

# Advancing with Technology

```
elif _operation == "MIRROR_Y":  
    mirror_mod.use_x = False  
    mirror_mod.use_y = True  
    mirror_mod.use_z = False  
elif _operation == "MIRROR_Z":  
    mirror_mod.use_x = False  
    mirror_mod.use_y = False  
    mirror_mod.use_z = True  
  
#selection at the end -add back the deselected mirror modifier object  
mirror_ob.select= 1  
modifier_ob.select=1  
bpy.context.scene.objects.active = modifier_ob  
print("Selected" + str(modifier_ob)) # modifier ob is the active ob  
#mirror_ob.select = 0  
#me = bpy.context.selected_objects[0]  
#me.data.objects[me.name].select = 1
```

29<sup>th</sup> ANNUAL REPORT

# AmerInst

INSURANCE  
GROUP, LTD.



*Protection  
for  
Generations of  
Professional  
Firms*

## ▶ CORPORATE PROFILE

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

## ▶ DIRECTORS

IRVIN F. DIAMOND  
CPA  
Senior Principal  
REDW Business & Financial  
Resources, LLC

JEFFRY I. GILLMAN  
CPA  
President  
Gillman, Shapiro & Dillemath, P. A.

STUART H. GRAYSTON  
Retired Insurance Executive

JEROME A. HARRIS  
CPA  
Managing Partner  
Harris Consulting Group, LLC

DAVID R. KLUNK  
CPA  
Partner  
Reinsel Kuntz Leshner LLP

THOMAS B. LILLIE  
CPA  
Director  
Lewis and Knopf, P.C.

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

## ▶ OFFICERS

Chairman  
IRVIN F. DIAMOND

Vice Chairman  
JEROME A. HARRIS

President  
STUART H. GRAYSTON

Chief Financial Officer & Treasurer  
THOMAS R. McMAHON

Secretary  
MALICIA V. BREMAR

Assistant Secretary  
ST. GEORGE'S SERVICES LIMITED

Assistant Secretary  
DAVID N. THOMPSON

Chairman Emeritus  
RONALD S. KATCH

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# CHAIRMAN'S REPORT

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## My fellow shareholders...

In 2016 we focused on strategic growth while strengthening our balance sheet and increasing our footprint in the professional liability insurance market. Net premiums earned rose 31.4% for the fiscal year ending December 31, 2016. This was largely attributable to a higher volume of underwriting activity and increased penetration in targeted markets from our wholly-owned subsidiary, AmerInst Professional Services, Limited ("APSL").

We continue to make steady progress relative to our long-term goals of providing professional liability insurance to small and mid-sized firms. Last year, total program premiums for accountants and lawyers were \$16 million compared to \$12.18 million in 2015. Our renewal rate for expiring policies exceeded 94% for the same period – a clear indicator that more firms are taking advantage of our online short-form renewal process that takes only minutes to complete. One click provides a reminder when it is time to renew – making it easier for firms to ensure they have the protection they need.

### COMMITTED TO SIMPLIFYING INSURANCE

Policyholders also have a wealth of other options through our comprehensive programs. They can experience

electronic signature processing, pay premiums online and manage their accounts with our innovative, customized tools. A streamlined web-based process includes online access to policy information in "real time," as well as superior claims, loss control and risk management services. For those who prefer a more personalized approach, in-house licensed professional liability specialists are available to answer questions and work with firms to enhance the quality of the user experience.

Building relationships that nurture and grow through loyalty and trust are essential in today's complex business environment. Balancing overall risk and return requires flexibility, openness and a willingness to take on new challenges. The critical ingredient is delivering the highest level of consistency, quality and service.

APSL is the exclusive agent for Crum & Forster Enterprise, part of Fairfax Financial Holdings Limited, which is comprised of leading and well-established property and casualty businesses ([www.cfins.com](http://www.cfins.com)). Licensed in all 50 U.S. states and the District of Columbia, APSL is committed to serving the needs of its customers by leveraging its knowledge, expertise and relationships in professional liability insurance. ►



## ►CHAIRMAN'S REPORT

### OUR DIVIDEND POLICY

We paid semi-annual dividends in March and September 2016 of \$0.25 per share. This marks the 63rd consecutive dividend that AmerInst Insurance Group has declared and recognizes our long-term commitment to shareholders. At the board meeting following the 2016 Annual General Meeting, we decided that future dividends would be considered by the Board at each future Annual General Meeting, including the next meeting on June 1, 2017. Any declared dividends will be paid once a year – shortly after the meeting – rather than twice a year as is the current practice. Paying dividends once a year, rather than twice, will reduce our preparation time and mailing costs by 50%. As in the past, the declaration and payment of dividends in the future, if any, will remain subject to our compliance with applicable legal and regulatory requirements.

### DELIVERING ON OUR PROMISE

The future of the insurance industry is based on technological change and digital innovation. We continue to upgrade our technology and focus on further enhancements to support our vision of providing a competitively priced product

to the small business segment that we serve. This includes building our distribution channels and enhancing our processing to be more customer intuitive.

The enclosed brochure, sent with our compliments, provides a brief introduction to the Protexure Accountants' program for solo practitioners and small firms. To learn more about the attractive features and how they can work for you, visit: [www.protexureaccountants.com](http://www.protexureaccountants.com) or [www.protecturelawyers.com](http://www.protecturelawyers.com).

On behalf of the Board, I want to thank you for your support and for choosing us for your professional liability protection.

Sincerely,



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

This Chairman's Letter contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, among others, statements about our beliefs, plans, objectives, goals, expectations, estimates and intentions that are subject to significant risks and uncertainties and are subject to change based on various factors, many of which are beyond our control. The words "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan," "target," "goal," and similar expressions are intended to identify forward-looking statements, as well as specific statements regarding (i) our ability to continue meeting our obligations to policyholders and shareholders, (ii) the progress and high percentage of policy renewals with our accountants' and lawyers' professional liability programs, and (iii) our ability to declare and pay dividends to our shareholders in the future. Some or all of the events or results anticipated by these forward-looking statements may not occur. Factors that could cause actual results to differ materially include difficult economic conditions and unexpected changes in insurance laws and regulations. Additional risk factors related to AmerInst and an investment in our common stock are contained in our filings with the Securities and Exchange Commission, including our annual report on Form 10-K for the year ended December 31, 2016. AmerInst does not undertake any duty nor does it intend to update the results of these forward-looking statements.

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# RESULTS FOR THE YEAR

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► We recorded net income of \$1,471,323 in 2016 compared to a net loss of \$1,396,484 in 2015. The increase in net income was mainly attributable to the increase in commission income from \$3,093,980 in 2015 to \$4,044,726 in 2016 as a result of a higher volume of premiums written under the Agency Agreement and to the increase in realized gains on investments net of impairment from \$195,796 for the year ended December 31, 2015 to \$2,555,767 for the year ended December 31, 2016 as a result of increased sales of equity securities in an unrealized gain position during 2016 compared to 2015. This was partially offset by the increase in operating and management expenses from \$4,765,725 in 2015 to \$5,211,450 in 2016, as discussed in further detail below.

Our net premiums earned were \$7,124,066 for the year ended December 31, 2016 compared to \$5,423,599 for the year ended December 31, 2015, an increase of \$1,700,467 or 31.4%. The net premiums earned during 2016 and 2015 were attributable to net premium cessions from C&F under the Reinsurance Agreement. The increase in net premiums earned under the Reinsurance Agreement resulted from increased cessions from C&F in 2016, arising from a higher volume of underwriting activity under the Agency Agreement. The continued marketing of the program by APSL resulted in increased penetration in targeted markets.

For the years ended December 31, 2016 and 2015, we recorded commission income under the Agency Agreement of \$4,044,726 and \$3,093,980, respectively, an increase of \$950,746 or 30.7%. This increase resulted from a higher volume of premiums written under the Agency Agreement in 2016.

We recorded net investment income of \$277,537 for the year ended December 31, 2016 compared to \$256,270 for the year ended December 31, 2015, an increase of \$21,267 or 8.3%. The increase in net investment income was due to (i) the increase in dividend income, which was attributable to higher yielding equity securities held in the Company's investment portfolio during 2016 compared 2015 and (ii) the increase in interest income, which is attributable to the increase in the investment portfolio due to the purchase of fixed income securities during 2016. Annualized investment yield, calculated as total interest and dividends divided by the net average amount of total investments and cash and cash equivalents, was 1.0% in 2016 and 2015.

As of December 31, 2016, our total investments were \$26,527,965, an increase of \$4,133,934 or 18.5%, from \$22,394,031 at December 31, 2015. This increase was primarily due to the increase in the fair value of certain equity securities as a result of favorable market conditions and to the purchase of additional equity securities and fixed income securities with net premiums received under the Reinsurance Agreement. The cash and cash equivalents balance increased from \$3,073,747 at December 31, 2015 to \$4,631,709

at December 31, 2016, an increase of \$1,557,962 or 50.7%. The amount of cash and cash equivalents varies depending on the maturities of fixed term investments and on the level of funds invested in money market funds. The restricted cash and cash equivalents balance decreased from \$608,370 at December 31, 2015 to \$23,392 at December 31, 2016, a decrease of \$584,978 or 96.2%. The decrease is due to the timing of sales and maturities of investments held as restricted cash at December 31, 2016 that have been reinvested. Other invested assets decreased from \$980,000 at December 31, 2015 to \$490,000 at December 31, 2016, a decrease of \$490,000 or 50%. This decrease was due to the maturity of certain other invested assets.

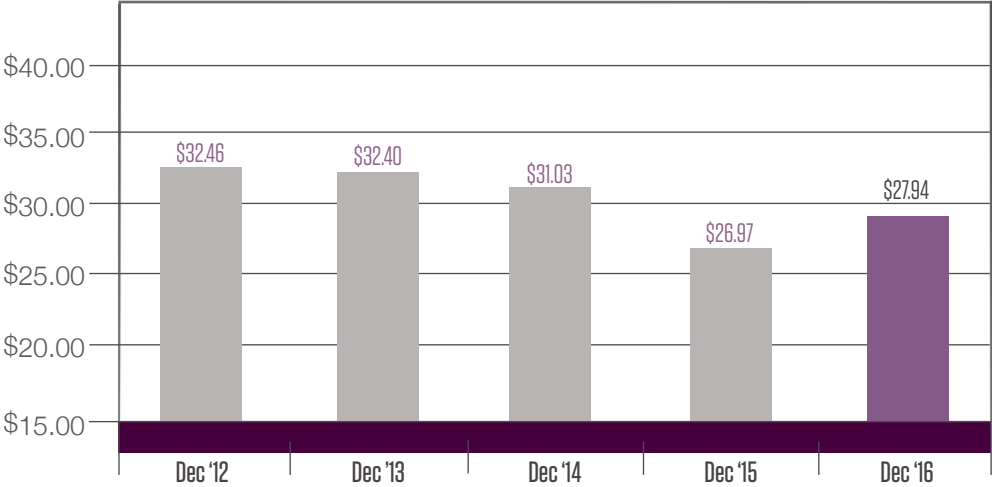
Our losses and loss adjustment expenses increased by 30.3% to \$4,683,409 in 2016 from \$3,593,663 in 2015. The increase in the 2016 amount is mainly attributable to the increase in current year losses and loss adjustment expenses under the Reinsurance Agreement due to increased cessions from C&F, as discussed above. Our loss ratio under the Reinsurance Agreement, calculated as the ratio of losses and loss adjustment expenses to net premiums earned, was 65.7% in 2016 and 66.3% in 2015. The decrease in this loss ratio was primarily the result of losses during the year ended December 31, 2016 continued to emerge at levels consistent with expectations, as discussed in more detail on page 25 under the caption "Losses and Loss Adjustment Expenses."

We recorded policy acquisition costs of \$2,635,914 for the year ended December 31, 2016 compared to policy acquisition costs of \$2,006,741 for the year ended December 31, 2015. Policy acquisition costs, which are primarily ceding commissions paid to the ceding insurer, are established as a percentage of premiums written; therefore, any increase or decrease in premiums written will result in a similar increase or decrease in policy acquisition costs. The policy acquisition costs recorded for the years ended December 31, 2016 and 2015 were 37% of the premiums earned under the Reinsurance Agreement of \$7,124,066 and \$5,423,599, respectively.

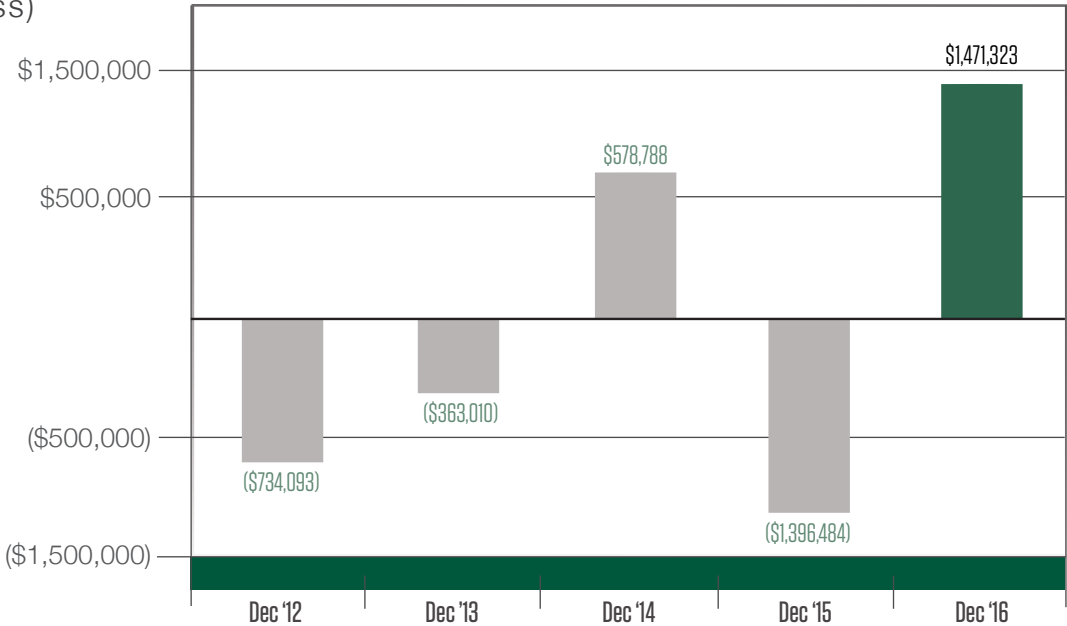
The Company incurred operating and management expenses of \$5,211,450 for the year ended December 31, 2016 compared to \$4,765,725 for the year ended December 31, 2015, an increase of \$445,725 or 9.4%. The increase was primarily attributable to increased net commissions paid to outside brokers in association with the Agency Agreement during 2016 compared to 2015.

The book value per share of the Company's outstanding shares at December 31 was \$27.94 per share in 2016 and \$26.97 per share in 2015. The Company paid dividends during 2016 totaling \$305,759 consisting of semiannual dividends paid in March and September of \$.25 per share.

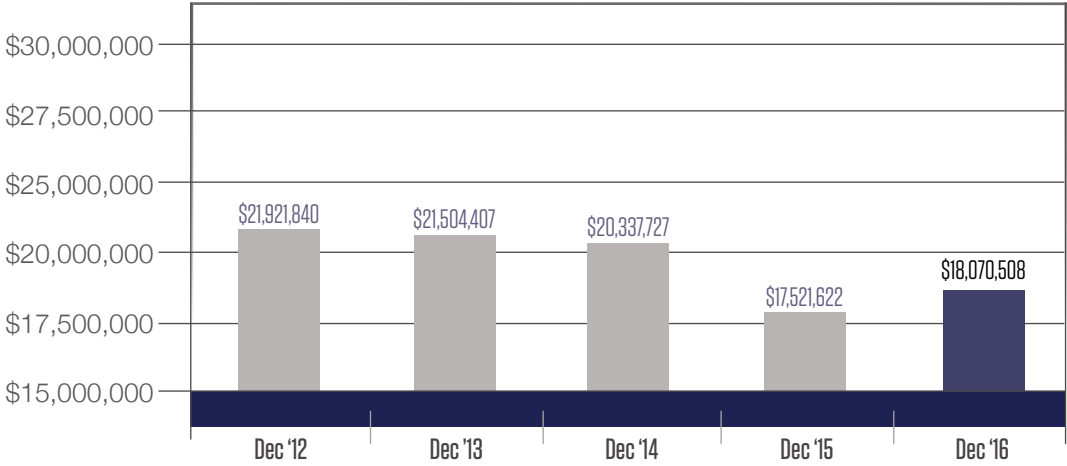
## BOOK VALUE ▼ per share



## NET INCOME ▼ (loss)



## STOCKHOLDERS' ▼ equity





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

**FORM 10-K**

(Mark One)

**Annual report pursuant to section 13 or 15 (d) of the Securities Exchange Act of 1934**  
For the fiscal year ended December 31, 2016

or

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

**000-28249**

(Commission file number)

**AMERINST INSURANCE GROUP, LTD.**

(Exact Name of Registrant as Specified in its Charter)

BERMUDA

(State or other jurisdiction of  
Incorporation or Organization)

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

98-0207447  
(I.R.S. Employer  
Identification No.)

HM GX  
(Zip Code)

(441) 295-6015

(Registrant's telephone number)

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

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

**COMMON SHARES, PAR VALUE \$1.00 PER SHARE**

(Title of class)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check is a smaller reporting company)

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

As of March 1, 2017, the registrant had 995,253 common shares, \$1.00 par value per share outstanding. The aggregate market value of the common stock held by non-affiliates of the Registrant as of the last business day of the Registrant's most recently completed second fiscal quarter was \$17,145,354 based on book value as of June 30, 2016.

**Documents Incorporated by Reference**

**Incorporated  
By Reference  
In Part No.**

Portions of the Company's Proxy Statement in connection with the Annual General Meeting of Shareholders to be held on June 1, 2017 .....

III

AMERINST INSURANCE GROUP, LTD.

Annual Report on Form 10-K  
For the year ended December 31, 2016

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## Introductory Note

### *Caution Concerning Forward-Looking Statements*

Certain statements contained in this Form 10-K, or otherwise made by our officers, including statements related to our future performance, 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," "could," "should," "would," "estimate," "anticipate," "intend," "plan," "target," "goal" and similar expressions as they relate to us or our management are intended to identify forward-looking statements. Such statements reflect our management's current views with respect to future events and are subject to certain risks, uncertainties and assumptions that could cause actual results to differ materially from those reflected in any forward-looking statements. Our actual future results may differ materially from those set forth in our forward-looking statements. Factors that might cause such actual results to differ materially from those reflected in any forward-looking statements include, but are not limited to the factors discussed in detail in Part I, Item 1A. "Risk Factors" and Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-K, as well as:

- our ability to generate increased revenues and positive earnings in future periods;
- the occurrence of catastrophic events with a frequency or severity exceeding our expectations;
- the legislative and administrative impact of the new presidency administration on our business;
- subjection of our non-U.S. companies to regulation and/or taxation in the United States;
- a decrease in the level of demand for professional liability insurance and reinsurance or an increase in the supply of professional liability insurance and reinsurance capacity;
- our ability to meet the performance goals and metrics set forth in our business plan without a significant depletion of our cash resources while maintaining sufficient capital levels;
- a worsening of the current global economic market conditions and changing rates of inflation and other economic conditions;
- the effects of security breaches, cyber-attacks or computer viruses that may affect our computer systems or those of our customers, third-party managers and service providers;
- increased competitive pressures, including the consolidation and increased globalization of reinsurance providers;
- actual losses and loss expenses exceeding our loss reserves, which are necessarily based on the actuarial and statistical projections of ultimate losses;
- increased or decreased rate pressure on premiums;
- adequacy of our risk management and loss limitation methods;
- the successful integration of businesses we may acquire or new business ventures we may start;
- acts of terrorism, political unrest, outbreak of war and other hostilities or other non-forecasted and unpredictable events;
- compliance with and changes in the legal or regulatory environments in which we operate; and
- other risks, including those risks identified in any of our other filings with the Securities and Exchange Commission.

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

## PART I

### Item 1. Business

#### *General*

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

AmerInst Insurance Group, Ltd., a Bermuda holding company, was formed in 1998. Our mission is to be a company that provides insurance protection for professional service firms and engages in investment activities. AmerInst has two operating segments: (1) reinsurance activity, which includes investments and other related activities, and (2) insurance activity, which offers professional liability solutions to professional service firms. The revenues of the reinsurance activity operating segment and the insurance activity operating segment were \$9,954,786 and \$4,047,310 for the year ended December 31, 2016 compared to \$5,873,847 and \$3,095,798 for the year ended December 31, 2015, respectively. The revenues for both operating segments were derived from business operations in the United States, other than interest income on bank accounts maintained in Bermuda.

#### *Entry into Agency Agreement*

On September 25, 2009, APSL entered into an agency agreement (the “Agency Agreement”) with The North River Insurance Company, United States Fire Insurance Company, Crum & Forster Indemnity Company, Crum and Forster Insurance Company, and Crum & Forster Specialty Insurance Company (collectively, “C&F”) pursuant to which C&F appointed APSL as its exclusive agent for the purposes of soliciting, underwriting, quoting, binding, issuing, cancelling, non-renewing and endorsing accountants’ professional liability and lawyers’ professional liability insurance coverage in all 50 states of the United States and the District of Columbia. The initial term of the Agency Agreement was for four years with automatic one-year renewals thereafter. The Agency Agreement automatically renewed on September 25, 2016.

#### *Entry into Reinsurance Agreement*

We conduct our reinsurance business through AMIC Ltd., our subsidiary, which is a registered insurer in Bermuda. On September 25, 2009, AMIC Ltd. entered into a professional liability quota share agreement with C&F (the “Reinsurance Agreement”) pursuant to which C&F agreed to cede, and AMIC Ltd. agreed to accept as reinsurance, a 50% quota share of C&F’s liability under insurance written by APSL on behalf of C&F and classified by C&F as accountants’ professional liability and lawyers’ professional liability, subject to AMIC Ltd.’s surplus limitations. The term of the Reinsurance Agreement is continuous and may be terminated by either party upon at least 120 days’ prior written notice.

#### *Historical Relationship with CAMICO*

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

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

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

Citadel Management Bermuda Limited (formerly Cedar Management Limited) provides the day-to-day services necessary for the administration of our business. Our agreement with Citadel Management Bermuda Limited renewed for one year beginning January 1, 2017 and ending December 31, 2017. Mr. Thomas R. McMahon, our Treasurer and Chief Financial Officer, is a shareholder, officer, director and employee of Citadel Management Bermuda Limited. Mr. Stuart Grayston, our President, was formerly a director and officer of Cedar Management Limited.

Lawrence Carlson, a certified public accountant and an independent contractor, provides the primary accounting functions to APSL. Our agreement with him, which was effective January 1, 2013, was terminated on December 31, 2016. On January 1, 2017, Mr. Carlson entered into an employment agreement with APSL.

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 Tower Wealth Managers, Inc. provide discretionary investment advice with respect to our equity investments. We have retained Oliver Wyman, an independent casualty actuarial consulting firm, to render advice regarding actuarial matters.

### ***Competition***

Our main competition comes from brokers and agents that service accountants and attorneys. For accountants, our primary insurance company competitors are CNA and CAMICO. In the lawyer professional liability insurance area, there are several competitors including CNA, Hanover, Travelers, Allied World and State Bar programs. The primary differentiating factors of competition in our industry are based on price and quality of service. We believe that our focus on providing high-quality service to small- and medium-sized firms distinguishes us from larger competitors that may not be able to provide the same level of personalized service to clients.

### ***Licensing and Regulation***

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

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

APSL, a subsidiary of Mezco and a managing general underwriter responsible for offering professional liability solutions to professional service firms has received regulatory approval to act as an insurance agent in 50 states and the District of Columbia.

### ***Bermuda Regulation***

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

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

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

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

The Insurance Act provides that the statutory assets of an insurer must exceed its statutory liabilities by an amount greater than the prescribed minimum solvency margin. Pursuant to the Insurance Act, AMIC Ltd. is registered as a Class 3A insurer and, as such: (i) is required to maintain a minimum solvency margin equal to the greatest of: (w) \$1,000,000, (x) 20% of net premiums written in its current financial year up to \$6,000,000 plus 15% of net premiums written in its current financial year over \$6,000,000, (y) 15% of loss reserves, or (z) 25% of the enhanced capital requirement (“ECR”), which the applicable ECR is established by reference to either the Bermuda Solvency Capital Requirement, which employs a standard mathematical model that can relate more accurately the risks taken on by insurers to the capital that is dedicated to their business, or a BMA-approved internal capital model. In 2016, the BMA implemented an Economic Balance Sheet (“EBS”) framework which was used as the basis to determine the ECR. The required and available statutory capital and surplus as at December 31, 2016 are based on this EBS framework ; (ii) is required to file annually with the BMA a statutory financial return together with a copy of its statutory financial statements which includes a report of the independent auditor concerning its statutory financial statements, the capital and solvency return, a statutory declaration of compliance, an opinion of a loss reserve specialist in respect of its loss and loss expense provisions and audited annual financial statements or audited condensed financial statements prepared in accordance with U.S. GAAP or IFRS, all within four months following the end of the relevant financial year; (iii) is prohibited from declaring or paying any dividends during any financial year if it is in breach of its minimum solvency margin or minimum liquidity ratio or if the declaration or payment of such dividends would cause it to fail to meet such margin or ratio (if it fails to meet its minimum solvency margin or minimum liquidity ratio on the last day of any financial year, it will be prohibited, without the approval of the BMA, from declaring or paying any dividends during the next financial year); (iv) is prohibited, without the approval of the BMA, from reducing by 15% or more its total statutory capital, as set out in its previous year’s financial statements; and (v) if it appears to the BMA that there is a risk of AMIC Ltd. becoming insolvent or that AMIC Ltd. is in violation of the Insurance Act or any conditions imposed upon AMIC Ltd.’s registration, the BMA may, in addition to the restrictions specified above, direct it not to declare or pay any dividends or any other distributions or may restrict AMIC Ltd. from making such payments to such extent as the BMA deems appropriate.

All Class 3A insurers are also required to maintain available statutory capital and surplus at a level equal to or in excess of their ECR. The applicable ECR is established as discussed above.

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

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

If it appears to the BMA that there is a risk of an insurer becoming insolvent, or if the insurer is in violation of the Insurance Act or the regulations thereunder or of any condition imposed on its registration as an insurer, the BMA may direct the insurer in certain respects, including not to take on any new insurance business; not to vary any insurance contract if the effect would be to increase the insurer's liabilities; not to make certain investments; to realize certain investments; to maintain in, or transfer to and to keep in the custody of, a specified bank, certain assets; not to declare or pay any dividends or other distributions or to restrict the making of such payments; and/or to limit its premiums.

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

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

AMIC Ltd.'s ability to pay dividends to AmerInst is subject to the provisions of the Bermuda insurance and companies laws and the requirement to provide the ceding companies with collateral. Under the Companies Act, AMIC Ltd. would be prohibited from declaring or paying a dividend at December 31, 2016 if such payment would reduce the realizable value of its assets to an amount less than the aggregate value of its liabilities, issued share capital, and share premium accounts. As of December 31, 2016, approximately \$35.9 million was available for the declaration of dividends to shareholders. However, due to the requirement to provide the ceding companies with collateral, approximately \$22.7 million was available for the payment of dividends to the shareholders. In addition, AMIC Ltd. must be able to pay its liabilities as they become due in the ordinary course of its business after the payment of a dividend. Our ability to pay dividends to our shareholders and to pay our operating expenses is dependent on cash dividends from our subsidiaries. The payment of such dividends by AMIC Ltd., including its subsidiary Investco, to us is also limited under Bermuda law by the Insurance Act and Related Regulations which require that AMIC Ltd. maintain minimum levels of solvency and liquidity as described above. For the years ended December 31, 2016 and 2015 these requirements have been met as follows:

	<b>Statutory Capital &amp; Surplus</b>		<b>Relevant Assets</b>	
	<u>Minimum</u>	<u>Actual</u>	<u>Minimum</u>	<u>Actual</u>
December 31, 2016 .....	\$1,497,580	\$37,448,998	\$22,119,254	\$22,119,254
December 31, 2015 .....	\$1,234,565	\$34,896,907	\$19,584,436	\$19,584,436

As stated above, AMIC Ltd. has received the BMA's approval for the utilization of its investment in Investco as a relevant asset up to an aggregate amount sufficient to meet and maintain the minimum liquidity ratio.

#### ***Customers***

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

#### ***Employees***

At December 31, 2016, APSL had 25 employees, 21 full-time salaried employees and 4 employees who are paid hourly wages. Neither AmerInst, nor any of our other subsidiaries have any employees. See the section of this Form 10-K captioned "Third-party Managers and Service Providers" on page 5 of this Annual Report on Form 10-K for further information.

#### ***Loss Reserves***

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

#### ***Seasonality***

We do not believe that either of our operating segments are seasonal in nature to a material degree.

#### ***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 also 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 Citadel Management Bermuda Limited, 25 Church Street, Continental Building, P.O. Box HM 1601, Hamilton, Bermuda HMGX, Attention: Investor Relations (441) 295-6015. The information on our internet site is not incorporated by reference into this report.

#### **Item 1A. Risk Factors**

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

***We have incurred net losses before net realized gains in investments in 2016 and 2015 and may incur further net losses before net realized gains in investments if we are unable to generate significant net income under our existing agency and reinsurance agreements.***

We incurred net losses before net realized gains on investments of \$1.1 million and \$1.6 million for the years ended December 31, 2016 and December 31, 2015, respectively, due mainly to the costs incurred in the development of and implementation of our business plan.

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

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

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

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

***United States Legislative and administrative action may affect our business.***

The newly elected President of the United States has called for substantial change to several regulations and policies, including comprehensive tax reform. We cannot predict the impact, if any, of these changes to our business. However, it is possible that these changes could adversely affect our business. It is likely that some policies adopted by the new administration will benefit us and others will negatively affect us. Until we know what changes are enacted, if any, we will not know whether in total we benefit from, or are negatively affected by, the changes.

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

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

We believe that our non-U.S. companies have operated and will continue to operate their respective businesses in a manner that will not cause them to be subject to U.S. tax (other than U.S. federal excise tax on insurance and reinsurance premiums and withholding tax on specified investment income from U.S. sources) on the basis that none of them are engaged in a U.S. trade or business. However, there are no definitive standards under current law as to those activities that constitute a U.S. trade or business and the determination of whether a non-U.S. company is engaged in a U.S. trade or business is inherently factual. Therefore, it is possible that the U.S. Internal Revenue Service might contend that one or more of our non-U.S. companies is engaged in a U.S. trade or business. If AMIC Ltd. or any of our other non-U.S. companies is engaged in a U.S. trade or business and does not qualify for benefits under the applicable income tax treaty, such company may be subject to (i) U.S. federal income taxation at regular corporate rates on its premium income from U.S. sources and investment income that is effectively connected with its U.S. trade or business, and (ii) a U.S. federal branch profits tax at the rate of 30% on the earnings and profits attributable to such income. All of the premium income from U.S. sources and a significant portion of such company's investment income may be subject to U.S. federal income and branch profits taxes.

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

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

***We participate in a potentially unprofitable, unstable industry.***

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

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

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

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

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

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

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

***Your ownership of our shares does not guarantee insurance coverage.***

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

***There is no market for our shares and our shares may be subject to restrictions on transfer.***

There is currently no market for our common shares and it is unlikely that a market will develop. Our common shares are not listed on any stock exchange or automated quotation system. Under our Bye-Laws, our

Board of Directors has the authority to prohibit all transfers of our shares. As a result, you may be required to hold your shares for an indefinite period of time.

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

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

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

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

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

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

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

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

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

Our success depends on our ability to accurately assess the risks associated with the businesses that we insure or reinsure. We establish loss reserves to cover our estimated liability for the payment of all losses and loss adjustment expenses incurred with respect to the policies we write and reinsure. Loss reserves do not represent an exact calculation of liability. Rather, loss reserves are estimates of what we expect the ultimate resolution and administration of claims will cost. These estimates are based on actuarial and statistical projections and on our assessment of currently available data, as well as estimates of future trends in claims

severity and frequency, judicial theories of liability and other factors. Loss reserve estimates are refined as experience develops and claims are reported and resolved. Establishing an appropriate level of loss reserves is an inherently uncertain process. It is therefore possible that our reserves at any given time will prove to be inadequate.

In establishing our loss reserve, we estimate our net losses based on historical and actuarial analyses of claims information. Actual losses may vary from those estimated and will be adjusted in the period in which further information becomes available. To the extent we determine that actual losses or loss expenses exceed our expectations and reserves reflected in our financial statements, we will be required to increase our reserves, through an increase in our provision for unpaid loss and loss adjustment expense, to reflect our changed expectations. Material additions to our reserves would adversely impact our net income and capital in future periods while having the effect of overstating our current period earnings.

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

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

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

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

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

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

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

Investco, our subsidiary, currently owns approximately 35.03% of our outstanding shares of common stock and has the ability to purchase additional shares. Under Bermuda law, shares owned by Investco are deemed issued and outstanding and can be voted by Investco at the direction of Investco’s board of directors, which may hinder or prohibit a change in control transaction not approved by us.

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

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

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

***Lease commitments***

APSL leases office space in Lisle, Illinois under a non-cancellable lease agreement. The lease is renewable at the option of the lessee under certain conditions. Minimum lease payments, subsequent to December 31, 2016, are as follows:

2017 .....	\$101,209
	<u>\$101,209</u>

APSL is currently negotiating for a lease extension and expects the terms to be similar to the expiring lease.

**Item 3. Legal Proceedings.**

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

**Item 4. Mine Safety Disclosures**

Not Applicable.



## PART II

### Item 5. Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

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

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

The Bermuda Monetary Authority has authorized Investco to purchase the Company’s common shares from shareholders who have died or retired from the practice of public accounting and also on a negotiated basis. Through December 31, 2016, Investco had purchased an aggregate of 191,896 common shares from shareholders who had died or retired for a total purchase price of \$5,435,736. The following table shows information relating to the purchase of shares from shareholders who have died or retired from the practice of accounting as described above during the three month period ended December 31, 2016.

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Program	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Program (1)
October 2016 .....	—	—	—	N/A
November 2016 .....	—	—	—	N/A
December 2016 .....	5,613	\$26.47	5,613	N/A
Total .....	5,613	\$26.47	5,613	N/A

(1) As stated above, it is the Company’s policy to limit Investco’s repurchase of Company stock to \$500,000 per calendar year.

From time to time, Investco has also purchased common shares in privately negotiated transactions. Through December 31, 2016, Investco had purchased an additional 75,069 common shares in such privately negotiated transactions for a total purchase price of \$1,109,025. No such transactions occurred during the three month period ended December 31, 2016.

During 2016, the directors of AmerInst were granted 2,618 shares of our common stock as part of their compensation for services rendered as members of our board of directors. The shares received were transferred to each director out of shares previously repurchased by Investco. These transfers were exempt from the registration requirements of Section 5 of the Securities Act pursuant to the exemption provided by Section 4(a)(2) thereof and Rule 506(b) of Regulation D promulgated thereunder as transfers solely involving accredited investors. AmerInst did not receive any proceeds in connection with these director stock grants nor were any underwriting discounts or commissions paid to any person in connection with these transactions.

As of December 31, 2016, there were 1,691 holders of record of our common shares. During 2016 and 2015, we paid total ordinary cash dividends of \$325,479 and \$328,263, respectively, which represented two semi-annual dividends of \$0.25 per share. During 2016, the dividend amount paid was reduced by \$19,720, which represented a write back of uncashed dividends issued prior to 2011 to shareholders that we have been unable to locate. During 2015, the total dividend amount paid was reduced by \$12,056, which represented a write back of uncashed dividends issued prior to 2010 to shareholders that we were unable to locate. The declaration of dividends by our Board of Directors is dependent upon our capacity to insure or reinsure business, profitability, financial condition, and other factors which the Board of Directors may deem appropriate. As described under “Item 1. – Business”, under Bermuda law, AMIC Ltd. is prohibited from declaring or paying any dividend to AmerInst if such payment would reduce the net realizable value of its assets to an amount less than the aggregate value of its liabilities, issued share capital and share premium accounts. In addition, AMIC Ltd. must be able to pay its liabilities as they fall due after the payment of a dividend.

#### **Item 6. Selected Financial Data**

Not applicable.

#### **Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

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

### **CAUTION CONCERNING FORWARD-LOOKING STATEMENTS**

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

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

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

## ***Business Overview***

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

AmerInst has two reportable segments: (1) reinsurance activity, which includes investments and other activities, and (2) insurance activity, which offers professional liability solutions to professional service firms. See Note 13, Segment Information, of the notes to the consolidated financial statements contained in Item 8 of this annual report on Form 10-K for financial information concerning these segments.

Our reinsurance segment had revenues of \$9,954,786 for the year ended December 31, 2016 and \$5,873,847 for the year ended December 31, 2015. Total losses and expenses for this segment were \$8,491,488 for the year ended December 31, 2016 and \$6,794,589 for the year ended December 31, 2015. This resulted in segment income of \$1,463,298 and a segment loss of \$920,742 for the years ended December 31, 2016 and 2015, respectively.

Our insurance segment had revenues of \$4,047,310 for the year ended December 31, 2016 and \$3,095,798 for the year ended December 31, 2015. Operating and management expenses were \$4,039,285 for the year ended December 31, 2016 and \$3,571,540 for the year ended December 31, 2015. This resulted in segment income of \$8,025 and a segment loss of \$475,742 for the years ended December 31, 2016 and 2015, respectively.

Our results of operations for the years ended December 31, 2016 and December 31, 2015 are discussed below.

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

## **Critical Accounting Policies**

### *Basis of Presentation*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The major estimates reflected in the Company's financial statements include but are not limited to the liability for loss and loss adjustment expenses and other than temporary impairment of investments.

### *Unpaid Losses and Loss Adjustment Expense Reserves*

The amount that we record as our liability for loss and loss adjustment expenses is a major determinant of net income each year. As discussed in more detail below under the heading "Losses and Loss Adjustment

Expenses,” the amount that we have reserved is based on actuarial estimates which were prepared as of December 31, 2016. Based on data received from the ceding companies (the insurance companies whose policies we reinsure) our independent actuary produces a range of estimates with a “low,” “central” and “high” estimate of the loss and loss adjustment expenses. As of December 31, 2016, the range of actuarially determined liability for loss and loss adjustment expense reserves was as follows: the low estimate was \$7.1 million, the high estimate was 9.7 million, and the central estimate was \$8.3 million. We selected reserves of \$8,941,991 as of December 31, 2016, which is marginally greater than the central estimate of our independent actuary. Due to our concerns about the severity and volatility of the type of business we reinsure and the length of time that it takes for claims to be reported and ultimately settled, our management’s policy has been to reserve marginally greater than the actuarial central estimate.

#### *Other than Temporary Impairment of Investments*

Declines in the fair value of investments below cost are evaluated for other than temporary impairment losses. The evaluation for other than temporary impairment losses is a quantitative and qualitative process which is subject to risks and uncertainties in the determination of whether declines in the fair value of investments are other than temporary. The risks and uncertainties include the Company’s intent and ability to hold the security, changes in general economic conditions, the issuer’s financial condition or near term recovery prospects, and the effects of changes in interest rates. AmerInst’s accounting policy requires that a decline in the value of a security below its cost basis be assessed to determine if the decline is other than temporary. If so, the security is deemed to be impaired and a charge is recorded in net realized losses equal to the difference between the fair value and the cost basis of the security. The fair value of the impaired investment becomes its new cost basis.

#### **Results of Operations**

We recorded net income of \$1,471,323 in 2016 compared to a net loss of \$1,396,484 in 2015. The increase in net income was mainly attributable to the increase in commission income from \$3,093,980 in 2015 to \$4,044,726 in 2016 as a result of a higher volume of premiums written under the Agency Agreement and to the increase in realized gains on investments net of impairment from \$195,796 for the year ended December 31, 2015 to \$2,555,767 for the year ended December 31, 2016 as a result of increased sales of equity securities in an unrealized gain position during 2016 compared to 2015. This was partially offset by the increase in operating and management expenses from \$4,765,725 in 2015 to \$5,211,450 in 2016, as discussed in further detail below.

Our net premiums earned were \$7,124,066 for the year ended December 31, 2016 compared to \$5,423,599 for the year ended December 31, 2015, an increase of \$1,700,467 or 31.4%. The net premiums earned during 2016 and 2015 were attributable to net premium cessions from C&F under the Reinsurance Agreement. The increase in net premiums earned under the Reinsurance Agreement resulted from increased cessions from C&F in 2016, arising from a higher volume of underwriting activity under the Agency Agreement. The continued marketing of the program by APSL resulted in increased penetration in targeted markets.

For the years ended December 31, 2016 and 2015, we recorded commission income under the Agency Agreement of \$4,044,726 and \$3,093,980, respectively, an increase of \$950,746 or 30.7%. This increase resulted from a higher volume of premiums written under the Agency Agreement in 2016.

We recorded net investment income of \$277,537 for the year ended December 31, 2016 compared to \$256,270 for the year ended December 31, 2015, an increase of \$21,267 or 8.3%. The increase in net investment income was due to (i) the increase in dividend income, which was attributable to higher yielding equity securities held in the Company’s investment portfolio during 2016 compared 2015 and (ii) the increase in interest income, which is attributable to the increase in the investment portfolio due to the purchase of fixed income securities during 2016. Annualized investment yield, calculated as total interest and dividends divided by the net average amount of total investments and cash and cash equivalents, was 1.0% in 2016 and 2015.

Sales of securities during the year ended December 31, 2016 resulted in realized gains on investments, net of impairment, of \$2,555,767 compared to \$195,796 during the year ended December 31, 2015, an increase of \$2,359,971 or 1205.3%. The increase in realized gains primarily related to the increased sales of equity securities in an unrealized gain position in 2016 compared to 2015.

Unrealized gain on investments was \$4,337,510 at December 31, 2015 compared to \$3,799,408 at December 31, 2016. We consider our entire investment portfolio to be available for sale and accordingly all investments are reported at fair value, with changes in net unrealized gains and losses reflected as an adjustment to accumulated other comprehensive income. The decrease in unrealized gain on investments was due primarily to the sales of equity securities in an unrealized gain position during 2016. Declines in the fair value of investments below cost are evaluated for other than temporary impairment losses. The evaluation for other than temporary impairment losses is a quantitative and qualitative process which is subject to risks and uncertainties in the determination of whether declines in the fair value of investments are other than temporary. The risks and uncertainties include changes in general economic conditions, the issuer's financial condition or near term recovery prospects, and the effects of changes in interest rates. Our accounting policy requires that a decline in the fair value of a security below its cost basis be assessed to determine if the decline is other than temporary. If so, the security is deemed to be impaired, and a charge is recorded in net realized losses equal to the difference between the fair value and the cost basis of the security. The fair value of the impaired investment becomes its new cost basis.

The composition of the investment portfolio at December 31, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
U.S. government agency securities . . . . .	5%	7%
Obligations of state and political subdivisions . . . . .	16	26
Corporate debt securities . . . . .	22	2
Equity securities (including the hedge fund) . . . . .	57	65
	<u>100%</u>	<u>100%</u>

Our losses and loss adjustment expenses increased by 30.3% to \$4,683,409 in 2016 from \$3,593,663 in 2015. The increase in the 2016 amount is mainly attributable to the increase in current year losses and loss adjustment expenses under the Reinsurance Agreement due to increased cessions from C&F, as discussed above. Our loss ratio under the Reinsurance Agreement, calculated as the ratio of losses and loss adjustment expenses to net premiums earned, was 65.7% in 2016 and 66.3% in 2015. The decrease in this loss ratio was primarily the result of losses during the year ended December 31, 2016 continued to emerge at levels consistent with expectations, as discussed in more detail on page 25 under the caption "Losses and Loss Adjustment Expenses."

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

We recorded policy acquisition costs of \$2,635,914 for the year ended December 31, 2016 compared to policy acquisition costs of \$2,006,741 for the year ended December 31, 2015. Policy acquisition costs, which are primarily ceding commissions paid to the ceding insurer, are established as a percentage of premiums written; therefore, any increase or decrease in premiums written will result in a similar increase or decrease in policy acquisition costs. The policy acquisition costs recorded for the years ended December 31, 2016 and 2015 were 37% of the premiums earned under the Reinsurance Agreement of \$7,124,066 and \$5,423,599, respectively.

The Company incurred operating and management expenses of \$5,211,450 for the year ended December 31, 2016 compared to \$4,765,725 for the year ended December 31, 2015, an increase of \$445,725 or 9.4%. The increase was primarily attributable to increased net commissions paid to outside brokers in association with the Agency Agreement during 2016 compared to 2015.

## Fair Value of Investments

The following tables show the fair value of the Company's investments in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, "Fair Value Measurements and Disclosures" as of December 31, 2016 and 2015.

	Carrying amount	Total fair value	Fair value measurement using:		
			Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
December 31, 2016					
U.S. government agency securities	\$ 1,466,806	\$ 1,466,806	\$ —	\$ 1,466,806	\$—
Obligations of U.S. state and political subdivisions	4,134,744	4,134,744		4,134,744	
Corporate debt securities	5,760,871	5,760,871		5,760,871	
Total fixed maturity investments	11,362,421	11,362,421			
Equity securities (excluding the hedge fund)	15,025,077	15,025,077	15,025,077		
Total equity securities (excluding the hedge fund)	15,025,077	15,025,077			
Hedge fund measured at net asset value (a)	140,467	140,467			
Total investments	<u>\$26,527,965</u>	<u>\$26,527,965</u>	<u>\$15,025,077</u>	<u>\$11,362,421</u>	<u>\$—</u>

	Carrying amount	Total fair value	Fair value measurement using:		
			Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
December 31, 2015					
U.S. government agency securities	\$ 1,479,386	\$ 1,479,386	\$ —	\$1,479,386	\$—
Obligations of U.S. state and political subdivisions	5,898,556	5,898,556		5,898,556	
Corporate debt securities	313,244	313,244		313,244	
Total fixed maturity investments	7,691,186	7,691,186			
Equity securities (excluding the hedge fund)	13,033,452	13,033,452	13,033,452		
Total equity securities (excluding the hedge fund)	13,033,452	13,033,452			
Hedge fund measured at net asset value (a)	1,669,393	1,669,393			
Total investments	<u>\$22,394,031</u>	<u>\$22,394,031</u>	<u>\$13,033,452</u>	<u>\$7,691,186</u>	<u>\$—</u>

- (a) In accordance with Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.



There were no transfers between Levels 1 and 2 during the years ended December 31, 2016 and 2015.

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

The Company had no planned sales of its fixed maturity investments classified as available-for-sale that were in an unrealized loss position at December 31, 2016. In assessing whether it is more likely than not that the Company will be required to sell a fixed maturity investment before its anticipated recovery, the Company considers various factors including its future cash flow requirements, legal and regulatory requirements, the level of its cash, cash equivalents, short term investments and fixed maturity investments available for sale in an unrealized gain position, and other relevant factors. For the year ended December 31, 2016, the Company did not recognize any other-than-temporary impairments due to sales.

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

If we conclude a security is other-than-temporarily impaired, we write down the amortized cost of the security to fair value, with a charge to net realized investment gains (losses) in the Consolidated Statement of Operations. Gross unrealized losses on the investment portfolio as of December 31, 2016 and December 31, 2015, relating to 16 and 11 fixed maturity securities, amounted to \$89,937 and \$18,853, respectively, and 11 and 15 equity securities, amounted to \$128,395 and \$87,838, respectively. The Company has the intent and ability to hold these securities either to maturity or until the fair value recovers above the adjusted cost. The unrealized losses on these available for sale fixed maturity securities were not as a result of credit, collateral or structural issues. As a result of the decline in fair value below cost, the Company recorded a total other-than-temporary impairment charge of \$219,417 and \$783,005 on nine and nine equity securities during the years ended December 31, 2016 and 2015, respectively.

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

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

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

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

In May 2016, the manager of our hedge fund portfolio chose to liquidate the fund and return its capital to the investors. The liquidation of the fund and the return of capital to its investors is expected to take place over a 15 month period.

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

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

At each measurement date, we estimate the fair value of the security using various valuation techniques. We utilize, to the extent available, quoted market prices in active markets or observable market inputs in estimating the fair value of our investments. When quoted market prices or observable market inputs are not available, we utilize valuation techniques that rely on unobservable inputs to estimate the fair value of investments.

The following describes the valuation techniques we used to determine the fair value of investments held as of December 31, 2016 and what level within the fair value hierarchy each valuation technique resides:

- **U.S. government agency securities:** Comprised primarily of bonds issued by the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank and the Federal National Mortgage Association. The fair values of U.S. government agency securities are priced using the spread above the risk-free U.S. Treasury yield curve. As the yields for the risk-free U.S. Treasury yield curve are observable market inputs, the fair values of U.S. government agency securities are classified as Level 2 in the 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 U.S. state and political subdivisions:** Comprised of fixed income obligations of U.S. state and local governmental municipalities. The fair values of these securities are based on quotes and current market spread relationships, and are classified as Level 2 in the fair value hierarchy. AmerInst considers that there is a liquid market for the types of securities held. Broker quotes are not used for fair value pricing.
- **Corporate debt securities:** Comprised of bonds issued by corporations. The fair values of these securities are based on quotes and current market spread relationships, and are classified as Level 2 in the fair value hierarchy. AmerInst considers that there is a liquid market for the types of securities held. Broker quotes are not used for fair value pricing.
- **Equity securities, at fair value:** Comprised primarily of investments in the common stock of publicly traded companies in the U.S. All of the Company's equities are classified as Level 1 in the 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 was to seek attractive long-term returns with lower volatility by investing in a range of diversified investment strategies. The fair value of the hedge fund is based on the net asset value of the fund as reported by the external fund manager.

As stated above, in May 2016, the manager of our hedge fund portfolio chose to liquidate the fund and return its capital to the investors. The liquidation of the fund and the return of capital to its investors is expected to take place over a 15-month period.

While we obtain pricing from independent pricing services, management is ultimately responsible for determining the fair value measurements for all securities. To ensure fair value measurement is applied consistently and in accordance with U.S. GAAP, we periodically update our understanding of the pricing methodologies used by the independent pricing services. We also challenge any prices we believe may not be representative of fair value under current market conditions. Our review process includes, but is not limited to: (i) initial and ongoing evaluation of the pricing methodologies and valuation models used by outside parties to calculate fair value; (ii) quantitative analysis; (iii) a review of multiple quotes obtained in the pricing process and the range of resulting fair values for each security, if available, and (iv) randomly selecting purchased or sold securities and comparing the executed prices to the fair value estimates provided by the independent pricing sources.

There have been no material changes to any of our valuation techniques from what was used as of December 31, 2015. Since the fair value of a financial instrument is an estimate of what a willing buyer would pay for our asset if we sold it, we will not know the ultimate value of our financial instruments until they are sold. We believe the valuation techniques utilized provide us with the best estimate of the price that would be received to sell our assets or transfer our liabilities in an orderly transaction between participants at the measurement date.

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

At December 31, 2016 and December 31, 2015, the Company had investments in certificates of deposit (“CD”) in the amount of \$490,000 and \$980,000, respectively, comprising of fully insured time deposits placed with Federal Deposit Insurance Corporation (“FDIC”) insured commercial banks and savings associations. The FDIC, an independent agency of the United States government, protects depositors up to an amount of \$250,000 per depositor, per insured institution. FDIC insurance is backed by the full faith and credit of the United States government. The stated interest rate of an FDIC insured CD varies greatly among commercial banks and savings associations, depending on the term of the CD and the institution’s need for funding. The liquidity of “marketable” CDs is marginal, even though they are assigned an FDIC number, a CUSIP number and are held in book-entry form through the Depository Trust Company. Depending on market liquidity and conditions, the bid price for an FDIC insured CD would reflect the supply of and the demand for deposits of the particular bank or savings association, as well as prevailing interest rates, the remaining term of the deposit, specific features of the CD, and compensation of the broker arranging the sale of the CD. These time deposits have maturities ranging from two to five years and are classified as other invested assets on the Company’s consolidated balance sheet.

As of December 31, 2016, our total investments were \$26,527,965, an increase of \$4,133,934 or 18.5%, from \$22,394,031 at December 31, 2015. This increase was primarily due to the increase in the fair value of certain equity securities as a result of favorable market conditions and to the purchase of additional equity securities and fixed income securities with net premiums received under the Reinsurance Agreement. The cash and cash equivalents balance increased from \$3,073,747 at December 31, 2015 to \$4,631,709 at December 31, 2016, an increase of \$1,557,962 or 50.7%. The amount of cash and cash equivalents varies depending on the

maturities of fixed term investments and on the level of funds invested in money market funds. The restricted cash and cash equivalents balance decreased from \$608,370 at December 31, 2015 to \$23,392 at December 31, 2016, a decrease of \$584,978 or 96.2%. The decrease is due to the timing of sales and maturities of investments held as restricted cash at December 31, 2016 that have been reinvested. Other invested assets decreased from \$980,000 at December 31, 2015 to \$490,000 at December 31, 2016, a decrease of \$490,000 or 50%. This decrease was due to the maturity of certain other invested assets. The ratio of cash, total investments and other invested assets to total liabilities at December 31, 2016 was 1.76:1, compared to a ratio of 2.10:1 at December 31, 2015. The decrease in the ratio was attributable to an increase in unpaid losses and loss adjustment expenses and unearned premium assumed under the Reinsurance Agreement.

Total cash, investments and other invested assets increased from \$27,056,148 at December 31, 2015 to \$31,673,066 at December 31, 2016, an increase of \$4,616,918 or 17.1%. The net increase resulted primarily from positive cash inflows in relation to net investment income and net premiums received under the Reinsurance Agreement in the amount of \$3,439,465. These increases were partially offset by net cash outflows to fund our operations and dividends of \$305,759 paid during the year.

### **Liquidity and Capital Resources**

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

The assumed reinsurance balances receivable represents the current assumed premiums receivable less commissions payable to the fronting carriers. As of December 31, 2016, the balance was \$1,285,126 compared to \$1,031,992 as of December 31, 2015. The increase resulted from a higher level of premiums assumed under the Reinsurance Agreement during 2016.

The assumed reinsurance payable represents current reinsurance losses payable to the fronting carriers. As of December 31, 2015, the balance was \$1,254,687 compared to \$269,055 as of December 31, 2015. This balance fluctuates due to the timing of reported losses.

Deferred policy acquisition costs, which represent the deferral of ceding commission expense related to premiums not yet earned, increased from \$1,066,789 at December 31, 2015 to \$1,384,915 at December 31, 2016. The increase in deferred policy acquisition costs in 2016 was due to the increase in both net premiums written and unearned premiums assumed under the Reinsurance Agreement compared to the prior year. The ceding commission rate under the Reinsurance Agreement is 37%.

Prepaid expenses and other assets were \$1,398,739 at December 31, 2016, an increase of 34.2% from December 31, 2015. The balance primarily relates to (1) prepaid directors' and officers' liability insurance costs, (2) the prepaid directors' retainer, (3) prepaid professional fees and (4) premiums due to APSL under the Agency Agreement. The increase in the balance was attributable to an increase in premiums due to APSL under the Agency Agreement. This balance fluctuates due to the timing of the prepayments and to the timing of the premium receipts by APSL.

Accrued expenses and other liabilities primarily represent premiums payable by APSL to C&F under the Agency Agreement and expenses accrued relating largely to professional fees. The balance increased from \$3,129,906 at December 31, 2015 to \$4,035,617 at December 31, 2016, an increase of \$905,711 or 28.9%. The increase in the balance was attributable to an increase in premiums payable by APSL to C&F under the Agency Agreement. This balance fluctuates due to the timing of the premium payments to C&F and payments of professional fees.

AmerInst paid two semi-annual dividends of \$0.25 per share during 2016 and 2015. During 2016, the total dividend amount was reduced by \$19,720 which represents a write back of uncashed dividends issued prior to 2011 to shareholders that we have been unable to locate. During 2015, the total dividend amount was reduced by \$12,056 which represents a write back of uncashed dividends issued prior to 2010 to shareholders that we have been unable to locate. Since AmerInst began paying consecutive dividends in 1995, our original shareholders have received approximately \$21.37 in cumulative dividends per share, which when measured by a total rate of return calculation has resulted in an effective annual rate of return of approximately 8.69% from the inception of the Company, based on a per share purchase price of \$8.33 paid by the original shareholders, and using a book value of \$27.94 per share as of December 31, 2016.

Total dividends paid were \$305,759 and \$316,207 in 2016 and 2015, respectively, net of the recorded write backs. Continuation of dividend payments is subject to the Board of Directors' continuing evaluation of our level of surplus compared to our capacity to accept more business. One of our objectives is to retain sufficient surplus to enable the successful implementation of our business plan.

AMIC Ltd.'s ability to pay dividends to AmerInst is subject to the provisions of the Bermuda insurance and companies laws and the requirement to provide the ceding companies with collateral. Under the Companies Act, AMIC Ltd. would be prohibited from declaring or paying a dividend at December 31, 2016 if such payment would reduce the realizable value of its assets to an amount less than the aggregate value of its liabilities, issued share capital, and share premium accounts. As of December 31, 2016, approximately \$35.9 million was available for the declaration of dividends to shareholders. However, due to the requirement to provide the ceding companies with collateral, approximately \$22.7 million was available for the payment of dividends to the shareholders. In addition, AMIC Ltd. must be able to pay its liabilities as they fall due after the payment of a dividend. Our ability to pay dividends to common shareholders and to pay our operating expenses is dependent on cash dividends from our subsidiaries. The payment of such dividends by AMIC Ltd., including its subsidiary Investco, to us is also limited under Bermuda law by the Insurance Act and Related Regulations which require that AMIC Ltd. maintain minimum levels of solvency and liquidity. For the years ended December 31, 2016 and 2015 these requirements have been met as follows:

	Statutory Capital & Surplus		Relevant Assets	
	Minimum	Actual	Minimum	Actual
December 31, 2016 . . . . .	\$1,497,580	\$37,448,998	\$22,119,254	\$22,119,254
December 31, 2015 . . . . .	\$1,234,565	\$34,896,907	\$19,584,436	\$19,584,436

AMIC Ltd. has received the BMA's approval for the utilization of its investment in Investco as a relevant asset up to an aggregate amount sufficient to meet and maintain the minimum liquidity ratio.

The BMA has authorized Investco to purchase the Company's common shares from shareholders who have died or retired from the practice of public accounting and on a negotiated basis. Through March 1, 2017, Investco had purchased 191,896 common shares from shareholders who had died or retired for a total purchase price of \$5,435,936. From time to time, Investco has also purchased shares in privately negotiated transactions. Through that date, Investco had purchased an additional 75,069 common shares in such privately negotiated transactions for a total purchase price of \$1,109,025.

### Losses and Loss Adjustment Expenses

The consolidated financial statements include our estimated liability for unpaid losses and loss adjustment expenses ("LAE") for our insurance operations. LAE is determined utilizing both case-basis evaluations and actuarial projections, which together represent an estimate of the ultimate net cost of all unpaid losses and LAE incurred through December 31 of each year. These estimates are subject to the effect of trends in future claim severity and frequency. The estimates are continually reviewed and, as experience develops and new information



becomes known, the liability is adjusted as appropriate, and reflected in current financial reports. The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and LAE. Future average severity is projected based on historical trends adjusted for anticipated changes in underwriting standards, policy provisions and general economic trends. These anticipated trends are monitored based on actual developments and are modified as necessary.

An actuarial review and projection was performed for us by our independent actuary as of December 31, 2016. We review the actuarial estimates throughout the year for the possible impact on our financial position. Loss reserves relate only to accountants' and attorneys' professional liability from CAMICO and Crum & Forster ("C&F") programs, and were calculated under the methodologies described below. During 2016, losses emerged at levels consistent with expectations in total for both CAMICO and C&F business.

CAMICO was a new program for the Company in 2005. The program provided professional liability coverage to accountants. To calculate the policy year ultimate losses and allocated loss adjustment expenses for CAMICO the actuary applied paid and incurred loss development, paid and incurred Bornhuetter-Ferguson, and paid and incurred Cape Cod methods to the actual CAMICO experience as of December 31, 2016. In the calculations, the actuary used CAMICO and industry benchmark paid and incurred loss and allocated loss adjustment expense development information. The a priori loss and allocated loss adjustment expense ratios used in the Bornhuetter-Ferguson method calculations were selected based on the Company's unpaid claim liability review of CAMICO experience as of December 31, 2015. Low and high scenario ultimate loss and allocated loss adjustment expense estimates were selected by the actuary based on sensitivity testing of results of the CAMICO actuarial analysis to reasonable alternative assumptions.

C&F was a new program for the Company in 2010. The program provides professional liability coverage to accountants and lawyers. To calculate the policy year ultimate losses and allocated loss adjustment expenses for C&F, the actuary applied paid and incurred loss development, paid and incurred Bornhuetter-Ferguson, and paid and incurred Cape Cod methods to the actual C&F experience as of December 31, 2016, separately for accountants and lawyers experience. In the calculations, the actuary relied on company and industry benchmark loss and allocated loss adjustment expense development patterns. The a priori loss and allocated loss adjustment expense ratios used in the Bornhuetter-Ferguson method calculations were selected based on the Company's unpaid claim liability review of C&F experience as of December 31, 2015. Low and high scenario ultimate loss and allocated loss adjustment expense estimates were selected by the actuary based on sensitivity testing of results of the C&F actuarial analysis to reasonable alternative assumptions.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements required to be disclosed under Item 303(a)(4) of Regulation S-K promulgated by the Securities and Exchange Commission.

### **Inflation**

The impact of inflation on the insurance industry differs significantly from that of other industries where large portions of total resources are invested in fixed assets, such as property, plant and equipment. Assets and liabilities of insurance companies, like other financial institutions, are virtually all monetary in nature, and therefore are primarily impacted by interest rates rather than changing prices. While the general level of inflation underlies most interest rates, interest rates react more to changes in the expected rate of inflation and to changes in monetary and fiscal policy. Therefore, we do not believe that inflation has materially impacted our results of operations.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Not applicable.



**Item 8. Financial Statements and Supplementary Data**

The financial statements required by this Item are listed below:

**INDEX TO FINANCIAL STATEMENTS AND SCHEDULES**

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Financial Statements:	
Report of Independent Registered Public Accounting Firm .....	28
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Consolidated Statements of Changes in Shareholders' Equity .....	32
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Financial Statement Schedules:

Schedules I, II, III, IV, V, and VI are omitted as they are inapplicable.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of AmerInst Insurance Group, Ltd. and subsidiaries (the “Company”) as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income (loss), changes in shareholders’ equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of AmerInst Insurance Group, Ltd. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte Ltd.

Hamilton, Bermuda  
March 31, 2017

**AMERINST INSURANCE GROUP, LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
**December 31, 2016 and 2015**  
**(expressed in U.S. dollars)**

	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
Investments (Notes 3 and 4):		
Fixed maturity investments, at fair value (amortized cost \$11,406,979 and \$7,637,599) .....	\$11,362,421	\$ 7,691,186
Equity securities, at fair value (cost \$11,321,578 and \$10,418,922) .....	15,165,544	14,702,845
<b>TOTAL INVESTMENTS</b> .....	26,527,965	22,394,031
Cash and cash equivalents .....	4,631,709	3,073,747
Restricted cash and cash equivalents .....	23,392	608,370
Other invested assets (Note 5) .....	490,000	980,000
Assumed reinsurance premiums receivable .....	1,285,126	1,031,992
Accrued investment income .....	76,975	59,342
Property and equipment (Note 6) .....	226,988	130,740
Deferred policy acquisition costs .....	1,384,915	1,066,789
Prepaid expenses and other assets .....	1,398,739	1,042,249
<b>TOTAL ASSETS</b> .....	<b>\$36,045,809</b>	<b>\$30,387,260</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Unpaid losses and loss adjustment expenses (Note 7) .....	\$ 8,941,991	\$ 6,583,474
Unearned premiums .....	3,743,006	2,883,203
Assumed reinsurance payable .....	1,254,687	269,055
Accrued expenses and other liabilities .....	4,035,617	3,129,906
<b>TOTAL LIABILITIES</b> .....	<b>\$17,975,301</b>	<b>\$12,865,638</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Common shares, \$1 par value, 2016 and 2015: 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 .....	15,379,345	14,213,781
Accumulated other comprehensive income .....	3,799,408	4,337,510
Shares held by Subsidiary (348,605 and 345,610 shares) at cost .....	(8,390,791)	(8,312,215)
<b>TOTAL SHAREHOLDERS' EQUITY</b> .....	18,070,508	17,521,622
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> .....	<b>\$36,045,809</b>	<b>\$30,387,260</b>

See accompanying notes to the consolidated financial statements.

**AMERINST INSURANCE GROUP, LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**years ended December 31, 2016 and 2015**  
**(expressed in U.S. dollars)**

	<u>2016</u>	<u>2015</u>
<b>REVENUES</b>		
Net premiums earned (Note 9) . . . . .	\$ 7,124,066	\$ 5,423,599
Commission income . . . . .	4,044,726	3,093,980
Net investment income (Note 4) . . . . .	277,537	256,270
Net realized gain on investments (Note 4) . . . . .	2,555,767	195,796
<b>TOTAL REVENUES</b> . . . . .	<u>14,002,096</u>	<u>8,969,645</u>
<b>LOSSES AND EXPENSES</b>		
Losses and loss adjustment expenses (Note 7) . . . . .	4,683,409	3,593,663
Policy acquisition costs . . . . .	2,635,914	2,006,741
Operating and management expenses (Note 10) . . . . .	5,211,450	4,765,725
<b>TOTAL LOSSES AND EXPENSES</b> . . . . .	<u>12,530,773</u>	<u>10,366,129</u>
<b>INCOME (LOSS) BEFORE TAX</b> . . . . .	<u>1,471,323</u>	<u>(1,396,484)</u>
Income tax expense (Note 11) . . . . .	—	—
<b>NET INCOME (LOSS) AFTER TAX</b> . . . . .	<u>\$ 1,471,323</u>	<u>\$ (1,396,484)</u>
<b>BASIC AND DILUTED INCOME (LOSS) PER SHARE</b> . . . . .	<u>\$ 2.26</u>	<u>\$ (2.13)</u>
Weighted average number of common shares outstanding for the year . . . . .	<u>650,203</u>	<u>655,092</u>

See accompanying notes to the consolidated financial statements.

**AMERINST INSURANCE GROUP, LTD.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**years ended December 31, 2016 and 2015**  
**(expressed in U.S. dollars)**

	<u>2016</u>	<u>2015</u>
NET INCOME (LOSS) AFTER TAX .....	\$ 1,471,323	\$(1,396,484)
OTHER COMPREHENSIVE LOSS		
Net unrealized holding gains (losses) arising during the period .....	2,017,665	(732,675)
Reclassification adjustment for (gains) included in net income (loss) .....	<u>(2,555,767)</u>	<u>(195,796)</u>
TOTAL OTHER COMPREHENSIVE LOSS .....	(538,102)	(928,471)
COMPREHENSIVE INCOME (LOSS) .....	<u>\$ 933,221</u>	<u>\$(2,324,955)</u>

See accompanying notes to the consolidated financial statements.

AMERINST INSURANCE GROUP, LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
years ended December 31, 2016 and 2015  
(expressed in U.S. dollars)

	Common Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Losses)	Shares Held by Subsidiary	Total Shareholders' Equity
BALANCE AT JANUARY 1,						
2015 .....	\$995,253	\$6,287,293	\$15,926,472	\$5,265,981	\$(8,137,272)	\$20,337,727
Net loss .....	—	—	(1,396,484)	—	—	(1,396,484)
Other comprehensive loss						
Unrealized losses on securities, net of reclassification adjustment .....	—	—	—	(928,471)	—	(928,471)
Purchase of shares by subsidiary, net .....	—	—	—	—	(174,943)	(174,943)
Dividends (\$0.50 per share) ....	—	—	(316,207)	—	—	(316,207)
BALANCE AT DECEMBER 31,						
2015 .....	<u>\$995,253</u>	<u>\$6,287,293</u>	<u>\$14,213,781</u>	<u>\$4,337,510</u>	<u>\$(8,312,215)</u>	<u>\$17,521,622</u>
Net income .....	—	—	1,471,323	—	—	1,471,323
Other comprehensive loss						
Unrealized losses on securities, net of reclassification adjustment .....	—	—	—	(538,102)	—	(538,102)
Purchase of shares by subsidiary, net .....	—	—	—	—	(78,576)	(78,576)
Dividends (\$0.50 per share) ....	—	—	(305,759)	—	—	(305,759)
BALANCE AT DECEMBER 31,						
2016 .....	<u>\$995,253</u>	<u>\$6,287,293</u>	<u>\$15,379,345</u>	<u>\$3,799,408</u>	<u>\$(8,390,791)</u>	<u>\$18,070,508</u>

See accompanying notes to the consolidated financial statements.



**AMERINST INSURANCE GROUP, LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**years ended December 31, 2016 and 2015**  
**(expressed in U.S. dollars)**

	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss) .....	\$ 1,471,323	\$(1,396,484)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of net premiums on investments .....	64,209	40,834
Depreciation and amortization on property and equipment .....	74,465	168,702
Net realized gains on sale of investments .....	(2,555,767)	(195,796)
Changes in assets and liabilities:		
Assumed reinsurance premiums receivable .....	(253,134)	(194,280)
Accrued investment income .....	(17,633)	(5,933)
Deferred policy acquisition costs .....	(318,126)	(298,530)
Prepaid expenses and other assets .....	(356,490)	(208,182)
Liability for losses and loss adjustment expenses .....	2,358,517	2,406,197
Unearned premiums .....	859,803	806,833
Assumed reinsurance payable .....	985,632	240,522
Accrued expenses and other liabilities .....	905,711	720,135
Net cash provided by operating activities .....	3,218,510	2,084,018
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Movement in restricted cash and cash equivalents .....	584,978	502,002
Purchases of property and equipment .....	(170,713)	(7,459)
Purchases of available-for-sale securities .....	(12,204,749)	(7,007,140)
Proceeds from sales of available-for-sale securities .....	6,832,764	4,085,107
Proceeds from redemptions of hedge fund investments .....	1,471,507	—
Proceeds from redemptions of fixed maturity investments .....	40,000	35,000
Proceeds from maturities of fixed maturity investments .....	2,170,000	1,150,000
Net cash used in investing activities .....	(1,276,213)	(1,242,490)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid .....	(305,759)	(316,207)
Purchase of shares by subsidiary, net .....	(78,576)	(174,943)
Net cash used in financing activities .....	(384,335)	(491,150)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS .....</b>	<b>1,557,962</b>	<b>350,378</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR .....</b>	<b>3,073,747</b>	<b>2,723,369</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR .....</b>	<b>\$ 4,631,709</b>	<b>\$ 3,073,747</b>

See accompanying notes to the consolidated financial statements.

## AMERINST INSURANCE GROUP, LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### 1. DESCRIPTION OF BUSINESS

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

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

##### *Entry into Agency Agreement*

On September 25, 2009, AmerInst Professional Services, Limited, an indirect wholly-owned subsidiary (“APSL”), entered into an agency agreement (the “Agency Agreement”) with The North River Insurance Company, United States Fire Insurance Company, Crum & Forster Indemnity Company, Crum and Forster Insurance Company, and Crum & Forster Specialty Insurance Company (collectively, “C&F”) pursuant to which C&F appointed APSL as its exclusive agent for the purposes of soliciting, underwriting, quoting, binding, issuing, cancelling, non-renewing and endorsing accountants’ professional liability and lawyers’ professional liability insurance coverage in all 50 states of the United States and the District of Columbia. The initial term of the Agency Agreement was for four years with automatic one-year renewals thereafter. The Agency Agreement automatically renewed on September 25, 2016.

##### *Entry into Reinsurance Agreement*

We conduct our reinsurance business through AMIC Ltd., our subsidiary, which is a registered insurer in Bermuda. On September 25, 2009, AMIC Ltd. entered into a professional liability quota share agreement with C&F (the “Reinsurance Agreement”) pursuant to which C&F agreed to cede and AMIC Ltd. agreed to accept as reinsurance a 50% quota share of C&F’s liability under insurance written by APSL on behalf of C&F and classified by C&F as accountants’ professional liability and lawyers’ professional liability, subject to AMIC Ltd.’s surplus limitations. The term of Reinsurance Agreement is continuous and may be terminated by either party for any reason on or not less than 120 days’ prior written notice.

##### *Historical Relationship with CAMICO*

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

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

#### 2. SIGNIFICANT ACCOUNTING POLICIES

##### *Basis of presentation*

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

## AMERINST INSURANCE GROUP, LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The major estimates reflected in the Company's financial statements include but are not limited to the liability for loss and loss adjustment expenses.

#### *Premiums*

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

#### *Deferred policy acquisition costs*

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

#### *Liability for losses and loss adjustment expenses*

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

We review the independent actuaries' reports for consistency and appropriateness of methodology and assumptions, including assumptions of industry benchmarks and discuss any concerns or changes with them. Our Underwriting Committee then considers the reasonableness of loss reserves recommended by our independent actuaries, in light of actual loss development during the year and approve the loss reserves to be recorded by AMIC Ltd.

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

#### *Investments*

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

Declines in the fair value of investments below cost are evaluated for other than temporary impairment losses. The evaluation for other than temporary impairment losses is a quantitative and qualitative process which

**AMERINST INSURANCE GROUP, LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

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

*Cash and cash equivalents*

Cash equivalents include money market funds and highly liquid debt instruments purchased with an original maturity of three months or less. Cash and cash equivalents are recorded at amortized cost, which approximates fair value due to the short-term, liquid nature of these securities.

*Property and Equipment*

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

Developmental costs for internal use software are capitalized in accordance with the provisions of the Financial Accounting Standard Board ("FASB") Accounting Standards Codification ("ASC") topic 350 "Intangibles—Goodwill and Other", generally, when the preliminary project stage is completed, management commits to funding and it is probable that the project will be completed and the software will be used to perform the functions intended. Capitalized internal use software costs are amortized on a straight-line basis over their estimated useful lives, generally for a period not to exceed 5 years.

*Income taxes*

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

*Earnings per common share*

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

*New Accounting Pronouncements*

***New Accounting Standards Adopted in 2016***

*Disclosures about Short-Duration Contracts*

In May 2015, the FASB issued Accounting Standards Update 2015-09, "Financial Services—Insurance (Topic 944): Disclosures about Short-Duration Contracts" ("ASU 2015-09"). ASU 2015-09 makes targeted

**AMERINST INSURANCE GROUP, LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

improvements to disclosure requirements for insurance companies that issue short-duration contracts. The ASU requires enhanced disclosures, on an annual basis, related to the reserve for losses and loss expenses which include (1) net incurred and paid claims development information by accident year, (2) a reconciliation of incurred and paid claims development information to the aggregate carrying amount of the reserve for losses and LAE, (3) for each accident year presented of incurred claims development, information about claim frequency (unless impracticable), and the amounts of IBNR liabilities, including expected development on reported claims, included in the reserve for losses and LAE, (4) a description of, and any significant changes to the methods for determining both IBNR and expected development on reported claims, and (5) for each accident year presented of incurred claims development, quantitative information about claims frequency, as well as a description of methodologies used for determining claim frequency information. The ASU is effective for annual periods beginning after December 15, 2015. While the adoption of this guidance impacted our disclosures, it did not have an impact on our consolidated financial statements.

*Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*

In August 2014, the FASB issued Accounting Standards Update 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern" ("ASU 2014-15"). There was no guidance under U.S. GAAP regarding management's responsibility to assess whether there is substantial doubt about an entity's ability to continue as a going concern. Under ASU 2014-15, the Company assesses its ability to continue as a going concern each interim and annual reporting period and provide certain disclosures if there is substantial doubt about the entity's ability to continue as a going concern, including management's plan to alleviate the substantial doubt. ASU 2014-15 was effective for the year ended December 31, 2016. The adoption of ASU 2014-15 did not have on a material impact on the Company's consolidated financial statements.

***Accounting Standards Not Yet Adopted***

*Revenue from Contracts with Customers*

In May 2014, the FASB issued Accounting Standards Update 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). ASU 2014-09 provides a framework, through a five-step process, for recognizing revenue from customers, improves comparability and consistency of recognizing revenue across entities, industries, jurisdictions and capital markets, and requires enhanced disclosures. Certain contracts with customers are specifically excluded from the scope of ASU 2014-09, including; amongst others, insurance contracts accounted for under Accounting Standard Codification 944, *Financial Services—Insurance*. ASU 2014-09 is effective on January 1, 2017 with retrospective adoption required for the comparative periods. The Company is currently assessing the impact the adoption of ASU 2014-09 will have on future financial statements and related disclosures.

*Recognition and Measurement of Financial Assets and Financial Liabilities*

In January 2016, the FASB issued Accounting Standards Update 2016-01, "Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"). ASU 2016-01 changes current U.S. GAAP for public entities by requiring the following, among others: (1) equity securities, except those accounted for under the equity method of accounting, to be measured at fair value with changes in fair value recognized in net income; (2) the use of the exit price when measuring fair value of financial instruments for disclosure purposes; (3) an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value; and (4) separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance

## AMERINST INSURANCE GROUP, LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

sheet or notes to the financial statements. ASU 2016-01 is effective for annual periods beginning after January 1, 2018, including interim periods. Early application is permitted. The Company has assessed that the adoption of ASU 2016-01 will have no impact on future financial statements and disclosures.

#### Financial Instruments Credit Losses—Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13, which amends the guidance on impairment of financial instruments and significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The ASU will replace the existing “incurred loss” approach, with an “expected loss” model for instruments measured at amortized cost and require entities to record allowances for available-for-sale debt securities rather than reduce the carrying amount under the existing other-than-temporary-impairment model. The ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. The ASU is effective for interim and annual reporting periods beginning after December 15, 2019.

#### Statement of Cash Flows—Restricted Cash

In November 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-18, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This ASU goes into effect for periods beginning after December 15, 2017.

#### Test for Goodwill Impairment

In January 2017, the FASB issued ASU 2017-04, which simplifies the accounting for goodwill impairments by eliminating Step 2 from the goodwill impairment test. Instead, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. The ASU is effective for any interim and annual impairment tests for periods beginning after December 15, 2019. Early adoption is permitted for any interim and annual impairment tests occurring after January 1, 2017. We do not expect the adoption of this ASU to have a material impact on our consolidated financial statements.

### 3. PLEDGED ASSETS

Pursuant to its reinsurance agreements, AMIC Ltd. is required to provide its ceding companies with collateral to secure its obligations to them. At December 31, 2016 and 2015, AMIC Ltd. provided CAMICO with a letter of credit issued by Comerica Bank with supporting investments with a carrying value of \$103,623 and \$310,407, respectively. Also, at December 31, 2016 and 2015, AMIC Ltd. has provided C&F with a Section 114 Trust, held by Comerica Bank, with restricted cash and cash equivalents and investments with a carrying value of \$11,330,173 and \$8,266,507, respectively.



**AMERINST INSURANCE GROUP, LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**4. INVESTMENTS**

The cost or amortized cost, gross unrealized holding gains and losses, and estimated fair value of fixed maturity investments, by major security type, and equity securities at December 31, 2016 and 2015 are as follows:

	<u>Cost or Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
December 31, 2016				
Fixed maturity investments:				
U.S. government agency securities . . . . .	\$ 1,462,040	\$ 6,408	\$ (1,642)	\$ 1,466,806
Obligations of U.S. states and political subdivisions . . . .	4,098,069	37,309	(634)	4,134,744
Corporate debt securities . . . . .	5,846,870	1,662	(87,661)	5,760,871
Total fixed maturity investments . . . . .	<u>11,406,979</u>	<u>45,379</u>	<u>(89,937)</u>	<u>11,362,421</u>
Equity securities . . . . .	11,235,802	3,917,670	(128,395)	15,025,077
Hedge fund . . . . .	85,776	54,691	—	140,467
Total equity securities . . . . .	<u>11,321,578</u>	<u>3,972,361</u>	<u>(128,395)</u>	<u>15,165,544</u>
Total investments . . . . .	<u>\$22,728,557</u>	<u>\$4,017,740</u>	<u>\$(218,332)</u>	<u>\$26,527,965</u>
	<u>Cost or Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
December 31, 2015				
Fixed maturity investments:				
U.S. government agency securities . . . . .	\$ 1,477,979	\$ 5,372	\$ (3,965)	\$ 1,479,386
Obligations of U.S. states and political subdivisions . . . .	5,851,938	61,506	(14,888)	5,898,556
Corporate debt securities . . . . .	307,682	5,562	—	313,244
Total fixed maturity investments . . . . .	<u>7,637,599</u>	<u>72,440</u>	<u>(18,853)</u>	<u>7,691,186</u>
Equity securities . . . . .	9,418,922	3,702,368	(87,838)	13,033,452
Hedge fund . . . . .	1,000,000	669,393	—	1,669,393
Total equity securities . . . . .	<u>10,418,922</u>	<u>4,371,761</u>	<u>(87,838)</u>	<u>14,702,845</u>
Total investments . . . . .	<u>\$18,056,521</u>	<u>\$4,444,201</u>	<u>\$(106,691)</u>	<u>\$22,394,031</u>

**AMERINST INSURANCE GROUP, LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

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

	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, 2016						
Fixed maturity investments:						
U.S. government agency securities	\$ —	\$ —	\$ 507,735	\$ (1,642)	\$ 507,735	\$ (1,642)
Obligations of states and political subdivisions	542,968	(402)	420,050	(232)	963,018	(634)
Corporate debt securities	—	—	4,549,756	(87,661)	4,549,756	(87,661)
Total fixed maturity investments	542,968	(402)	5,477,541	(89,535)	6,020,509	(89,937)
Equity securities	119,411	(6,743)	1,671,859	(121,652)	1,791,270	(128,395)
Hedge fund	—	—	—	—	—	—
Total equity securities	119,411	(6,743)	1,671,859	(121,652)	1,791,270	(128,395)
Total investments	\$662,379	\$(7,145)	\$7,149,400	\$(211,187)	\$7,811,779	\$(218,332)

As of December 31, 2016, there were twenty-seven securities in an unrealized loss position with an estimated fair value of \$7,811,779. Of these securities, six had been in an unrealized loss position for 12 months or greater. As of December 31, 2016, none of these securities were considered to be other than temporarily impaired. The Company has the intent to hold these securities and it is not more likely than not that the Company will be required to sell these securities before their fair values recover above the adjusted cost. The unrealized losses from these securities were not a result of credit, collateral or structural issues.

	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, 2015						
Fixed maturity investments:						
U.S. government agency securities	\$ —	\$ —	\$1,025,773	\$ (3,965)	\$1,025,773	\$ (3,965)
Obligations of states and political subdivisions	1,699,466	(11,744)	928,206	(3,144)	2,627,672	(14,888)
Corporate debt securities	—	—	—	—	—	—
Total fixed maturity investments	1,699,466	(11,744)	1,953,979	(7,109)	3,653,445	(18,853)
Equity securities	141,370	(26,393)	790,698	(61,445)	932,068	(87,838)
Hedge fund	—	—	—	—	—	—
Total equity securities	141,370	(26,393)	790,698	(61,445)	932,068	(87,838)
Total investments	\$1,840,836	\$(38,137)	\$2,744,677	\$(68,554)	\$4,585,513	\$(106,691)

As of December 31, 2015, there were twenty-six securities in an unrealized loss position with an estimated fair value of \$4,585,513. Of these securities, ten had been in an unrealized loss position for 12 months or greater.

**AMERINST INSURANCE GROUP, LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

As of December 31, 2015, none of these securities were considered to be other than temporarily impaired. The Company has the intent to hold these securities and it is not more likely than not that the Company will be required to sell these securities before their fair values recover above the adjusted cost. The unrealized losses from these securities were not a result of credit, collateral or structural issues.

The cost or amortized cost and estimated fair value of fixed maturity investments at December 31, 2016 and 2015 by contractual maturity are shown below. Expected maturities may differ from contractual maturities as borrowers may have the right to call or prepay obligations without penalties.

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
December 31, 2016		
Due in one year or less . . . . .	\$ 1,455,729	\$ 1,457,201
Due after one year through five years . . . . .	8,081,777	8,089,289
Due after five years through ten years . . . . .	1,701,987	1,648,731
Due after ten years . . . . .	167,486	167,200
Total . . . . .	<u>\$11,406,979</u>	<u>\$11,362,421</u>
	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
December 31, 2015		
Due in one year or less . . . . .	\$ 1,686,728	\$ 1,688,395
Due after one year through five years . . . . .	5,550,706	5,600,089
Due after five years through ten years . . . . .	226,799	231,638
Due after ten years . . . . .	173,366	171,064
Total . . . . .	<u>\$ 7,637,599</u>	<u>\$ 7,691,186</u>

Information on sales and maturities of investments during the twelve months ended December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Total proceeds on sales of available-for-sale securities . . . . .	\$6,832,764	\$4,085,107
Total proceeds from redemptions of hedge fund investments . . . . .	1,471,507	—
Total proceeds from redemptions of fixed maturity investments . . . . .	40,000	35,000
Total proceeds from maturities of fixed maturity investments . . . . .	2,170,000	1,150,000
Gross gains on sales . . . . .	2,849,692	1,168,098
Gross losses on sales . . . . .	(74,508)	(189,297)
Impairment losses . . . . .	(219,417)	(783,005)

AMERINST INSURANCE GROUP, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Fair Value of Investments

The following tables show the fair value of the Company's investments in accordance with ASC 820, "Fair Value Measurements and Disclosures" as of December 31, 2016 and 2015.

	Carrying amount	Total fair value	Fair value measurement using:		
			Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
December 31, 2016					
U.S. government agency securities . . . . .	\$ 1,466,806	\$ 1,466,806	\$ —	\$ 1,466,806	\$—
Obligations of U.S. state and political subdivisions . . . . .	4,134,744	4,134,744		4,134,744	
Corporate debt securities . . . . .	5,760,871	5,760,871		5,760,871	
Total fixed maturity investments . . . . .	11,362,421	11,362,421			
Equity securities (excluding the hedge fund) . . . . .	15,025,077	15,025,077	15,025,077		
Total equity securities (excluding the hedge fund) . . . . .	15,025,077	15,025,077			
Hedge fund measured at net asset value <sup>(a)</sup> . . . . .	140,467	140,467			
Total investments . . . . .	\$26,527,965	\$26,527,965	\$15,025,077	\$11,362,421	\$—

	Carrying amount	Total fair value	Fair value measurement using:		
			Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
December 31, 2015					
U.S. government agency securities . . . . .	\$ 1,479,386	\$ 1,479,386	\$ —	\$ 1,479,386	\$—
Obligations of U.S. state and political subdivisions . . . . .	5,898,556	5,898,556		5,898,556	
Corporate debt securities . . . . .	313,244	313,244		313,244	
Total fixed maturity investments . . . . .	7,691,186	7,691,186			
Equity securities (excluding the hedge fund) . . . . .	13,033,452	13,033,452	13,033,452		
Total equity securities (excluding the hedge fund) . . . . .	13,033,452	13,033,452			
Hedge fund measured at net asset value <sup>(a)</sup> . . . . .	1,669,393	1,669,393			
Total investments . . . . .	\$22,394,031	\$22,394,031	\$13,033,452	\$ 7,691,186	\$—

(a) In accordance with Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

**AMERINST INSURANCE GROUP, LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

There were no transfers between Levels 1 and 2 during the years ended December 31, 2016 and 2015.

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

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

At each measurement date, we estimate the fair value of the security using various valuation techniques. We utilize, to the extent available, quoted market prices in active markets or observable market inputs in estimating the fair value of our investments. When quoted market prices or observable market inputs are not available, we utilize valuation techniques that rely on unobservable inputs to estimate the fair value of investments. The following describes the valuation techniques we used to determine the fair value of investments held as of December 31, 2015 and what level within the fair value hierarchy each valuation technique resides:

- **U.S. government agency securities:** Comprised primarily of bonds issued by the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank and the Federal National Mortgage Association. The fair values of U.S. government agency securities are priced using the spread above the risk-free U.S. Treasury yield curve. As the yields for the risk-free U.S. Treasury yield curve are observable market inputs, the fair values of U.S. government agency securities are classified as Level 2 in the 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 U.S. state and political subdivisions:** Comprised of fixed income obligations of U.S. state and local governmental municipalities. The fair values of these securities are based on quotes and current market spread relationships, and are classified as Level 2 in the fair value hierarchy. AmerInst considers that there is a liquid market for the types of securities held. Broker quotes are not used for fair value pricing.
- **Corporate debt securities:** Comprised of bonds issued by corporations. The fair values of these securities are based on quotes and current market spread relationships, and are classified as Level 2 in the fair value hierarchy. AmerInst considers that there is a liquid market for the types of securities held. Broker quotes are not used for fair value pricing.
- **Equity securities, at fair value:** Comprised primarily of investments in the common stock of publicly traded companies in the U.S. All of the Company's equities are classified as Level 1 in the fair value hierarchy. The Company receives prices based on closing exchange prices from independent pricing sources to measure fair values for the equities.

**AMERINST INSURANCE GROUP, LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

- **Hedge fund:** Comprised of a hedge fund whose objective was to seek attractive long-term returns with lower volatility by investing in a range of diversified investment strategies. The fair value of the hedge fund is based on the net asset value of the fund as reported by the external fund manager.

In May 2016, the manager of our hedge fund portfolio chose to liquidate the fund and return its capital to the investors. The liquidation of the fund and the return of capital to its investors is expected to take place over a 15-month period.

While we obtain pricing from independent pricing services, management is ultimately responsible for determining the fair value measurements for all securities. To ensure fair value measurement is applied consistently and in accordance with U.S. GAAP, we periodically update our understanding of the pricing methodologies used by the independent pricing services. We also challenge any prices we believe may not be representative of fair value under current market conditions. Our review process includes, but is not limited to: (i) initial and ongoing evaluation of the pricing methodologies and valuation models used by outside parties to calculate fair value; (ii) quantitative analysis; (iii) a review of multiple quotes obtained in the pricing process and the range of resulting fair values for each security, if available, and (iv) randomly selecting purchased or sold securities and comparing the executed prices to the fair value estimates provided by the independent pricing sources.

There have been no material changes to any of our valuation techniques from what was used as of December 31, 2015. Since the fair value of a financial instrument is an estimate of what a willing buyer would pay for our asset if we sold it, we will not know the ultimate value of our financial instruments until they are sold. We believe the valuation techniques utilized provide us with the best estimate of the price that would be received to sell our assets or transfer our liabilities in an orderly transaction between participants at the measurement date.

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

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

	<u>2016</u>	<u>2015</u>
Interest earned:		
Fixed maturity investments . . . . .	\$ 189,973	\$ 172,957
Short term investments and cash and cash equivalents . . . . .	4,546	2,028
Dividends earned . . . . .	220,868	216,637
Investment expenses . . . . .	<u>(137,850)</u>	<u>(135,352)</u>
Net investment income . . . . .	<u>\$ 277,537</u>	<u>\$ 256,270</u>

**5. OTHER INVESTED ASSETS**

At December 31, 2016 and December 31, 2015, the Company had investments in certificates of deposit (“CD”) in the amount of \$490,000 and \$980,000, respectively, comprising of fully insured time deposits placed with Federal Deposit Insurance Corporation (“FDIC”) insured commercial banks and savings associations. The FDIC, an independent agency of the United States government, protects depositors up to an amount of \$250,000



**AMERINST INSURANCE GROUP, LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

per depositor, per insured institution. FDIC insurance is backed by the full faith and credit of the United States government. The stated interest rate of an FDIC insured CD varies greatly among commercial banks and savings associations, depending on the term of the CD and the institution’s need for funding. The liquidity of “marketable” CDs is marginal, even though they are assigned an FDIC number, a CUSIP number and are held in book-entry form through the Depository Trust Company. Depending on market liquidity and conditions, the bid price for an FDIC insured CD would reflect the supply of and the demand for deposits of the particular bank or savings association, as well as prevailing interest rates, the remaining term of the deposit, specific features of the CD, and compensation of the broker arranging the sale of the CD. These time deposits mature in less than one year and are classified as other invested assets on the Company’s consolidated balance sheet.

The Company’s investments in the CD are categorized in their entirety in Level 2 of the fair value hierarchy, in accordance with ASC 820.

**6. PROPERTY AND EQUIPMENT**

Property and equipment, primarily associated with APSL, at December 31, 2016 and 2015 at cost, less accumulated depreciation and amortization, totaled \$226,988 and \$130,740, respectively as follows:

	<u>Cost</u>	<u>Accumulated Depreciation and Amortization</u>	<u>Total</u>
December 31, 2016			
Furniture and fixtures . . . . .	\$ 55,258	\$ 36,276	\$ 18,982
Office equipment . . . . .	125,515	26,300	99,215
Computer equipment . . . . .	14,427	5,477	8,950
Policy acquisition costs . . . . .	6,075	—	6,075
Internal use software . . . . .	435,583	341,817	93,766
Total . . . . .	<u>\$636,858</u>	<u>\$409,870</u>	<u>\$226,988</u>
	<u>Cost</u>	<u>Accumulated Depreciation and Amortization</u>	<u>Total</u>
December 31, 2015			
Furniture and fixtures . . . . .	\$ 55,258	\$ 28,375	\$ 26,883
Office equipment . . . . .	22,413	15,728	6,685
Computer equipment . . . . .	15,114	9,783	5,331
Internal use software . . . . .	1,071,121	979,280	91,841
Total . . . . .	<u>\$1,163,906</u>	<u>\$1,033,166</u>	<u>\$130,740</u>

**7. LIABILITY FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES**

Details of the liability for unpaid losses and loss adjustment expenses at December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Case basis estimates . . . . .	\$2,673,046	\$2,806,295
IBNR reserves . . . . .	6,268,945	3,777,179
Totals . . . . .	<u>\$8,941,991</u>	<u>\$6,583,474</u>

**AMERINST INSURANCE GROUP, LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

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

	<b>2016</b>	<b>2015</b>
Liability—beginning of year . . . . .	\$ 6,583,474	\$ 4,177,277
Incurred related to:		
Current year . . . . .	4,183,863	3,703,196
Prior years . . . . .	499,546	(109,533)
Total incurred . . . . .	4,683,409	3,593,663
Paid related to:		
Current year . . . . .	(736,649)	(224,268)
Prior years . . . . .	(1,588,243)	(963,198)
Total paid . . . . .	(2,324,892)	(1,187,466)
Liability—end of year . . . . .	\$ 8,941,991	\$ 6,583,474

As a result of the change in estimates of insured events in prior years, the provision for losses and loss adjustment expenses increased by \$499,546 in 2016 and decreased by \$109,533 in 2015. The 2016 unfavorable development was primarily due to higher than expected large loss emergence in accident year 2015, partially offset by favorable settlements on claims in accident years 2012 through 2014. The 2015 favorable development was due to better than expected loss emergence in accident year 2013.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The following tables set forth information about incurred and paid loss development information related to our professional liability business under the Reinsurance Agreement within the Reinsurance segment as at December 31, 2016. The information related to incurred and paid loss development for the years ended December 31, 2007 through 2015 is presented as supplementary information and is unaudited.

*Professional Liability*  
(dollars in thousands)

Accident Year	For the Years Ended December 31,										IBNR Reserves Dec. 31, 2016	Cumulative Number of Reported Claims
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016		
	Incurred Claims and Allocated Claim Adjustment Expense, Net of Reinsurance Unaudited											
2007	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	NA	NA	NA
2008		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	NA	NA	NA
2009			N/A	N/A	N/A	N/A	N/A	N/A	N/A	NA	NA	NA
2010				N/A	N/A	N/A	N/A	N/A	N/A	NA	NA	NA
2011					\$262	\$348	\$ 257	\$ 293	\$ 321	\$ 344	\$ 82	24
2012						702	763	393	450	429	100	75
2013							1,218	1,585	1,340	1,166	207	91
2014								2,589	2,640	2,562	698	167
2015									3,703	4,485	2,168	236
2016										4,184	2,884	272
										<u>Total</u>	<u>\$13,169</u>	

Accident Year	For the Years Ended December 31,										Liability for Claims And Allocated Claim Adjustment Expenses Net of Reinsurance		
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2011 - 2016	Before 2011	
	Paid Claims and Allocated Claim Adjustment Expense, Net of Reinsurance Unaudited												
2007	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A			
2008		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A			
2009			N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A			
2010				N/A	N/A	N/A	N/A	N/A	N/A	N/A			
2011					\$ 0	\$165	\$ 167	\$ 201	\$ 260	\$ 262			
2012						64	188	280	327	329			
2013							58	488	707	715			
2014								67	680	1,018			
2015									121	1,356			
2016										737			
										<u>Total</u>	<u>\$ 4,417</u>	<u>\$8,753</u>	
												NA	
												Net liability under Reinsurance Agreement	\$8,753
												Net liability under CAMICO	189
												Total net liability	<u>\$8,942</u>

The following is unaudited supplementary information for average annual historical duration of claims:

Years	Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance Unaudited									
	1	2	3	4	5	6	7	8	9	10
	7.1%	33.1%	13.5%	7.2%	8.7%	0.8%	N/A	N/A	N/A	N/A

## AMERINST INSURANCE GROUP, LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company has not prepared loss development tables for CAMICO, which is in run-off, as its reserves for losses and loss adjustment expenses as at December 31, 2016 of \$189,076 are not significant (2.1% of total net reserves) and therefore, presenting this information would not be meaningful. Reserves for CAMICO have been included as a reconciling item within the reconciliation of loss development information to the Company's reserves for losses and loss adjustment expenses.

The Company has accumulated claims count information by accident year from the loss bordereaux it receives each quarter under the Reinsurance Agreement. The Company's methodology for determining reported claims count information is on a per claims basis by accident year and is inclusive of claims that are open, closed with payment and closed without payment.

#### 8. SHAREHOLDERS' EQUITY

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

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

#### 9. PREMIUMS WRITTEN

Premiums written were \$7,983,869 and \$6,230,431 during 2016 and 2015, respectively. The premiums written during the year ended December 31, 2016 and 2015 were attributable to premium cessions from C&F under the Reinsurance Agreement

#### 10. OPERATING AND MANAGEMENT EXPENSES

With the exception of APSL, AmerInst and its other direct and indirect subsidiaries have no employees. Their operating activities, as well as certain management functions, are performed by contracted professional service providers. Citadel Management Bermuda Limited (formerly Cedar Management Limited) provides AmerInst and AMIC Ltd. certain management, administrative and operations services under the direction of AmerInst's Board of Directors pursuant to an agreement. The agreement may be terminated by either party upon not more than 90 days nor less than 60 days prior written notice. Mr. Stuart Grayston, our President, was formerly a director and officer of Cedar Management Limited, and Mr. Thomas R. McMahon, our Treasurer and Chief Financial Officer, is a shareholder, officer, director and employee of Citadel Management Bermuda Limited. The Company paid Citadel Management Bermuda Limited \$327,500 in fees during 2016 and 2015, respectively.

Operating and management expenses include compensation paid to members of the Board of Directors and various committees of the Board totaling \$525,517 in 2016 and \$488,581 in 2015. Included as a part of this

**AMERINST INSURANCE GROUP, LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

compensation are annual retainers paid to directors in the form of common shares of the Company in the amount of \$70,000 for the years ended December 31, 2016 and 2015, respectively. Such amounts are included as part of purchase of shares by subsidiary, net, in the consolidated statements of changes in shareholders' equity and cash flows.

**11. TAXATION**

Under current Bermuda law, the Company and its subsidiaries are not required to pay taxes in Bermuda on either income or capital gains. The Company has received an undertaking from the Bermuda government that, in the event of income or capital gains taxes being imposed, the Company will be exempted from such taxes until the year 2035.

However, APSL which is a Delaware corporation domiciled in the state of Illinois is subject to taxation in the United States.

The actual income tax rate differed from the amount computed by applying the effective rate of 0% under Bermuda law to earnings before income taxes as shown in the following reconciliation:

	<b>2016</b>	<b>2015</b>
Earnings before income tax .....	\$1,471,323	\$(1,396,484)
Expected tax .....	—	—
Foreign taxes at local expected rates .....	3,209	(190,297)
Other .....	9,223	2,757
Change in valuation allowance .....	(12,432)	187,540
Net tax expense (benefit) .....	\$ —	\$ —

Deferred income taxes, arising from APSL, reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. As of December 31, 2016 and 2015, management set up full valuation allowances against the deferred tax assets as disclosed below since the success of APSL was not certain and therefore, it was more likely than not that a tax benefit would not be realized.

	<b>2016</b>	<b>2015</b>
Capitalized start-up expenses .....	\$ 163,000	\$ 183,992
Operating loss carryforwards .....	4,009,000	4,006,081
Depreciation and amortization .....	(22,000)	(27,641)
<b>Deferred tax assets before valuation allowance</b> .....	4,150,000	4,162,432
Valuation allowance .....	(4,150,000)	(4,162,432)
<b>Deferred tax assets net of valuation allowance</b> .....	\$ —	\$ —

At December 31, 2016, the deferred tax assets (after valuation allowance) are based on loss carryforwards of \$10,377,000, which expire in 15 to 20 years.

**12. DIVIDEND RESTRICTIONS AND STATUTORY REQUIREMENTS**

AMIC Ltd.'s ability to pay dividends to AmerInst is subject to the provisions of the Bermuda insurance and companies laws and the requirement to provide the ceding companies with collateral. Under the Companies Act,

**AMERINST INSURANCE GROUP, LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

AMIC Ltd. would be prohibited from declaring or paying a dividend at December 31, 2016 if such payment would reduce the realizable value of its assets to an amount less than the aggregate value of its liabilities, issued share capital, and share premium accounts. As of December 31, 2016, approximately \$35.9 million was available for the declaration of dividends to shareholders. However, due to the requirement to provide the ceding companies with collateral, approximately \$22.7 million was available for the payment of dividends to the shareholders. In addition, AMIC Ltd. must be able to pay its liabilities as they fall due after the payment of a dividend. Our ability to pay dividends to common shareholders and to pay our operating expenses is dependent on cash dividends from our subsidiaries. The payment of such dividends by AMIC Ltd. to us is also limited under Bermuda law by the Insurance Act and Related Regulations which require that AMIC Ltd. maintain minimum levels of solvency and liquidity.

AmerInst's ability to pay common shareholders' dividends and its operating expenses is dependent on cash dividends from AMIC Ltd. and its other subsidiaries. The payment of such dividends by AMIC Ltd. to AmerInst is limited under Bermuda law by the Bermuda Insurance Act 1978 and Related Regulations, as amended, which require that AMIC Ltd. maintain minimum levels of solvency and liquidity. For the years ended December 31, 2016 and 2015 these requirements have been met as follows:

	Statutory Capital & Surplus		Relevant Assets	
	Minimum	Actual	Minimum	Actual
December 31, 2016 .....	\$1,497,580	\$37,448,998	\$22,119,254	\$22,119,254
December 31, 2015 .....	\$1,234,565	\$34,896,907	\$19,584,436	\$19,584,436

AMIC Ltd. has received the BMA's approval for the utilization of its investment in Investco as a relevant asset up to an aggregate amount sufficient to meet and maintain the minimum liquidity ratio.

Statutory loss for the years ended December 31, 2016 and 2015 was \$762,411 and \$1,107,251, respectively.

**13. SEGMENT INFORMATION**

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

	As of and for the Year Ended December 31, 2016		
	Reinsurance Segment	Insurance Segment	Total
Revenues .....	\$9,954,786	\$4,047,310	\$14,002,096
Total losses and expenses .....	8,491,488	4,039,285	12,530,773
Segment income (loss) .....	1,463,298	8,025	1,471,323
Identifiable assets .....	—	226,988	226,988

	As of and for the Year Ended December 31, 2015		
	Reinsurance Segment	Insurance Segment	Total
Revenues .....	\$5,873,847	\$3,095,798	\$ 8,969,645
Total losses and expenses .....	6,794,589	3,571,540	10,366,129
Segment income (loss) .....	(920,742)	(475,742)	(1,396,484)
Identifiable assets .....	—	130,740	130,740



**AMERINST INSURANCE GROUP, LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**14. STOCK COMPENSATION**

APSL has employment agreements with four key members of senior management, including one of our named executive officers, Kyle Nieman, the President of APSL, which grant them phantom shares of the Company. Under these agreements, these employees were initially granted an aggregate of 75,018 phantom shares of the Company on the date of their employment, subject to certain vesting requirements. The phantom shares are eligible for phantom dividends payable at the same rate as regular dividends on the Company's common shares. The phantom dividends may be used only to purchase additional phantom shares with the purchase price of such phantom shares being the net book value of the Company's actual common shares as of the end of the previous quarter. During the year ended December 31, 2016, 1,569 phantom shares were granted arising from the dividends declared on the Company's common shares. 84,725 phantom shares were outstanding at December 31, 2016.

For three of these employees, including Mr. Nieman, the phantom shares initially granted, as well as any additional shares granted from dividends declared, vested on January 1, 2015. For the fourth employee, the phantom shares initially granted, as well as any additional shares granted from dividends declared, will vest on January 1, 2018. The liability payable to these employees under the phantom share agreements is equal to the value of the phantom shares based on the net book value of the Company's actual common shares at the end of the previous quarter less the value of phantom shares initially granted and is payable in cash upon the earlier of the employee attaining 65 years of age or within 60 days of such employee's death or permanent disability, including if such death or permanent disability occurs before January 1, 2018 for the fourth employee

The liability relating to these phantom shares is recalculated quarterly based on the net book value of the Company's common shares at the end of each quarter. As a result of the overall decrease in the net book value of the Company's common shares since the grant dates, no liability has been recorded by the Company relating to these phantom shares at December 31, 2016.

**15. COMMITMENTS AND CONTINGENCIES**

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

2017 .....	\$101,209
	<u>\$101,209</u>

APSL is currently negotiating for a lease extension and expects the terms to be similar to the expiring lease.

**AMERINST INSURANCE GROUP, LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**16. UNAUDITED CONDENSED QUARTERLY FINANCIAL DATA**

<u>2016</u>	<u>FIRST QUARTER</u>	<u>SECOND QUARTER</u>	<u>THIRD QUARTER</u>	<u>FOURTH QUARTER</u>
Net premiums earned .....	\$1,615,608	\$1,500,827	\$1,844,243	\$2,163,388
Commission income .....	1,033,485	947,273	976,514	1,087,454
Net investment income .....	64,679	81,438	63,821	67,599
Net realized gain .....	243,253	516,861	960,767	834,886
Total revenues .....	<u>\$2,957,025</u>	<u>\$3,046,399</u>	<u>\$3,845,345</u>	<u>\$4,153,327</u>
Net income .....	\$ 52,489	\$ 228,331	\$ 762,897	\$ 427,606
Basic and diluted income per share .....	\$ 0.08	\$ 0.35	\$ 1.17	\$ 0.66
<u>2015</u>	<u>FIRST QUARTER</u>	<u>SECOND QUARTER</u>	<u>THIRD QUARTER</u>	<u>FOURTH QUARTER</u>
Net premiums earned .....	\$1,225,863	\$1,311,624	\$1,406,901	\$1,479,211
Commission income .....	738,818	717,998	728,969	908,195
Net investment income .....	52,662	77,815	55,709	70,084
Net realized gain (loss) .....	513,666	(56,470)	7,576	(268,976)
Total revenues .....	<u>\$2,531,009</u>	<u>\$2,050,967</u>	<u>\$2,199,155</u>	<u>\$2,188,514</u>
Net income (loss) .....	\$ 112,145	\$ (526,520)	\$ (350,085)	\$ (632,024)
Basic and diluted income (loss) per share .....	\$ 0.17	\$ (0.80)	\$ (0.53)	\$ (0.97)

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

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

### **Item 9A. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures.**

As of December 31, 2016, the end of the period covered by this Annual Report on Form 10-K, our management, including our President and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our President and Chief Financial Officer each concluded that as of December 31, 2016, the end of the period covered by this Annual Report on Form 10-K, we maintained effective disclosure controls and procedures.

#### **Management's Report on Internal Control Over Financial Reporting.**

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

Under the supervision and with the participation of management, including the President and Chief Financial Officer, we conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation under the framework in Internal Control—Integrated Framework, our management has concluded we maintained effective internal control over financial reporting, as such term is defined in Securities Exchange Act of 1934 Rule 13a-15(f), as of December 31, 2016.

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

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

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

**Change in Internal Control.**

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

**Item 9B. Other Information**

None

## PART III

### **Item 10. Directors, Executive Officers and Corporate Governance**

The information required by Item 10 of Form 10-K with respect to identification of directors and officers is incorporated by reference from the information contained in the section captioned “Election of Directors” in the Company’s definitive Proxy Statement for the Annual General Meeting of Shareholders to be held on June 1, 2017 (the “Proxy Statement”), a copy of which we intend to file with the SEC within 120 days after the end of the year covered by this Annual Report on Form 10-K. The Company has two executive officers, one of whom is a director of the Company.

#### *Code of Ethics*

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

#### *Section 16 Compliance*

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

#### *Audit Committee*

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

### **Item 11. Executive Compensation**

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

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

The information required by Item 12 of Form 10-K is incorporated by reference from the information contained in the section captioned “Other Matters—Security Ownership of Certain Beneficial Owners and Management” in the Company’s Proxy Statement relating to its Annual General Meeting to be held on June 1, 2017.

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

The information required by Item 13 of Form 10-K is incorporated by reference from the information contained in the sections captioned “Other Matters—Certain Relationships and Related Transactions” and “Election of Directors” in the Company’s Proxy Statement relating to its Annual General Meeting to be held on June 1, 2017.

### **Item 14. Principal Accountant Fees and Services**

The information required by Item 14 of Form 10-K is incorporated by reference from the information in the section captioned “Appointment of Auditors” in the Company’s Proxy Statement relating to its Annual General Meeting to be held on June 1, 2017.

## PART IV

### **Item 15. Exhibits and Financial Statement Schedules**

- (a)(1) See Index to Financial Statements and Schedules on page 27.
- (a)(2) See Index to Financial Statements and Schedules on page 27.
- (a)(3) See Index to Exhibits set forth on pages 58 – 59 which is incorporated by reference herein.
- (b) See Index to Exhibits which is incorporated by reference herein.
- (c) See Index to Financial Statements and Schedules on page 27.

The Index to Exhibits beginning on page 58 of this Annual Report on Form 10-K is incorporated by reference to this Item 15.

### **Item 16. Form 10-K Summary**

Not Applicable.



## SIGNATURES

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

Dated: March 31, 2017

AMERINST INSURANCE GROUP, LTD.

By:           /s/ STUART H. GRAYSTON            
**Stuart H. Grayston,**  
**President (Principal Executive Officer)**

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

<u>Name</u>	<u>Title</u>	<u>Date</u>
/s/ STUART H. GRAYSTON <b>Stuart H. Grayston</b>	President and Director (Principal Executive Officer)	March 31, 2017
/s/ THOMAS R. MCMAHON <b>Thomas R. McMahon</b>	Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	March 31, 2017
/s/ IRVIN F. DIAMOND <b>Irvin F. Diamond</b>	Director and Chairman of the Board	March 31, 2017
/s/ JEROME A. HARRIS <b>Jerome A. Harris</b>	Director and Vice-Chairman of the Board	March 31, 2017
/s/ JEFFRY I. GILLMAN <b>Jeffry I. Gillman</b>	Director	March 31, 2017
/s/ DAVID R. KLUNK <b>David R. Klunk</b>	Director	March 31, 2017
/s/ THOMAS B. LILLIE <b>Thomas B. Lillie</b>	Director	March 31, 2017
/s/ DAVID N. THOMPSON <b>David N. Thompson</b>	Director	March 31, 2017

## INDEX TO EXHIBITS

Year ended December 31, 2016

<u>Exhibit Number</u>	<u>Description</u>
3.1	Memorandum of Association of AmerInst Insurance Group Ltd.—incorporated by reference herein to Exhibit 3.1 of the Registrant’s Registration Statement on Form S-4 (filed 3/2/99) (No. 333-64929)
3.2	Bye-laws of the Company—incorporated by reference herein to Exhibit 3.2 of the Registrant’s Registration Statement on Form S-4A (filed 6/29/99) (No. 333-64929)
4.1	Section 47 of the Company’s Bye-laws—included in Exhibit 3.2 hereto
4.2	Statement of Share Ownership Policy—incorporated by reference herein to Exhibit 4.1 of the Registrant’s Current Report on Form 8-K (filed 12/18/08) (No. 000-28249)
10.1	Agreement between Country Club Bank and AIIC—incorporated by reference herein to Exhibit 10.2 of AMIG’s Annual Report on Form 10-K (filed 3/30/92) (No. 000-17676)
10.2	Investment Advisory Agreement For Discretionary Accounts between AmerInst Insurance Company and Harris Associates L.P. dated as of January 22, 1996, as amended by the Amendment to Investment Advisory Agreement for Discretionary Accounts dated as of April 2, 1996—incorporated by reference herein to the Registrant’s Quarterly Report on Form 10-Q (filed 11/13/98) (No. 000-28249)
10.3	Management Agreement between USA Risk Group (Bermuda), Ltd., Cedar Management Limited and AMIC Ltd. dated July 1, 2008—incorporated herein by reference to the Registrant’s Annual Report on Form 10-K (filed 3/31/09) (No. 000-28249)
10.4	Employment Agreement effective November 24, 2009 between AmerInst Professional Services, Limited and F. Kyle Nieman III effective November 24, 2009—incorporated herein by reference to Exhibit 10.16 of the Registrant’s Annual Report on Form 10-K (filed 3/29/10) (No. 000-28249)
10.5	Agency Agreement effective September 25, 2009 among AmerInst Professional Services, Limited, The North River Insurance Company, United States Fire Insurance Company, Crum & Forster Indemnity Company, Crum and Forster Insurance Company, and Crum & Forster Specialty Insurance Company—incorporated by reference herein to Exhibit 10.1 of the Registrant’s Quarterly Report on Form 10-Q (filed 11/13/09) (No. 000-28249)
10.6	Professional Liability Quota Share Agreement dated September 25, 2009 among AmerInst Insurance Company, Ltd., The North River Insurance Company, United States Fire Insurance Company, Crum & Forster Indemnity Company, Crum and Forster Insurance Company, and Crum & Forster Specialty Insurance Company—incorporated by reference herein to Exhibit 10.2 of the Registrant’s Quarterly Report on Form 10-Q (filed 11/13/09) (No. 000-28249)
10.7	Addendum to Management Agreement between USA Risk Group (Bermuda), Ltd., Cedar Management Limited and AMIC Ltd. effective January 1, 2012 (filed 3/29/12) (No. 000-28249)
10.8	AmerInst Insurance Group, Ltd. 2016 Stock Option Plan—incorporated herein by reference to Exhibit 10.1 of the Registrant’s Current Report on Form 8-K (filed 6/9/16)(No. 000-28249).
10.9	Addendum to Management Agreement between Citadel Management Bermuda Limited and AMIC Ltd. effective January 1, 2017*
10.10	Form of Non-Qualified Stock Option Agreement.*
11.1	Statement re Computation of Per Share Earnings.**
21.1	Subsidiaries of the Registrant—incorporated by reference herein to Exhibit 21.1 of the Registrant’s Annual Report on Form 10-K (filed 3/29/12) (No. 000-28249)

<u>Exhibit Number</u>	<u>Description</u>
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification of Stuart H. Grayston pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Certification of Thomas R. McMahon pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
101.INS	XBRL Instance Document*
101.SCH	XBRL Instance Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*

\* Filed electronically herewith

\*\* The information required to be presented in Exhibit 11.1 is provided in Note 2 to the consolidated financial statements under Part II, Item 8 of this Form 10-K in accordance with the provisions of U.S. GAAP.



## AMERINST INSURANCE GROUP, LTD.

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

## CORPORATE INFORMATION

### LEGAL COUNSEL

#### APPLEBY

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

#### GUNSTER, YOAKLEY & STEWART, P.A.

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

#### BATESCAREY LLP

191 North Wacker Drive, Suite 2400  
Chicago, IL 60606

### TRANSFER AGENT AND REGISTRAR

#### MITSUBISHI UFJ FUND SERVICES

The Belvedere Building  
69 Pitts Bay Road  
Pembroke, HM 08  
Bermuda

### INDEPENDENT AUDITORS

#### DELOITTE LTD.

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

## ANNUAL REPORT ON FORM 10-K

Copies of the AmerInst Insurance Group, Ltd. 2016 Annual Report on Form 10-K filed with the Securities and Exchange Commission are available without charge to stockholders upon written request to:

**AmerInst Insurance Group, Ltd.**  
c/o Citadel Management Bermuda Limited  
P.O. Box HM 1601  
Hamilton HM GX, Bermuda

The Form 10-K is included within this 2016 Annual Report and is also available on the Securities and Exchange Commission's Internet site at <http://www.sec.gov> and on the AmerInst Internet site at <http://www.amerinst.bm>.

## INVESTOR INFORMATION

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

**AmerInst Insurance Group, Ltd.**  
c/o Citadel Management Bermuda Limited  
P.O. Box HM 1601  
Hamilton HM GX, Bermuda

Shareholder Communications: (441) 295-7127

Fax: (441) 295-1702

E-mail: [amerinst@citadelrisk.com](mailto:amerinst@citadelrisk.com)

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

## ANNUAL MEETING

The 2017 Annual Meeting of Shareholders will be held at 10:00 a.m. on Thursday, June 1, 2017 at:

The Westin Grand Cayman Seven Mile Beach Resort & Spa  
Seven Mile Beach  
Grand Cayman  
Cayman Islands

Shareholders are encouraged to attend.



AmerInst Insurance Group, Ltd.

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