, including its formation, interpretation or validity, shall be determined by arbitration, in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect, except as modified herein.

The Board of Arbitration ("Board") shall consist of one (1) arbitrator chosen by Company, one (1) arbitrator chosen by Agent, and an umpire chosen as promptly as possible by the two (2) arbitrators. The arbitrators and umpire shall be disinterested and present or former executives of insurance, reinsurance, brokerage, agency, or managing general agency companies.

The party demanding arbitration shall communicate its demand therefor in writing, identifying the nature of the dispute and the name of its arbitrator, to the other. The other party shall then be bound to name, in writing, its arbitrator within thirty (30) days after receipt of such demand. Failure or refusal of the other to name its arbitrator within the thirty (30) day time period shall empower the demanding party to name the second arbitrator as well.

If the two (2) arbitrators are unable to agree upon an umpire within thirty (30) days after the second arbitrator is named, each of them shall name two of whom the other shall decline one, and the umpire chosen shall be made by drawing lots.



The applicant for arbitration shall submit its position in writing within thirty (30) days after selection of the umpire. The respondent shall submit its written position within thirty (30) days after receipt of the applicant's position. The Board may extend any of the time periods set forth above.

The Board is relieved from judicial formalities, and rules of evidence and procedure. The Board shall have the power to make and determine all procedural rules for the holding of the arbitration including discretionary power to make orders as to any matter which they may consider proper in light of circumstances of the case with regard to pleadings, depositions, discovery, inspection of documents, examination of witnesses, and any other matter whatsoever relating to the conduct of the arbitration and may receive and act upon such evidence, whether oral or written, strictly admissible or not as the Board shall think fit. The Board shall make its decision based on the terms of this Agreement and the custom and usage of the insurance industry.

All rules, orders, acts, and decisions of the Board shall be effective if by a majority of the Board. The final decision of the Board shall be within sixty (60) days of the conclusion of the arbitration and given in writing to both parties. Any decision shall be final and binding on the parties, and shall not be subject to appeal. If either party fails to comply with the Board's decision, the other party may apply for its enforcement to a court of competent jurisdiction.



Each party shall bear the cost of its own arbitrator and shall jointly and equally bear with the other party the expenses of the umpire. The remaining costs of the arbitration proceeding shall be allocated by the Board.

The arbitration proceedings shall convene and be held in New York, New York, or such other location mutually agreed upon by the parties.

This Article 11.6 shall survive termination of this Agreement.

- 11.7 Conformance to Law / Severability. This Agreement shall, without prior notice, be automatically modified to conform with any law or regulation having application to or jurisdiction over the subject matter hereof and the parties hereto, and the parties shall promptly amend the Agreement to comply with such modifications.
- 11.8 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but which together shall constitute one and the same instrument.
- 11.9 Currency. All amounts due to either party hereunder shall be payable in lawful currency of the United States of America.





11.10 Headings.

The Article headings found in this Agreement are for reference purposes only, do not constitute a part of the substance of this Agreement and shall not be construed to limit or expand the provisions of this Agreement.

11.11 Exclusive Benefit of the Parties.

This Agreement is for the sole and exclusive benefit of Agent and Company and shall not be interpreted as conferring any benefits or rights on any other party, person or entity.

11.12 Assignment.

Other than as expressly authorized by this Agreement, the rights and obligations under this Agreement may not be assigned by either Company or Agent without the prior written approval of the other party.

SIGNATURES APPEAR ON FOLLOWING PAGE



IN WITNESS WHEREOF, the parties have caused this Agreement to be executed effective as of the day and year first above written.

**AMERINST PROFESSIONAL SERVICES, LIMITED**  
 (“Agent”)

**THE NORTH RIVER INSURANCE COMPANY**

**CRUM & FORSTER INDEMNITY COMPANY**

**CRUM AND FORSTER INSURANCE COMPANY**

**CRUM & FORSTER SPECIALTY INSURANCE  
 COMPANY**

**UNITED STATES FIRE INSURANCE COMPANY**

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By: Irvin F. Diamond  
 Its: Chairman  
 Date:

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By: Donald R. Fischer  
 Its: Senior Vice President  
 Date:



TABLE OF EXHIBITS

<u>EXHIBIT</u>	<u>TITLE</u>
A	Underwriting Guidelines
B	Claims Procedures
C	Reporting Standards
D	Bordereau Format
E	Policy Register Format
F	Premium Trust Account Guidelines
G	Commissions Schedule



**Exhibit 10.2**

The confidential portions of this exhibit have been filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request in accordance with Rule 406 under the Securities Act of 1933, and Rule 24b-2, under the Securities Exchange Act of 1934. Redacted portions of this exhibit are marked by an \*\*\*.

**PROFESSIONAL LIABILITY QUOTA SHARE AGREEMENT**

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**PROFESSIONAL LIABILITY QUOTA SHARE AGREEMENT**

(the "Agreement")

issued to

**The North River Insurance Company**  
**United States Fire Insurance Company**  
**Crum & Forster Indemnity Company**  
**Crum and Forster Insurance Company**  
**Crum & Forster Specialty Insurance Company**  
(collectively, the "Company")

by

**AmerInst Insurance Company Limited**  
Hamilton Bermuda  
(the "Reinsurer")

Wherever the word "Company" is used in this Agreement, such term shall be held to include any and/or all of its subsidiaries and affiliated companies, and any and all insurance companies which are now or hereafter may be under the same ownership or management as of the Company, provided that notice be given to the Reinsurer within 45 days of such acquisition of any such subsidiary companies that may hereafter come under the management of the Company, with full particulars as to how such acquisition is likely to affect this Agreement.



**ARTICLE 1**

**BUSINESS COVERED**

The Company agrees to cede, and the Reinsurer agrees to accept as reinsurance a fifty percent (50%) quota share of the liability of the company under any and all binders, policies and contracts of insurance (hereinafter referred to as "policies") incepting, renewing or having an anniversary date during the term of this Agreement written by AmerInst Professional Services, Limited on behalf of the Company and classified by the Company as Accountants Professional Liability and Attorneys or Lawyers Professional Liability, subject to the exclusions, limitations and conditions herein.

Cessions to this Agreement are subject to all terms, conditions and warranties as the original policies.

The maximum policy period of the business protected by this Agreement is 12 months plus odd time, not to exceed 18 months in all, plus any extended reporting or discovery period not to exceed 72 months or as required by statute or regulation.

Notwithstanding the agreement of the Company to cede a quota share of 50% to the Reinsurer hereunder, the Company shall have the right to reduce quota share cessions to the Reinsurer, in the event that amount of premium assumed by the Reinsurer under this Agreement and all other agreements and policies underwritten by the Reinsurer for the prior four trailing quarters shall exceed twice the amount of the Reinsurer's policyholders' surplus as reflected in its latest filed quarterly financial statement, or the Company believes that such ratio will be exceeded in the following quarter. In such case, the Company will have the option to reduce the premium ceded to this Agreement to an amount of that is sufficient to reduce the ratio to within the limitation set forth above.

**ARTICLE 2**

**EXCLUSIONS**

This Agreement does not cover:

1. Assumed reinsurance, other than intercompany reinsurance.
2. Loss or liability excluded by the Pools, Associations, Syndicates Clause attached hereto.
3. Loss or liability excluded by the Nuclear Incident Exclusion Clause attached hereto.
4. Any and all liability of the Company arising, by contract, operation of law, or otherwise from its participation or membership whether voluntary, in any insolvency fund. "Insolvency Fund" includes any guaranty fund, insolvency fund, plan, pool association, fund or other arrangement, howsoever denominated, established or governed, which provides for any assessment of or payment or assumption by the Company of part or all



of any claim, debt, charge, fee, or other obligation of an insurer, or its successors or assigns which has been declared by any competent authority to be insolvent, or which is otherwise deemed unable to meet any claim, debt, charge, fee or other obligation in whole or in part.

**ARTICLE 3**

**PREMIUMS AND CEDING ALLOWANCE**

The Company shall pay the Reinsurer on Policies ceded hereunder fifty percent (50%) of the original Gross Net Written Premium.

Reinsurer shall allow the Company a ceding allowance of \*\*\* of original gross net written premium, plus an additional provisional ceding allowance of \*\*\*, for charges incurred with respect to premium taxes, residual market charges, guaranty funds, pool assessments and the like. The \*\*\* provisional allowance will be trued up periodically to reflect actual charges.

Original Gross Net Written Premium shall mean gross written premiums, less return premiums and cancellations, less costs of reinsurance, if any, inuring to the benefit of this Agreement.

**ARTICLE 4**

**TERM**

This is a continuous Agreement commencing September 25, 2009, at 12:01 a.m. Eastern Time, until terminated pursuant to the provisions of Article 5 or Article 6.

**ARTICLE 5**

**TERMINATION**

Any party to this Agreement may terminate it for any reason on not less than 120 days' prior written notice.

This Agreement shall remain in full force and effect with respect to all risks ceded hereunder prior to the effective date of termination until natural expiry, cancellation or next anniversary date, or to the end of an extended reporting period on Policies providing such coverage.

Upon termination of this Agreement pursuant to this Article 5 or Article 6, the Company may at its sole option, elect to terminate on a run-off or cut-off basis, and shall provide written notice of its election to the Reinsurer within 30 days of the effective date of termination.

If the Company elects termination on a cut-off basis, it shall prepare a statement for the Reinsurer of the unearned premium at termination, and the Reinsurer shall return to the Company such unearned premium less any ceding allowance within 30 days of receipt of such statement. The Reinsurer shall not be liable for any claims first made and reported after the



effective date of termination, except for claims first made against the original insured or reported to the Company during an extended reporting period which commenced before the termination date on a Policy for which the Reinsurer is due or has received its proportionate share of the extended reporting period premium, and such Policy provides that the extended reporting period premium is fully earned at inception of the extended reporting period.

**ARTICLE 6**

**SPECIAL TERMINATION**

The Company at its sole option shall have the right to terminate the Reinsurer's participation immediately in the event:

1. The Reinsurer ceases underwriting operations.
2. The Reinsurer retrocedes any portion of any risk assumed herein without the Company's prior written consent.
3. The Reinsurer's surplus to policyholders as reflected on its latest quarterly financial statements filed with the insurance regulator having jurisdiction over it falls below \*\*\*.
4. The Reinsurer's Net Leverage Ratio, as defined by A.M. Best Company, exceeds 3.0.
5. The Reinsurer has merged with or 50% or more of the shares, ownership interest in or assets of Reinsurer are acquired or controlled by any corporation, company, or individual(s) not controlling the Reinsurer's operations at the inception of this Agreement.
6. An insurance department or other legal or regulatory authority orders the Reinsurer to cease writing business, or the Reinsurer is placed under regulatory supervision.
7. The Reinsurer has become insolvent or has been placed into liquidation or receivership (whether voluntary or involuntary), or there have been instituted against it proceedings for the appointment of a receiver, liquidator, rehabilitator, conservator, or trustee in bankruptcy, to take possession of its assets or control of its operations.
8. The Reinsurer fails to timely deliver the documents and information required under Article 14.

The right of the Company to terminate this Agreement under this Article 6 may be exercised at any time on or after the date of the occurrence of the event giving rise to the Company's right to terminate.





**ARTICLE 7**

**TERRITORY**

The territorial scope of this Agreement shall be identical to those of the Company's policies.

**ARTICLE 8**

**REPORTS AND REMITTANCES**

- A. The Company shall furnish to the Reinsurer quarterly accounts of business ceded hereunder within sixty (60) days after the close of each quarter, showing premiums due the Reinsurer, less the following: (1) ceding allowance granted under Article 3, (2) Federal Excise Tax, if any, and (3) paid losses and Loss Adjustment Expenses due from the Reinsurer, including Unallocated Loss Adjustment Expenses payable under Article 12. If the amount due as respects the quarterly account is to the Reinsurer, the Company shall remit payment with its report. If the amount due as respects the quarterly account is to the Company, the Reinsurer shall remit payment within fifteen (15) days after receipt of the Company's report. All settlements of account between the Company and the Reinsurer shall be made in cash or its equivalent.
- B. The Company shall furnish the Reinsurer with the following reports:
  - 1. The gross written premium ceded during the quarter.
  - 2. Losses, Loss Adjustment Expense and Unallocated Loss Adjustment Expense paid during the quarter (net of any amounts paid by the Reinsurer during the quarter in accordance with the special remittance provisions of Article 9, the Notice of Loss and Loss Settlements Article).
  - 3. Reserves for outstanding losses, Loss Adjustment Expense and Unallocated Loss Adjustment Expense for the calendar quarter.
  - 4. The unearned premium reserves as of the end of the calendar quarter being reported.

**ARTICLE 9**

**NOTICE OF LOSS AND LOSS SETTLEMENTS**

- A. The Reinsurer shall indemnify the Company for the Reinsurer's fifty percent (50%) quota share of all Loss and Loss Adjustment Expenses under Policies subject to this Agreement. Loss shall include Loss in Excess of Policy Limits and Extra-contractual Obligations, as defined in Article 10.



- B. The Company will give notice to the Reinsurer, as soon as reasonably practicable, of any claims or losses the Company reasonably expects will exceed \$100,000 to this Agreement, and the Company will keep the Reinsurer advised of all subsequent developments regarding such losses.
- C. The Company alone and in its discretion shall adjust, settle or compromise all claims and losses. All such adjustments, settlements, and compromises, whether under strict policy terms or by way of compromise, and any Extra-Contractual Obligations and/or Loss in Excess of Policy Limits, shall be binding on the Reinsurer in proportion to its participation. The Company shall likewise at its sole discretion commence, continue, defend, compromise, settle or withdraw from actions, suits or proceedings, including Declaratory Judgments, as defined in Article 11.D., and generally do all such matters and things relating to any claim or loss as in its judgment may be beneficial or expedient, and all loss payments made shall be shared by the Reinsurer proportionately. The Reinsurer shall, on the other hand, benefit proportionately from all reductions of losses by salvage, compromise or otherwise.
- D. The Reinsurer agrees to abide by the loss settlements of the Company; such settlements to be construed as satisfactory proof of loss. Amounts falling to the share of the Reinsurer shall be payable to the Company by the Reinsurer as provided in Article 8 (Reports and Remittances).
- E. The Reinsurer shall immediately pay by special remittance any paid ceded loss and/or Loss Adjustment Expense that exceeds \*\*\* upon receipt of a special loss advice containing reasonable details of such loss.

**ARTICLE 10**

**EXTRA CONTRACTUAL OBLIGATIONS/EXCESS OF POLICY LIMITS**

- A. This Contract shall cover Extra Contractual Obligations. "Extra Contractual Obligations" shall be defined as those liabilities not covered under any other provision of this Agreement and that arise from the handling of any claim on business covered hereunder, such liabilities arising because of, but not limited to, the following: failure by the Company to settle within the Policy limit, or by reason of alleged or actual negligence, fraud or bad faith in rejecting an offer of settlement or in the preparation of the defense or in the trial of any action against its insured or reinsured or in the preparation or prosecution of an appeal consequent upon such action.
- B. This Contract shall cover Loss in Excess of Policy Limits. "Loss in Excess of Policy Limits" shall be defined as Loss in excess of the Policy limit, having been incurred because of, but not limited to, failure by the Company to settle within the Policy limit or by reason of alleged or actual negligence, fraud or bad faith in rejecting an offer of settlement or in the preparation of the defense or in the trial of any action against its insured or reinsured or in the preparation or prosecution of an appeal consequent upon such action.



- C. An Extra Contractual Obligation and/or Loss in Excess of Policy Limits shall be deemed to have occurred on the same date as the loss covered under the Company’s Policy, and shall constitute part of the original loss.
- D. For the purposes of the Loss in Excess of Policy Limits covered hereunder, the word “Loss” shall mean any amounts for which the Company would have been contractually liable to pay had it not been for the limit of the original Policy.
- E. Loss Adjustment Expense in respect of Extra Contractual Obligations and/or Loss in Excess of Policy Limits shall be covered hereunder in the same manner as other Loss Adjustment Expense.
- F. However, this Article shall not apply where the loss has been incurred due to final legal adjudication of fraud of a member of the Board of Directors or a corporate officer of the Company acting individually or collectively or in collusion with any individual or corporation or any other organization or party involved in the presentation, defense or settlement of any claim covered hereunder.

**ARTICLE 11**

**LOSS ADJUSTMENT EXPENSES**

- A. “Loss Adjustment Expense” shall mean expenditures by the Company made in connection with the disposition of a claim, loss or legal proceeding including investigation, negotiation, cost of bonds, court costs, statutory penalties, prejudgment interest or delay damages, interest on any judgment or award and legal expenses of litigation, and Declaratory Judgment Expenses. Loss Adjustment Expense will be in addition to the original policy limit and will be apportioned on the same quota share basis as is applicable to loss covered hereunder, unless the original policy provides loss adjustment expense within the policy limit. In the event any Loss Adjustment Expense is incurred by the Company in connection with a potential loss hereunder that is not otherwise covered under the Company’s original policies (including but not limited to Declaratory Judgment Expenses), such expenses will be treated as a Loss Adjustment Expense.
- B. “Statutory penalties” is intended to cover, subject to the terms and conditions herein, statutory fines or penalties incurred as a result of the adjustment or settlement of claims.
- C. “Prejudgment interest or delay damages” shall mean interest or damages added to a settlement, verdict, award, or judgment based on the amount of time prior to the settlement, verdict, award, or judgment whether or not made part of the settlement, verdict, award, or judgment.
- D. “Declaratory Judgment Expenses” shall mean all legal expenses incurred in the representation of the Company in litigation, arbitration or any other dispute resolution proceeding or process brought to determine the Company’s defense and/or indemnification obligations that are allocable to any specific claim or loss under Policies subject to this Agreement.



**ARTICLE 12**

**UNALLOCATED LOSS ADJUSTMENT EXPENSES**

The Reinsurer shall pay the Company an Unallocated Loss Adjustment Expense of \*\*\* of its fifty percent (50%) quota share of gross net earned premium ceded hereunder, without regard to the cost of inuring facultative reinsurance, if any.

**ARTICLE 13**

**FOLLOW THE FORTUNES**

All reinsurance ceded hereunder shall be subject to the same clauses, rates, terms, conditions and endorsements as the Company's original Policies, binders, or contracts, insofar as they relate to the business covered hereunder, the true intent of this Agreement being that the Reinsurer shall, in every case to which the Agreement applies and in the proportions specified herein, follow the fortunes of the Company.

**ARTICLE 14**

**PREMIUM TRUST ACCOUNT**

- A. As regards policies issued by the Company coming within the scope of this Agreement, the Company agrees that when it shall file with the insurance regulatory authority or set up on its books reserves for unearned premium and losses and Loss Adjustment Expenses covered hereunder which it shall be required by law to set up, it will forward to the Reinsurer a statement showing the proportion of such reserves which is applicable to the Reinsurer. The Reinsurer hereby agrees to fund such reserves in respect of unearned premium, known outstanding losses that have been reported to the Reinsurer and Loss Adjustment Expense relating thereto, losses and Loss Adjustment Expenses paid by the Company but not recovered from the Reinsurer, plus reserves for losses and Loss Adjustment Expenses incurred but not reported, as shown in the statement prepared by the Company (hereinafter referred to as "Reinsurer's Obligations"). The Reinsurer agrees to enter into a trust agreement and to establish a trust account for the benefit of the Company to cover the Reinsurer's Obligations. The Reinsurer agrees to maintain a balance in the Trust Account of (i) \*\*\* of the Reinsurer's proportionate share of loss and Loss Adjustment Expense reserves including case reserves and IBNR, (ii) \*\*\* of the Reinsurer's proportionate share of unearned premium reserves, and (iii) \*\*\* of Loss and Loss Adjustment Expense paid by the Company and billed to but not recovered from the Reinsurer, subject to a minimum balance of \*\*\* ("Minimum Trust Account Balance"). The Reinsurer and the Company agree that to fund initially the \*\*\* minimum balance, the Reinsurer shall deposit \*\*\* on or before the tenth (10<sup>th</sup>) day subsequent to the date of Reinsurer's signature to this Agreement; \*\*\* on or before the fortieth (40<sup>th</sup>) day



subsequent to the date of Reinsurer's signature to this Agreement; \*\*\* on or before the one hundredth (100<sup>th</sup>) day subsequent to the date of Reinsurer's signature to this Agreement; and \*\*\* on or before the one hundred fortieth (140<sup>th</sup>) day subsequent to the date of Reinsurer's signature to this Agreement.

- B. The Reinsurer will enter into a trust agreement as provided in Article 14.A. above with a bank agreed upon by the Parties that is a member of the Federal Reserve System or a state-chartered bank or trust company. The trust agreement shall be in a form containing provisions acceptable to the insurance regulatory authorities having jurisdiction over the Company's reserves (the "Trust Agreement"). The assets deposited by the Reinsurer shall be as provided in the Trust Agreement. The Reinsurer agrees, prior to depositing assets with the trustee, to execute assignments or endorsements in blank, or to transfer legal title to the trustee of all shares, obligations or any other assets requiring assignments, in order that the Company, or the trustee upon the direction of the Company, may whenever necessary negotiate these assets without consent or signature from the Reinsurer or any other entity.
1. The Reinsurer agrees to limit its investments of collateral deposited into the Trust Account to investments in Eligible Securities and in the amounts/percentages as provided in the Trust Agreement.
  2. The Reinsurer and the Company will monitor the assets in the Trust Account for compliance with the definition of Eligible Securities, including those limitations on amounts/percentages of certain assets as set forth in the Trust Agreement. If the assets in the Trust Account are not within such limitations amounts/percentages, the Reinsurer shall independently, but no later than within ten (10) calendar days after receipt of a written request from the Company, make any necessary deposits or reallocations in the Trust Account in order for the assets in the Trust Account to comply with the definition of Eligible Securities.
  3. In the event the balance of the Trust Account as reflected on the monthly statement falls below the balance required under Article 14.A. above, the Company will advise the Reinsurer by November 15<sup>th</sup> of each calendar year, and the Reinsurer agrees to deposit into the Trust Account additional Eligible Securities in the amounts requested by Company on or before December 1<sup>st</sup> of each calendar year.
- C. The Reinsurer and Company agree that the Trust Agreement established pursuant to the provisions of this Agreement may be drawn upon at any time by the Company, notwithstanding any other provision of this Agreement, and be utilized and applied by the Company or any successor, by operation of law, of the Company including, without limitation, any liquidator, rehabilitator, receiver or conservator of the Company for the following purposes:
1. to reimburse the Company for the Reinsurer's Obligations, the payment of which is due under the terms of this Agreement and which has not been otherwise paid;



2. to refund any sum which is in excess of the actual amount required to pay the Reinsurer's Obligations under this Agreement;
  3. to fund, in an amount at least equal to the minimum Trust Account balance provided in paragraph A above, an interest bearing account with the Company, separate from the Company's other assets, the interest from which, not in excess of the prime rate, shall accrue to the benefit of the Reinsurer.
  4. to pay any other amounts the Company claims are due under this Agreement.
- D. The issuing bank shall have no responsibility whatsoever in connection with the propriety of withdrawals made by the Company or the disposition of funds withdrawn, except to ensure that withdrawals are made only upon the order of properly authorized representatives of the Company.
- E. At quarterly intervals at the Company's discretion, but never less frequently than annually, the Company shall prepare a statement of the Reinsurer's Obligations, for the sole purpose of adjusting the balance of the Trust Agreement. The Company's determination of the Reinsurer's Obligations and corresponding security amount shall be the amount utilized for the purpose of adjusting the amount of the Trust Agreement. The amount held in trust shall be adjusted in the following manner:
1. If the statement shows that the balance of the Trust Account as of the statement date is less than the Minimum Trust Account Balance, the Reinsurer shall, within 15 calendar days after receipt of notice of such excess, increase such funding by the amount of such difference.
  2. If, however, the statement shows that the balance of the Trust Agreement as of the statement date exceeds the Minimum Trust Account Balance, the Company shall, within 15 calendar days after receipt of written request from the Reinsurer, decrease such funding by the amount of such excess.
  3. In the event that the total of all of Reinsurer's Obligations remaining following Termination or Special Termination of this Agreement, as provided by Article 5 or Article 6, are \*\*\* or less, the Trust Account need only maintain a balance of \*\*\* of Reinsurer's Obligations.
- F. The Reinsurer shall be responsible for all costs and fees associated with the establishment and maintenance of the Trust Agreement mandated by the provisions of this Article.



**ARTICLE 15**

**REINSURER REPORTS**

Reinsurer will provide the Company with copies of:

- i) On a quarterly basis, its unaudited financial statements prepared in accordance with Generally Accepted Accounting Principles (“GAAP”);
- ii) On an annual basis, its audited financial statements prepared on a statutory basis;
- iii) No less frequently than on an annual basis, its full actuarial report on loss reserves with all attached schedules, for all business written by Reinsurer including, without limitation, the business ceded under this Agreement. The Company and the Reinsurer each shall have the right to consult with the other’s actuary(ies) regarding its actuarial report(s) on loss reserves; provided, however, Reinsurer’s right to consult with the Company’s actuary(ies) shall be limited to the business ceded under this Agreement.

**ARTICLE 16**

**EXCLUDED RISKS INADVERTENTLY BOUND**

If, without the knowledge of a supervisory member of the Company’s underwriting department, the Company becomes bound on a risk specifically excluded in this Agreement, such reinsurance as would have been afforded for the risk by this Agreement if the risk had not been excluded shall nevertheless apply to such risk, with respect to claims against the original insured made and reported to the Company prior to the 45<sup>th</sup> day after discovery by a supervisory member of such underwriting department of the existence of the risk which makes the exclusion applicable.

If the Company is prohibited by statute or regulation from immediately canceling any risk to which the Article applies, such reinsurance as would have been afforded for the risk had the risk not been excluded shall apply until the earliest date the Company is legally able to cancel such risk.

If within such 45 day period, the Company shall have forwarded to the Reinsurer complete underwriting information and shall have received from the Reinsurer written notice of its approval of the risk, the reinsurance shall apply with respect to such risk for the policy period reported in the same manner as if such risk were not so excluded, subject however, to the terms of such notice of approval.



**ARTICLE 17**

**SPECIAL ACCEPTANCE**

Any risk that is specially accepted by the Reinsurer from the Company shall be covered under this Agreement and subject to the terms hereof, except as such terms shall be modified by such acceptance.

**ARTICLE 18**

**ACCESS TO RECORDS**

The Reinsurer or its duly authorized representatives shall have the right to visit the offices of the Company to inspect, examine, audit, and verify any of the Policy, accounting or claim files ("Records") relating to business reinsured under this Agreement during regular business hours after giving five working days' prior notice. This right shall be exercisable during the term of this Agreement or after the expiration or termination of this Agreement. Notwithstanding the above, the Reinsurer shall not have any right of access to the Records of the Company if it is not current in all payments due the Company.

**ARTICLE 19**

**OFFSET**

Except with respect to Reinsurer's Obligations under Article 14 of this Agreement, the Company and the Reinsurer shall have the right to offset any balance or amounts due from one party to the other under the terms of this Agreement. The party asserting the right of offset may exercise such right any time whether the balances due are on account of premiums or losses or otherwise.

**ARTICLE 20**

**NO THIRD PARTY RIGHTS**

This Agreement is solely between the Company and the Reinsurer, and in no instance shall any insured, claimant or other third party have any rights under the Agreement except as may be expressly provided otherwise herein.

**ARTICLE 21**

**INDEMNIFICATION AND ERRORS AND OMISSIONS**

- A. Any recitals in this Agreement of the terms and provisions of any original insurance are merely descriptive. The Reinsurer is reinsuring, to the amount herein provided, the obligations of the Company under any original insurance. The Company shall be the sole judge as to:
  - 1. what shall constitute a claim or loss covered under any original insurance written by or on behalf of the Company,





- 2. the Company's liability thereunder;
  - 3. the amount or amounts which it shall be proper for the Company to pay thereunder.
- B. The Reinsurer shall be bound by the judgment of the Company as to the obligation(s) and liability(ies) of the Company under any original insurance.
- C. Any inadvertent error, omission or delay in complying with the terms and conditions of this Agreement shall not be held to relieve either party hereto from any liability which would attach to it hereunder if such error, omission or delay had not been made, provided such error, omission or delay is rectified immediately upon discovery.

**ARTICLE 22**

**CONFIDENTIALITY**

- A. The Reinsurer hereby acknowledges that the documents, information and data provided to it by the Company, whether directly or through an authorized agent, in connection with the placement and execution of this Agreement ("Confidential Information") are proprietary and confidential to the Company. Confidential Information shall not include documents, information or data that the Reinsurer can show:
- 1. are publicly known or have become publicly known through no unauthorized act of the Reinsurer;
  - 2. have been rightfully received from a third person without obligation of confidentiality; or
  - 3. were known by the Reinsurer prior to the placement of this Agreement without an obligation of confidentiality.
- B. Absent the written consent of the Company, the Reinsurer shall not disclose any Confidential Information to any third parties, including any affiliated companies, except:
- 1. when required by retrocessionaires subject to the business ceded to this Agreement;
  - 2. when required by regulators performing an audit of the Reinsurer's records and/or financial condition; or
  - 3. when required by external auditors performing an audit of the Reinsurer's records in the normal course of business.



- C. Notwithstanding the above, in the event that the Reinsurer is required by court order, other legal process or any regulatory authority to release or disclose any or all of the Confidential Information, the Reinsurer agrees to provide the Company with written notice of same at least 10 days prior to such release or disclosure and to use its best efforts to assist the Company in maintaining the confidentiality provided for in this Article.
- D. The provisions of this Article shall extend to the officers, directors, shareholders and employees of the Reinsurer and its affiliates, and shall be binding upon their successors and assigns.

**ARTICLE 23**

**INSOLVENCY**

- A. If more than one reinsured company is referenced within the definition of “Company” in this Agreement, this Article shall apply severally to each such Company. Further, this Article and the laws of the domiciliary state shall apply in the event of the insolvency of any Company covered hereunder. In the event of a conflict between any provision of this Article and the laws of the domiciliary state of any Company covered hereunder, that domiciliary state’s laws shall prevail.
- B. In the event of the insolvency of the Company, this reinsurance (or the portion of any risk or obligation assumed by the Reinsurer, if required by applicable law) shall be payable directly to the Company, or to its liquidator, receiver, conservator or statutory successor, either: (1) on the basis of the liability of the Company, or (2) on the basis of claims filed and allowed in the liquidation proceeding, whichever may be required by applicable statute, without diminution because of the insolvency of the Company or because the liquidator, receiver, conservator or statutory successor of the Company has failed to pay all or a portion of any claim. It is agreed, however, that the liquidator, receiver, conservator or statutory successor of the Company shall give written notice to the Reinsurer of the pendency of a claim against the Company indicating the Policy or bond reinsured, which claim would involve a possible liability on the part of the Reinsurer within a reasonable time after such claim is filed in the conservation or liquidation proceeding or in the receivership, and that during the pendency of such claim, the Reinsurer may investigate such claim and interpose, at its own expense, in the proceeding where such claim is to be adjudicated any defense or defenses that it may deem available to the Company or its liquidator, receiver, conservator or statutory successor. The expense thus incurred by the Reinsurer shall be chargeable, subject to the approval of the court, against the Company as part of the expense of conservation or liquidation to the extent of a pro rata share of the benefit that may accrue to the Company solely as a result of the defense undertaken by the Reinsurer.
- C. As to all reinsurance made, ceded, renewed or otherwise becoming effective under this Agreement, the reinsurance shall be payable as set forth above by the Reinsurer to the Company or to its liquidator, receiver, conservator or statutory successor, (except as



provided by Section 4118(a)(1)(A) of the New York Insurance Law, provided the conditions of 1114(c) of such law have been met, if New York law applies) or except (1) where the Agreement specifically provides another payee in the event of the insolvency of the Company, or (2) where the Reinsurer, with the consent of the direct insured or insureds, has assumed such Policy obligations of the Company as direct obligations of the Reinsurer to the payees under such Policies and in substitution for the obligations of the Company to such payees. Then, and in that event only, the Company, with the prior approval of the certificate of assumption on New York risks by the Superintendent of Insurance of the State of New York, or with the prior approval of such other regulatory authority as may be applicable, is entirely released from its obligation and the Reinsurer shall pay any loss directly to payees under such Policy.

**ARTICLE 24**

**ARBITRATION**

- A. Any dispute arising out of the interpretation, performance or breach of this Agreement, including the formation or validity thereof, shall be submitted for decision to a panel of three arbitrators. Notice requesting arbitration shall be in writing and sent certified or registered mail, return receipt requested.
- B. One arbitrator shall be chosen by each party and the two arbitrators shall then choose an impartial third arbitrator who shall preside at the hearing. If either party fails to appoint its arbitrator within 30 days after being requested to do so by the other party, the latter, after 10 days' prior notice by certified or registered mail of its intention to do so, may appoint the second arbitrator.
- C. If the two arbitrators do not agree on a third arbitrator within 60 days of their appointment, the third arbitrator shall be chosen in accordance with the procedures for selecting the third arbitrator in force on the date the arbitration is demanded, established by the AIDA Reinsurance and Insurance Arbitration Society – U.S. (ARIAS). The arbitrators shall be persons knowledgeable about insurance and reinsurance who have no personal or financial interest in the result of the arbitration. If a member of the panel dies, becomes disabled or is otherwise unwilling or unable to serve, a substitute shall be selected in the same manner as the departing member was chosen and the arbitration shall continue.
- D. Within 30 days after all arbitrators have been appointed, the panel shall meet and determine timely periods for briefs, discovery procedures and schedules of hearings.
- E. The panel shall be relieved of all judicial formality and shall not be bound by the strict rules of procedure and evidence. Notwithstanding anything to the contrary in this Agreement, the arbitrators may at their discretion, request and consider underwriting and placement information provided by the Company to the Reinsurer, as well as any correspondence exchanged by the parties that is related to this Agreement. The arbitration shall take place in Morristown, New Jersey, or at such other place as the



parties shall agree. The decision of any two arbitrators shall be in writing and shall be final and binding. The panel is empowered to grant interim relief as it may deem appropriate.

- F. The panel shall interpret this Agreement as an honorable engagement rather than as merely a legal obligation and shall make its decision considering the custom and practice of the applicable insurance and reinsurance business as promptly as possible after the hearings. Judgment upon an award may be entered in any court having jurisdiction thereof.
- G. Each party shall bear the expense of its own arbitrator and shall jointly and equally bear with the other party the cost of the third arbitrator. The remaining costs of the arbitration shall be allocated by the panel. The panel may, at its discretion, award such further costs and expenses as it considers appropriate, including but not limited to attorneys' fees, to the extent permitted by law.

**ARTICLE 25**

**SERVICE OF SUIT**

- A. This Article applies only to a Reinsurer not domiciled in the United States of America, and/or not authorized in any state, territory and/or district of the United States of America where authorization is required by insurance regulatory authorities.
- B. This Article shall not be read to conflict with or override the obligations of the parties to arbitrate their disputes as provided for in the Arbitration Article. This Article is intended as an aid to compelling arbitration or enforcing such arbitration or arbitral award, not as an alternative to the Arbitration Article for resolving disputes arising out of this Agreement.
- C. In the event of the failure of the Reinsurer to pay any amount claimed to be due hereunder, the Reinsurer, at the request of the Company, shall submit to the jurisdiction of a court of competent jurisdiction within the United States. Nothing in this Article constitutes or should be understood to constitute a waiver of the Reinsurer's rights to commence an action in any court of competent jurisdiction in the United States, to remove an action to a United States District Court, or to seek a transfer of a case to another court as permitted by the laws of the United States or of any state in the United States. The Reinsurer, once the appropriate court is selected, whether such court is the one originally chosen by the Company and accepted by the Reinsurer or is determined by removal, transfer, or otherwise, as provided for above, shall comply with all requirements necessary to give said court jurisdiction and, in any suit instituted against the Reinsurer upon this Agreement, shall abide by the final decision of such court or of any appellate court in the event of an appeal.



- D. Service of process in such suit may be made upon Bates & Carey LLP, 191 No. Wacker Drive, Chicago, Illinois 60606, who are authorized and directed to accept service of process on behalf of the Reinsurer in any such suit.
- E. Further, pursuant to any statute of any state, territory or district of the United States that makes provision therefore, the Reinsurer hereby designates the Superintendent, Commissioner or Director of Insurance, or other officer specified for that purpose in the statute, or his successor or successors in office, as its true and lawful attorney upon whom may be served any lawful process in any action, suit or proceeding instituted by or on behalf of the Company or any beneficiary hereunder arising out of this Agreement, and hereby designates the above-named as the person to whom the said officer is authorized to mail such process or a true copy thereof.

**ARTICLE 26**

**GOVERNING LAW**

This Agreement shall be governed as to performance, administration and interpretation by the laws of the State of New York, exclusive of conflict of law rules. However, with respect to credit for reinsurance, the laws of the jurisdiction having regulatory authority over the Company shall govern.

**ARTICLE 27**

**ENTIRE AGREEMENT; MODIFICATION**

This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof, sets forth all of the duties and obligations between the Company and the Reinsurer and supersedes any and all prior or contemporaneous written agreements with respect to matters referred to in this Agreement. This Agreement may not be modified or changed except by an amendment to this Agreement in writing signed by both parties.

**ARTICLE 28**

**SEVERABILITY**

If any provision of this Agreement shall be rendered illegal or unenforceable by the laws regulations or public policy of any state, such provision shall be considered void in such state, but this shall not affect the validity or enforceability of any other provision of the Agreement or the enforceability of such provision in any other jurisdiction.



**ARTICLE 29**

**FEDERAL EXCISE TAX**

The Reinsurer has agreed, for the purpose of paying the Federal Excise Tax, to allow to the Company the applicable percentage of the premium payable hereon (as imposed under Section 4371 of the Internal Revenue Code) to the extent such premium is subject to the Federal Excise Tax. The Company shall withhold from any premium due Reinsurer the applicable Federal Excise Tax and shall pay such Tax.

In the event of any return premium becoming due hereunder, the Reinsurer will deduct the applicable percentage from the return premium payable hereon and the Company or its Agent shall take steps to recover the Federal Excise Tax from the United States Government.



**ARTICLE 30**

**EXECUTION IN COUNTERPART**

This Agreement may be executed in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

**IN WITNESS WHEREOF** the parties hereto, by their respective duly authorized officers, have executed this Agreement as of the dates recorded:

**AMERINST INSURANCE COMPANY LIMITED  
(The "Reinsurer")**

By: \_\_\_\_\_  
 Stuart Grayston  
 President

Dated: \_\_\_\_\_

**THE NORTH RIVER INSURANCE COMPANY**

**UNITED STATES FIRE INSURANCE COMPANY**

**CRUM & FORSTER INDEMNITY COMPANY**

**CRUM AND FORSTER INSURANCE COMPANY**

**CRUM & FORSTER SPECIALTY INSURANCE COMPANY**

By: \_\_\_\_\_  
 Donald R. Fischer  
 Senior Vice President

Dated: \_\_\_\_\_



**Exhibit 31.1**

**CERTIFICATION PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Stuart Grayston, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AmerInst Insurance Group, Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2009

/s/ STUART GRAYSTON  
Stuart Grayston  
President (Principal Executive Officer)





Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002

I, Thomas R. McMahon, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AmerInst Insurance Group, Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2009

/s/ THOMAS R. MCMAHON

Thomas R. McMahon

Vice President (Principal Financial Officer)



**Exhibit 32.1**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of AmerInst Insurance Group, Ltd. (the "Company") on Form 10-Q for the period ended September 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stuart Grayston, President and Principal Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ STUART GRAYSTON

\_\_\_\_\_  
Stuart Grayston  
President (Principal Executive Officer)  
November 13, 2009



**Exhibit 32.2**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of AmerInst Insurance Group, Ltd. (the "Company") on Form 10-Q for the period ended September 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas R. McMahon, Vice President and Principal Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ THOMAS R. MCMAHON

Thomas R. McMahon  
Vice President (Principal Financial Officer)  
November 13, 2009