



32nd Annual Report

# AmerInst

INSURANCE  
GROUP, LTD.



# Corporate Profile

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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 Protexure Insurance Agency, Inc. 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 provides insurance for professional services firms.

## Directors

### **Irvin F. Diamond**

Senior Principal  
REDW LLC

### **Jeffrey I. Gillman**

CPA  
President  
Gillman, Shapiro & Dilleuth, P.A.

### **Stuart H. Grayston**

Retired Insurance Executive

### **Jerome A. Harris**

CPA  
Managing Partner  
Harris Consulting Group

### **David R. Klunk**

CPA  
Director  
RKL 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

### **Secretary**

Malicia V. Bremar

### **Vice Chairman**

Jerome A. Harris

### **Assistant Secretary**

St. George's Services  
Limited

### **President**

Stuart H. Grayston

### **Assistant Secretary**

David N. Thompson

### **Chief Financial Officer & Treasurer**

Thomas R. McMahon

### **Chairman Emeritus**

Ronald S. Katch



# Chairman's Report

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## My fellow shareholders...

I am pleased to share the 2019 results for AmerInst Insurance Group, Ltd. and to highlight the progress our company has made in the past year. Although this report focuses on 2019, the spread of COVID-19 in recent months has led to unprecedented levels of uncertainty, and I want to assure you that the first priority of the Board is the safety and well-being of our fellow shareholders, customers and employees.

In 2019, we remained committed to serving the needs of our customers and delivering on our promises to shareholders. Solo practitioners and small to mid-sized businesses continue to rely on Protexure Insurance Agency, Inc. for comprehensive professional liability protection. Our coverage is specifically designed for accountants and lawyers, who look to us for a digital experience and a policy that satisfies the needs of their small to mid-sized firms.

Protexure recorded \$23.4 million in total premiums last year. The renewal rate for expiring policies was 85%, and the direct premium renewal rate was 93%. This is in line with what we have heard from policyholders who applaud our quick response and have remained loyal and appreciative of our online time-saving automated renewal process, especially during the COVID-19 crisis.

Net premiums earned by AmerInst Insurance Company Ltd. for the year ended December 31, 2019 increased 12%, largely due to a higher volume of underwriting from our reinsurance agreement with Crum & Forster Enterprise, part of Fairfax Financial Holdings Limited ([www.cfins.com](http://www.cfins.com)). Protexure's enhanced sales and marketing efforts, coupled with new technologies, have enabled greater penetration in target markets. Protexure is a managing general underwriter and is licensed as an insurance agent for Crum & Forster in 50 states and the District of Columbia.

**85%**

Expiring Policy Renewal Rate

## Interacting with our customers

Throughout the year, we continued to streamline the retention process. Enhancing and innovating our online platform enables us to get closer to our customers and strengthen the ties we have established with brokers. Making it easy to renew a policy is built into our underwriting logic. Insureds open a link to to confirm account information they have already provided. There are no complicated questions to answer – resulting in a seamless and simplified experience 24/7.

**93%**

Direct Premium Renewal Rate

Another significant step we have taken is to ramp up the content on our website. As more small firms of lawyers and accountants face the challenges of working from home during the COVID-19 crisis, they are looking for a smooth transition and “must have” tools that allow them to connect in face time with their clients. In our role as a trusted advisor, we provide educational and risk management information for our customers to help them better understand their coverage and enable them to grow their businesses.

To learn more about our state-of-the-art web-based professional liability insurance programs, visit [www.protexure.com](http://www.protexure.com) or [www.amerinst.bm](http://www.amerinst.bm).



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## Dividends and redemptions

We paid one single annual dividend of \$0.50 cents per share in November 2019. This marks the 25th consecutive year that AmerInst Insurance Group, Ltd. has declared a dividend and recognizes our long-term commitment to shareholders. As in the past, dividend payments are subject to the Board's continuing evaluation of our business and will remain subject to our compliance with applicable legal and regulatory requirements.

Our repurchasing policy for shares of common stock remains in place. Aggregate annual redemptions are limited to \$500,000 under our policy and shares may only be redeemed in the case of death, disability or retirement from the practice of public accounting. Depending on the circumstances, we may adjust this amount in future years.

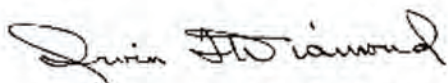
We plan to hold the annual shareholders' meeting on June 3rd in Bermuda. However, in these uncertain times, the meeting may need to be rescheduled. If so, shareholders will be notified.

## Realizing the future

A special thanks to our employees who have become a remote and virtual workforce during the COVID-19 pandemic. We are grateful for their commitment and dedication in delivering services to our customers during these unusual times, while still ensuring online security and privacy policies. It is through their efforts – and those of policyholders and shareholders – that Protexure is making a difference in the professional liability insurance market.

In 2020 and beyond, we look forward to navigating through the COVID-19 crisis and will continue to listen to our customers and shareholders to better understand their priorities and learn from their experiences. We intend to provide more information on the impact of COVID-19 in future quarters. The health and safety of our employees is paramount and, with their support, our company will focus on having the resilience to manage through this crisis and be well-positioned for the future.

Sincerely,



Irvin F. Diamond  
Chairman



This Chairman's Report 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 impact of the COVID-19 pandemic, (iii) the progress and high percentage of policy renewals with our accountants' and lawyers' professional liability programs (iv) our ability to declare and pay dividends to our shareholders in the future and (v) our ability to repurchase shares of our common stock under our repurchase policy. 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, 2019. AmerInst does not undertake any duty nor does it intend to update the results of these forward-looking statements.



# Results For The Year

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We recorded net income of \$2,412,519 in 2019 compared to a net loss of \$115,709 in 2018. The increase in net income was mainly attributable to the increase in net realized and unrealized gains on investments of \$6,324,169 (from a \$2,249,172 net loss for the year ended December 31, 2018 to a \$4,074,997 net gain for the year ended December 31, 2019) as a result of favorable market conditions and to the increase in commission income of \$303,208 (from \$5,497,779 for the year ended December 31, 2018 to \$5,800,987 for the year ended December 31, 2019) as a result of a higher volume of premiums written under the Agency Agreement. This was partially offset by the increase in operating and management expenses of \$249,717 (from \$6,598,204 for the year ended December 31, 2018 to \$6,847,921 for the year ended December 31, 2019), as discussed in further detail below.

Our net premiums earned were \$11,348,596 for the year ended December 31, 2019 compared to \$10,132,515 for the year ended December 31, 2018, an increase of \$1,216,081 or 12%. The net premiums earned during 2019 and 2018 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 2019, arising from a higher volume of underwriting activity under the Agency Agreement. The higher volume of underwriting activity was due to the continued marketing of the program by Protexure resulted in increased penetration in targeted markets.

For the years ended December 31, 2019 and 2018, we recorded commission income under the Agency Agreement of \$5,800,987 and \$5,497,779, respectively, an increase of \$303,208 or 5.5%. This increase resulted from the higher volume of premiums written under the Agency Agreement in 2019, as referred to above.

We recorded net investment income of \$478,111 for the year ended December 31, 2019 compared to \$384,409 for the year ended December 31, 2018, an increase of \$93,702 or 24.4%. The increase in net investment income was attributable to higher yielding fixed income securities held in the Company's investment portfolio during 2019 compared to the same period in 2018 and to certain higher yielding equity securities held in our investment portfolio during 2019 compared to the same period in 2018. Annualized investment yield, calculated as total interest and dividends divided by the net average amount of total investments and cash and cash equivalents, was 1.3% in 2019, a marginal increase from the 1.1% yield earned in 2018.

We recorded net realized and unrealized gains on investments of \$4,074,997 for the year ended December 31, 2019 compared to net realized losses of \$2,249,172 for the year ended December 31, 2018, an increase of \$6,324,169 or 281.2%. The increase was primarily related to the increase in the fair value of our equity investments of \$3,175,510 during the year ended December 31, 2019, which was attributable to favorable market conditions during 2019. As a result of our adoption of ASU-2016-01 on January 1, 2018, the changes in fair value of our equity investments subsequent to January 1, 2018 are recognized within net realized and unrealized gains (losses) on the consolidated statement of operations.

As of December 31, 2019, our total investments were \$31,033,616, an increase of \$3,000,310 or 10.7%, from \$28,033,306 at December 31, 2018. 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 \$5,498,914 at December 31, 2018 to \$6,589,810 at December 31, 2019, an increase of \$1,090,896 or 19.8%. The amount of cash and cash equivalents varies depending on the maturities of fixed term investments and on the level of funds invested in money market funds. The restricted cash and cash equivalents balance increased from \$472,132 at December 31, 2018 to \$1,169,805 at December 31, 2019, an increase of \$697,673 or 147.8%. This increase was due to the timing of sales and maturities of investments held as restricted cash at December 31, 2019 that have not been reinvested.

Our losses and loss adjustment expenses increased by 28.8% to \$8,028,735 in 2019 from \$6,235,474 in 2018. The increase in the 2019 amount was mainly attributable to the increase in current year losses and loss adjustment expenses under the Reinsurance Agreement due to increased cessions from C&F in 2019, 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 70.7% in 2019 and 61.5% in 2018. The increase in this loss ratio was primarily due to higher than expected large loss emergence in accident years 2015 and 2017.

We recorded policy acquisition costs of \$4,199,239 for the year ended December 31, 2019 compared to policy acquisition costs of \$3,748,958 for the year ended December 31, 2018. 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, 2019 and 2018 were 37% of the premiums earned under the Reinsurance Agreement of \$11,348,596 and \$10,132,515, respectively.

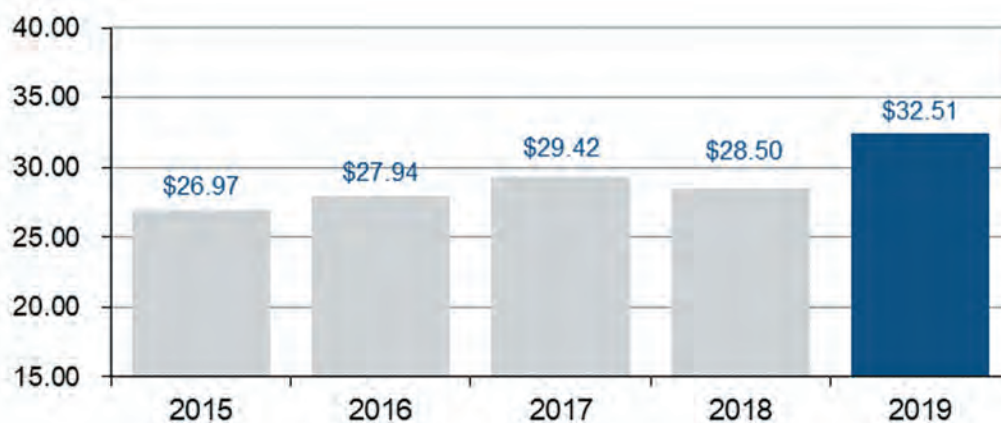
We incurred operating and management expenses of \$6,847,921 for the year ended December 31, 2019 compared to \$6,598,204 for the year ended December 31, 2018, an increase of \$249,717 or 3.8%. The increase was primarily attributable to increased salaries and related costs associated with Protexure's hiring of additional personnel during 2019.

We recorded income tax expense of \$214,277 for the year ended December 31, 2019 compared to an income tax benefit of \$2,701,396 for the year ended December 31, 2018. At December 31, 2019, we recorded an income tax expense as the result of changes in Protexure's deferred tax asset position during the year, which was primarily attributable to Protexure's usage of its loss carryforward from prior years plus its state income taxes for the current year. At December 31, 2018, management believed there was sufficient evidence to support the reversal of the full valuation allowance. The release of this allowance resulted in the recognition of Protexure's deferred tax assets and to the recording of an income tax benefit. See Note 10 to our financial statements included in this Annual Report on Form 10-K for additional details.

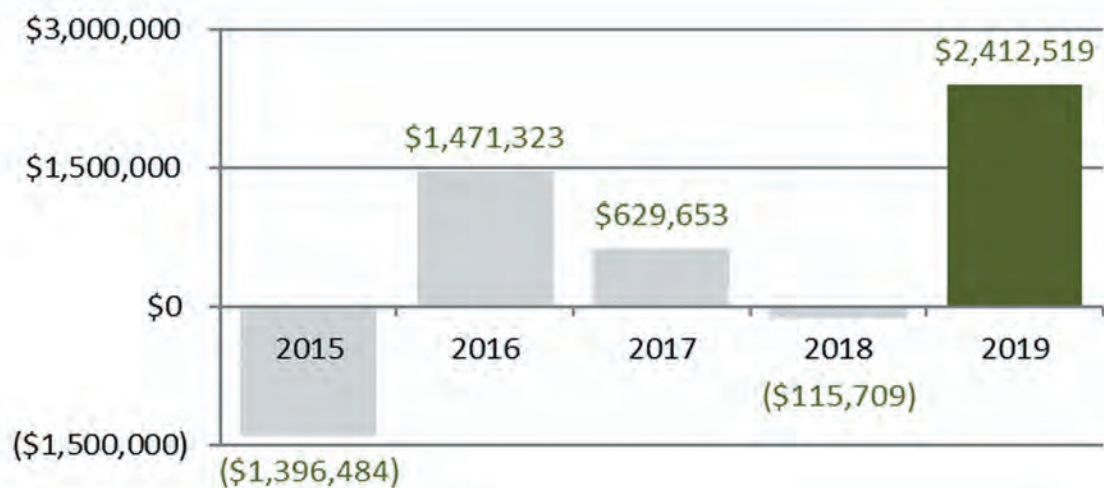
The book value per share of the Company's outstanding shares at December 31 was \$32.51 per share in 2019 and \$28.50 per share in 2018. The Company paid dividends during 2019 totaling \$295,691 consisting of a single annual dividend paid in November of \$.50 per share.



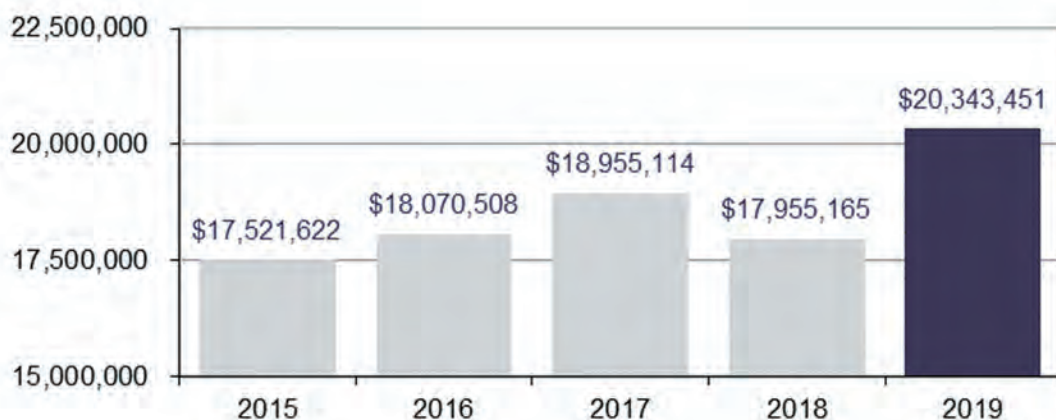
## Book Value as of December 31



## Net Income



## Stockholders' Equity as of December 31



**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, 2019

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

**000-28249**

(Commission file number)

**AMERINST INSURANCE GROUP, LTD.**

(Exact Name of Registrant as Specified in its Charter)

BERMUDA

(State or other jurisdiction of  
Incorporation or Organization)

98-0207447

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

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

**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 if a smaller reporting company)

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of The Exchange Act. ☐

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, 2020, 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 \$20,179,656 based on book value as of June 30, 2019.

**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 3, 2020 .....

III

**AMERINST INSURANCE GROUP, LTD.**

**Annual Report on Form 10-K  
For the year ended December 31, 2019**

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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 impact of COVID-19 coronavirus pandemic;
- a worsening global economic market and changing rates of inflation and other economic conditions;
- 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;
- 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;
- changes in Bermuda law or regulation or the political stability of Bermuda;
- 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. “Protexure” means Protexure Insurance Agency, Inc. (formerly 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 \$15,853,490 and \$5,849,201 for the year ended December 31, 2019 compared to \$8,258,126 and \$5,507,405 for the year ended December 31, 2018, 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, Protexure 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 Protexure as an 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, 2019.

#### ***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 Protexure 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 to the other party.

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

Citadel Management Bermuda 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, 2020 and ending December 31, 2020. Mr. Thomas R. McMahon, our Treasurer and Chief Financial Officer, is a shareholder, officer, director and employee of Citadel Management Bermuda Limited.

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 among the competition in our industry are price and quality of service. We believe that our focus on providing high-quality online or internet based 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***

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

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

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.

### ***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:

- 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) an 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. AMIC Ltd.'s required and available statutory capital and surplus as at December 31, 2019 are based on this EBS framework.
- is required to annually file 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.
- 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).
- is prohibited, without the approval of the BMA, from reducing by 15% or more its total statutory capital, or from reducing by 25% or more its total statutory capital and surplus, as set out in its previous year's financial statements.
- 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.

The BMA has also established a Class 3A insurer target capital level equal to 120% of the Class 3A ECR. The applicable ECR is established as discussed above. We are in compliance with these requirements.

The Insurance Act also provides a minimum liquidity ratio for general business. An insurer engaged in general business is required to maintain the value of its relevant assets at not less than 75% of the amount of its relevant liabilities. Relevant assets include cash and time deposits, quoted investments, unquoted bonds and debentures, first liens on real estate, investment income due and accrued, accounts and premiums receivable and reinsurance balances receivable. There are certain categories of assets which, unless specifically permitted by the



BMA, do not automatically qualify such as advances to affiliates, real estate and collateral loans. The relevant liabilities are total general business insurance reserves and total other liabilities less deferred income tax and sundry liabilities (by interpretation, those not specifically defined).

The BMA may appoint an inspector with extensive powers to investigate the affairs of an insurer if the BMA believes that an investigation is required in the interest of the insurer's policyholders or persons who may become policyholders. In order to verify or supplement information otherwise provided to an inspector, 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 impose limitations on the insurer's ability to conduct its business, including limiting new insurance business; prohibiting modifications to any insurance contract if the effect would be to increase the insurer's liabilities; restricting the insurer's to acquire or sell certain investments; restricting the insurer's ability to maintain in, or transfer to and to keep in the custody of, a specified bank, certain assets; restricting the declaration or payment of any dividends or other distributions or to restrict the making of such payments; or imposing limitations on the insurer's 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 Representative in Bermuda is Citadel Management Bermuda Limited and our principal office is c/o Citadel Management Bermuda Limited, 25 Church Street, Continental Building, P.O. Box HM 1601, Hamilton HMGX, Bermuda. An insurer may only terminate the appointment of its Principal Representative for a reason acceptable to the BMA, and the Principal Representative may not cease to act as such, unless the BMA is given 21 days' advance notice in writing of its 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 the Principal Representative's knowledge, or 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 the Principal Representative 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.

The Economic Substance Act 2018 (the "ESA") was passed in Bermuda in December 2018 in response to the requirement of the European Union Code of Conduct Group (Business taxation) (the "EU Code Group") for companies incorporated in a jurisdiction to have sufficient economic substance in the jurisdiction. Under the provisions of the ESA, any Bermuda-registered entity engaged in a "relevant activity" (which includes insurance business and holding entity activities) must maintain a substantial economic presence in Bermuda. To the extent that the ESA applies to our entities registered in Bermuda, we will be required to demonstrate compliance with economic substance requirements by filing an annual economic substance declaration with the Registrar of Companies in Bermuda.

Except for business related to Protexure, our business is conducted from our principal office 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 Protexure 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. As of December 31, 2019, approximately \$5.7 million was available for the declaration of dividends to shareholders. Under the Companies Act, AMIC Ltd. would be prohibited from declaring or paying a dividend 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. 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, 2019 and 2018 these requirements have been met as follows:

	Statutory Capital & Surplus		Relevant Assets	
	Minimum	Actual	Minimum	Actual
December 31, 2019 .....	\$2,094,907	\$41,029,273	\$34,466,903	\$40,204,160
December 31, 2018 .....	\$1,948,389	\$38,660,378	\$29,027,748	\$29,027,748

### ***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 we evaluated other reinsurance and insurance opportunities.

### ***Employees***

At December 31, 2019, Protexure had 27 employees, 24 full-time salaried employees and three 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 4 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 10 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 6 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.*

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

The recent adverse changes in market conditions and stability of the global credit markets present risks and uncertainties for our business. Depending on future market conditions, we could incur substantial realized and unrealized losses in future periods, which could have an adverse impact on our results of operations and financial condition. In particular, the recent severe deterioration in the equity markets could lead to investment losses. Depending on market conditions going forward, particularly if market conditions do not improve in the near future, we could incur substantial 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.

***We have incurred net losses before net realized and unrealized gains (losses) in investments and taxes in 2019 and 2018 and may incur further net losses before net realized gains (losses) in investments and taxes if we are unable to generate significant net income under our existing agency and reinsurance agreements.***

We incurred net losses before net realized and unrealized gains (losses) on investments and taxes of \$1.4 million and \$0.6 million for the years ended December 31, 2019 and December 31, 2018, respectively, due mainly to the costs to fund our operations.

In 2009, Protexure entered into the Agency Agreement with C&F pursuant to which C&F appointed Protexure as an 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 in 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 Protexure on behalf of C&F and classified by C&F as accountants' professional liability and lawyers' professional liability.

In 2019, we were still able to record consolidated net income of \$2.4 million primarily due to a net realized and unrealized gains on investments of approximately \$4.1 million as a result of favorable market conditions. If we are unable to increase Protexure's profitability under the Agency Agreement and Reinsurance Agreement in future periods and if unfavorable market conditions emerge, we may continue to incur net losses, which could adversely affect our financial condition.

***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 Protexure, 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.

***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 Protexure, our Illinois subsidiary, through the Agency Agreement with C&F and (ii) the Reinsurance Agreement between AMIC Ltd. and C&F which represent a group of insurance 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, inquiries or challenges to our insurance and reinsurance activities could 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 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.

***Outbreaks of pandemic diseases, such as the novel coronavirus, Covid-19, could cause disruptions in our business.***

We face risks related to disease outbreaks, such as the recent outbreak of COVID-19, first identified in Wuhan, Hubei Province, China. An outbreak of a contagious disease, particularly to extent it becomes pandemic like COVID-19, could significantly disrupt our business operations. The effects of such an outbreak may include restrictions on our ability to travel to support our business in our markets and our customers located there, reduced sales of our products in territories where local or widespread quarantines due to the disease may be imposed, and/or temporary closures of our facilities. In addition, a significant geographic spread of a pandemic such as COVID-19, an increase in the severity of the outbreak and/or a prolonged duration of the outbreak could adversely affect the global economy, which could result in reduced demand for our products. Any of these events could lead to a loss of sales and harm our financial condition and results of operations.

***Recently enacted U.S. tax reform legislation, various international tax transparency and economic substance initiatives, and possible future tax reform legislation and regulations could materially affect us and our shareholders.***

On December 22, 2017, the US government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act is broad and contains many provisions that have significant implications on us, and potentially on our shareholders, including re-measurement of deferred taxes and surplus due to the reduction in corporation income tax rate, and imposition of a new base-erosion anti-abuse tax (“BEAT”) on affiliate transactions (including reinsurance arrangements between affiliated companies).

The Tax Act also includes modifications of the taxation of non-U.S. companies owned by U.S. shareholders. Certain aspects of the Tax Act require clarification through future regulatory action and accordingly, we are unable to definitively determine the impact to our shareholders. The Tax Act may increase the likelihood that we or our non-U.S. subsidiaries or joint ventures managed by us will be deemed a “controlled foreign corporation” (CFC) within the meaning of the Internal Revenue Code of 1986, as amended (the “Code”) for U.S. federal tax purposes. Specifically, the Tax Act expands the definition of “United States shareholder” for CFC purposes to include U.S. persons who own, directly or constructively, 10% or more of the value of a non-U.S. corporation’s shares, rather than looking only to voting power held. The Tax Act also expands certain attribution rules for share ownership in a way that would cause non-U.S. subsidiaries to now be treated as CFCs if owned in a group, that has a non-U.S. parent company and also includes at least one U.S. subsidiary. In the event a corporation is

characterized as a CFC, any “United States shareholder” of the CFC is required to include in taxable income each year the shareholder’s proportionate share of certain insurance and related investment income for the taxable year, even if such income is not distributed.

The Tax Act also contains modifications to certain provisions relating to passive foreign investment company (“PFIC”) status that if applicable to us could result in adverse tax consequences to U.S. persons who own our ordinary shares. On July 10, 2019, the U.S. Internal Revenue Service and Department of the Treasury released proposed regulations relating to PFICs that may have an impact on foreign insurance companies and their investors, and other participants in transactions involving foreign insurers. The new proposed regulations withdraw a set of proposed regulations that were issued in April 2015. The proposed regulations provide guidance relating to changes in the PFIC regime made by the Tax Act, address the application and interaction of certain “look-through” rules contained in the Code and introduce new rules relating to the determination of the “active conduct” test. We believe that the income of our non-U.S. subsidiaries that are insurance companies is derived in the “active conduct of an insurance business” by corporations that are predominately engaged in such business under the provision of the Tax Act, and that this is also the case for us when the operations of our subsidiaries are considered as a whole, under the look-through rules applicable to foreign holding companies. There are currently no final regulations regarding the application of the PFIC provisions of the Code to an insurance company, so the application of those provisions to insurance companies remains unclear in certain respects. Proposed regulations are expected to become final, possibly as early as the first half of 2020.

The United States and other countries and governing bodies have also enacted reform legislation aimed at increasing transparency on companies’ global tax footprint and profile. The Organization for Economic Co-operation and Development (the “OECD”) is an intergovernmental economic organization founded to stimulate economic progress and trade. It develops economic policy recommendations to encourage policy reform in member countries. Created by the OECD under the initiative known as the “Base Erosion and Profit Shifting Project (“BEPS”), “Country-by-Country Reporting” (Action 13) aims to ensure that multi-national businesses provide appropriate and accurate information to each respective member and non-member region based on various metrics. These metrics are directed at counteracting the effects of global preferential tax regimes and increasing tax transparency. Bermuda has adopted OECD compliant Country-by-Country Reporting regulations for Bermuda headquartered companies which requires the Company to file a report containing results of our global operations. It is uncertain how cooperating jurisdictions, including those in which we operate, will utilize the data collected in our Bermuda filing. These initiatives could increase the burden and costs of compliance.

In December 2017, the European Union’s Code Group included Bermuda on a list of jurisdictions that it had considered to be non-cooperative for tax purposes. In order to be removed from such list, Bermuda passed the Economic Substance Act 2018 (the “ESA”) in December 2018, which came into effect on January 1, 2019 and required compliance by pre-existing entities by July 1, 2019. In February 2020, Bermuda was added to the European Union’s white list of cooperative jurisdictions. The legislation requires Bermuda companies engaging in a “relevant activity” (which includes insurance business and holding entity activities) to be locally managed and directed, to carry on core income generating activities in Bermuda, to maintain adequate physical presence in Bermuda, and to have an adequate level of local full time qualified employees, which may be outsourced, and incur adequate operating expenditure in Bermuda. The Bermuda Authorities have issued guidance on how the ESA should be interpreted and will be enforced. While we believe that the Bermuda companies are in compliance with the ESA requirements, we may incur increased operating expenditures that could negatively impact our 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 we expect to incur 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 and it is therefore possible that our reserves at any given time could 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 adjustment expenses exceed our expectations and the 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 through this provision would adversely impact our net income and capital in future periods while having the effect of overstating our current period earnings.

***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, including those described in this report and other factors.

***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 and reserves are not sufficient to absorb adverse underwriting 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 success of our business plan is dependent upon our ability to retain Protexure senior executives and other qualified Protexure employees. In 2019, Protexure entered into an employment agreement with Mr. Kyle Nieman, President and CEO of Protexure. Mr. Nieman has more than 35 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 Protexure's key employees did not renew their relationships with Protexure, or would do so only upon terms that were not acceptable to Protexure, our business could be harmed.



***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 and will potentially bear the economic risk of holding such shares indefinitely.

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

In order to limit the effect on our financial condition of large and multiple losses, 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 that 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.

***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, Protexure and our consultants and other third parties with whom we share information, our or 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. Additionally, many companies have increasingly reported breaches in the security of their websites or other systems, some of which have involved sophisticated and targeted attacks intended to obtain unauthorized access to confidential information, destroy data, disrupt or degrade service, sabotage systems or cause other damage. Cybersecurity issues, such as security breaches and computer viruses, affecting our information technology systems or those of third parties with whom we share information, could disrupt our business, result in the unintended disclosure or misuse of confidential or proprietary information, increase our costs, and cause losses. Additionally, any unauthorized access, disclosure or other loss of information could also 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 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.

***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 proposing to increase 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 and the cost of complying with any such 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 condensed general purpose financial statements prepared in accordance with the Insurance Act Rules,
- comply with the ICIC, and
- comply with restrictions on payments of dividends and reductions of capital.

Any non-compliance with these and other requirements imposed under applicable law could result in penalties or enforcement actions being taken against AMIC Ltd., which could have a material adverse effect on our business.

***As a shareholder of a Bermuda 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 37.13% 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 is effectively controlled by our board of directors which, consequently, 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*

Protexure leases office space in Lisle, Illinois under a non-cancellable lease agreement that commenced on December 14, 2009 and expires December 31, 2020. The lease is renewable at the option of the lessee under certain conditions.

For operating leases that have a lease term of more than 12 months, the Company recognizes a lease liability and a right-of-use asset in the Company's consolidated balance sheets at the present value of the lease payments at the lease commencement date. At the commencement date, the Company determines lease terms by assuming the exercise of those renewal options that are deemed to be reasonably certain. The exercise of lease renewal options is at the sole discretion of the Company. As the lease contracts generally do not provide an implicit discount rate, the Company used 6%, its estimated incremental borrowing rate based on the information available at commencement date to determine the present value of lease payments.

The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. For the year ended December 31, 2019, the total lease amortization was \$98,800. Cash outflows for this lease was \$106,900.

Minimum lease payments, subsequent to December 31, 2018 are as follows:

2019 .....	\$106,872
2020 .....	<u>109,828</u>
Total .....	<u>\$216,700</u>

The Company is evaluating its lease needs at the current time.

## 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

Currently, there is no public market for our common stock, but we have historically caused Investco to purchase shares from our 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 our shareholders.

On February 25, 2011, the Board of Directors amended and restated AmerInst's Statement of Share Ownership Policy to better manage our cash flow from year to year. Under the revised policy, we limit Investco's repurchase of our common 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 our common shares from shareholders who have died or retired from the practice of public accounting and also on a negotiated basis. Through December 31, 2019, Investco had purchased an aggregate of 224,538 common shares from shareholders who had died or retired for a total aggregate purchase price of \$6,379,286. 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, 2019.

	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Program</u>	<u>Maximum Number of Shares That May Yet Be Purchased Under the Plans or Program (1)</u>
October 2019 .....	—	—	—	N/A
November 2019 .....	—	—	—	N/A
December 2019 .....	6,877	\$28.00	6,877	N/A
Total .....	6,877	\$28.00	6,877	N/A

(1) It is our policy to limit Investco's repurchase of our common stock to \$500,000 per calendar year.

From time to time, Investco has also purchased common shares in privately negotiated transactions. Through December 31, 2019, Investco had purchased an additional 75,069 common shares in such privately negotiated transactions for a total aggregate purchase price of \$1,109,025. No such transactions occurred during the three-month period ended December 31, 2019.

During 2019, the directors of AmerInst were granted 2,499 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, 2019, there were 1,573 holders of record of our common shares. During 2019 and 2018, we paid total ordinary cash dividends of \$315,026 and \$322,162, respectively, which represented a single annual

dividend of \$0.50 per share. During 2019, the dividend amount paid was reduced by \$19,335, which represented a write back of uncashed dividends issued prior to 2014 to shareholders that we have been unable to locate. During 2018 the dividend amount paid was reduced by \$8,745, which represented a write back of uncashed dividends issued prior to 2013 to shareholders that we have been 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 provide insurance protection for professional service firms and engage in investment activities. Through Protexure, we act as an 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 12, 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 \$15,853,490 for the year ended December 31, 2019 and \$8,258,126 for the year ended December 31, 2018. Total losses and expenses for this segment were \$13,838,051 for the year ended December 31, 2019 and \$11,527,532 for the year ended December 31, 2018. This resulted in a segment income (loss) of \$2,015,439 and \$(3,269,406) for the years ended December 31, 2019 and 2018, respectively.

Our insurance segment had revenues of \$5,849,201 for the year ended December 31, 2019 and \$5,507,405 for the year ended December 31, 2018. Operating and management expenses were \$5,452,121 for the year ended December 31, 2019 and \$2,353,708 for the year ended December 31, 2018. This resulted in segment income of \$397,080 and \$3,153,697 for the years ended December 31, 2019 and 2018, respectively.

Our results of operations for the years ended December 31, 2019 and December 31, 2018 are discussed in greater detail below.

We operate our business with no material long-term debt, no purchase obligations, and no off-balance sheet arrangements required to be disclosed under applicable rules of the SEC. Our access to operating cash flows is primarily through the payment of dividends from our 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 our 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, 2019. 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, 2019, the range of actuarially determined liability



for loss and loss adjustment expense reserves was as follows: the low estimate was \$11.4 million, the high estimate was \$16.5 million, and the central estimate was \$13.7 million. 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, we selected reserves of \$13,966,044 as of December 31, 2019, which is marginally greater than the central estimate of our independent actuary.

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

Declines in the fair value of fixed income 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 fixed income investments are other than temporary. The risks and uncertainties include our 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. Our accounting policy requires that a decline in the value of a fixed income security below its cost basis be assessed to determine if the decline is other than temporary. If so, the fixed income 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 fixed income security. The fair value of the impaired fixed income investment becomes its new cost basis.

#### *Income Taxes*

Our U.S. subsidiary operates in jurisdictions where they are subject to taxation. Current and deferred income taxes are charged or credited to net income based upon enacted tax laws and rates applicable in the relevant jurisdiction in the period in which the tax becomes accruable or realizable. Deferred income taxes are provided for all temporary differences between the bases of assets and liabilities used in the financial statements and those used in the various jurisdictional tax returns. When our assessment indicates that it is more likely than not that all or some portion of deferred income tax assets will not be realized, a valuation allowance is recorded against the deferred tax assets.

We recognize a tax benefit relating to uncertain tax positions only where the position is more likely than not to be sustained assuming examination by tax authorities. A liability is recognized for any tax benefit (along with any interest and penalty, if applicable) claimed in a tax return in excess of the amount allowed to be recognized.

### **Results of Operations**

We recorded net income of \$2,412,519 in 2019 compared to a net loss of \$115,709 in 2018. The increase in net income was mainly attributable to the increase in net realized and unrealized gains on investments of \$6,324,169 (from a \$2,249,172 net loss for the year ended December 31, 2018 to a \$4,074,997 net gain for the year ended December 31, 2019) as a result of favorable market conditions and to the increase in commission income of \$303,208 (from \$5,497,779 for the year ended December 31, 2018 to \$5,800,987 for the year ended December 31, 2019) as a result of a higher volume of premiums written under the Agency Agreement. This was partially offset by the increase in operating and management expenses of \$249,717 (from \$6,598,204 for the year ended December 31, 2018 to \$6,847,921 for the year ended December 31, 2019), as discussed in further detail below.

Our net premiums earned were \$11,348,596 for the year ended December 31, 2019 compared to \$10,132,515 for the year ended December 31, 2018, an increase of \$1,216,081 or 12%. The net premiums earned during 2019 and 2018 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 2019, arising from a higher volume of underwriting activity under the Agency Agreement. The higher volume of underwriting activity was due to the continued marketing of the program by Protexure resulted in increased penetration in targeted markets.

For the years ended December 31, 2019 and 2018, we recorded commission income under the Agency Agreement of \$5,800,987 and \$5,497,779, respectively, an increase of \$303,208 or 5.5%. This increase resulted from the higher volume of premiums written under the Agency Agreement in 2019, as referred to above.

We recorded net investment income of \$478,111 for the year ended December 31, 2019 compared to \$384,409 for the year ended December 31, 2018, an increase of \$93,702 or 24.4%. The increase in net investment income was attributable to higher yielding fixed income securities held in the Company's investment portfolio during 2019 compared to the same period in 2018 and to certain higher yielding equity securities held in our investment portfolio during 2019 compared to the same period in 2018. Annualized investment yield, calculated as total interest and dividends divided by the net average amount of total investments and cash and cash equivalents, was 1.3% in 2019, a marginal increase from the 1.1% yield earned in 2018.

We recorded net realized and unrealized gains on investments of \$4,074,997 for the year ended December 31, 2019 compared to net realized losses of \$2,249,172 for the year ended December 31, 2018, an increase of \$6,324,169 or 281.2%. The increase was primarily related to the increase in the fair value of our equity investments of \$3,175,510 during the year ended December 31, 2019, which was attributable to favorable market conditions during 2019. As a result of our adoption of ASU-2016-01 on January 1, 2018, the changes in fair value of our equity investments subsequent to January 1, 2018 are recognized within net realized and unrealized gains (losses) on the consolidated statement of operations.

Unrealized gains on our fixed income investments were \$103,630 at December 31, 2019 compared to unrealized losses of \$218,348 at December 31, 2018. As a result of our adoption of ASU-2016-01 on January 1, 2018, the unrealized gain or loss position of our equity investments subsequent to January 1, 2018 are no longer recognized within accumulated other comprehensive income on our consolidated balance sheet. We consider our entire fixed income investment portfolio to be available for sale and accordingly all fixed income investments are reported at fair value, with changes in net unrealized gains and losses reflected as an adjustment to accumulated other comprehensive income. Given the nature of our investments in fixed maturities and the average duration of our fixed maturity securities, the return of our fixed maturities investments will be impacted by changes in interest rates. As a result to the current declining rate environment, our fixed income securities have experienced realized gains prior to maturity. Declines in the fair value of fixed income 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 fixed income 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 fixed income security below its cost basis be assessed to determine if the decline is other than temporary. If so, the fixed income 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 fixed income investment becomes its new cost basis.

The composition of the investment portfolio at December 31, 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
U.S. government agency securities .....	15%	24%
Obligations of state and political subdivisions .....	10	7
Corporate debt securities .....	25	21
Equity securities .....	<u>50</u>	<u>48</u>
	<u>100%</u>	<u>100%</u>

Our losses and loss adjustment expenses increased by 28.8% to \$8,028,735 in 2019 from \$6,235,474 in 2018. The increase in the 2019 amount was mainly attributable to the increase in current year losses and loss

adjustment expenses under the Reinsurance Agreement due to increased cessions from C&F in 2019, 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 70.7% in 2019 and 61.5% in 2018. The increase in this loss ratio was primarily due to higher than expected large loss emergence in accident years 2015 and 2017.

We recorded policy acquisition costs of \$4,199,239 for the year ended December 31, 2019 compared to policy acquisition costs of \$3,748,958 for the year ended December 31, 2018. 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, 2019 and 2018 were 37% of the premiums earned under the Reinsurance Agreement of \$11,348,596 and \$10,132,515, respectively.

We incurred operating and management expenses of \$6,847,921 for the year ended December 31, 2019 compared to \$6,598,204 for the year ended December 31, 2018, an increase of \$249,717 or 3.8%. The increase was primarily attributable to increased salaries and related costs associated with Protexure's hiring of additional personnel during 2019.

We recorded income tax expense of \$214,277 for the year ended December 31, 2019 compared to an income tax benefit of \$2,701,396 for the year ended December 31, 2018. At December 31, 2019, we recorded an income tax expense as the result of changes in Protexure's deferred tax asset position during the year, which was primarily attributable to Protexure's usage of its loss carryforward from prior years plus its state income taxes for the current year. At December 31, 2018, management believed there was sufficient evidence to support the reversal of the full valuation allowance. The release of this allowance resulted in the recognition of Protexure's deferred tax assets and to the recording of an income tax benefit. See Note 10 to our financial statements included in this Annual Report on Form 10-K for additional details.

## Fair Value of Investments

The following tables show the fair value of our investments in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, "Fair Value Measurements and Disclosures" as of December 31, 2019 and 2018.

			Fair value measurement using:		
	Carrying amount	Total fair value	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
December 31, 2019					
U.S. government agency securities .....	\$ 4,768,619	\$ 4,768,619	\$ —	\$ 4,768,619	\$—
Obligations of U.S. state and political subdivisions .....	3,211,802	3,211,802		3,211,802	
Corporate debt securities .....	7,687,896	7,687,896		7,687,896	
Total fixed maturity investments .....	15,668,317	15,668,317			
Equity securities .....	15,365,299	15,365,299	15,365,299		
Total equity securities .....	15,365,299	15,365,299			
Total investments .....	\$31,033,616	\$31,033,616	\$15,365,299	\$15,668,317	\$—



	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, 2018					
U.S. government agency securities . . . . .	\$ 6,673,732	\$ 6,673,732	\$ —	\$ 6,673,732	\$—
Obligations of U.S. state and political subdivisions . . . . .	1,902,940	1,902,940		1,902,940	
Corporate debt securities . . . . .	6,011,408	6,011,408		6,011,408	
Total fixed maturity investments . . . . .	14,588,080	14,588,080			
Equity securities . . . . .	13,445,226	13,445,226	13,445,226		
Total equity securities . . . . .	13,445,226	13,445,226			
Total investments . . . . .	\$28,033,306	\$28,033,306	\$13,445,226	\$14,588,080	\$—

(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.

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.

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, 2019 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. We consider 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. We consider 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 our equities are classified as Level 1 in the fair value hierarchy. We receive prices based on closing exchange prices from independent pricing sources to measure fair values for the equities.

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, 2018. 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.

The current market conditions present additional risks and uncertainties for our business. In particular, the recent severe deterioration in the equity markets could lead to additional investment losses. Depending on market conditions going forward, particularly if current market conditions do not improve in the near future, we could incur substantial additional realized and unrealized losses in future periods, which could have an adverse impact on our results of operations and financial condition. The current 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.

As of December 31, 2019, our total investments were \$31,033,616, an increase of \$3,000,310 or 10.7%, from \$28,033,306 at December 31, 2018. 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 \$5,498,914 at December 31, 2018 to \$6,589,810 at December 31, 2019, an increase of \$1,090,896 or 19.8%. The amount of cash and cash equivalents varies depending on the maturities of fixed term investments and on the level of funds invested in money market funds. The restricted cash and cash equivalents balance increased from \$472,132 at December 31, 2018 to \$1,169,805 at December 31, 2019, an increase of \$697,673 or 147.8%. This increase was due to the timing of sales and maturities of investments held as restricted cash at December 31, 2019 that have not been reinvested. The ratio of cash, total investments and other invested assets to total liabilities at December 31, 2019 was 1.22:1, compared to a ratio of 1.30:1 at December 31, 2018. The decrease in the ratio was primarily attributable to an increase in unpaid losses and loss adjustment expenses, unearned premium and the reinsurance payable balance assumed under the Reinsurance Agreement.

Total cash, investments and other invested assets increased from \$34,004,352 at December 31, 2018 to \$38,793,231 at December 31, 2019, an increase of \$4,788,879 or 14.1%. The net increase resulted primarily from the increase in the fair value of certain equity securities as a result of favorable market conditions by positive cash inflows in relation to net investment income. These increases were partially offset by net cash outflows to fund our operations and dividends of \$295,691 paid during the year.

### **Other than Temporary Impairment**

We assess whether declines in the fair value of our 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 we intend to sell the fixed maturity investment or if it is more likely than not we will be required to sell the fixed maturity investment before its anticipated recovery; and (2) assessing whether a credit loss exists, that is, where we expect 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.

We did not intend to sell any fixed maturity investments classified as available-for-sale that were in an unrealized loss position at December 31, 2019. In assessing whether it is more likely than not that we will be required to sell a fixed maturity investment before its anticipated recovery, we consider various factors including our 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, 2019, we did not recognize any other-than-temporary impairments due to sales.

In evaluating credit losses, we consider 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 fixed income 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, 2019 and December 31, 2018, relating to 8 and 35 fixed maturity securities, amounted to \$9,495 and \$226,369, respectively. We have the ability and intent 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. During the year ended 2019, no other-than-temporary impairment charges were recorded.

### **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 C&F. As of December 31, 2019, the balance was \$5,695,847 compared to \$2,651,863 as of December 31, 2018. This balance fluctuates due to the timing of the net premium received from C&F under the Reinsurance Agreement.

The assumed reinsurance payable represents current reinsurance losses payable to the fronting carriers. As of December 31, 2019, the balance was \$6,756,177 compared to \$2,171,767 as of December 31, 2018. This balance fluctuates due to the timing of reported losses and to the timing of loss payments to C&F under the Reinsurance Agreement.

Deferred policy acquisition costs, which represent the deferral of ceding commission expense related to premiums not yet earned, increased from \$1,869,368 at December 31, 2018 to \$1,964,052 at December 31, 2019. The increase in deferred policy acquisition costs in 2019 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 \$2,019,622 at December 31, 2019, an increase of \$37,709 from December 31, 2018. The balance primarily related to (1) prepaid directors' and officers' liability insurance costs, (2) the prepaid directors' retainer, (3) prepaid professional fees and (4) premiums due to Protexure under the Agency Agreement. This balance fluctuates due to the timing of the prepayments and to the timing of the premium receipts by Protexure.

Accrued expenses and other liabilities primarily represent premiums payable by Protexure to C&F under the Agency Agreement and expenses accrued relating largely to professional fees. The balance decreased from \$5,934,408 at December 31, 2018 to \$5,873,130 at December 31, 2019, a decrease of \$67,278 or 1%. This balance fluctuates due to the timing of the premium payments to C&F and payments of professional fees.

We paid an annual dividend of \$0.50 per share during 2019 and 2018. During 2019, the total dividend amount was reduced by \$19,335 which represents a write back of uncashed dividends issued prior to 2014 to



shareholders that we have been unable to locate. During 2018, the total dividend amount was reduced by \$8,745 which represents a write back of uncashed dividends issued prior to 2013 to shareholders that we have been unable to locate. Since we began paying consecutive dividends in 1995, our original shareholders have received approximately \$22.87 in cumulative dividends per share, which when measured by a total rate of return calculation has resulted in an effective annual rate of return of approximately 8.61% 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 \$32.51 per share as of December 31, 2019.

Total dividends paid were \$295,691 and \$313,147 in 2019 and 2018, 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 continued 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. As of December 31, 2019, approximately \$5.7 million was available for the declaration of dividends to shareholders. Under the Companies Act, AMIC Ltd. would be prohibited from declaring or paying a dividend 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. 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, 2019 and 2018 these requirements have been met as follows:

	Statutory Capital & Surplus		Relevant Assets	
	Minimum	Actual	Minimum	Actual
December 31, 2019 .....	\$2,094,907	\$41,029,273	\$34,466,903	\$40,204,160
December 31, 2018 .....	\$1,948,389	\$38,660,378	\$29,027,748	\$29,027,748

The BMA has authorized Investco to purchase our common shares from shareholders who have died or retired from the practice of public accounting and on a negotiated basis. Through March 1, 2020, Investco had purchased 224,538 common shares from shareholders who had died or retired for a total purchase price of \$6,379,286. 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 development. 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 claim development 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, 2019. We review the actuarial estimates throughout the year for the possible impact on our financial position.

Loss reserves relate to accountants' and attorneys' professional liability from C&F programs, and were calculated under the methodologies described below. During 2019, losses emerged at levels consistent with expectations.

C&F was a new program for us 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 September 30, 2019, separately for accountants and lawyers experience. Policy year ultimate losses are projected to December 31, 2019 on a combined accountants and lawyers experience basis by reviewing the actual loss emergence in the 4<sup>th</sup> calendar quarter of 2019 compared to the expected emergence implied by the average of the paid and incurred loss development patterns selected as of September 30, 2019. 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 our unpaid claim liability review of C&F experience as of December 31, 2018. 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:

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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 shareholders and the Board of Directors of  
AmerInst Insurance Group, Ltd.

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of AmerInst Insurance Group, Ltd. and subsidiaries (the “Company”) as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income (loss), changes in shareholders’ equity, and cash flows, for each of the two years in the period ended December 31, 2019, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting 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.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte Ltd.

Hamilton, Bermuda  
March 30, 2020

We have served as the Company’s auditor since 1998.



**AMERINST INSURANCE GROUP, LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
**December 31, 2019 and 2018**  
**(expressed in U.S. dollars)**

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Investments (Notes 3 and 4):		
Fixed maturity investments, at fair value (amortized cost \$15,564,687 and \$14,806,427) .....	\$15,668,317	\$14,588,080
Equity securities, at fair value (cost \$10,889,683 and \$12,145,120) .....	15,365,299	13,445,226
<b>TOTAL INVESTMENTS</b> .....	<b>31,033,616</b>	<b>28,033,306</b>
Cash and cash equivalents .....	6,589,810	5,498,914
Restricted cash and cash equivalents .....	1,169,805	472,132
Assumed reinsurance premiums receivable .....	5,695,847	2,651,863
Accrued investment income .....	104,935	88,569
Property and equipment (Note 5) .....	1,105,513	776,382
Deferred income taxes (Note 10) .....	2,564,000	2,730,000
Deferred policy acquisition costs .....	1,964,052	1,869,368
Prepaid expenses and other assets .....	2,019,622	1,981,913
<b>TOTAL ASSETS</b> .....	<b><u>\$52,247,200</u></b>	<b><u>\$44,102,447</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Unpaid losses and loss adjustment expenses (Note 6) .....	\$13,966,044	\$12,989,260
Unearned premiums .....	5,308,398	5,051,847
Assumed reinsurance payable .....	6,756,177	2,171,767
Accrued expenses and other liabilities .....	5,873,130	5,934,408
<b>TOTAL LIABILITIES</b> .....	<b><u>\$31,903,749</u></b>	<b><u>\$26,147,282</u></b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Common shares, \$1 par value, 2019 and 2018: 2,000,000 shares authorized, 995,253 issued and outstanding .....	\$ 995,253	\$ 995,253
Additional paid-in-capital .....	6,465,776	6,393,730
Retained earnings .....	21,842,409	19,725,581
Accumulated other comprehensive income (loss) .....	103,630	(218,348)
Shares held by Subsidiary (369,576 and 365,198 shares) at cost .....	(9,063,617)	(8,941,051)
<b>TOTAL SHAREHOLDERS' EQUITY</b> .....	<b><u>20,343,451</u></b>	<b><u>17,955,165</u></b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> .....	<b><u>\$52,247,200</u></b>	<b><u>\$44,102,447</u></b>

See accompanying notes to the consolidated financial statements.

**AMERINST INSURANCE GROUP, LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**years ended December 31, 2019 and 2018**  
**(expressed in U.S. dollars)**

	<u>2019</u>	<u>2018</u>
REVENUES		
Net premiums earned (Note 8) .....	\$11,348,596	\$10,132,515
Commission income .....	5,800,987	5,497,779
Net investment income (Note 4) .....	478,111	384,409
Net realized and unrealized gain (loss) on investments (Note 4) .....	4,074,997	(2,249,172)
TOTAL REVENUES .....	<u>21,702,691</u>	<u>13,765,531</u>
LOSSES AND EXPENSES		
Losses and loss adjustment expenses (Note 6) .....	8,028,735	6,235,474
Policy acquisition costs .....	4,199,239	3,748,958
Operating and management expenses (Note 9) .....	6,847,921	6,598,204
TOTAL LOSSES AND EXPENSES .....	<u>19,075,895</u>	<u>16,582,636</u>
INCOME (LOSS) BEFORE TAX .....	<u>2,626,796</u>	<u>(2,817,105)</u>
Tax expense (benefit) (Note 10) .....	214,277	(2,701,396)
NET INCOME (LOSS) AFTER TAX .....	<u>\$ 2,412,519</u>	<u>\$ (115,709)</u>
NET INCOME (LOSS) PER SHARE		
Basic .....	\$ 3.83	\$ (0.18)
Diluted .....	<u>\$ 3.81</u>	<u>\$ (0.18)</u>
Weighted average number of common shares outstanding for the year		
Basic .....	630,210	641,918
Diluted .....	<u>633,395</u>	<u>641,918</u>

See accompanying notes to the consolidated financial statements.

**AMERINST INSURANCE GROUP, LTD.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**years ended December 31, 2019 and 2018**  
**(expressed in U.S. dollars)**

	<u>2019</u>	<u>2018</u>
NET INCOME (LOSS) AFTER TAX .....	\$2,412,519	\$(115,709)
OTHER COMPREHENSIVE INCOME (LOSS)		
Net unrealized holding gains (losses) arising during the period .....	321,978	(154,558)
Reclassification adjustment for gains included in net income .....	—	—
TOTAL OTHER COMPREHENSIVE INCOME (LOSS) .....	<u>321,978</u>	<u>(154,558)</u>
COMPREHENSIVE INCOME (LOSS) .....	<u>\$2,734,497</u>	<u>\$(270,267)</u>

See accompanying notes to the consolidated financial statements.

**AMERINST INSURANCE GROUP, LTD.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**years ended December 31, 2019 and 2018**  
**(expressed in U.S. dollars)**

	<u>Common Shares</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Losses)</u>	<u>Shares Held by Subsidiary</u>	<u>Total Shareholders' Equity</u>
BALANCE AT DECEMBER 31,						
2017 .....	<u>\$995,253</u>	<u>\$6,323,450</u>	<u>\$15,061,757</u>	<u>\$ 5,029,160</u>	<u>\$(8,454,506)</u>	<u>\$18,955,114</u>
Net loss .....	—	—	(115,709)	—	—	(115,709)
Issuance of stock option awards ....	—	70,280	—	—	—	70,280
Other comprehensive loss						
Unrealized (losses) on						
securities, net of						
reclassification						
adjustment .....	—	—	—	(154,558)	—	(154,558)
Purchase of shares by subsidiary,						
net .....	—	—	—	—	(486,545)	(486,545)
Dividends (\$0.50 per share) .....	—	—	(313,417)	—	—	(313,417)
Cumulative effect of adoption of						
accounting guidance						
(ASU 2016-01) .....	—	—	5,092,950	(5,092,950)	—	—
BALANCE AT DECEMBER 31,						
2018 .....	<u>\$995,253</u>	<u>\$6,393,730</u>	<u>\$19,725,581</u>	<u>\$ (218,348)</u>	<u>\$(8,941,051)</u>	<u>\$17,955,165</u>
Net income .....	—	—	2,412,519	—	—	2,412,519
Stock option awards expense .....	—	72,046	—	—	—	72,046
Other comprehensive gain						
Unrealized gain on securities,						
net of reclassification						
adjustment .....	—	—	—	321,978	—	321,978
Purchase of shares by subsidiary,						
net .....	—	—	—	—	(122,566)	(122,566)
Dividends (\$0.50 per share) .....	—	—	(295,691)	—	—	(295,691)
BALANCE AT DECEMBER 31,						
2019 .....	<u>\$995,253</u>	<u>\$6,465,776</u>	<u>\$21,842,409</u>	<u>\$ 103,630</u>	<u>\$(9,063,617)</u>	<u>\$20,343,451</u>

See accompanying notes to the consolidated financial statements.



**AMERINST INSURANCE GROUP, LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**years ended December 31, 2019 and 2018**  
**(expressed in U.S. dollars)**

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss) .....	\$ 2,412,519	\$ (115,709)
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of net premiums on investments .....	50,812	50,368
Stock option awards expense .....	72,046	—
Issuance of stock option awards .....	—	70,280
Depreciation and amortization on property and equipment .....	212,778	106,873
Net realized and unrealized (gains) losses on investments .....	(4,074,997)	2,249,172
Changes in assets and liabilities:		
Assumed reinsurance premiums receivable .....	(3,043,984)	(276,234)
Accrued investment income .....	(16,366)	(5,224)
Deferred income taxes .....	166,000	(2,730,000)
Deferred policy acquisition costs .....	(94,684)	(246,692)
Prepaid expenses and other assets .....	(37,709)	(299,612)
Liability for losses and loss adjustment expenses .....	976,784	1,760,753
Unearned premiums .....	256,551	666,493
Assumed reinsurance payable .....	4,584,410	287,888
Accrued expenses and other liabilities .....	(61,278)	572,965
Net cash provided by operating activities .....	<u>1,402,882</u>	<u>2,091,321</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment .....	(541,909)	(567,189)
Purchases of available-for-sale securities .....	(7,781,665)	(7,694,369)
Proceeds from sales of available-for-sale securities .....	4,412,518	4,045,798
Proceeds from redemptions of hedge fund investments .....	—	6,491
Proceeds from redemptions of fixed maturity investments .....	540,000	—
Proceeds from maturities of fixed maturity investments .....	4,175,000	3,170,000
Net cash provided by (used in) investing activities .....	<u>803,944</u>	<u>(1,039,269)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid .....	(295,691)	(313,417)
Purchase of shares by subsidiary, net .....	(122,566)	(486,545)
Net cash used in financing activities .....	<u>(418,257)</u>	<u>(799,962)</u>
<b>NET CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH ..</b>	<b>1,788,569</b>	<b>252,090</b>
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF</b>		
<b>    YEAR .....</b>	<b><u>5,971,046</u></b>	<b><u>5,718,956</u></b>
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR ....</b>	<b><u>\$ 7,759,615</u></b>	<b><u>\$ 5,971,046</u></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 provided 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, Protexure Insurance Agency, Inc. (formerly AmerInst Professional Services, Limited), an indirect wholly-owned subsidiary (“Protexure”), 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 Protexure as an 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, 2019.

In January 2017, Protexure acquired the renewal rights to a book of lawyers’ professional liability business, at a cost of \$468,821. Protexure procured a loan in the amount of \$385,000 to assist in the completion of this purchase. In accordance with the related loan agreement, this loan is 100% secured by assets held by Protexure. At December 31, 2018, the outstanding amount of this loan was \$250,250 and was fully repaid January 2019.

##### *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 Protexure 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 to the other party.

#### **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., Protexure and AmerInst Investment Company, Ltd. (“Investco”). Intercompany accounts and transactions have been eliminated on consolidation.

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

## AMERINST INSURANCE GROUP, LTD.

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

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 its fixed maturity investments as available-for-sale. Accordingly, AmerInst reports these fixed income 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 fixed maturity 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 fixed maturity investments below cost are evaluated for other than temporary impairment losses. The evaluation for other than temporary impairment losses is a quantitative and qualitative

## AMERINST INSURANCE GROUP, LTD.

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

process which is subject to risks and uncertainties in the determination of whether declines in the fair value of fixed maturity 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 fixed maturity security below its cost basis be assessed to determine if the decline is other than temporary. If so, the fixed maturity 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.

AmerInst classifies its equity securities as available-for-sale. Our equity investments are carried at fair value and as a result of our adoption of ASU-2016-01 on January 1, 2018, the changes in fair value of our equity investments subsequent to January 1, 2018 are recognized within net realized and unrealized gains (losses) on the consolidated statement of operations.

#### *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. Diluted earnings per share reflect the impact of the Company's stock option plan.



## AMERINST INSURANCE GROUP, LTD.

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

#### *New Accounting Pronouncements*

##### *New Accounting Standards Adopted in 2019*

#### Leases

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, which is codified in Accounting Standards Codification (“ASC”) 842, amending the guidance on the classification, measurement and disclosure of leases for both lessors and lessees. The ASU requires lessees to recognize a right-of-use asset and an offsetting lease liability on the balance sheet and to disclose qualitative and quantitative information about leasing arrangements. Subsequently, in July 2018, the FASB issued ASU 2018-10, which clarifies how to apply certain aspects of ASC 842. The amendments in the ASU address a number of issues in the new leases guidance, including (1) the rate implicit in the lease, (2) impairment of the net investment in the lease, (3) lessee reassessment of lease classification, (4) lessor reassessment of lease term and purchase options, (5) variable payments that depend on an index or rate, and (6) certain transition adjustments.

In July 2018, the FASB also issued ASU 2018-11, which adds a transition option for all entities and a practical expedient only for lessors to ASU 2016-02. The transition option, which we elected on adoption of the guidance, allows entities to choose not to apply the new leases standard in the comparative periods they present in their financial statements in the year of adoption. Under the transition option, entities can instead opt to continue to apply the legacy guidance in ASC 840—Leases, including its disclosure requirements, in the comparative periods presented in the year they adopt the new leases standard. This means that entities that elect this option will only provide annual disclosures for the comparative periods because ASC 840 does not require interim disclosures. Entities that elect this transition option will still be required to adopt the new leases standard using the modified retrospective transition method required by the standard, but they will recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption rather than in the earliest period presented. The practical expedient provides lessors with an option to not separate the non-lease components from the associated lease components when certain criteria are met and requires them to account for the combined component in accordance with the revenue recognition standard in ASC 606 if the associated non-lease components are the predominant components.

The Company adopted the new leasing standard and the related amendments on January 1, 2019. The Company believes the most significant change relates to the recognition of new right of use assets and lease liabilities on the consolidated balance sheet for Protexure’s real estate operating lease. These assets and liabilities, which are included in the “Prepaid expenses and other assets” line and “Accrued expenses and other liabilities” line of the Condensed Consolidated Balance Sheets, respectively, represent less than 1% of the Company’s total assets and total liabilities. The adoption did not have a material impact on its consolidated financial statements.

#### Changes to the Disclosure Requirements for Fair Value Measurements

In August 2018, the FASB issued ASU 2018-13, which amended the fair value measurement guidance in ASC 820—Fair Value Measurement, by removing and modifying certain existing disclosure requirements, while also adding new disclosure requirements. . We adopted the new standard as of December 31, 2019 however these new or modified disclosures did not have a material impact on the fair value measurement disclosures included in our consolidated financial statements.

## AMERINST INSURANCE GROUP, LTD.

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

#### Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued ASU 2018-02, which gives entities the option to reclassify to retained earnings tax effects related to items in accumulated other comprehensive income (“AOCI”) that are deemed stranded in AOCI as a result of the Tax Cuts and Jobs Act (the “Tax Act”) enacted in the United States at the end of 2017. The amendments in this guidance eliminate the stranded tax effects resulting from the Tax Act and will improve the usefulness of information reported to financial statement users. We adopted the new standard on January 1, 2019 and that adoption did not have a material impact on our consolidated financial statements and related disclosures.

#### Premium Amortization on Purchased Callable Debt Securities

Effective January 1, 2019, the Company adopted ASU 2017-08, “Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20)—Premium Amortization on Purchased Callable Debt Securities,” which shortens the amortization period for certain purchased callable debt securities held at a premium. The adoption of this guidance did not materially impact the Company’s results of operations, financial condition or liquidity.

#### *Accounting Standards Not Yet Adopted*

#### 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 Company’s insurance premium balances receivable are also more significant financial assets within the scope of ASU 2016-13. The guidance requires financial assets to be presented at the net amount expected to be collected. The tentative effective date for the ASU is January 1, 2023. 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, 2019 and 2018, 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 \$20,940,689 and \$18,247,384, respectively.

In January 2017, Protexure acquired the renewal rights to a book of lawyers’ professional liability business, at a cost of \$468,821. Protexure procured a loan in the amount of \$385,000 to assist in the completion of this purchase. In accordance with the related loan agreement, this loan was 100% secured by assets held by Protexure. At December 31, 2018, the outstanding amount of this loan was \$250,250 and it was fully repaid January 2019.

Cash and Cash Equivalents at December 31, 2019 and 2018 include \$4,337,506 and \$3,962,032 held by Protexure in a fiduciary capacity, 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, 2019 and 2018 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, 2019				
Fixed maturity investments:				
U.S. government agency securities . . . . .	\$ 4,731,181	\$ 38,524	\$ (1,086)	\$ 4,768,619
Obligations of U.S. states and political subdivisions . . .	3,188,217	29,521	(5,936)	3,211,802
Corporate debt securities . . . . .	7,645,289	45,080	(2,473)	7,687,896
Total fixed maturity investments . . . . .	<u>15,564,687</u>	<u>113,125</u>	<u>(9,495)</u>	<u>15,668,317</u>
Equity securities . . . . .	<u>10,889,683</u>	<u>4,854,179</u>	<u>(378,563)</u>	<u>15,365,299</u>
Total equity securities . . . . .	<u>10,889,683</u>	<u>4,854,179</u>	<u>(378,563)</u>	<u>15,365,299</u>
Total investments . . . . .	<u>\$26,454,370</u>	<u>\$4,967,304</u>	<u>\$ (388,058)</u>	<u>\$31,033,616</u>
	<u>Cost or Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
December 31, 2018				
Fixed maturity investments:				
U.S. government agency securities . . . . .	\$ 6,739,840	\$ 287	\$ (66,395)	\$ 6,673,732
Obligations of U.S. states and political subdivisions . . .	1,908,719	7,735	(13,514)	1,902,940
Corporate debt securities . . . . .	6,157,868	—	(146,460)	6,011,408
Total fixed maturity investments . . . . .	<u>14,806,427</u>	<u>8,022</u>	<u>(226,369)</u>	<u>14,588,080</u>
Equity securities . . . . .	<u>12,145,120</u>	<u>2,596,269</u>	<u>(1,296,163)</u>	<u>13,445,226</u>
Total equity securities . . . . .	<u>12,145,120</u>	<u>2,596,269</u>	<u>(1,296,163)</u>	<u>13,445,226</u>
Total investments . . . . .	<u>\$26,951,547</u>	<u>\$2,604,291</u>	<u>\$(1,522,532)</u>	<u>\$28,033,306</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:

	<u>12 months or greater</u>		<u>Less than 12 months</u>		<u>Total</u>	
	<u>Estimated Fair Value</u>	<u>Unrealized Losses</u>	<u>Estimated Fair Value</u>	<u>Unrealized Losses</u>	<u>Estimated Fair Value</u>	<u>Unrealized Losses</u>
December 31, 2019						
Fixed maturity investments:						
U.S. government agency securities . . . . .	\$ —	\$ —	\$ 1,528,838	\$ (1,086)	\$ 1,528,838	\$ (1,086)
Obligations of states and political subdivisions . .	—	—	601,053	(5,936)	601,053	(5,936)
Corporate debt securities . .	743,360	(2,473)	—	—	743,360	(2,473)
Total fixed maturity investments . . . . .	743,360	(2,473)	2,129,891	(7,022)	2,873,251	(9,495)
Equity securities . . . . .	336,321	(119,313)	1,496,152	(259,250)	1,832,473	(378,563)
Total equity securities . . . .	336,321	(119,313)	1,496,152	(259,250)	1,832,473	(378,563)
Total investments . . . . .	\$1,079,681	\$(121,786)	\$ 3,626,043	\$ (266,272)	\$ 4,705,724	\$ (388,058)

	<u>12 months or greater</u>		<u>Less than 12 months</u>		<u>Total</u>	
	<u>Estimated Fair Value</u>	<u>Unrealized Losses</u>	<u>Estimated Fair Value</u>	<u>Unrealized Losses</u>	<u>Estimated Fair Value</u>	<u>Unrealized Losses</u>
December 31, 2018						
Fixed maturity investments:						
U.S. government agency securities . . . . .	\$3,389,369	\$ (55,015)	\$ 2,788,235	\$ (11,380)	\$ 6,177,604	\$ (66,395)
Obligations of states and political subdivisions . .	766,118	(13,166)	139,651	(348)	905,769	(13,514)
Corporate debt securities . .	4,498,396	(125,689)	1,513,012	(20,771)	6,011,408	(146,460)
Total fixed maturity investments . . . . .	8,653,883	(193,870)	4,440,898	(32,499)	13,094,781	(226,369)
Equity securities . . . . .	97,708	(40,981)	5,683,065	(1,255,182)	5,780,773	(1,296,163)
Total equity securities . . . .	97,708	(40,981)	5,683,065	(1,255,182)	5,780,773	(1,296,163)
Total investments . . . . .	\$8,751,591	\$(234,851)	\$10,123,963	\$(1,287,681)	\$18,875,554	\$(1,522,532)

As of December 31, 2019, there were 8 fixed income securities (2018: 35 securities) in an unrealized loss position with an estimated fair value of \$2,873,251 (2018: \$13,094,781). Of these fixed income securities, 2 (2018: 21) had been in an unrealized loss position for 12 months or greater. As of December 31, 2019, none of the fixed income securities were considered to be other than temporarily impaired. The Company has the intent to hold these fixed income securities and it is not more likely than not that the Company will be required to sell these fixed income securities before their fair values recover above the adjusted cost. The unrealized losses from these fixed income securities were not a result of credit, collateral or structural issues.



**AMERINST INSURANCE GROUP, LTD.**

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

The cost or amortized cost and estimated fair value of fixed maturity investments at December 31, 2019 and 2018 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, 2019		
Due in one year or less . . . . .	\$ 2,539,709	\$ 2,542,229
Due after one year through five years . . . . .	12,518,738	12,619,593
Due after five years through ten years . . . . .	506,240	506,495
Total . . . . .	<u>\$15,564,687</u>	<u>\$15,668,317</u>
	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
December 31, 2018		
Due in one year or less . . . . .	\$ 4,434,013	\$ 4,429,510
Due after one year through five years . . . . .	9,851,410	9,644,270
Due after five years through ten years . . . . .	521,004	514,300
Total . . . . .	<u>\$14,806,427</u>	<u>\$14,588,080</u>

Information on sales and maturities of investments during the twelve months ended December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Total proceeds on sales of available-for-sale securities . . . . .	\$4,412,518	\$ 4,045,798
Total proceeds from redemptions of hedge fund investments . . . . .	—	6,491
Total proceeds from redemptions of fixed maturity investments . . . . .	540,000	—
Total proceeds from maturities of fixed maturity investments . . . . .	4,175,000	3,170,000
Gross gains on sales . . . . .	1,497,860	1,566,109
Gross losses on sales . . . . .	(598,373)	(22,437)
Impairment losses . . . . .	—	—
Net unrealized losses on equity investments (1) . . . . .	3,175,510	(3,792,844)
Total . . . . .	<u>\$4,074,997</u>	<u>\$(2,249,172)</u>

*(1) Effective January 1, 2018, the Company adopted ASU No. 2016-01. The change in fair value of equity securities is recognized in net realized and unrealized gain (loss) on investment.*

**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, 2019 and 2018.

	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, 2019					
U.S. government agency securities . . . .	\$ 4,768,619	\$ 4,768,619	\$ —	\$ 4,768,619	\$—
Obligations of U.S. state and political subdivisions . . . . .	3,211,802	3,211,802		3,211,802	
Corporate debt securities . . . . .	7,687,896	7,687,896		7,687,896	
Total fixed maturity investments . . . . .	15,668,317	15,668,317			
Equity securities . . . . .	15,365,299	15,365,299	15,365,299		
Total equity securities . . . . .	15,365,299	15,365,299			
Total investments . . . . .	<u>\$31,033,616</u>	<u>\$31,033,616</u>	<u>\$15,365,299</u>	<u>\$15,668,317</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, 2018					
U.S. government agency securities . . . .	\$ 6,673,732	\$ 6,673,732	\$ —	\$ 6,673,732	\$—
Obligations of U.S. state and political subdivisions . . . . .	1,902,940	1,902,940		1,902,940	
Corporate debt securities . . . . .	6,011,408	6,011,408		6,011,408	
Total fixed maturity investments . . . . .	14,588,080	14,588,080			
Equity securities . . . . .	13,445,226	13,445,226	13,445,226		
Total equity securities . . . . .	13,445,226	13,445,226			
Total investments . . . . .	<u>\$28,033,306</u>	<u>\$28,033,306</u>	<u>\$13,445,226</u>	<u>\$14,588,080</u>	<u>\$—</u>

There were no transfers between Levels 1 and 2 during the years ended December 31, 2019 and 2018.

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, 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

## AMERINST INSURANCE GROUP, LTD.

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

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, 2019 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. We consider 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.

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

**AMERINST INSURANCE GROUP, LTD.**

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

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, 2018. 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.

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

	<u>2019</u>	<u>2018</u>
Interest earned:		
Fixed maturity investments . . . . .	\$ 348,551	\$ 335,047
Short term investments and cash and cash equivalents . . . . .	69,218	20,210
Dividends earned . . . . .	209,307	175,688
Investment expenses . . . . .	<u>(148,965)</u>	<u>(146,536)</u>
Net investment income . . . . .	<u>\$ 478,111</u>	<u>\$ 384,409</u>

**5. PROPERTY AND EQUIPMENT**

Property and equipment, all associated with Protexure, at December 31, 2019 and 2018 at cost, less accumulated depreciation and amortization, totaled \$1,105,513 and \$776,382, respectively as follows:

	<u>Cost</u>	<u>Accumulated Depreciation and Amortization</u>	<u>Total</u>
December 31, 2019			
Furniture and fixtures . . . . .	\$ 36,705	\$ 26,668	\$ 10,037
Office equipment . . . . .	107,392	54,309	53,083
Computer equipment . . . . .	23,161	14,014	9,147
Internal use software . . . . .	<u>1,412,316</u>	<u>379,070</u>	<u>1,033,246</u>
Total . . . . .	<u>\$1,579,574</u>	<u>\$474,061</u>	<u>\$1,105,513</u>

	<u>Cost</u>	<u>Accumulated Depreciation and Amortization</u>	<u>Total</u>
December 31, 2018			
Furniture and fixtures . . . . .	\$ 36,705	\$ 21,424	\$ 15,281
Office equipment . . . . .	107,392	38,967	68,425
Computer equipment . . . . .	20,111	9,868	10,243
Internal use software . . . . .	<u>873,457</u>	<u>191,024</u>	<u>682,433</u>
Total . . . . .	<u>\$1,037,665</u>	<u>\$261,283</u>	<u>\$ 776,382</u>



**AMERINST INSURANCE GROUP, LTD.**

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

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

Details of the liability for unpaid losses and loss adjustment expenses at December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Case basis estimates .....	\$ 5,334,543	\$ 4,313,320
IBNR reserves .....	8,631,501	8,675,940
Totals .....	<u>\$13,966,044</u>	<u>\$12,989,260</u>

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

	<u>2019</u>	<u>2018</u>
Liability—beginning of year .....	\$12,989,260	\$11,228,507
Incurred related to:		
Current year .....	6,575,056	5,450,400
Prior years .....	1,453,679	785,074
Total incurred .....	<u>8,028,735</u>	<u>6,235,474</u>
Paid related to:		
Current year .....	(807,072)	(559,594)
Prior years .....	(6,244,879)	(3,915,127)
Total paid .....	<u>(7,051,951)</u>	<u>(4,474,721)</u>
Liability—end of year .....	<u>\$13,966,044</u>	<u>\$12,989,260</u>

As a result of the change in estimates of insured events in prior years, the provision for losses and loss adjustment expenses increased by \$1,453,679 and \$785,074 in 2019 and 2018, respectively. The 2019 unfavorable development was primarily due to higher than expected large loss emergence in accident years 2015 and 2018, partially offset by favorable settlements on claims in accident year 2014. The 2018 unfavorable development was primarily due to higher than expected large loss emergence in accident year 2017, partially offset by favorable settlements on claims in accident years 2015 and 2016.

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, 2019. The information related to incurred and paid loss development for the years ended December 31, 2011 through 2018 is presented as supplementary information and is unaudited. The information is presented from 2011, the year the Company began incurring claims on the C&F policies.

*Methodology for Estimating Incurred But Not Reported (IBNR) Reserves*

Claims and claim adjustment expense reserves represent management’s estimate of the ultimate liability for unpaid losses and allocated loss adjustment expenses (“ALAE”) for claims that have been reported as of the balance sheet date. Claims and claim adjustment expense reserves do not represent an exact calculation of the liability, but instead represent management estimates, primarily utilizing actuarial expertise and projection methods that develop estimates for the ultimate cost of claims and claim adjustment expenses. Because the establishment of claims and claims adjustment expense reserves is an inherently uncertain process involving estimates and judgment, currently estimated claims and claim adjustment expense reserves may change. The Company reflects changes to the reserves in the results of operations in the period the estimates are changed.

## AMERINST INSURANCE GROUP, LTD.

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

Cumulative amounts paid and case reserves held as of the balance sheet date are subtracted from the estimate of the ultimate cost of claims and claim adjustment expenses to derive IBNR reserves. Accordingly, IBNR reserves includes development on known claims and re-opened claims but not unreported claims because the Company currently only writes coverages on a claims-made basis with limited potential for reporting claims after the expiration of the policy. This approach to estimating IBNR reserves has been in place for several years, with no significant changes in methodology in the past year.

Detailed claim data is typically insufficient to produce a fully reliable indication of the initial estimate for ultimate claims and claim adjustment expenses for a given policy year. As a result, the initial estimate of ultimate loss for a policy year is generally based on the selected ultimate loss in prior year's review and averages of previous policy year ultimate loss ratios trended forward to the current policy year level.

For prior policy years, the (i) the paid loss development method, (ii) the case incurred development method, (iii) the Bornhuetter-Ferguson ("B-F") method and (iv) the Cape Cod method are principally used by the Company's actuaries to estimate the ultimate cost of claims and claim adjustment expenses. These estimation and analysis methods are typically referred to as conventional actuarial methods.

For this table, the Company allocates ultimate loss and ALAE by policy year and development age to accident year primarily based on the proportion of accident year case incurred losses within a given policy year.

#### *Methodology for Determining Cumulative Number of Reported Claims*

A claim file is created when the Company is notified of an actual demand for payment, notified of an event that may lead to a demand for payment or when it is determined that a demand for payment could possibly lead to a future demand for payment on another policy. Claim files are created for a policy at the claimant by coverage level, depending on the particular facts and circumstances of the underlying event.

The Company has accumulated claims count information by accident year from the loss data for all claims reported as at December 31, 2019 it received from C&F. 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, re-opened, closed with payment and closed without payment.

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

## (dollars in thousands)

Accident Year	For the Years Ended December 31,									Liability for Claims And Allocated Claim Adjustment Expenses Net of Reinsurance	Before 2011
	2011	2012	2013	2014	2015	2016	2017	2018	2019		
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)		
	Paid Claims and Allocated Claim Adjustment Expense, Net of Reinsurance									2011 - 2019	
2011 .....	\$—	\$165	\$167	\$201	\$260	\$ 262	\$ 262	\$ 262	\$ 262		
2012 .....		64	188	280	327	329	350	350	350		
2013 .....			58	488	707	715	808	812	817		
2014 .....				67	680	1,018	1,928	1,978	1,962		
2015 .....					121	1,356	2,337	2,896	3,400		
2016 .....						737	1,693	2,508	3,352		
2017 .....							438	2,904	5,496		
2018 .....								560	2,869		
2019 .....									807		
								Total	\$19,315	\$13,908	N/A
								Net Under Reinsurance Agreement			\$13,908
								Other			58
								Total net liability			\$13,966

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								
	1	2	3	4	5	6	7	8	9
	8.4%	36.8%	20.3%	17.3%	9.4%	1.6%	0.1%	0.0%	0.0%

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

## **AMERINST INSURANCE GROUP, LTD.**

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

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.

#### **8. PREMIUMS WRITTEN**

Premiums written were \$11,605,148 and \$10,799,007 during 2019 and 2018, respectively. The premiums written during the year ended December 31, 2019 and 2018 were attributable to premium cessions from C&F under the Reinsurance Agreement.

#### **9. OPERATING AND MANAGEMENT EXPENSES**

With the exception of Protexure, 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 \$353,000 and \$327,500 in fees during 2019 and 2018, respectively.

Operating and management expenses include compensation paid to members of the Board of Directors and various committees of the Board totaling \$493,250 in 2019 and \$504,150 in 2018. Included as a part of this 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, 2019 and 2018, 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.

#### **10. TAXATION**

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

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

## AMERINST INSURANCE GROUP, LTD.

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

Estimates of future taxable income, including income generated from prudent and feasible actions and tax planning strategies could change in the near term, perhaps materially, which may require us to consider any potential impact to our assessment of the recoverability of the deferred tax asset. Such potential impact could be material to our consolidated financial condition or results of operations for an individual reporting period.

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:

	<u>2019</u>	<u>2018</u>
Earnings before income tax .....	\$2,626,796	\$ —
Expected tax .....	—	—
Foreign taxes at local expected rates .....	48,277	29,000
Change in deferred tax asset of US subsidiary .....	166,000	—
Deferred tax expense from enacted rate reductions .....	—	—
Change in valuation allowance .....	—	(2,730,000)
Net tax expense (benefit) .....	<u>\$ 214,277</u>	<u>\$(2,701,000)</u>

Deferred income taxes, arising from Protexure, reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. Management has reduced deferred tax assets by a valuation allowance as the ability of the Company to realize these benefits has not certain at this time. The components of net deferred income tax assets and liabilities are comprised of the following:

	<u>2019</u>	<u>2018</u>
Capitalized start-up expenses .....	\$ 73,000	\$ 87,000
Operating loss carryforwards .....	1,769,000	1,800,000
Unearned commission income .....	74,000	91,000
Accrued interest to parent .....	650,000	764,000
Depreciation and amortization .....	(2,000)	(12,000)
<b>Deferred tax assets</b> .....	<u>\$2,564,000</u>	<u>\$2,730,000</u>

At December 31, 2019, the deferred tax assets are based on loss carryforwards of \$6.2 million, which expire in 12 to 18 years.

## 11. DIVIDEND RESTRICTIONS AND STATUTORY REQUIREMENTS

AMIC Ltd.'s ability to pay dividends to AmerInst is subject to the provisions of the Bermuda insurance and companies laws and the requirement to provide the ceding companies with collateral. Under the Companies Act, AMIC Ltd. would be prohibited from declaring or paying a dividend 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. 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. In addition, under its reinsurance agreements the Company is required to provide the ceding companies with collateral. As of December 31, 2019, approximately \$5.7 million was available for the declaration of dividends to shareholders.



## AMERINST INSURANCE GROUP, LTD.

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

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, 2019 and 2018 these requirements have been met as follows:

	Statutory Capital & Surplus		Relevant Assets	
	Minimum	Actual	Minimum	Actual
December 31, 2019 . . . . .	\$2,094,907	\$41,029,273	\$34,466,903	\$40,204,160
December 31, 2018 . . . . .	\$1,948,389	\$38,660,378	\$29,027,748	\$29,027,748

Statutory loss for the years ended December 31, 2019 and 2018 was \$1,237,746 and \$680,725, respectively.

## 12. 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, 2019		
	Reinsurance Segment	Insurance Segment	Total
Revenues . . . . .	\$15,853,490	\$5,849,201	\$21,702,691
Total losses and expenses . . . . .	13,838,051	5,237,844	19,075,895
Tax expense . . . . .	—	214,277	214,277
Segment income . . . . .	2,015,439	397,080	2,412,519
Identifiable assets . . . . .	—	1,105,513	1,105,513

	As of and for the Year Ended December 31, 2018		
	Reinsurance Segment	Insurance Segment	Total
Revenues . . . . .	\$ 8,258,126	\$5,507,405	\$13,765,531
Total losses and expenses . . . . .	11,527,532	5,055,104	16,582,636
Tax benefit . . . . .	—	2,701,396	2,701,396
Segment (loss) income . . . . .	(3,269,406)	3,153,697	(115,709)
Identifiable assets . . . . .	—	776,382	776,382

## 13. STOCK COMPENSATION

### Phantom Shares:

Protexure has employment agreements with three key members of senior management, including one of our named executive officers, Kyle Nieman, the President of Protexure, which grant them phantom shares of the Company. Under these agreements, these employees were initially granted an aggregate of 63,765 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, 2019, 1,397 phantom shares were granted arising from the dividends declared on the Company's common shares. 76,403 phantom shares were outstanding at December 31, 2019.

# AMERINST INSURANCE GROUP, LTD.

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

For these three employees, including Mr. Nieman, the phantom shares initially granted, as well as any additional shares granted from dividends declared, vested on January 1, 2015. The liability payable to each of 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 (i) the participant's death, termination of employment due to disability, retirement at or after age 65 or resignation for good reason, (ii) upon termination of the participant by the Company without cause, (iii) upon termination by Participant without good reason and (iv) change in control.

During the fourth quarter of 2019, one former key member of Protexure's senior management forfeited his interest in his 12,630 phantom shares, which vested on January 1, 2018, as a result of his termination from Protexure without cause. Due to the overall decrease in the net book value of the Company's common shares since the grant date of his phantom shares, there is no liability payable by the Company to this former employee relating to these phantom shares.

The following table provides a reconciliation of the beginning and ending balance of vested phantom shares for the year ended December 31, 2019:

	<u>Number of Phantom Shares</u>
Outstanding—beginning .....	87,636
Granted—arising from dividends declared during the year .....	1,397
Forfeited—due to departure from Protexure .....	<u>(12,630)</u>
Outstanding—ending .....	<u>76,403</u>

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, 2019.

### Stock Option Plan:

A summary of the status of the stock option plan as of December 31, 2019 is as follows:

	<u>Vested Shares</u>	<u>Weighted Average Exercise Price Per Share</u>	<u>Non-vested Shares</u>	<u>Weighted Average Exercise Price Per Share</u>	<u>Total Shares</u>	<u>Weighted Average Exercise Price Per Share</u>
<b>Outstanding—January 1, 2019</b> .....	7,000	\$27.99	40,000	\$28.71	47,000	\$28.60
Granted .....	—	—	—	—	—	—
Forfeited .....	—	—	(2,000)	30.14	(2,000)	30.14
Exercised .....	—	—	—	—	—	—
Vested .....	9,400	28.60	(9,400)	28.60	—	—
<b>Outstanding—December 31, 2019</b> .....	16,400	\$28.34	28,600	\$28.65	45,000	\$28.54
Options exercisable at year end .....	—	—	—	—	—	—
Weighted average fair value of options per share granted during the year .....	—	—	\$ —	—	\$ —	—
Remaining contractual life (years) .....	3.2		3.3		3.3	

**AMERINST INSURANCE GROUP, LTD.**

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

A summary of the status of the stock option plan as of December 31, 2018 is as follows:

	<u>Vested Shares</u>	<u>Weighted Average Exercise Price Per Share</u>	<u>Non-vested Shares</u>	<u>Weighted Average Exercise Price Per Share</u>	<u>Total Shares</u>	<u>Weighted Average Exercise Price Per Share</u>
<b>Outstanding—January 1, 2018</b> .....	—	—	35,000	\$27.99	35,000	\$27.99
Granted .....	—	—	12,000	30.40	12,000	30.40
Forfeited .....	—	—	—	—	—	—
Exercised .....	—	—	—	—	—	—
Vested .....	7,000	27.99	(7,000)	27.99	—	—
<b>Outstanding—December 31, 2018</b> .....	7,000	\$27.99	40,000	\$28.71	47,000	\$28.60
Options exercisable at year end .....	—	—	—	—	—	—
Weighted average fair value of options per share granted during the year .....	—	—	\$ —	—	\$ —	—
Remaining contractual life (years) .....	4.0		4.4		4.4	

The fair value of each option granted during 2019, 2018 and 2017 is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions. No options were granted during 2019.

	<u>2019 Option Grants</u>	<u>2018 Option Grants</u>	<u>2017 Option Grants</u>
Number of options .....	—	12,000	35,000
Weighted fair value per share .....	—	\$ 30.40	\$ 27.99
Expected life (years) .....	—	5	5
Expected volatility .....	—	16.4%	17.2%
Risk-free interest rate .....	—	2.61%	1.62%

Information pertaining to options outstanding at December 31, 2019 is as follows:

Range of exercise price	<u>Options Outstanding</u>			<u>Options Exercisable</u>		
	<u>Number Outstanding</u>	<u>Weighted Average Remaining Contractual Life</u>	<u>Weighted Average Exercise Price</u>	<u>Number Exercisable</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life</u>
\$27.99 .....	21,000	3.0 years	\$27.99	14,000	\$27.99	3.0 years
\$30.58 .....	5,600	4.0 years	\$30.58	1,400	\$30.58	4.0 years
\$30.14 .....	2,000	4.8 years	\$30.14	1,000	\$30.14	4.8 years

Information pertaining to options outstanding at December 31, 2018 is as follows:

Range of exercise price	<u>Options Outstanding</u>			<u>Options Exercisable</u>		
	<u>Number Outstanding</u>	<u>Weighted Average Remaining Contractual Life</u>	<u>Weighted Average Exercise Price</u>	<u>Number Exercisable</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life</u>
\$27.99 .....	28,000	4.0 years	\$27.99	7,000	\$27.99	4.0 years
\$30.58 .....	7,000	5.0 years	\$30.58	—	\$ —	— years
\$30.14 .....	5,000	5.8 years	\$30.14	—	\$ —	— years

## AMERINST INSURANCE GROUP, LTD.

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

At December 31, 2019, there was intrinsic value associated with (i) the 35,000 options granted March 3, 2017, (ii) the 7,000 options granted on January 1, 2018 and (iii) the 5,000 options granted on October 1, 2018 where the market value of the stock as of the close of business at year end was \$32.51 per share as compared with the option exercise prices of \$27.99, \$30.58 and \$30.14, respectively.

The Company accounts for these options in accordance with GAAP, which requires that the fair value of the equity awards be recognized as compensation expense over the period during which the employee is required to provide service in exchange for such an award. The Company is amortizing compensation expense over the vesting period, or five years. The Company recognized \$72,046 and \$70,280 of compensation expense for stock options in the years ended December 31, 2019 and 2018, respectively.

#### 14. COMMITMENTS AND CONTINGENCIES

Protexure leases office space in Lisle, Illinois under a non-cancellable lease agreement that commenced on December 14, 2009 and expires December 31, 2020. The lease is renewable at the option of the lessee under certain conditions.

For operating leases that have a lease term of more than 12 months, the Company recognizes a lease liability and a right-of-use asset in the Company's consolidated balance sheets at the present value of the lease payments at the lease commencement date. At the commencement date, the Company determines lease terms by assuming the exercise of those renewal options that are deemed to be reasonably certain. The exercise of lease renewal options is at the sole discretion of the Company. As the lease contracts generally do not provide an implicit discount rate, the Company used 6%, its estimated incremental borrowing rate based on the information available at commencement date to determine the present value of lease payments.

The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. For the year ended December 31, 2019, the total lease amortization was \$98,800. Cash outflows for this lease was \$106,900. The right of use asset of \$203,618 is included in Prepaid expenses and other assets and the lease liability is included on the Accrued expenses and other liabilities line on Consolidated Balance Sheet as of December 31, 2019.

Minimum lease payments, subsequent to December 31, 2018 are as follows:

2019 .....	\$ 106,872
2020 .....	<u>109,828</u>
Total .....	<u>\$ 216,700</u>

# AMERINST INSURANCE GROUP, LTD.

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

The Company is evaluating its lease needs at the current time.

### 15. UNAUDITED CONDENSED QUARTERLY FINANCIAL DATA

<u>2019</u>	<u>FIRST QUARTER</u>	<u>SECOND QUARTER</u>	<u>THIRD QUARTER</u>	<u>FOURTH QUARTER</u>
Net premiums earned . . . . .	\$2,463,583	\$2,862,026	\$2,815,917	\$ 3,207,070
Commission income . . . . .	1,555,804	1,389,684	1,450,367	1,405,132
Net investment income . . . . .	123,042	106,610	125,491	122,968
Net realized and unrealized gain . . . . .	1,747,325	775,972	72,492	1,479,208
Total revenues . . . . .	<u>\$5,889,754</u>	<u>\$5,134,292</u>	<u>\$4,464,267</u>	<u>\$ 6,214,378</u>
Net (loss) income . . . . .	\$1,669,711	\$ 511,444	\$ (22,537)	\$ 253,901
Basic (loss) income per share . . . . .	\$ 2.65	\$ 0.81	\$ (0.04)	\$ 0.41
Diluted (loss) income per share . . . . .	\$ 2.64	\$ 0.80	\$ (0.04)	\$ 0.41
 <u>2018</u>	 <u>FIRST QUARTER</u>	 <u>SECOND QUARTER</u>	 <u>THIRD QUARTER</u>	 <u>FOURTH QUARTER</u>
Net premiums earned . . . . .	\$2,135,175	\$2,535,703	\$2,554,044	\$ 2,907,593
Commission income . . . . .	1,428,980	1,328,229	1,334,352	1,406,218
Net investment income . . . . .	88,469	87,224	92,215	116,501
Net realized and unrealized (loss) gain . . . . .	(161,060)	489,346	567,054	(3,087,054)
Total revenues . . . . .	<u>\$3,491,564</u>	<u>\$4,440,502</u>	<u>\$4,547,665</u>	<u>\$ 1,343,258</u>
Net (loss) income . . . . .	\$ (315,167)	\$ 147,736	\$ 439,455	\$ (387,733)
Basic (loss) income per share . . . . .	\$ (0.49)	\$ 0.23	\$ 0.68	\$ (0.60)
Diluted (loss) income per share . . . . .	\$ (0.49)	\$ 0.23	\$ 0.68	\$ (0.60)

### 16. SUBSEQUENT EVENTS

The Company evaluated its December 31, 2019 consolidated financial statements for subsequent events through the date the consolidated financial statements were issued. As a result of the spread of the COVID19 coronavirus, economic uncertainties have arisen which are likely to negatively impact net investment returns. Other financial impact could occur though such potential impact is unknown at this time.

### 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, 2019, 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



**AMERINST INSURANCE GROUP, LTD.**

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

that evaluation, our President and Chief Financial Officer each concluded that as of December 31, 2019, 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, 2018.

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 exemption from this requirement for smaller reporting companies under 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 3, 2020 (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 following table provides certain information regarding our 2016 Stock Option Plan as of December 31, 2019.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity Compensation Plans			
Approved by Securities Holders . .	—	—	—
Equity Compensation Plans Not			
Approved by Securities Holders . .	44,500	\$28.54	55,500
Total . . . . .	44,500	\$28.54	55,500

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 3, 2020.

**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 3, 2020.

**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 3, 2020.

## **PART IV**

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

- (a)(1) See Index to Financial Statements and Schedules on page 29.
- (a)(2) See Index to Financial Statements and Schedules on page 29.
- (a)(3) See Index to Exhibits set forth on pages 61 – 62 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 29.

The Index to Exhibits beginning on page 61 of this Annual Report on Form 10-K is incorporated by reference to this Item 15.

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

Not Applicable.

## INDEX TO EXHIBITS

**Year ended December 31, 2019**

<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)(P)
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)(P)
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 May 20, 2019 between Protexure Insurance Agency, Limited and F. Kyle Nieman III effective May 20, 2019
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, 2020*
10.10	Form of Non-Qualified Stock Option Agreement. (filed 3/31/17) (No. 000-28249)
11.1	Statement re Computation of Per Share Earnings.**



<b><u>Exhibit Number</u></b>	<b><u>Description</u></b>
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)
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.

## 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 30, 2020

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>
<u>          /s/  STUART H. GRAYSTON          </u> <b>Stuart H. Grayston</b>	President and Director (Principal Executive Officer)	March 30, 2020
<u>          /s/  THOMAS R. MCMAHON          </u> <b>Thomas R. McMahon</b>	Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	March 30, 2020
<u>          /s/  IRVIN F. DIAMOND          </u> <b>Irvin F. Diamond</b>	Director and Chairman of the Board	March 30, 2020
<u>          /s/  JEROME A. HARRIS          </u> <b>Jerome A. Harris</b>	Director and Vice-Chairman of the Board	March 30, 2020
<u>          /s/  JEFFRY I. GILLMAN          </u> <b>Jeffry I. Gillman</b>	Director	March 30, 2020
<u>          /s/  DAVID R. KLUNK          </u> <b>David R. Klunk</b>	Director	March 30, 2020
<u>          /s/  THOMAS B. LILLIE          </u> <b>Thomas B. Lillie</b>	Director	March 30, 2020
<u>          /s/  DAVID N. THOMPSON          </u> <b>David N. Thompson</b>	Director	March 30, 2020

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## AmerInst Insurance Group, Ltd.

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

## Annual Meeting

The 2020 Annual Meeting of Shareholders will be held at 10:00 a.m. on June 3, 2020 at:

The Office of Citadel  
Management Bermuda Limited  
Continental Building  
25 Church Street  
Hamilton HM 12, 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

### Independent Auditors

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

## Annual Report Form 10-K

Copies of the AmerInst Insurance Group, Ltd. 2019 Annual Report on Form 10-K filed with the Securities and Exchange Commission are available without charge to shareholders 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 2019 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>



AmerInst Insurance Group, Ltd.

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