# AMERISAFE, INC.

2016 Annual Report

# AMERISAFE, Inc.

2301 Hwy. 190 West, DeRidder, LA 70634-6006
(800) 256-9052 (337) 463-9052

Dear Shareholders,

Since becoming CEO in April 2015, a key initiative has been to continuously build a better AMERISAFE. The Company was already successful, regardless of which measure of success you chose. We delivered a superior product with remarkable service to a specific niche of employers. We generated healthy returns for our shareholders. And, our employees created a work environment conducive to success, both professionally and personally. Yet, past performance does not dictate future success. Hence, we need to continually raise the bar.

AMERISAFE's operating model can be summed up in five components: 1) high hazard niche, 2) focus on small to mid-size employers, 3) underwriting expertise, 4) comprehensive safety services and 5) intensive claims management. The fuel to make the engine work is AMERISAFE employee's dedication and knowledge. In 2016 and continuing in 2017, we invested in our human capital as the Company completed its 31st year as an underwriter. We spent resources on training, leadership development, employee benefits and environment enhancements in effort to cultivate future leaders, strengthen the bench, and invest in a vital component of our success, our employees.

Also in 2016, we continued to focus on maintaining discipline. Loss costs declined and competition increased which created an environment for insurance carriers to stray from underwriting discipline in pursuit of premium or market share. AMERISAFE remained consistent in its approach of protecting underwriting margins by gradually lower pricing, guarding renewal business, continuing our pre-quote safety inspections to evaluate risks and adequately reserving claims. Building a better AMERISAFE demands maintaining discipline in the current market to position the Company for the future. The same holds true for the Company's approach to expenses. In a market where there is pressure on the margin due to flattening or declining premiums, managing expenses is a competitive advantage. At AMERISAFE, frugality is part of our foundation, as evidenced in our consistent expense ratio. Maintaining discipline regarding expenses is essential to building a better AMERISAFE.

AMERISAFE extended its success story with record earnings of $77.9 million in net income in 2016. As the Company remained profitable, its capital grew and the Board prudently returned capital to its shareholders of $3.97 per share. AMERISAFE remains well-positioned whether the insurance market continues to soften or if economic conditions were to change. The AMERISAFE team is committed to our focus, consistency, frugality, service and ownership of our responsibilities to provide quality insurance services to policyholders while providing returns to our stakeholders.

One final note. In February 2017, Austin Young announced his retirement from AMERISAFE's Board of Directors. Austin joined the Board in connection with our IPO in November 2005. We appreciate his leadership and guidance over the past twelve years. We wish Austin and his wife Susan many adventure-filled years to come.

Thank you for your investment in AMERISAFE.

Sincerely,

G. Janelle Frost
*President and Chief Executive Officer*

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, DC 20549**

# FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016**

**Commission File Number: 001-12251**

# AMERISAFE, INC.
**(Exact Name of Registrant as Specified in Its Charter)**

| | |
|---|---|
| **Texas**<br>(State of Incorporation) | **75-2069407**<br>(I.R.S. Employer Identification Number) |
| **2301 Highway 190 West, DeRidder, Louisiana**<br>(Address of Principal Executive Offices) | **70634**<br>(Zip Code) |

**Registrant's telephone number, including area code: (337) 463-9052**

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

| Title of Class | Name of Each Exchange on Which Registered |
|---|---|
| Common Stock, par value $0.01 per share | Nasdaq Stock Market LLC |

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

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 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 "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer | ☒ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ (Do not check if a smaller reporting company) | Smaller reporting company | ☐ |

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the voting common stock held by non-affiliates of the Registrant as of June 30, 2016 (the last business day of the Registrant's most recently completed second fiscal quarter) was approximately $1,164.7 million, based upon the closing price of the shares on the NASDAQ Global Select Market on that date.

As of February 15, 2017, there were 19,230,135 shares of the Registrant's common stock, par value $0.01 per share, outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's Proxy Statement relating to the 2017 Annual Meeting of Shareholders are incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this report.

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## FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and 21E of the Securities Exchange Act of 1934. You should not place undue reliance on these statements. These forward-looking statements include statements that reflect the current views of our senior management with respect to our financial performance and future events with respect to our business and the insurance industry in general. Statements that include the words “expect,” “intend,” “plan,” “believe,” “project,” “forecast,” “estimate,” “may,” “should,” “anticipate” and similar statements of a future or forward-looking nature identify forward-looking statements. Forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements. We believe that these factors include, but are not limited to, the following:

- the cyclical nature of the workers’ compensation insurance industry;
- general economic conditions, including recession, inflation, performance of financial markets, interest rates, unemployment rates and fluctuating asset values;
- increased competition on the basis of types of insurance offered, premium rates, coverage availability, payment terms, claims management, safety services, policy terms, overall financial strength, financial ratings and reputation;
- changes in relationships with independent agencies;
- developments in capital markets that adversely affect the performance of our investments;
- technology breaches or failures, including those resulting from a malicious cyber attack on the Company or its policyholders and medical providers;
- decreased level of business activity of our policyholders caused by decreased business activity generally, and in particular in the industries we target;
- greater frequency or severity of claims and loss activity, including as a result of natural or man-made catastrophic events, than our underwriting, reserving or investment practices anticipate based on historical experience or industry data;
- adverse developments in economic, competitive, judicial or regulatory conditions within the workers’ compensation insurance industry;
- loss of the services of any of our senior management or other key employees;
- changes in regulations, laws, rates, or rating factors applicable to the Company, its policyholders or the agencies that sell its insurance;
- changes in legal theories of liability under our insurance policies;
- changes in rating agency policies, practices or ratings;
- changes in the availability, cost or quality of reinsurance and the failure of our reinsurers to pay claims in a timely manner or at all;
- decreased demand for our insurance;
- the effects of U.S. involvement in hostilities with other countries and large-scale acts of terrorism, or the threat of hostilities or terrorist acts; and
- other risks and uncertainties described from time to time in the Company’s filings with the Securities and Exchange Commission (“SEC”).

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements in this report, including under the caption “Risk Factors” in Item 1A of this report. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate.

## PART I

### Item 1. Business.

### Overview

We are a specialty provider of workers' compensation insurance focused on small to mid-sized employers engaged in hazardous industries, principally construction, trucking, logging and lumber, manufacturing, and agriculture. Since commencing operations in 1986, we have gained significant experience underwriting the complex workers' compensation exposures inherent in these industries. We provide coverage to employers under state and federal workers' compensation laws. These laws prescribe wage replacement and medical care benefits that employers are obligated to provide to their employees who are injured in the course and scope of their employment. Our workers' compensation insurance policies provide benefits to injured employees for, among other things, temporary or permanent disability, death and medical and hospital expenses. The benefits payable and the duration of those benefits are set by state or federal law. The benefits vary by jurisdiction, the nature and severity of the injury and the wages of the employee. The employer, who is the policyholder, pays the premiums for coverage.

Hazardous industry employers tend to have less frequent but more severe claims as compared to employers in other industries due to the nature of their businesses. Injuries that occur are often severe in nature including death, dismemberment, paraplegia and quadriplegia. As a result, employers engaged in hazardous industries pay substantially higher than average rates for workers' compensation insurance compared to employers in other industries, as measured per payroll dollar. The higher premium rates are due to the nature of the work performed and the inherent workplace danger of our target policyholders. For example, our construction employers on average paid premium rates equal to $7.23 per $100 of payroll to obtain workers' compensation coverage for all of their employees in 2016.

We employ a proactive, disciplined approach to underwriting employers and providing comprehensive services intended to lessen the overall incidence and cost of workplace injuries. We provide safety services at employers' workplaces as a vital component of our underwriting process and to promote safer workplaces. We utilize intensive claims management practices that we believe permit us to reduce the overall cost of our claims. In addition, our premium audit services ensure that our policyholders pay the appropriate premiums required under the terms of their policies and enable us to monitor payroll patterns that cause underwriting, safety or fraud concerns.

We believe that the higher premiums typically paid by our policyholders, together with our disciplined underwriting and safety, claims and audit services, provide us with the opportunity to earn attractive returns on equity.

AMERISAFE, Inc. is an insurance holding company, incorporated in Texas in 1985. We began operations in 1986 by focusing on workers' compensation insurance for logging contractors in the southeast United States. Beginning in 1994, we expanded our focus to include the other hazardous industries we serve today. Two of our three insurance subsidiaries, American Interstate Insurance Company ("AIIC") and Silver Oak Casualty, Inc. ("SOCI"), are domiciled in Nebraska. Our other insurance subsidiary, American Interstate Insurance Company of Texas ("AIICTX"), is domiciled in Texas. All three insurance subsidiaries carry an A.M. Best rating of "A" (Excellent).

### Competitive Advantages

We believe we have the following competitive advantages:

*Focus on Hazardous Industries.* We have extensive experience insuring employers engaged in hazardous industries and have a history of profitably underwriting these industries. Our specialized knowledge of these hazardous industries helps us better serve our policyholders, which leads to greater employer loyalty and policy retention. Our policy renewal rate on voluntary business that we elected to quote for renewal was 92.7% in 2016.

*Focus on Small to Mid-Sized.* We believe large insurance companies generally do not target small to mid-sized employers in hazardous industries due to their smaller premium sizes, types of operations, mobile workforces and extensive service needs. We provide these employers enhanced services, including premium payment plans to better match premium payments with our policyholders' payroll costs and cash flow.

*Specialized Underwriting Expertise.* Based on our 31-year history of insuring employers engaged in hazardous industries, we have developed industry specific risk analysis and rating tools that support our underwriters in risk selection and pricing. We are highly disciplined when quoting and binding new and renewal business. We do not delegate underwriting authority to agencies, marketers or to any other third parties that sell our insurance.

*Comprehensive Safety Services.* We provide proactive safety reviews of employers' worksites, which are often located in rural areas. These safety reviews are a vital component of our underwriting process and also assist our policyholders in loss prevention, and encourage safer workplaces by deploying experienced field safety professionals, or FSPs, to our policyholders' worksites. In 2016, 90.6% of our new voluntary business policyholders were subject to pre-quotation safety inspections. Additionally, we perform periodic on-site safety surveys of all of our voluntary business policyholders.

*Proactive Claims Management.* Our employees manage substantially all of our open claims in-house, utilizing intensive claims management practices that emphasize a personalized approach, as well as quality, cost-effective medical treatment. As of December 31, 2016, open indemnity claims per field case manager, or FCM, averaged 48 claims, which we believe is significantly less than the industry average. We also believe our claims management practices allow us to achieve a more favorable claim outcome, accelerate an employee's return to work, lessen the likelihood of litigation and more rapidly close claims, all of which ultimately lead to lower overall claim costs.

*Efficient Operating Platform.* Through extensive cost management initiatives, we maintain one of the most efficient operations in the workers' compensation industry. In 2016, our expense ratio was 21.9%. We believe that our expense ratio is substantially lower than that of our competitors, which gives us a greater opportunity to generate an underwriting profit.

## Strategy

We intend to produce favorable returns on equity and increase our book value per share adjusted for dividends paid to shareholders using the following strategies:

*Focus on Underwriting Profitability.* We intend to maintain our underwriting discipline throughout market cycles with the objective of remaining profitable. Our strategy is to focus on underwriting workers' compensation insurance in hazardous industries and to maintain adequate rate levels commensurate with the risks we underwrite. We will also continue to strive for improved risk selection and pricing, as well as reduced frequency and severity of claims through comprehensive workplace safety reviews, effective medical cost containment measures and rapid closing of claims through personal, direct contact with our policyholders and their employees.

*Increase Market Penetration.* Based on data received from the National Association of Insurance Commissioners, the NAIC, we do not have more than 4.7% of the market share in any state we serve. As a result, we believe we have the opportunity to increase market penetration in each of the states in which we currently operate. Competition in our target markets is fragmented by state, employer size and industry. We believe that our specialized underwriting expertise and safety, claims and audit services position us to profitably increase our market share in our existing principal markets, with minimal increase in field service employees.

*Prudent and Opportunistic Geographic Expansion.* While we actively market our insurance in 27 states, 50.1% of our voluntary in-force premiums were generated in the six states where we derived 5.0% or more of our gross premiums written in 2016. We are licensed in an additional 20 states, the District of Columbia and the U.S. Virgin Islands. Our existing licenses and rate filings will expedite our ability to write policies in these markets when we decide it is prudent to do so.

*Capitalize on Development of Information Technology Systems.* We believe our underwriting and agency management system, *GEAUX*, along with our customized operational system, *ICAMS*, and the analytical data warehouse that ICAMS feeds, significantly enhance our ability to select risk, write profitable business and cost-effectively administer our billing, claims and audit functions.

*Maintain Capital Strength.* We plan to manage our capital to achieve our profitability goals while striving for optimal operating leverage for our insurance company subsidiaries. To accomplish this objective, we intend to maintain underwriting profitability throughout market cycles, optimize our use of reinsurance, deploy appropriate capital management tools including paying dividends to shareholders and produce an appropriate risk adjusted return on our investment portfolio.

## Industry

*Overview.* Workers' compensation is a statutory system under which an employer is required to pay for its employees' medical, disability, vocational rehabilitation and death benefit costs for work-related injuries or illnesses. Most employers satisfy this requirement by purchasing workers' compensation insurance. The principal concept underlying workers' compensation laws is that employees injured in the course and scope of their employment have only the legal remedies available under workers' compensation laws and do not have any other recourse against their employer. An employer's obligation to pay workers' compensation does not depend on any negligence or wrongdoing on the part of the employer and exists even for injuries that result from the negligence or fault of another person, a co-employee, or, in most instances, the injured employee.

Workers' compensation insurance policies generally provide that the insurance carrier will pay all benefits that the insured employer may become obligated to pay under applicable workers' compensation laws. Each state has a regulatory and adjudicatory system that quantifies the level of wage replacement to be paid, determines the level of medical care required to be provided and the cost of temporary or permanent impairment and specifies the options in selecting medical providers available to the injured employee or the employer. These state laws generally require two types of benefits for injured employees: (1) medical benefits, which include expenses related to the diagnosis and treatment of the injury, as well as any required rehabilitation, and (2) indemnity payments, which consist of temporary wage replacement, permanent disability payments and death benefits to surviving family members. To fulfill these mandated financial obligations, virtually all employers are required to purchase workers' compensation insurance or, if permitted by state law or approved by the U.S. Department of Labor, to self-insure. The employers may purchase workers' compensation insurance from a private insurance carrier, a state-sanctioned assigned risk pool, or a self-insurance fund, which is an entity that allows employers to obtain workers' compensation coverage on a pooled basis, typically subjecting each employer to joint and several liability for the entire fund.

Workers' compensation was the fourth-largest property and casualty insurance line in the United States in 2015, according to the National Council on Compensation Insurance, Inc., the NCCI. Direct premiums written in 2015 for the workers' compensation insurance industry were $58 billion, and direct premiums written for the property and casualty industry as a whole were $592 billion. According to the most recent market data reported by the NCCI, which is the official rating bureau in the majority of states in which we are licensed, total premiums reported for the specific occupational class codes for which we underwrite business were $16.5 billion.

**Policyholders**

As of December 31, 2016, we had more than 8,000 voluntary business policyholders with an average annual workers' compensation policy written premium of $40,018. As of December 31, 2016, our ten largest voluntary business policyholders accounted for 1.6% of our in-force premiums. Our policy renewal rate on voluntary business that we elected to quote for renewal was 92.7% in 2016, 92.3% in 2015, and 91.3% in 2014.

In addition to our voluntary workers' compensation business, we underwrite workers' compensation policies for employers assigned to us and assume reinsurance premiums from mandatory pooling arrangements, in each case to fulfill our obligations under residual market programs implemented by the states in which we operate. Our assigned risk business fulfills our statutory obligation to participate in residual market plans in four states. See "—Regulation—Residual Market Programs" below. For the year ended December 31, 2016, our assigned risk business accounted for 1.3% of our gross premiums written, and our assumed premiums from mandatory pooling arrangements accounted for 2.3% of our gross premiums written.

**Targeted Industries**

We provide workers' compensation insurance primarily to employers in the following targeted hazardous industries:

*Construction.* Includes a broad range of operations such as highway and bridge construction, building and maintenance of pipeline and powerline networks, excavation, commercial construction, roofing, iron and steel erection, tower erection and numerous other specialized construction operations. In 2016, our average policy premium for voluntary workers' compensation within the construction industry was $41,741, or $7.23 per $100 of payroll.

*Trucking.* Includes a broad spectrum of diverse operations including contract haulers, regional and local freight carriers, special equipment transporters and other trucking companies that conduct a variety of short- and long-haul operations. In 2016, our average policy premium for voluntary workers' compensation within the trucking industry was $41,210, or $9.03 per $100 of payroll.

*Logging and Lumber.* Includes tree harvesting, tree trimming, sawmills, and other operations associated with lumber and wood products. In 2016, our average policy premium for voluntary workers' compensation within logging and lumber was $31,707, or $13.26 per $100 of payroll.

*Manufacturing.* Includes a diverse group of policyholders' businesses such as the production of goods for use or sale using labor and machines, tools, chemical and biological processing or formulation. In 2016, our average policy premium for voluntary workers' compensation within the manufacturing industry was $37,936, or $4.63 per $100 of payroll.

*Agriculture.* Includes crop maintenance and harvesting, grain and produce operations, nursery operations, meat processing, and livestock feed and transportation. In 2016, our average policy premium for voluntary workers' compensation within the agriculture industry was $26,594, or $6.68 per $100 of payroll.

*Maritime.* Includes ship building and repair, pier and marine construction, inter-coastal construction, and stevedoring. In 2016, our average policy premium for voluntary workers' compensation within the maritime industry was $51,196, or $5.80 per $100 of payroll.

*Oil and Gas.* Includes various oil and gas activities including gathering, transportation, processing, production, and field service operations. In 2016, our average policy premium for voluntary workers' compensation within the oil and gas industry was $34,718, or $4.17 per $100 of payroll.

*Other.* Includes a wide variety of high-hazard businesses including cell phone tower service and repair, window washers, metal and scrap iron dealers, and other businesses.

Our gross premiums are derived from:

- *Voluntary Business.* Includes direct premiums from workers' compensation insurance policies that we issue to employers who seek to purchase insurance directly from us and who we voluntarily agree to insure.
- *Assigned Risk Business.* Includes direct premiums from workers' compensation insurance policies that we issue to employers assigned to us under residual market programs implemented by some of the states in which we operate.
- *Assumed Premiums.* Includes premiums from our participation in mandatory pooling arrangements under residual market programs implemented by some of the states in which we operate.

Gross premiums written during the years ended December 31, 2016, 2015 and 2014, and the allocation of those premiums among the hazardous industries we target are presented in the table below.

| | Gross Premiums Written | | | Percentage of Gross Premiums Written | | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2016 | 2015 | 2014 |
| | | (in thousands) | | | | |
| Voluntary business: | | | | | | |
| Construction | $ 165,582 | $ 164,717 | $ 166,360 | 44.4% | 42.6% | 42.2% |
| Trucking | 71,314 | 71,872 | 69,520 | 19.1% | 18.6% | 17.7% |
| Logging and Lumber | 29,311 | 25,845 | 23,767 | 7.9% | 6.7% | 6.0% |
| Manufacturing | 24,536 | 31,778 | 28,239 | 6.5% | 8.2% | 7.2% |
| Agriculture | 15,652 | 16,133 | 15,426 | 4.2% | 4.2% | 3.9% |
| Maritime | 10,080 | 7,839 | 11,413 | 2.7% | 2.0% | 2.9% |
| Oil and Gas | 5,555 | 10,128 | 15,802 | 1.5% | 2.6% | 4.0% |
| Other | 37,771 | 44,255 | 48,908 | 10.1% | 11.5% | 12.4% |
| Total voluntary business | 359,801 | 372,567 | 379,435 | 96.4% | 96.4% | 96.3% |
| Assigned risk business | 4,738 | 4,515 | 5,198 | 1.3% | 1.2% | 1.3% |
| Assumed premiums | 8,516 | 9,447 | 9,186 | 2.3% | 2.4% | 2.4% |
| Total | $ 373,055 | $ 386,529 | $ 393,819 | 100.0% | 100.0% | 100.0% |

### Geographic Distribution

We are licensed to provide workers' compensation insurance in 47 states, the District of Columbia and the U.S. Virgin Islands. We operate on a geographically diverse basis with 10.7% or less of our gross premiums written in 2016 derived from any one state. The table below identifies, for the years ended December 31, 2016, 2015 and 2014, the states in which the percentage of our gross premiums written exceeded 3.0% for any of the three years presented.

| | Percentage of Gross Premiums Written Year Ended December 31, | | |
|---|---|---|---|
| State | 2016 | 2015 | 2014 |
| Georgia | 10.7% | 10.7% | 10.2% |
| Pennsylvania | 10.6% | 9.8% | 9.3% |
| Florida | 8.7% | 6.8% | 6.2% |
| Louisiana | 7.4% | 10.1% | 12.0% |
| Illinois | 7.0% | 6.6% | 5.6% |
| North Carolina | 5.8% | 5.3% | 5.4% |
| Virginia | 4.6% | 4.1% | 4.3% |
| Minnesota | 4.2% | 4.0% | 3.8% |
| Wisconsin | 3.8% | 3.4% | 2.5% |
| South Carolina | 3.6% | 3.6% | 3.2% |
| Texas | 3.0% | 3.8% | 4.0% |
| Oklahoma | 3.0% | 3.5% | 4.1% |
| Alaska | 2.8% | 2.9% | 3.1% |
| Mississippi | 2.7% | 2.9% | 3.0% |
| Total | 77.9% | 77.5% | 76.7% |

### Sales and Marketing

We sell our workers' compensation insurance through agencies. As of December 31, 2016, our insurance was sold through more than 2,500 independent agencies and our wholly-owned insurance agency subsidiary, Amerisafe General Agency, which is licensed in 29 states. We are selective in establishing and maintaining relationships with independent agencies. We seek to do business with those agencies that provide quality application flow from companies operating in our target industries and classes that are reasonably likely to accept our quotes. We compensate these agencies by paying a commission based on the premium collected from the policyholder. Our average commission rate for our independent agencies was 7.3% for the year ended December 31, 2016. We pay our insurance agency subsidiary a commission rate of 8.2%. Neither our independent agencies nor our insurance agency subsidiary has authority to underwrite or bind coverage. We do not pay contingent commissions.

As of December 31, 2016, independent agencies accounted for 97.4% of our voluntary in-force premiums. No single independent agency accounted for more than 1.3% of our voluntary in-force premiums at that date.

### Underwriting

Our underwriting strategy is to focus on employers in certain hazardous industries that operate in those states where our underwriting efforts are the most profitable and efficient. We analyze each prospective policyholder on its own merits relative to known industry trends and statistical data. Our underwriting guidelines specify that we do not write workers' compensation insurance for certain hazardous activities, including sub-surface mining and manufacturing of ammunition or fireworks.

Underwriting is a multi-step process that begins with the receipt of an application from one of our agencies. We initially review the application to confirm that the prospective policyholder meets certain established criteria, including that the prospective policyholder is engaged in one of our targeted hazardous industries and industry classes and operates in the states we target. If the application satisfies these criteria, the application is forwarded to our underwriting department for further review.

Our underwriting department reviews the application to determine if the application meets our underwriting criteria and whether all required information has been provided. If additional information is required, the underwriting department requests additional information from the agency submitting the application. This initial review process is generally completed within three days after the application is received by us. Once this initial review process is complete, our underwriting department requests that a pre-quotation safety inspection be performed in most cases. In 2016, 90.6% of our new voluntary business policyholders were inspected prior to our offering a premium quote.

After the pre-quotation safety inspection has been completed, our underwriting professionals review the results of the inspection to determine if a quote should be made and, if so, prepare the quote. The quote must be reviewed and approved by our underwriting department before the quote is delivered to the agency. All decisions by our underwriting department, including decisions to decline applications, are subject to review and approval by our management-level underwriters.

Our underwriting professionals participate in an incentive compensation program under which bonuses are paid quarterly based upon achieving premium underwriting volume and loss ratio targets. The determination of whether targets have been satisfied is made 30 months after the beginning of the relevant incentive compensation period.

**Pricing**

In the majority of states, workers' compensation insurance rates are based upon published "loss costs." Loss costs are derived from wage and loss data reported by insurers to the state's statistical agent, which in most states is the NCCI. The state agent then promulgates loss costs for specific job descriptions or class codes. Insurers file requests for adoption of a loss cost multiplier, or LCM, to be applied to the loss costs to support operating expenses and profit margins. In addition, most states allow pricing flexibility above and below the filed LCM, within certain limits.

We obtain approval of our rates, including our LCMs, from state regulatory authorities. To maintain rates at profitable levels, we regularly monitor and adjust our LCMs. The effective LCM for our voluntary business was 1.72 for policy year 2016, 1.79 for policy year 2015, and 1.84 for policy year 2014. If we are unable to charge rates in a particular state or industry to produce satisfactory results, we seek to control and reduce our premium volume in that state or industry and redeploy our capital in other states or industries that offer greater opportunity to earn an underwriting profit.

**Safety**

Our safety inspection process begins with a request from our underwriting department to perform a pre-quotation safety inspection. Our safety inspections focus on a prospective policyholder's operations, loss exposures and existing safety controls to prevent potential losses. The factors considered in our inspection include employee experience, turnover, training, previous loss history and corrective actions, and workplace conditions, including equipment condition and, where appropriate, use of fall protection, respiratory protection or other safety devices. Our FSPs travel to employers' worksites to perform these safety inspections. These initial inspections allow our underwriting professionals to make decisions on both insurability and pricing. In certain circumstances, we will agree to provide workers' compensation insurance only if the employer agrees to implement and maintain the safety management practices that we recommend. In 2016, 90.6% of our new voluntary business policyholders were inspected prior to our offering a premium quote. The remaining voluntary business policies were not pre-quote inspected for a variety of reasons, including instances where the prospective policyholder was previously insured by us or previously inspected by us.

After an employer becomes a policyholder, we continue to emphasize workplace safety through periodic workplace visits, assisting the policyholder in designing and implementing enhanced safety management programs, providing safety-related information and conducting rigorous post-accident management. Generally, we may cancel or decline to renew an insurance policy if the policyholder does not implement or maintain reasonable safety management practices that we recommend.

Our FSPs participate in an incentive compensation program under which bonuses are paid semi-annually based upon an FSP's production and their policyholders' aggregate loss ratios. The results are measured 33 months after the inception of the subject policy period.

**Claims**

We have structured our claims operation to provide immediate, intensive and personal management of claims to guide injured employees through medical treatment, rehabilitation and recovery, with the primary goal of returning the injured employee to work as promptly as practicable and at maximum medical improvement. We seek to limit the number of claim disputes with injured employees through early intervention in the claims process. Where possible, we purchase annuities on longer life claims to close such claims, while still providing an appropriate level of benefits to injured employees. While we seek to promptly settle valid claims, we also aggressively defend against claims we consider to be non-meritorious.

Our FCMs are located in the geographic areas where our policyholders are based. We believe the presence of our FCMs in the field enhances our ability to guide an injured employee to the appropriate conclusion in a friendly, dignified and supportive manner. Our FCMs have broad authority to manage claims from occurrence of a workplace injury through resolution, including authority to retain many different medical providers at our expense. Such providers comprise not only our recommended medical providers, but also nurse case managers, independent medical examiners, vocational specialists, rehabilitation specialists and other specialty providers of medical services necessary to achieve a quality outcome.

Following notification of a workplace injury, an FCM will contact the policyholder, the injured employee and/or the treating physician to determine the nature and severity of the injury. If a serious injury occurs, the FCM will promptly visit the injured employee or the employee's family members to discuss the benefits provided. The FCM will also visit the treating physician to discuss the proposed treatment plan. Our FCM assists the injured employee in receiving appropriate medical treatment and encourages the use of our recommended medical providers and facilities. For example, our FCM may suggest that a treating physician refer an injured worker to another physician or treatment facility that we believe has had positive outcomes for other workers with similar injuries. We actively monitor the number of open cases handled by a single FCM in order to maintain focus on each specific injured employee. As of December 31, 2016, we averaged 48 open indemnity claims per FCM, which we believe is significantly less than the industry average.

Locating our FCMs in the field also allows us to build professional relationships with local medical providers. In selecting medical providers, we rely, in part, on the recommendations of our FCMs who have developed professional relationships within their geographic areas. We also seek input from our policyholders and other contacts in the markets that we serve. While cost factors are considered in selecting medical providers, we consider the most important factor in the selection process to be the medical provider's ability to achieve a quality outcome. We define quality outcome as the injured worker's rapid, conclusive recovery and return to sustained, full capacity employment.

**Premium Audits**

We conduct premium audits on all of our voluntary business policyholders annually upon the expiration of each policy, including when the policy is renewed. The purpose of these audits is to verify that policyholders have accurately reported their payroll expenses and employee job classifications, and therefore, have paid us the premium required under the terms of their policies. In addition to annual audits, we selectively perform interim audits on new business and on certain classes of business if significant or unusual claims are filed or if the monthly reports submitted by a policyholder reflect a payroll pattern or other aberrations that cause underwriting, safety or fraud concerns. We also mitigate potential losses from under-reporting of premium or delinquent premium payment by collecting a deposit from the policyholder at the inception of the policy, typically representing 15% of the total estimated annual premium, which deposit can be utilized to offset losses from non-payment of premium.

**Loss Reserves**

We record reserves for estimated losses under insurance policies that we write and for loss adjustment expenses related to the investigation and settlement of policy claims. Our reserves for loss and loss adjustment expenses represent the estimated cost of all reported and unreported loss and loss adjustment expenses incurred and unpaid as of a given point in time.

In establishing our reserves, we review the results of analyses using actuarial methodologies that utilize historical loss data from our more than 31 years of underwriting workers' compensation insurance. In evaluating the results of those analyses, our management also uses substantial judgment in considering other factors that are not considered in these actuarial analyses. These actuarial methodologies and subjective factors are described in more detail below. Our process and methodology for estimating reserves applies to both our voluntary and assigned risk business, but does not include our reserves for mandatory pooling arrangements. We record reserves for mandatory pooling arrangements as those reserves are reported to us by the pool administrators. We do not use loss discounting when we determine our reserves, which would involve recognizing the time value of money and offsetting estimates of future payments by future expected investment income.

When a claim is reported, we establish an initial case reserve for the estimated amount of our loss based on our estimate of the most likely outcome of the claim at that time. Generally, that case reserve is established within 14 days after the claim is reported and consists of anticipated medical costs, indemnity costs and specific adjustment expenses, which we refer to as defense and cost containment expenses, or DCC expenses. The most complex claims, involving severe injuries, may take a considerable period of time for us to establish a more precise estimate of the most likely outcome of the claim. At any point in time, the amount paid on a claim, plus the reserve for future amounts to be paid, represents the estimated total cost of the claim, or the case incurred amount. The estimated amount of loss for a reported claim is based upon various factors, including:

- type of loss;
- severity of the injury or damage;
- age and occupation of the injured employee;
- estimated length of temporary disability;
- anticipated permanent disability;

- expected medical procedures, costs and duration;
- our knowledge of the circumstances surrounding the claim;
- insurance policy provisions related to the claim, including coverage;
- jurisdiction of the occurrence; and
- other benefits defined by applicable statute.

The case incurred amount varies over time due to uncertainties with respect to medical treatment and outcome, length and degree of disability, recurrence of injury, employment availability and wage levels and judicial determinations. As changes occur, the case incurred amount is adjusted. The initial estimate of the case incurred amount can vary significantly from the amount ultimately paid, especially in circumstances involving severe injuries with comprehensive medical treatment. Changes in case incurred amounts is an important component of our historical claim data.

In addition to case reserves, we establish reserves on an aggregate basis for loss and DCC expenses that have been incurred but not reported, or IBNR. Our IBNR reserves are also intended to provide for aggregate changes in case incurred amounts as well as the unpaid cost of recently reported claims for which an initial case reserve has not been established.

The third component of our reserves for loss and loss adjustment expenses is our adjusting and other reserve, or AO reserve. Our AO reserve covers primarily the estimated cost of administering claims and is established for the costs of future unallocated loss adjustment expenses for all reported and unreported claims.

The final component of our reserves for loss and loss adjustment expenses is the reserve for mandatory pooling arrangements. The mandatory pooling arrangement reserve includes the amount reported to us by the pool administrators.

In establishing reserves, we rely on the analysis of the more than 206,000 claims in our 31-year history. Using statistical analyses and actuarial methods, we estimate reserves based on historical patterns of case development, payment patterns, mix of business, premium rates charged, case reserving adequacy, operational changes, adjustment philosophy and severity and duration trends.

We review our reserves by accident year and state on a quarterly basis. Individual open claims are reviewed more frequently and adjustments to case incurred amounts are made based on expected outcomes. The number of claims reported or occurring during a period, combined with a calculation of average case incurred amounts, and measured over time, provide the foundation for our reserve estimates. In establishing our reserve estimates, we use historical trends in claim reporting timeliness, frequency of claims in relation to earned premium or covered payroll, premium rate levels charged and case development patterns. However, the number of variables and judgments involved in establishing reserve estimates, combined with some random variation in loss development patterns, results in uncertainty regarding projected ultimate losses. As a result, our ultimate liability for loss and loss adjustment expenses may be more or less than our reserve estimate.

Our analysis of our historical data provides the factors we use in our statistical and actuarial analysis in estimating our loss and DCC expense reserve. These factors are primarily measures over time of claims reported, average case incurred amounts, case development, duration, severity and payment patterns. However, these factors cannot be solely used as these factors do not take into consideration changes in business mix, claims management, regulatory issues, medical trends, medical inflation, employment and wage patterns, and other subjective factors. We use this combination of factors and subjective assumptions in the use of six well-accepted actuarial methods, as follows:

- Paid Development Method—uses historical, cumulative paid loss patterns to derive estimated ultimate losses by accident year based upon the assumption that each accident year will develop to estimated ultimate cost in a manner that is analogous to prior years.
- Paid Weighted Severity Method—multiplies estimated ultimate claims for each accident year by a weighted average, trended and developed severity. The ultimate claims estimate is based on paid claim count development. The selected severity for a given accident year is derived by giving some weight to all of the accident years in the experience history rather than treating each accident year independently.
- Paid Loss Ratio Cape Cod Method—similar to the paid weighted severity method, except that on-level premiums replace estimated ultimate claims, based upon paid claim count development, and loss ratios replace selected severities. The selected ultimate loss ratio for a given accident year is derived by giving some weight to all of the accident years in the experience history rather than treating each accident year independently.

- Incurred Development Method—uses historical, cumulative incurred loss patterns to derive estimated ultimate losses by accident year based upon the assumption that each accident year will develop to estimated ultimate cost in a manner that is analogous to prior years.
- Incurred Weighted Severity Method—multiplies estimated ultimate claims for each accident year by a weighted average, trended and developed severity. The ultimate claims estimate is based on incurred claim count development. The selected severity for a given accident year is derived by giving some weight to all of the accident years in the experience history rather than treating each accident year independently.
- Incurred Loss Ratio Cape Cod Method—similar to the incurred weighted severity method, except that on-level premiums replace estimated ultimate claims, based upon incurred claim count development, and loss ratios replace selected severities. The selected ultimate loss ratio for a given accident year is derived by giving some weight to all of the accident years in the experience history rather than treating each accident year independently.

These six methods are applied to both gross and net claims data. We then analyze the results and may emphasize or de-emphasize some or all of the outcomes to reflect our judgment of reasonableness in relation to supplementary information and operational and industry changes. These outcomes are then aggregated to produce a single weighted average point estimate that is the base estimate for loss and DCC expense reserves.

In determining the level of emphasis that may be placed on some or all of the methods, we review statistical information as to which methods are most appropriate, whether adjustments are appropriate within the particular methods, and if results produced by each method include inherent bias reflecting operational and industry changes. This supplementary information may include:

- open and closed claim counts;
- statistics related to open and closed claim count percentages;
- claim closure rates;
- changes in average case reserves and average loss and DCC expenses incurred on open claims;
- reported and ultimate average case incurred changes;
- reported and projected ultimate loss ratios; and
- loss payment patterns.

In establishing our AO reserves, we review our past adjustment expenses in relation to paid claims as well as estimated future costs based on expected claims activity and duration.

The sum of our net loss and DCC expense reserve, our AO reserve and our reserve for mandatory pooling arrangements is our total net reserve for loss and loss adjustment expenses.

As of December 31, 2016, our best estimate of our ultimate liability for loss and loss adjustment expenses, net of amounts recoverable from reinsurers, was $664.5 million, which includes $16.3 million in reserves for mandatory pooling arrangements as reported by the pool administrators. The estimate of our ultimate liability was derived from the process and methodology described above, which relies on substantial judgment. There is inherent uncertainty in estimating our reserves for loss and loss adjustment expenses. It is possible that our actual loss and loss adjustment expenses incurred may vary significantly from our estimates. We view our estimate of loss and DCC expenses as the most significant component of our reserve for loss and loss adjustment expenses.

Additional information regarding our reserve for unpaid loss and loss adjustment expenses (“LAE”) as of December 31, 2016, 2015, and 2014 is set forth below:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| | | (in thousands) | |
| Gross case loss and DCC reserves | $ 555,926 | $ 537,883 | $ 514,874 |
| AO reserves | 21,995 | 20,734 | 18,572 |
| Gross IBNR reserves | 164,855 | 159,416 | 154,156 |
| Gross unpaid loss, DCC and AO reserves | 742,776 | 718,033 | 687,602 |
| Reinsurance recoverables on unpaid loss and LAE | (78,256) | (64,858) | (59,334) |
| Net unpaid loss, DCC and AO reserves | $ 664,520 | $ 653,175 | $ 628,268 |

We performed sensitivity analyses to show how our net loss and DCC expense reserve, including IBNR, would be impacted by changes in certain critical assumptions. For our paid and incurred development methods, we varied both the cumulative paid and incurred loss development factors (LDFs) by plus and minus 30%, both individually and in combination with one another. The results of this sensitivity analysis, using December 31, 2016 data, are summarized below.

| Change in Paid LDFs | Change in Incurred LDFs | Resultant Change in Net Loss and DCC Reserve Amount ($) (in thousands) | Resultant Change in Net Loss and DCC Reserve Percentage |
|---|---|---|---|
| +30% | +30% | 51,762 | 8.3% |
| +30% | 0% | 4,109 | 0.7% |
| +30% | –30% | (42,818) | (6.8)% |
| 0% | +30% | 47,754 | 7.6% |
| 0% | –30% | (46,977) | (7.5)% |
| –30% | +30% | 43,634 | 7.0% |
| –30% | 0% | (4,135) | (0.7)% |
| –30% | –30% | (51,309) | (8.2)% |

For our paid and incurred weighted severity methods, we varied our year-end selected trend factor (for medical costs, defense costs, wage inflation, etc.) by plus and minus 300%. The results of this sensitivity analysis, using December 31, 2016 data, are summarized below.

| Change in Severity Trend | Resultant Change in Net Loss and DCC Reserve Amount ($) (in thousands) | Resultant Change in Net Loss and DCC Reserve Percentage |
|---|---|---|
| +300% | 5,853 | 0.9% |
| –300% | (4,684) | (0.7)% |

**Reconciliation of Loss Reserves**

The table below shows the reconciliation of loss reserves on a gross and net basis for the years ended December 31, 2016, 2015 and 2014, reflecting changes in losses incurred and paid losses.

| | Year Ended December 31, 2016 | 2015 | 2014 |
|---|---|---|---|
| | | (in thousands) | |
| Balance, beginning of period | $ 718,033 | $ 687,602 | $ 614,557 |
| Less amounts recoverable from reinsurers on unpaid loss and loss adjustment expenses | 64,858 | 59,334 | 48,699 |
| Net balance, beginning of period | 653,175 | 628,268 | 565,858 |
| Add incurred related to: | | | |
| Current accident year | 250,337 | 262,387 | 268,633 |
| Prior accident years | (51,306) | (47,814) | (23,717) |
| Total incurred | 199,031 | 214,573 | 244,916 |
| Less paid related to: | | | |
| Current accident year | 52,085 | 53,955 | 52,848 |
| Prior accident years | 135,601 | 135,711 | 129,658 |
| Total paid | 187,686 | 189,666 | 182,506 |
| Net balance, end of period | 664,520 | 653,175 | 628,268 |
| Add amounts recoverable from reinsurers on unpaid loss and loss adjustment expenses | 78,256 | 64,858 | 59,334 |
| Balance, end of period | $ 742,776 | $ 718,033 | $ 687,602 |

Our gross reserves for loss and loss adjustment expenses of $742.8 million as of December 31, 2016 are expected to cover all unpaid loss and loss adjustment expenses as of that date. As of December 31, 2016, we had 5,195 open claims, with an average of $142,979 in unpaid loss and loss adjustment expenses per open claim. During the year ended December 31, 2016, 5,338 new claims were reported, and 5,443 claims were closed.

In 2016, our gross reserves increased to $742.8 million from $718.0 million at December 31, 2015. The increase in reserves was attributable primarily to the 2016 accident year. In 2016, we also recognized $51.3 million of favorable development for prior accident years. As of December 31, 2015, we had 5,298 open claims, with an average of $135,529 in unpaid loss and loss adjustment expenses per open claim. During the year ended December 31, 2015, 5,465 new claims were reported, and 5,678 claims were closed.

In 2015, our gross reserves increased to $718.0 million from $687.6 million at December 31, 2014. The increase in reserves was attributable to both the 2015 accident year and prior accident years. In 2015, there was also $47.8 million of favorable development for prior accident years. As of December 31, 2014, we had 5,511 open claims, with an average of $124,679 in unpaid loss and loss adjustment expenses per open claim. During the year ended December 31, 2014, 5,785 new claims were reported, and 5,565 claims were closed.

***Loss Development***

The table below shows the net loss development for business written each year from 2006 through 2016. The table reflects the changes in our loss and loss adjustment expense reserves in subsequent years from the prior loss estimates based on experience as of the end of each succeeding year on a GAAP basis.

The first line of the table shows, for the years indicated, our liability including the incurred but not reported loss and loss adjustment expenses as originally estimated, net of amounts recoverable from reinsurers. For example, as of December 31, 2006, it was estimated that $412.4 million would be sufficient to settle all claims not already settled that had occurred on or prior to December 31, 2006, whether reported or unreported. The next section of the table sets forth the re-estimates in later years of incurred losses, including payments, for the years indicated. The next section of the table shows, by year, the cumulative amounts of loss and loss adjustment expense payments, net of amounts recoverable from reinsurers, as of the end of each succeeding year. For example, with respect to the net loss reserves of $412.4 million as of December 31, 2006, by December 31, 2016 (ten years later) $257.6 million had actually been paid in settlement of the claims that relate to liabilities as of December 31, 2006.

The “gross cumulative redundancy (deficiency)” represents, as of December 31, 2016, the difference between the latest re-estimated liability and the amounts as originally estimated. A redundancy means that the original estimate was higher than the current estimate. A deficiency means that the current estimate is higher than the original estimate.

### Analysis of Loss and Loss Adjustment Expense Reserve Development

| | Year Ended December 31, | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| | (in thousands) | | | | | | | | | | |
| Reserve for loss and loss adjustment expenses, net of reinsurance recoverables | $412,366 | $462,478 | $474,697 | $474,220 | $466,668 | $477,277 | $515,260 | $565,858 | $628,268 | $653,175 | $664,520 |
| Net reserve estimated as of: | | | | | | | | | | | |
| One year later | 402,876 | 442,091 | 452,812 | 452,587 | 460,105 | 474,787 | 502,648 | 542,141 | 580,454 | 601,868 | |
| Two years later | 372,520 | 416,758 | 427,794 | 422,697 | 454,479 | 462,650 | 478,931 | 494,327 | 529,149 | | |
| Three years later | 359,590 | 396,492 | 398,187 | 411,516 | 442,700 | 448,269 | 439,272 | 462,770 | | | |
| Four years later | 348,596 | 371,599 | 387,525 | 402,003 | 429,269 | 427,835 | 420,913 | | | | |
| Five years later | 335,252 | 364,147 | 381,950 | 395,479 | 411,785 | 418,528 | | | | | |
| Six years later | 331,390 | 361,720 | 377,158 | 383,827 | 404,753 | | | | | | |
| Seven years later | 330,367 | 358,630 | 369,985 | 378,825 | | | | | | | |
| Eight years later | 328,133 | 350,693 | 366,192 | | | | | | | | |
| Nine years later | 320,963 | 347,607 | | | | | | | | | |
| Ten years later | 317,902 | | | | | | | | | | |
| Net cumulative redundancy (deficiency) | $ 94,464 | $114,871 | $108,505 | $ 95,395 | $ 61,915 | $ 58,749 | $ 94,347 | $103,088 | $ 99,119 | $ 51,307 | |
| Cumulative amount of reserve paid, net of reserve recoveries, through: | | | | | | | | | | | |
| One year later | 105,408 | 116,631 | 121,619 | 117,555 | 125,884 | 131,497 | 127,205 | 129,658 | 135,711 | 135,601 | |
| Two years later | 167,852 | 182,879 | 185,334 | 182,242 | 199,682 | 201,814 | 188,752 | 198,610 | 203,855 | | |
| Three years later | 203,502 | 217,137 | 222,249 | 223,726 | 240,196 | 237,170 | 226,907 | 233,254 | | | |
| Four years later | 224,419 | 239,189 | 245,012 | 248,294 | 262,415 | 259,823 | 245,860 | | | | |
| Five years later | 235,931 | 251,941 | 261,323 | 261,653 | 277,396 | 273,383 | | | | | |
| Six years later | 242,761 | 261,707 | 270,241 | 272,903 | 286,629 | | | | | | |
| Seven years later | 247,681 | 267,745 | 278,641 | 279,275 | | | | | | | |
| Eight years later | 251,651 | 272,610 | 283,883 | | | | | | | | |
| Nine years later | 254,753 | 276,704 | | | | | | | | | |
| Ten years later | 257,585 | | | | | | | | | | |
| Net reserve— December 31 | $412,366 | $462,478 | $474,697 | $474,220 | $466,668 | $477,277 | $515,260 | $565,858 | $628,268 | $653,175 | $664,520 |
| Reinsurance recoverables | 106,810 | 74,925 | 56,596 | 60,435 | 65,536 | 60,937 | 55,190 | 48,699 | 59,334 | 64,858 | 78,256 |
| Gross reserve—December 31 | $519,176 | $537,403 | $531,293 | $534,655 | $532,204 | $538,214 | $570,450 | $614,557 | $687,602 | $718,033 | $742,776 |
| Net re-estimated reserve | $317,902 | $347,607 | $366,192 | $378,825 | $404,753 | $418,528 | $420,913 | $462,770 | $529,149 | $601,868 | |
| Re-estimated reinsurance recoverables | 118,540 | 87,182 | 71,525 | 54,716 | 52,350 | 49,907 | 45,435 | 48,350 | 61,976 | 67,797 | |
| Gross re-estimated reserve | $436,442 | $434,789 | $437,717 | $433,541 | $457,103 | $468,435 | $466,348 | $511,120 | $591,125 | $669,665 | |
| Gross cumulative redundancy (deficiency) | $ 82,734 | $102,614 | $ 93,576 | $101,114 | $ 75,101 | $ 69,779 | $104,102 | $103,437 | $ 96,477 | $ 48,368 | |

### Investments

We derive net investment income from our invested assets. As of December 31, 2016, the carrying value of our investment portfolio, including cash and cash equivalents, was $1.1 billion and the fair value of the portfolio was $1.1 billion.

Our Board of Directors has established an investment policy governing our investments, which is reviewed at least annually. The principal objectives of our investment portfolio are to preserve capital and surplus and to maintain appropriate liquidity for corporate requirements. Additional objectives are to support our A.M. Best rating and to maximize after-tax income and total return. Our investment policy establishes limitations and guidelines relating to, for example, asset allocation, diversification, credit ratings and duration. We periodically review our investment portfolio with the risk committee of our Board of Directors for compliance with the policy. Our investment portfolio is managed internally.

We classify the majority of our fixed maturity securities as “held-to-maturity.” We do not reflect any changes in fair value for these securities in our financial statements, unless such changes are deemed to be “other than temporary impairments,” in which case such impairments flow through our income statement within the category, “Net realized gains (losses) on investments.” The remainder of our fixed maturity securities and all of our equity securities are classified as “available-for-sale.” These investments are valued at fair value at the end of each period, with changes in fair value flowing through other comprehensive income. We generally seek to limit our holdings in equity securities to the lesser of 10% of the investment portfolio or 30% of shareholders’ equity, on a fair value basis.

See Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Investment Portfolio” for further information on the composition and results of our investment portfolio.

The table below shows the carrying values of various categories of securities held in our investment portfolio, the percentage of the total carrying value of our investment portfolio represented by each category and the effective interest rate for the year ended December 31, 2016 based on the carrying value of each category as of December 31, 2016:

| | Carrying Value (in thousands) | Percentage of Portfolio | Effective Interest Rate |
|---|---|---|---|
| Fixed maturity securities—held-to-maturity: | | | |
| State and political subdivisions | $ 394,875 | 34.6% | 2.9% |
| Corporate bonds | 143,858 | 12.6% | 2.0% |
| Commercial mortgage-backed securities | 70 | 0.0% | 4.9% |
| U.S. agency-based mortgage-backed securities | 9,967 | 0.8% | 5.1% |
| U.S. Treasury securities and obligations of U.S. Government agencies | 11,737 | 1.0% | 3.0% |
| Asset-backed securities | 1,927 | 0.2% | 3.6% |
| Total fixed maturity securities—held-to-maturity | 562,434 | 49.2% | 2.7% |
| Fixed maturity securities—available-for-sale: | | | |
| State and political subdivisions | 232,293 | 20.3% | 3.2% |
| Corporate bonds | 182,515 | 16.0% | 2.0% |
| U.S. agency-based mortgage-backed securities | 9,342 | 0.8% | 2.4% |
| U.S. Treasury securities and obligations of U.S. Government agencies | 54,947 | 4.8% | 1.5% |
| Total fixed maturity securities—available-for-sale | 479,097 | 41.9% | 2.6% |
| Equity securities | 33 | 0.0% | 0.1% |
| Other investments | 13,330 | 1.2% | 0.0% |
| Cash and cash equivalents | 58,936 | 5.1% | 0.3% |
| Short-term investments | 29,580 | 2.6% | 0.9% |
| Total investments, including cash and cash equivalents | $ 1,143,410 | 100.0% | 2.4% |

As of December 31, 2016, our fixed maturity securities had a carrying value of $1,041.5 million, which represented 91.1% of the carrying value of our investments, including cash and cash equivalents. For the twelve months ended December 31, 2016, the pre-tax investment yield of our investment portfolio was 2.5% per annum.

The gross unrealized gains and losses on, and the cost or amortized cost and fair value of, our investment portfolio as of December 31, 2016 are summarized as follows:

| | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| | | (in thousands) | | |
| Fixed maturity securities, held-to-maturity | $ 562,434 | $ 9,902 | $ (3,405) | $ 568,931 |
| Fixed maturity securities, available-for-sale | 479,871 | 4,793 | (5,567) | 479,097 |
| Equity securities, available-for-sale | — | 33 | — | 33 |
| Other investments, available-for-sale | 10,000 | 3,330 | — | 13,330 |
| Totals | $ 1,052,305 | $ 18,058 | $ (8,972) | $ 1,061,391 |

As of December 31, 2016, municipal bonds with maturities greater than one year made up 54.9% of our investment portfolio, including cash and cash equivalents. The investments in Louisiana result from companies being allowed an investment credit against Louisiana premium taxes for varying levels of Louisiana assets. The table below summarizes the top five geographic exposures as of December 31, 2016.

| | Carrying Value (in thousands) | Percentage of Municipal Portfolio | Percentage of Total Portfolio |
|---|---|---|---|
| Texas | $ 112,209 | 17.9% | 9.8% |
| Louisiana | 102,255 | 16.3% | 8.9% |
| Washington | 52,315 | 8.3% | 4.6% |
| Florida | 44,102 | 7.0% | 3.9% |
| Massachusetts | 26,216 | 4.2% | 2.3% |
| Other | 290,071 | 46.3% | 25.4% |
| | $ 627,168 | 100.0% | 54.9% |

The table below summarizes the credit quality of our investment portfolio, excluding our equity holdings, as of December 31, 2016, as determined by the middle rating of Moody's, Standard and Poor's, and Fitch.

| Credit Rating | Percentage of Total Carrying Value |
|---|---|
| "AAA" | 35.6% |
| "AA" | 31.7% |
| "A" | 17.0% |
| "BBB" | 14.9% |
| "BB and below" | 0.8% |
| "Unrated securities" | 0.0% |
| Total | 100.0% |

As of December 31, 2016, the average composite rating of our investment portfolio, excluding our equity holdings, was "AA-."

The table below shows the composition of our fixed maturity securities by remaining time to maturity as of December 31, 2016.

| Maturity: | As of December 31, 2016 Carrying Value (in thousands) | Percentage |
|---|---|---|
| Within one year | $ 174,881 | 16.8% |
| After one year through five years | 475,566 | 45.7% |
| After five years through ten years | 135,884 | 13.0% |
| After ten years | 233,894 | 22.5% |
| U.S. agency-based mortgage-backed securities | 19,309 | 1.8% |
| Commercial mortgage-backed securities | 70 | 0.0% |
| Asset-backed securities | 1,927 | 0.2% |
| Total | $ 1,041,531 | 100.0% |

## Reinsurance

We purchase reinsurance to reduce our net liability on individual risks and to protect against catastrophic losses. Reinsurance involves an insurance company transferring to, or ceding, a portion of the exposure on a risk to a reinsurer. The reinsurer assumes the exposure in return for a portion of our premium. The cost and limits of reinsurance we purchase can vary from year to year based upon the availability of quality reinsurance at an acceptable price and our desired level of retention. Retention refers to the amount of risk that we retain for our own account. Under excess of loss reinsurance, covered losses in excess of the retention level up to the limit of the program are paid by the reinsurer. Our excess of loss reinsurance is written in layers, in which our reinsurers accept a band of coverage up to a specified amount. Any liability exceeding the limit of the program reverts to us as the ceding company. Reinsurance does not legally discharge us from primary liability for the full amount due under our policies. However, our reinsurers are obligated to indemnify us to the extent of the coverage provided in our reinsurance agreements.

We believe reinsurance is critical to our business. Our reinsurance purchasing strategy is to protect against unforeseen and/or catastrophic loss activity that would adversely impact our income and capital base. We generally select financially strong reinsurers with an A.M. Best rating of "A–" (Excellent) or better at the time we enter into a reinsurance contract. In addition, to minimize our exposure to significant losses from reinsurer insolvencies, we evaluate the financial condition of our reinsurers and monitor concentrations of credit risk on a continual basis.

***2017 Excess of Loss Reinsurance Treaty Program***

Effective January 1, 2017, we renewed our excess of loss reinsurance treaty program related to our voluntary and assigned risk business. The program consists of two layers of coverage. The first layer is a multi-year treaty that applies to losses incurred through December 31, 2019. The second layer must be renewed annually. Our reinsurance treaty program provides us with reinsurance coverage for each loss occurrence up to $70.0 million, subject to applicable limitations, deductibles, retentions and aggregate limits. In a multi-claimant loss occurrence, the reinsurance coverage for any one individual claimant remains limited to a maximum of $10.0 million, subject to applicable deductibles, retentions and aggregate limits.

We have 19 reinsurers participating in our reinsurance treaty program in 2017. Under certain circumstances, including a downgrade of a reinsurer's A.M. Best rating to "B++" (Very Good) or below, such reinsurer may be required to provide us with security for amounts due under the terms of our reinsurance program. This security may take the form of, among other things, cash advances or letters of credit. If security is required because of a ratings downgrade, the form of security must be mutually agreed to between the reinsurer and us.

In 2017, our first layer of reinsurance provides coverage for losses up to $10.0 million for each loss occurrence in excess of $2.0 million. This layer provides coverage in two parts. Before our reinsurers are obligated to reimburse us under this layer, we are subject to an annual aggregate deductible of 1.5% of subject earned premium under the first part of this coverage and 6.5% of subject earned premium under the second part of this coverage. The limit under the first part of this coverage is 5.0% of subject earned premium in any one year and 3.33% of subject earned premium in the aggregate for all three years covered by this layer. The limit under the second part of this coverage is 3.0% of subject earned premium for any one year and 1.0% of subject earned premium in the aggregate for all three years covered by this layer.

At our option, we have the right to commute the reinsurers' obligations under the agreement at any time after the end of the applicable term of the agreement. If we commute the reinsurers' obligations, we are entitled to receive a portion of the premiums that were paid to the reinsurers prior to the effective dates of the applicable commutations, subject to certain adjustments provided in the agreement.

Our second layer of reinsurance (catastrophe reinsurance) provides $60.0 million in coverage for each loss occurrence in excess of $10.0 million. This layer includes coverage for terrorism including the use and/or dispersal of nuclear, biological, chemical and radiological agents with an annual aggregate limit of $60.0 million. The aggregate limit for all other claims under this layer is $120.0 million. This layer expires on January 1, 2018.

The table below sets forth the reinsurers participating in our 2017 reinsurance program:

| Reinsurer | A.M. Best Rating |
|---|---|
| Allianz Risk Transfer AG (Bermuda) | A+ |
| Arch Reinsurance Company | A+ |
| Endurance Reinsurance Corporation of America | A |
| Hannover Reinsurance Limited (Ireland) | A+ |
| Houston Casualty Company | A++ |
| Lloyd's Syndicate 0623 AFB | A |
| Lloyd's Syndicate 0780 ADV | A |
| Lloyd's Syndicate 1084 CSL | A |
| Lloyd's Syndicate 1414 ACS | A |
| Lloyd's Syndicate 1955 BAR | A |
| Lloyd's Syndicate 2623 AFB | A |
| Lloyd's Syndicate 2987 BRT | A |
| Lloyd's Syndicate 3000 MKL | A |
| Lloyd's Syndicate 4444 CNP | A |
| Lloyd's Syndicate 4472 LIB | A |
| Markel Global Reinsurance Company | A |
| Minnesota Workers' Compensation Reinsurance Association | NR |
| Munich Reinsurance America, Inc. | A+ |
| XL Reinsurance America Inc. | A |

Due to the nature of reinsurance, we have recoverables from reinsurers that apply to prior accident years. The Company generally secures large reinsurance recoverable balances with various forms of collateral, including funds withheld accounts, irrevocable letters of credit and secured trusts. The table below summarizes our amounts recoverable from reinsurers as of December 31, 2016.

| Reinsurer | A.M. Best Rating | Amounts Recoverable as of December 31, 2016 (in thousands) |
|---|---|---|
| Hannover Reinsurance Limited (Ireland) (1) | A+ | $ 29,670 |
| Odyssey America Reinsurance Corporation | A | 12,600 |
| Minnesota Workers' Compensation Reinsurance Association (1) | NR | 9,623 |
| Clearwater Insurance (2) | NR | 5,809 |
| Allianz Risk Transfer AG (Bermuda) (1) | A+ | 4,943 |
| Finial Reinsurance | A- | 4,898 |
| SCOR Reinsurance | A | 4,388 |
| Tokio Millennium Re Limited | A++ | 3,201 |
| St. Paul Fire and Marine Insurance Company | A++ | 2,438 |
| Clearwater Select Insurance (2) | NR | 1,138 |
| Other | — | 4,958 |
| Total amounts recoverable from reinsurers | | 83,666 |
| Funds withheld and letters of credit related to the above recoverables | | (38,453) |
| Total unsecured amounts recoverable from reinsurers | | $ 45,213 |

(1) Current participant in our 2017 reinsurance program.
(2) Subsidiary of Fairfax Financial is no longer rated by A.M. Best.

In December 2016, the Company commuted reinsurance agreements with Hannover Reinsurance Limited (Ireland) ("Hannover") and Tokio Millennium Re Limited ("Tokio") covering portions of accident years 2011 through 2013. The Company received cash of $0.2 million and an additional $25.4 million payment effectuated solely through offset against the balance of the funds withheld account under the reinsurance agreements in exchange for releasing Hannover and Tokio from their reinsurance obligations under the commuted agreements. Both Hannover and Tokio remain obligated to the subsidiaries of the Company under other reinsurance agreements. As a result of the commutation, the effect on the Company's net income in the year ended December 31, 2016 was immaterial.

### *Terrorism Reinsurance*

The Terrorism Risk Insurance Act of 2002 (the "2002 Act") was enacted in response to the events of September 11, 2001. The 2002 Act was extended by the Terrorism Risk Insurance Extension Act of 2005 (the "2005 Act"), the Terrorism Risk Insurance Program Reauthorization Act of 2007 (the "2007 Act"), and the Terrorism Risk Insurance Program Reauthorization Act of 2015 (the "2015 Act"). The 2002 Act, the 2005 Act, the 2007 Act and the 2015 Act were designed to ensure the availability of insurance coverage for losses resulting from certain acts of terrorism in the United States. The 2015 Act reauthorized a federal program that provides federal reimbursement to insurance companies for a portion of their losses arising from certain acts of terrorism and requires insurance companies to offer coverage for these acts. The program applies to insured losses arising out of acts that are certified as "acts of terrorism" by the Secretary of the Treasury in concurrence with the Secretary of Homeland Security and the Attorney General of the United States. In addition, the program does not provide any reimbursement for any portion of aggregate industry-wide insured losses from certified acts of terrorism that exceed $100.0 billion in any one year and is subject to certain other limitations and restrictions.

For insured losses in 2017, each insurance group is responsible for a statutory deductible under the 2015 Act that is equal to 20% of its direct earned property and casualty insurance premiums. For losses occurring in 2017, the U.S. federal government will reimburse 83% of an insurance group's covered losses over the statutory deductible. The U.S. federal government reimbursement will decrease by one percent each year until it reaches 80% in 2020. In addition, no federal reimbursement is available unless the aggregate insurance industry-wide losses from a certified act of terrorism exceeds $140.0 million for any act of terrorism occurring in 2017. This aggregate will increase by $20.0 million each year until it reaches $200.0 million in 2020. However, there is no relief from the requirement under the 2015 Act that insurance companies offer coverage for certified acts of terrorism if those acts do not cause losses exceeding these threshold amounts and thus do not result in any federal reimbursement payments.

Under the 2015 Act, insurance companies must offer coverage for losses due to certified acts of terrorism in their workers' compensation policies. Moreover, the workers' compensation laws of the various states generally do not permit the exclusion of coverage for losses arising from acts of terrorism, including terrorism that involves the use of nuclear, biological, radioactive or chemical agents. In addition, state law prohibits us from limiting our workers' compensation insurance losses arising from any one catastrophe or any one claimant. We have reinsurance protection in our current reinsurance treaty program that provides coverage of up to $70 million for losses arising from conventional terrorism. This coverage expires January 1, 2018. The Company's 2017 catastrophe excess of loss layer for loss occurrences greater than $10 million includes coverage for losses caused by nuclear, biological, chemical and radiological attacks, subject to the deductibles, retentions, definitions and aggregate limits.

## Technology

We view our information systems as an integral part of our operations. We make substantial investments in improving our systems on an ongoing basis. We provide our field premium auditors, field safety professionals and field case managers with computer and communication equipment to efficiently complete services. We also deploy online solutions for our policyholders to enable timely and efficient premium payments and claims reporting, and for our agents to improve collaboration and exchange of data in the underwriting process. Our information technology employees perform end-user support, systems development, and infrastructure operation and maintenance with limited assistance from outside vendors.

## Competition

The insurance industry, in general, is highly competitive and there is significant competition in the workers' compensation segment of the industry. Competition in the insurance business is based on many factors, including premium rates, policy terms, coverage availability, claims management, safety services, payment terms, types of insurance offered, overall financial strength and financial ratings assigned by independent rating organizations, such as A.M. Best. Some of the insurers with which we compete have significantly greater financial, marketing and management resources than we do. We may also compete with new market entrants in the future.

We believe the workers' compensation market for the hazardous industries we target is more fragmented and to some degree less competitive than other segments of the workers' compensation market. Our competitors include other insurance companies, state insurance pools and self-insurance funds. Overall, we estimate that more than 300 insurance companies participate in the workers' compensation market. The insurance companies with which we compete vary by state and by the industries we target. These market conditions are also impacted by lower estimated loss costs adopted by a number of states in which we do business.

Our competitive advantages include our safety service and claims management practices, our A.M. Best rating and our ability to reduce claims through implementation of our work safety programs. In addition, we believe that our insurance is competitively priced and our premium rates are typically lower than those for policyholders assigned to the state insurance pools, allowing us to provide a viable alternative for policyholders in those pools.

### Employees

As of December 31, 2016, we had 437 full-time employees and two part-time employees. None of our employees are subject to collective bargaining agreements. We believe that our employee relations are good.

### Regulation

#### *Holding Company Regulation*

Nearly all states have enacted legislation that regulates insurance holding company systems. Each insurance company in a holding company system is required to register with the insurance supervisory agency of its state of domicile and furnish information concerning the operations of companies within the holding company system that may materially affect the operations, management or financial condition of the insurers within the system. Under these laws, the respective state insurance departments may examine us at any time, require disclosure of material transactions and require prior notice of or approval for certain transactions. All transactions within a holding company system affecting an insurer must have fair and reasonable terms and are subject to other standards and requirements established by law and regulation.

#### *Change of Control*

The insurance holding company laws of nearly all states require advance approval by the respective state insurance departments of any change of control of an insurer. “Control” is generally presumed to exist through the direct or indirect ownership of 10% or more of the voting securities of a domestic insurance company or any entity that controls a domestic insurance company. In addition, insurance laws in many states contain provisions that require pre-notification to the insurance commissioners of a change of control of a non-domestic insurance company licensed in those states. Any future transactions that would constitute a change of control of AIIC, SOCI or AIICTX, including a change of control of AMERISAFE, would generally require the party acquiring control to obtain the prior approval of the department of insurance in the state in which the insurance company being acquired is incorporated and may require pre-notification in the states where pre-notification provisions have been adopted. Obtaining these approvals may result in the material delay of, or deter, any such transaction.

These laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control of AMERISAFE, including through transactions, and in particular unsolicited transactions, that some or all of the shareholders of AMERISAFE might consider to be desirable.

#### *State Insurance Regulation*

Insurance companies are subject to regulation and supervision by the department of insurance in the state in which they are domiciled and, to a lesser extent, other states in which they conduct business. AIIC and SOCI are primarily subject to regulation and supervision by the Nebraska Department of Insurance. AIICTX is primarily subject to regulation and supervision by the Texas Department of Insurance and Workers’ Compensation Commission. These state agencies have broad regulatory, supervisory and administrative powers, including the power to grant and revoke licenses to transact business, license agencies, set the standards of solvency to be met and maintained, determine the nature of, and limitations on, investments and dividends, approve policy forms and rates in some states, periodically examine financial statements, determine the form and content of required financial statements and periodically examine market conduct.

Detailed annual and quarterly financial statements and other reports are required to be filed with the state insurance departments in all states in which we are licensed to transact business. The financial statements of AIIC, SOCI and AIICTX are subject to periodic examination by the department of insurance in each state in which they are licensed to do business.

In addition, many states have laws and regulations that limit an insurer’s ability to withdraw from a particular market. For example, states may limit an insurer’s ability to cancel or not renew policies. Furthermore, certain states prohibit an insurer from withdrawing one or more lines of business from the state, except pursuant to a plan that is approved by the state insurance department. The state insurance department may disapprove a plan that may lead to market disruption. Laws and regulations that limit cancellation and non-renewal and that subject program withdrawals to prior approval requirements may restrict our ability to exit unprofitable markets.

Insurance agencies are also subject to regulation and supervision by the state insurance departments in the states in which they are licensed. Our wholly owned subsidiary, Amerisafe General Agency, Inc., is licensed as an insurance agent in 29 states and as a managing general insurance agency in 12 states. Amerisafe General Agency is domiciled in Louisiana and is primarily subject to regulation and supervision by the Louisiana Department of Insurance, which regulates the solicitation of insurance and the qualification and licensing of agents and agencies that may desire to conduct business in Louisiana.

***State Insurance Department Examinations***

We are subject to periodic examinations by state insurance departments in the states in which we operate. The Nebraska insurance department generally examines its domiciliary insurance companies every five years. The Texas insurance department generally conducts examinations of its domiciliary insurance companies on a triennial basis.

AIIC and SOCI underwent an examination by the Nebraska Department of Insurance in 2014 that covered calendar years 2009 through 2013. AIICTX underwent an examination by the Texas Department of Insurance in 2014 that covered calendar years 2010 through 2013.

***Guaranty Fund Assessments***

In most of the states where we are licensed to transact business, there is a requirement that property and casualty insurers doing business in that state participate in a guaranty association, which is organized to pay contractual benefits owed under insurance policies issued by impaired, insolvent or failed insurers. These associations levy assessments, up to prescribed limits, on all member insurers in a particular state on the basis of the proportionate share of the premium written by member insurers in the lines of business in which the impaired, insolvent or failed insurer is engaged. Some states permit member insurers to recover assessments paid through full or partial premium tax offsets.

Property and casualty insurance company insolvencies or failures may result in us paying assessments at some future date. At this time, we are unable to determine the impact, if any, such assessments may have on our financial position or results of operations. We have established liabilities for potential state guaranty fund assessments with respect to insurers becoming insolvent.

***Residual Market Programs***

Many of the states in which we conduct business or intend to conduct business require that all licensed insurers participate in a program to provide workers' compensation insurance to those employers who have not or cannot obtain coverage from a carrier on a negotiated basis. The level of required participation in such programs is generally determined by calculating the volume of our voluntary business in that state as a percentage of all voluntary business in that state by all insurers. The resulting factor is the proportion of premium we must accept as a percentage of all of premiums in policies included in that state's residual market program.

Companies generally can fulfill their residual market obligations by either issuing insurance policies to employers assigned to them, or participating in a reinsurance pool where the results of all policies provided through the pool are shared by the participating companies. We utilize both methods, depending on management's evaluation of the most cost-efficient method to adopt in each state that allows a choice of assigned risk or participation in a pooling arrangement. In 2016, we had assigned risks in four states: Alabama, Alaska, North Carolina and Virginia.

***Second Injury Funds***

A number of states operate trust funds that reimburse insurers and employers for claims paid to injured employees for aggravation of prior conditions or injuries. The state-managed trust funds are funded through assessments against insurers and self-insurers providing workers' compensation coverage in the applicable state. Our recoveries from state-managed trust funds for the years ended December 31, 2016, 2015 and 2014 were $5.3 million, $5.8 million and $6.8 million, respectively. Our cash paid for assessments to state-managed trust funds for the years ended December 31, 2016, 2015 and 2014 was $2.3 million, $2.1 million and $1.9 million, respectively. We accrue for second injury funds relative to historical paid amounts.

### *Dividend Limitations*

Under Nebraska law, without the prior approval of the Nebraska Director of Insurance, AIIC and SOCI cannot pay dividends to their shareholder that exceed the greater of (a) 10% of statutory surplus as of the previous year end or (b) or statutory net income, excluding realized investment gains, for the preceding 12-month period. However, net income from the previous two calendar years may be carried forward to the extent that it has not already been paid out as dividends. Further, under Texas law, without the prior approval of the Texas Commissioner of Insurance, AIICTX cannot pay dividends to its shareholder in excess of the greater of 10% of statutory surplus, or statutory net income, for the preceding 12-month period.

### *Federal Law and Regulations*

For the year ended December 31, 2016, we derived 2.6% of our voluntary in-force premiums from employers engaged in the maritime industry. As a provider of workers' compensation insurance for employers engaged in the maritime industry, we are subject to the United States Longshore and Harbor Workers' Compensation Act, or the USL&H Act, and the Merchant Marine Act of 1920, or Jones Act. We are also subject to regulations related to the USL&H Act and the Jones Act.

The USL&H Act, which is administered by the U.S. Department of Labor, generally covers exposures on the navigable waters of the United States and in adjoining waterfront areas, including exposures resulting from stevedoring. The USL&H Act requires employers to provide medical benefits, compensation for lost wages, and rehabilitation services to longshoremen, harbor workers and other maritime workers who may suffer injury, disability or death during the course and scope of their employment. The Department of Labor has the authority to require us to make deposits to serve as collateral for losses incurred under the USL&H Act.

The Jones Act is a federal law, the maritime employer provisions of which provide injured offshore workers, or seamen, with a remedy against their employers for injuries arising from negligent acts of the employer or co-workers during the course of employment on a ship or vessel.

### *Privacy Regulations*

In 1999, Congress enacted the Gramm-Leach-Bliley Act, which, among other things, protects consumers from the unauthorized dissemination of certain personal information. Subsequently, a majority of states have implemented additional regulations to address privacy issues. These laws and regulations apply to all financial institutions, including insurance companies, and require us to maintain appropriate policies and procedures for managing and protecting certain personal information of our policyholders and to fully disclose our privacy practices to our policyholders. We may also be exposed to future privacy laws and regulations, which could impose additional costs and impact our results of operations or financial condition. In 2000, the National Association of Insurance Commissioners, or the NAIC, adopted the Privacy of Consumer Financial and Health Information Model Regulation, which assisted states in promulgating regulations to comply with the Gramm-Leach-Bliley Act. In 2002, to further facilitate the implementation of the Gramm-Leach-Bliley Act, the NAIC adopted the Standards for Safeguarding Customer Information Model Regulation. Several states have now adopted similar provisions regarding the safeguarding of policyholder information. We have established policies and procedures intended to ensure that we are in compliance with the privacy requirement of the Gramm-Leach-Bliley Act.

### *Federal and State Legislative and Regulatory Changes*

From time to time, various regulatory and legislative changes have been proposed in the insurance industry. Among the proposals that have in the past been or are at present being considered are the possible introduction of federal regulation in addition to, or in lieu of, the current system of state regulation of insurers and proposals in various state legislatures (some of which proposals have been enacted) to conform portions of their insurance laws and regulations to various model acts adopted by the NAIC. We are unable to predict whether any of these laws and regulations will be adopted, the form in which any such laws and regulations would be adopted or the effect, if any, these developments would have on our operations and financial condition.

For information on the Terrorism Risk Act, see "—Reinsurance—Terrorism Reinsurance."

### *The National Association of Insurance Commissioners*

The NAIC is a group formed by state insurance commissioners to discuss issues and formulate policy with respect to regulation, reporting and accounting of insurance companies. Although the NAIC has no legislative authority and insurance companies are at all times subject to the laws of their respective domiciliary states and, to a lesser extent, other states in which they conduct business, the NAIC is influential in determining the form in which such laws are enacted. Model insurance laws, regulations and guidelines, which we refer to as the Model Laws, have been promulgated by the NAIC as a minimum standard by which state regulatory systems and regulations are measured. Adoption of state laws that provide for substantially similar regulations to those described in the Model

Laws is a requirement for accreditation by the NAIC. The NAIC provides authoritative guidance to insurance regulators on statutory accounting issues by promulgating and updating a codified set of statutory accounting practices in its *Accounting Practices and Procedures Manual.* The Nebraska and Texas legislatures have adopted these codified statutory accounting practices.

Under Nebraska law, AIIC and SOCI are each required to maintain minimum capital and surplus of $2.0 million. Under Texas law, AIICTX is required to maintain minimum capital and surplus of $5.0 million. Property and casualty insurance companies are also subject to certain risk-based capital requirements by the NAIC. Under those requirements, the amount of capital and surplus maintained by a property and casualty insurance company is determined based on the various risk factors related to it. As of December 31, 2016, AIIC, SOCI and AIICTX exceeded the minimum risk-based capital requirements.

The key financial ratios of the NAIC's Insurance Regulatory Information System, or IRIS, which ratios were developed to assist insurance departments in overseeing the financial condition of insurance companies, are reviewed by experienced financial examiners of the NAIC and state insurance departments to select those companies that merit highest priority in the allocation of the regulators' resources. IRIS identifies 13 industry ratios and specifies "usual values" for each ratio. Departure from the usual values on four or more of the ratios can lead to inquiries from individual state insurance commissioners as to certain aspects of an insurer's business.

The 2016 IRIS results for AIIC were within expected values. The 2016 IRIS results for SOCI and AIICTX were within expected values for 12 of the 13 ratios. The investment yield ratios were outside the expected range by two tenths of one percent and seven tenths of one percent, respectively. This occurred because current low interest rates affected the reinvestment rate for our investment portfolio.

***Statutory Accounting Principles***

Statutory accounting principles, or SAP, are a basis of accounting developed to assist insurance regulators in monitoring and regulating the solvency of insurance companies. SAP is primarily concerned with measuring an insurer's surplus as regards to policyholders. Accordingly, statutory accounting focuses on valuing assets and liabilities of insurers at financial reporting dates in accordance with appropriate insurance law and regulatory provisions applicable in each insurer's domiciliary state.

Generally accepted accounting principles, or GAAP, are concerned with a company's solvency, but are also concerned with other financial measurements, principally income and cash flows. Accordingly, GAAP gives more consideration to appropriate matching of revenue and expenses and accounting for management's stewardship of assets than does SAP. As a direct result, different assets and liabilities and different amounts of assets and liabilities will be reflected in financial statements prepared in accordance with GAAP as compared to SAP.

Statutory accounting principles established by the NAIC and adopted in part by Nebraska and Texas insurance regulators, determine, among other things, the amount of statutory surplus and statutory net income of AIIC, SOCI and AIICTX and thus determine, in part, the amount of funds that are available to pay dividends to AMERISAFE.

***Website Information***

Our corporate website is located at *www.amerisafe.com.* Our annual report to shareholders, annual proxy statement and related proxy card will be made available on our website at the same time they are mailed to shareholders. Our quarterly reports on Form 10-Q, periodic reports on Form 8-K and amendments to those reports that we file or furnish pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available through our website, free of charge, as soon as reasonably practicable after they have been electronically filed or furnished to the Securities and Exchange Commission, or the SEC. Our website also provides access to reports filed by our directors, executive officers and certain significant shareholders pursuant to Section 16 of the Securities Exchange Act of 1934. In addition, our Corporate Governance Guidelines, Code of Business Conduct and Ethics, Policy Regarding Communications with the Board of Directors, Policy Regarding Shareholder Recommended Director Candidates, Majority Voting and Director Resignation Policy, and charters for the standing committees of our Board of Directors are available on our website as well as other shareholder communications. The information on our website is not incorporated by reference into this report. In addition, the SEC maintains a website, *www.sec.gov*, which contains reports, proxy and information statements and other information that we file electronically with the SEC.

**Executive Officers of the Registrant**

The table below sets forth information about our executive officers and key employees as of February 24, 2017.

| Name | Age | Position |
|---|---|---|
| ***Executive Officers*** | | |
| G. Janelle Frost | 46 | President and Chief Executive Officer |
| Neal A. Fuller | 54 | Executive Vice President and Chief Financial Officer |
| Vincent J. Gagliano | 44 | Executive Vice President and Chief Risk Officer |
| Kathryn H. Shirley | 51 | Executive Vice President, General Counsel and Secretary |
| | | |
| ***Key Employees*** | | |
| Kelly R. Goins | 51 | Senior Vice President, Underwriting Operations |
| Leon J. Lagneaux | 65 | Senior Vice President, Safety Operations |
| Henry O. Lestage, IV | 56 | Senior Vice President, Claims Operations |
| David R. Morton | 46 | Senior Vice President, Sales and Marketing |

*G. Janelle Frost* has served as our Chief Executive Officer since April 2015 and President since September 2013. She has served as a Director of the Company since April 2016. Prior to becoming our Chief Executive Officer, Ms. Frost served as Chief Operating Officer from May 2013 to April 2015. She served as our Executive Vice President and Chief Financial Officer from November 2008 to April 2013, our Controller from May 2004 to November 2008 and Vice President from May 2006 to November 2008. She has been employed with our company since 1992 and served as Assistant Vice President from May 2004 to May 2006 and Deputy Controller from 1998 to April 2004. Ms. Frost currently serves on the Board of Directors of the Federal Reserve Bank of Atlanta's New Orleans Branch.

*Neal A. Fuller* has served as Executive Vice President and Chief Financial Officer since September 2015. Mr. Fuller served in multiple leadership positions with Safeco Corporation from 1988 to 2009, ending as Senior Vice President – Finance and Treasurer. Prior to joining our company, Mr. Fuller served as Senior Vice President and Chief Financial Officer of ICW Group from 2010 to 2011 and Senior Vice President and Chief Financial Officer of SeaBright Holdings, Inc. from 2011 to 2013.

*Vincent J. Gagliano* has served as our Executive Vice President and Chief Risk Officer since March 2016. He has been employed with our company since 2001. He previously served as Executive Vice President and Chief Technology Officer from January 2013 until February 2016, Senior Vice President of Information Technology from September 2009 to January 2013, Vice President, Operations Analysis from January 2008 to September 2009, Assistant Vice President of Business Intelligence from July 2005 to December 2008, Director of Business Intelligence from April 2004 to July 2005 and Senior Business Analyst from July 2001 to April 2004.

*Kathryn H. Shirley* has served as Executive Vice President, General Counsel and Secretary since March 2016. She previously served as Senior Vice President, General Counsel and Secretary from May 2012 until February 2016. She has been employed with our company since 2012. Prior to joining our company, she practiced law from 2009 through May 2012 at Christian & Small LLP. From 2000 until 2008 she was employed as an Insurance Regulatory Compliance Manager with United Investors Life Insurance Company and Liberty National Life Insurance Company, subsidiaries of Torchmark Corporation.

*Kelly R. Goins* has served as our Senior Vice President, Underwriting Operations since March 2005. She has been employed with our company since 1986 and served as Vice President, Underwriting Operations from 2000 until March 2005.

*Leon J. Lagneaux* has served as our Senior Vice President, Safety Operations since March 2005. He has been employed with our company since 1994 and served as Vice President, Safety Operations from 1999 until March 2005.

*Henry O. Lestage*, IV has served as our Senior Vice President, Claims Operations since September 2000. He has been employed with our company since 1987 and served as Vice President, Claims Operations from 1998 until 2000.

*David R. Morton* has served as Senior Vice President, Sales and Marketing since April 2015. Prior to joining our company, Mr. Morton served in various sales leadership roles with EMPLOYERS Services, Inc., a mono-line workers' compensation insurance carrier, including Director of Client Relations from 2007 to 2010, Vice President of Sales, Strategic Partnerships and Alliances from 2010 to 2014 and most recently as Vice President of Sales Excellence from September 2014 to April 2015.

## Item 1A. Risk Factors.

In evaluating our Company, the factors described below should be considered carefully. The occurrence of one or more of these events could significantly and adversely affect our business, prospects, financial condition, results of operations and cash flows.

### *Risks Related to Our Business*

**The workers' compensation insurance industry is cyclical in nature, which may affect our overall financial performance.**

The financial performance of the workers' compensation insurance industry has historically fluctuated with periods of lower premium rates and excess underwriting capacity resulting from increased competition followed by periods of higher premium rates and reduced underwriting capacity resulting from decreased competition. Although the financial performance of an individual insurance company is dependent on its own specific business characteristics, the profitability of most workers' compensation insurance companies generally tends to follow this cyclical market pattern. Because this market cyclicality is due in large part to the actions of our competitors and general economic factors, we cannot predict the timing or duration of changes in the market cycle. We expect these cyclical patterns will cause our revenues and net income to fluctuate, which may cause the price of our common stock to be more volatile.

**Current economic conditions could adversely affect our financial condition and results of operations.**

Negative trends in business investment, consumer confidence and spending, the significant declines and volatility of the capital markets, the availability of credit and the rate of unemployment can adversely affect our business. Although we continue to closely monitor market conditions, we cannot predict future conditions or their impact on our premium volume, the value of our investment portfolio and our financial performance. As a result of existing economic conditions, we could experience future decreases in business activity and incur additional realized and unrealized losses in our investment portfolio, both of which could adversely affect our financial condition and results of operations.

**We operate in a highly competitive industry and may lack the financial resources to compete effectively.**

There is significant competition in the workers' compensation insurance industry. We believe that our competition in the hazardous industries we target is fragmented and not dominated by one or more competitors. We compete with other insurance companies, state insurance pools and self-insurance funds. Many of our existing and potential competitors are significantly larger and possess greater financial, marketing and management resources than we do. Moreover, a number of these competitors offer other types of insurance in addition to workers' compensation and can provide insurance nationwide.

We offer workers' compensation insurance. We have no current plans to focus our efforts on offering other types of insurance. As a result, negative developments in the economic, competitive or regulatory conditions affecting the workers' compensation insurance industry could have an adverse effect on our financial condition and results of operations. Negative developments in the workers' compensation insurance industry could have a greater impact on our company because we do not sell other types of insurance.

We compete on the basis of many factors, including coverage availability, claims management, safety services, payment terms, premium rates, policy terms, types of insurance offered, overall financial strength, financial ratings and reputation. If any of our competitors offer premium rates, policy terms or types of insurance that are more competitive than ours, we could lose market share. No assurance can be given that we will maintain our current competitive position in the markets in which we currently operate or that we will establish a competitive position in new markets into which we may expand.

**If we cannot sustain our relationships with independent agencies, we may be unable to operate profitably.**

We market a substantial portion of our workers' compensation insurance through independent agencies. As of December 31, 2016, independent agencies produced 97.4% of our voluntary in-force premiums. No independent agency accounted for more than 1.3% of our voluntary in-force premiums at that date. Independent agencies are not obligated to promote our insurance and may sell insurance offered by our competitors. As a result, our continued profitability depends, in part, on the marketing efforts of our independent agencies and on our ability to offer workers' compensation insurance and maintain financial strength ratings that meet the requirements of our independent agencies and their policyholders.

**If we do not appropriately establish our premium rates, our results of operations will be adversely affected.**

In general, the premium rates for our insurance policies are established when coverage is initiated and, therefore, before all of the underlying costs are known. Like other workers' compensation insurance companies, we rely on estimates and assumptions in setting our premium rates. Establishing adequate rates is necessary to generate sufficient revenue to offset losses, loss adjustment expenses and other underwriting expenses, and to earn an underwriting profit. If we fail to accurately assess the risks that we assume, we may fail to charge adequate premium rates to cover our losses and expenses, which could reduce our net income and cause us to become unprofitable. For example, when initiating coverage on a policyholder, we estimate future claims expense based, in part, on prior claims information provided by the policyholder's previous insurance carriers. If this prior claims information is not accurate, we may underprice our policy by using claims estimates that are too low. As a result, our actual costs for providing insurance coverage to our policyholders may be significantly higher than our premiums. In order to set premium rates appropriately, we must:

- collect and properly analyze a substantial volume of data;
- develop, test and apply appropriate rating formulae;
- closely monitor and timely recognize changes in trends; and
- project both frequency and severity of losses with reasonable accuracy.

We must also implement our pricing accurately in accordance with our assumptions. Our ability to undertake these efforts successfully, and as a result set premium rates accurately, is subject to a number of risks and uncertainties, principally:

- insufficient reliable data;
- incorrect or incomplete analysis of available data;
- uncertainties generally inherent in estimates and assumptions;
- the complexity inherent in implementing appropriate rating formulae or other pricing methodologies;
- costs of ongoing medical treatment;
- uncertainties inherent in accurately estimating retention, investment yields, and the duration of our liability for loss and loss adjustment expenses; and
- unanticipated court decisions, legislation or regulatory action.

Consequently, we could set our premium rates too low, which would negatively affect our results of operations and our profitability, or we could set our premium rates too high, which could reduce our competitiveness and lead to lower revenues.

**An inability to effectively manage our operations could make it difficult for us to compete and could affect our ability to operate profitably.**

Our continuing strategy includes expanding in our existing markets, entering new geographic markets and further developing our agency relationships. Our strategy is subject to various risks, including risks associated with our ability to:

- profitably increase our business in existing markets;
- identify profitable new geographic markets for entry;
- attract and retain qualified personnel for expanded operations;
- identify, recruit and integrate new independent agencies; and
- augment our internal operations and systems as we expand our business.

**If we are unable to realize our investment objectives, our financial condition and results of operations may be adversely affected.**

Investment income is an important component of our net income. As of December 31, 2016, our investment portfolio, including cash and cash equivalents, had a carrying value of $1.1 billion. For the year ended December 31, 2016 we had $28.1 million of net investment income. Our investment portfolio is managed under investment guidelines approved by our Board of Directors, and is made up predominately of fixed maturity securities and cash and cash equivalents. Although our investment guidelines emphasize capital preservation and liquidity, our investments are subject to a variety of risks, including risks related to general economic conditions, interest rate fluctuations, market illiquidity and market volatility. General economic conditions may be adversely affected by U.S. involvement in hostilities with other countries and large-scale acts of terrorism, or the threat of hostilities or terrorist acts.

Interest rates are highly sensitive to many factors, including governmental monetary policies and domestic and international economic and political conditions. Changes in interest rates could have an adverse effect on the value of our investment portfolio and future investment income. Low interest rates could continue to have an adverse effect on our investment income. Additionally, changes in interest rates can expose us to prepayment risks on mortgage-backed securities included in our investment portfolio.

Similarly, during periods of market disruption, including periods of rapidly widening credit spreads or illiquidity, the fair values of certain of our fixed maturity securities, such as asset-backed and commercial mortgage-backed securities, could be deemed to be other-than-temporarily impaired, even though we have the intent not to sell these securities and it is not more likely than not that we will be required to sell these securities. Further, rapidly changing and unprecedented equity market conditions could materially impact the valuation of the equity securities as reported within our consolidated financial statements and the period-to-period changes in value could vary significantly.

These and other factors affect the capital markets and, consequently, the value of our investment portfolio and our future investment income. Any significant decline in our investment income would adversely affect our revenues and net income.

**Technology breaches or failures, including those resulting from a malicious cyber attack on us, or our policyholders or medical providers, could disrupt or otherwise negatively impact our business.**

We rely on information technology systems to process, transmit, store and protect the electronic information, financial data and proprietary models that are critical to our business. Furthermore, a significant portion of the communications between our employees, our policyholders and medical providers depend on information technology and electronic information exchange. Like all companies, our information technology systems are vulnerable to data breaches, interruptions or failures due to events that may be beyond our control, including natural disasters, theft, terrorist attacks, computer viruses, hackers and general technology failures.

We have established and implemented security measures, controls and procedures in an effort to safeguard our information technology systems and to prevent unauthorized access to these systems and any data processed and/or stored in these systems. Despite these safeguards, disruptions to and breaches of our information technology systems are possible and may negatively impact our business.

Although we have experienced no known or threatened cases involving unauthorized access to our information technology systems and data or unauthorized appropriation of such data to date, we have no assurance that such technology breaches will not occur in the future.

**A decline in the level of business activity of our policyholders, particularly those engaged in the construction, trucking, logging and lumber, manufacturing, agriculture, maritime, and oil and gas industries, could negatively affect our earnings and profitability.**

In 2016, 86.3% of our gross premiums written were derived from policyholders in the construction, trucking, logging and lumber, manufacturing, agriculture, maritime, and oil and gas industries. Because premium rates are calculated, in general, as a percentage of a policyholder's payroll expense, premiums fluctuate depending upon the level of business activity and number of employees of our policyholders. As a result, our gross premiums written are primarily dependent upon economic conditions in these industries and upon economic conditions generally.

**Our loss reserves are based on estimates and may be inadequate to cover our actual losses.**

We record reserves for estimated losses under insurance policies we write and for loss adjustment expenses related to the investigation and settlement of claims. Our reserves for loss and loss adjustment expenses represent the estimated cost of all reported and unreported loss and loss adjustment expenses incurred and unpaid at any given point in time based on known facts and circumstances. Reserves are based on estimates of the most likely ultimate cost of individual claims. These estimates are inherently uncertain.

Our pre-tax income for any period is impacted by establishing reserves for new claims as well as changes in estimates for previously reported losses. Our focus on writing workers' compensation insurance for employers engaged in hazardous industries results in our experiencing fewer, but more severe, claims. The ultimate cost of resolving severe claims is difficult to predict, particularly in the period shortly after the injury occurs. Substantial judgment is required to determine the relevance of our historical experience and industry information under current facts and circumstances. The interpretation of this historical data can be impacted by external forces, principally frequency and severity of unreported claims, length of time to achieve ultimate settlement of claims, inflation in medical costs and wages, insurance policy coverage interpretations, jury determinations, and legislative changes. Accordingly, our reserves may prove to be inadequate to cover our actual losses. If there are unfavorable changes affecting our assumptions, our reserves may need to be increased. When a reserve estimate is increased, the change decreases pre-tax income by a corresponding amount.

**The effects of emerging claims and coverage issues on our business are uncertain.**

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the number or size of claims. In some instances, these changes may not become apparent until after we have issued insurance policies that are affected by the changes. As a result, the full extent of our liability under an insurance policy may not be known until many years after the policy is issued. For example, medical costs associated with permanent and partial disabilities may increase more rapidly or be higher than we currently expect. Changes of this nature may expose us to higher claims than we anticipated when we wrote the underlying policy.

**Our business is dependent on the efforts of our executive officers because of their industry expertise, knowledge of our markets and relationships with the independent agencies that sell our insurance.**

Our success is dependent on the efforts of our executive officers because of their industry expertise, knowledge of our markets and relationships with our independent agencies. We have entered into employment agreements with each of our executive officers. Should any of our executive officers cease working for us, we may be unable to find acceptable replacements with comparable skills and experience in the workers' compensation insurance industry and the hazardous industries that we target. As a result, our operations may be disrupted and our business may be adversely affected. We do not currently maintain life insurance policies with respect to our executive officers.

**Because we are subject to extensive state and federal regulation, legislative changes may negatively impact our business.**

We are subject to extensive regulation by the Nebraska Department of Insurance and the insurance regulatory agencies of other states in which we are licensed and, to a lesser extent, federal regulation. State agencies have broad regulatory powers designed primarily to protect policyholders and their employees, and not our shareholders. Regulations vary from state to state, but typically address:

- standards of solvency, including risk-based capital measurements;
- restrictions on the nature, quality and concentration of our investments;
- restrictions on the terms of the insurance policies we offer;
- restrictions on the way our premium rates are established and the premium rates we may charge;
- required reserves for unearned premiums and loss and loss adjustment expenses;
- standards for appointing general agencies;
- limitations on transactions with affiliates;
- restrictions on mergers and acquisitions;
- restrictions on the ability of our insurance company subsidiaries to pay dividends to AMERISAFE;
- certain required methods of accounting; and
- potential assessments for state guaranty funds, second injury funds and other mandatory pooling arrangements.

We may be unable to comply fully with the wide variety of applicable laws and regulations that are continually undergoing revision. In addition, we follow practices based on our interpretations of laws and regulations that we believe are generally followed by our industry. These practices may be different from interpretations of insurance regulatory agencies. As a result, insurance regulatory agencies could preclude us from conducting some or all of our activities or otherwise penalize us. For example, in order to enforce applicable laws and regulations or to protect policyholders, insurance regulatory agencies have relatively broad discretion to impose a variety of sanctions, including examinations, corrective orders, suspension, revocation or denial of licenses, and the takeover of one or more of our insurance subsidiaries. The extensive regulation of our business may increase the cost of our insurance and may limit our ability to obtain premium rate increases or to take other actions to increase our profitability.

The workers' compensation system is largely regulated by state regulation. However in recent years, certain federal agencies and regulatory bodies have increased interest in more federal workers' compensation oversight. Increased federal involvement has the potential to change the workers' compensation structure impacting workers' benefits and the method of administration. As a result, potential changes in the level of oversight to the workers' compensation industry could adversely affect our operations.

**Legal or other administrative proceedings could have a material adverse effect on our operations or results of operations.**

In the ordinary course of our business, we are involved in various legal and other administrative proceedings involving claims arising from our insurance operations. These claims involve issues such as eligibility for workers' compensation insurance coverage or benefits, the extent of injuries, wage determinations, disability ratings, and bad faith and extra-contractual liability. We defend these claims. A significant adverse result, or multiple adverse results involving similar issues, could require us to pay significant amounts or to change the manner in which we administer claims, which could have a material adverse effect on our operations or results of operations.

**As an insurance holding company, AMERISAFE is dependent on the results of operations of its insurance subsidiaries, and our Company's ability to pay dividends depends on the regulatory and financial capacity of its subsidiaries to pay dividends to AMERISAFE.**

AMERISAFE is a holding company that transacts business through its operating subsidiaries, including AIIC. AMERISAFE's primary assets are the capital stock of these operating subsidiaries. The ability of AMERISAFE to pay dividends to our shareholders depends upon the surplus and earnings of our subsidiaries and their ability to pay dividends to AMERISAFE. Payment of dividends by our insurance subsidiaries is restricted by state insurance laws, including laws establishing minimum solvency and liquidity thresholds, and could be subject to contractual restrictions in the future, including those imposed by indebtedness we may incur in the future. As a result, AMERISAFE may not be able to receive dividends from its insurance subsidiaries and may not receive dividends in amounts necessary to pay dividends on our capital stock.

**A downgrade in our A.M. Best rating would likely reduce the amount of business we are able to write.**

Rating agencies evaluate insurance companies based on their ability to pay claims. We are currently assigned a group letter rating of "A" (Excellent) from A.M. Best, which is the rating agency that we believe has the most influence on our business. This rating is assigned to companies that, in the opinion of A.M. Best, have demonstrated an excellent overall performance when compared to industry standards. A.M. Best considers "A" rated companies to have an excellent ability to meet their ongoing obligations to policyholders. The ratings of A.M. Best are subject to periodic review using, among other things, proprietary capital adequacy models, and are subject to revision or withdrawal at any time. A.M. Best ratings are directed toward the concerns of policyholders and insurance agencies and are not intended for the protection of investors or as a recommendation to buy, hold or sell securities. Our competitive position relative to other companies is determined in part by our A.M. Best rating. Any downgrade in our rating would likely adversely affect our business through the loss of certain existing and potential policyholders and the loss of relationships with certain independent agencies.

**A downgrade in the A.M. Best rating of one or more of our significant reinsurers could adversely affect our financial condition.**

Our financial condition could be adversely affected if the A.M. Best rating of one or more of our significant reinsurers is downgraded. For example, our A.M. Best rating may be downgraded if our amounts recoverable from a reinsurer are significant and the A.M. Best rating of that reinsurer is downgraded. If one of our reinsurers suffers a rating downgrade, we may consider various options to lessen the impact on our financial condition, including commutation, novation and the use of letters of credit to secure amounts recoverable from reinsurers. However, these options may result in losses to our company, and there can be no assurance that we could implement any of these options.

**If we are unable to obtain reinsurance on favorable terms, our ability to write policies could be adversely affected.**

We purchase reinsurance to protect us from the impact of large losses. Reinsurance is an arrangement in which an insurance company, called the ceding company, transfers insurance risk by sharing premiums with another insurance company, called the reinsurer. Conversely, the reinsurer receives or assumes reinsurance from the ceding company. Our 2017 reinsurance program provides us with reinsurance coverage for each loss occurrence up to $70.0 million, subject to applicable limitations, deductibles, retentions and aggregate limits. However, for any loss occurrence involving only one claimant, our reinsurance coverage is limited to $10.0 million, subject to applicable deductibles, retentions and aggregate limits. Our retention is $2.0 million for each loss occurrence. Losses in the layer between $2.0 million and $10.0 million are ceded to a multi-year reinsurance treaty with an aggregate annual deductible of approximately $5.6 million and an aggregate limit of coverage of approximately $29.6 million for 2017.

The availability, amount, and cost of reinsurance are subject to market conditions and our experience with insured losses. As a result, any material changes in market conditions or our loss experience could adversely affect our financial performance.

**If any of our current reinsurers were to terminate participation in our reinsurance treaty program, we could be exposed to an increased risk of loss.**

When our reinsurance treaty program is terminated and we enter into a new program, any decrease in the amount of reinsurance at the time we enter into a new program, whether caused by the existence of more restrictive terms and conditions or decreased availability, will also increase our risk of loss and, as a result, could adversely affect our business, financial condition and results of operations. We currently have 19 reinsurers participating in our reinsurance treaty program, and we believe that this is a sufficient number of reinsurers to provide us with the reinsurance coverage we require. However, it is possible that one or more of our current reinsurers could terminate participation in our program. In addition, we may terminate the participation of one or more of our reinsurers under certain circumstances as permitted by the terms of our reinsurance agreements. In any of these events, if our reinsurance broker is unable to reallocate the terminated reinsurance among the remaining reinsurers in the program, it could take a significant period of time to identify and negotiate agreements with one or more replacement reinsurers. During this period, we would be exposed to an increased risk of loss, the extent of which would depend on the coverage previously provided by the terminated reinsurance.

**We may not be able to recover amounts due from our reinsurers, which would adversely affect our financial condition.**

Reinsurance does not discharge our obligations under the insurance policies we write. We remain liable to our policyholders even if we are unable to make recoveries that we are entitled to receive under our reinsurance contracts. As a result, we are subject to credit risk with respect to our reinsurers. Losses are recovered from our reinsurers as claims are paid. In long-term workers' compensation claims, the creditworthiness of our reinsurers may change before we recover amounts to which we are entitled. Therefore, if a reinsurer is unable to meet any of its obligations to us, we would be responsible for all claims and claim settlement expenses for which we would have otherwise received payment from the reinsurer.

As of December 31, 2016, we had $83.7 million of recoverables from reinsurers. Of this amount, $45.1 million was unsecured. As of December 31, 2016, our largest recoverable from reinsurers included $29.7 million from Hannover Reinsurance Limited (Ireland), $12.6 million from Odyssey America Reinsurance Corporation and and $9.6 million from Minnesota Workers' Compensation Reinsurance Association. No reinsurance recoverable due at December 31, 2016 was over 90 days old. If we are unable to collect amounts recoverable from our reinsurers, our financial condition would be adversely impacted.

**If more states approve non-subscriber programs, the demand for workers' compensation insurance could be significantly impacted.**

Workers' compensation insurance is required by law with few exceptions. States such as Texas offer employers the option to non-subscribe to the workers' compensation system. By non-subscribing, employers lose the exclusive remedy protection afforded those that do subscribe. Texas's program has been in existence since 1913. Oklahoma began a program in 2013; however that program has been ruled unconstitutional. A number of states have proposed legislation for similar programs which could threaten the demand for the workers' compensation product we offer.

**Assessments and premium surcharges for state guaranty funds, second injury funds and other mandatory pooling arrangements may reduce our profitability.**

Most states require insurance companies licensed to do business in their state to participate in guaranty funds, which require the insurance companies to bear a portion of the unfunded obligations of impaired, insolvent or failed insurance companies. These obligations are funded by assessments, most of which are expected to continue in the future. State guaranty associations levy assessments, up to prescribed limits, on all member insurance companies in the state based on their proportionate share of premiums written in the lines of business in which the impaired, insolvent or failed insurance companies are engaged. See "Business—Regulation" in Item 1 of this report. Accordingly, the assessments levied on us may increase as we increase our written premium. Some states also have laws that establish second injury funds to reimburse insurers and employers for claims paid to injured employees for aggravation of prior conditions or injuries. These funds are supported by either assessments or premium surcharges based on case incurred losses.

In addition, as a condition to conducting business in some states, insurance companies are required to participate in residual market programs to provide insurance to those employers who cannot procure coverage from an insurance carrier on a negotiated basis. Insurance companies generally can fulfill their residual market obligations by, among other things, participating in a reinsurance pool where the results of all policies provided through the pool are shared by the participating insurance companies. Although we price our insurance to account for obligations we may have under these pooling arrangements, we may not be successful in estimating our liability for these obligations. Accordingly, mandatory pooling arrangements may cause a decrease in our profits.

At December 31, 2016, we participated in mandatory pooling arrangements in 21 states and the District of Columbia. As we write policies in new states that have mandatory pooling arrangements, we will be required to participate in additional pooling arrangements. Further, the impairment, insolvency or failure of other insurance companies in these pooling arrangements would likely increase the liability for other members in the pool. The effect of assessments and premium surcharges or changes in them could reduce our profitability in any given period or limit our ability to grow our business.

**We may require additional capital in the future, which may not be available to us or may be available only on unfavorable terms.**

Our future capital requirements will depend on many factors, including state regulatory requirements, the financial stability of our reinsurers and our ability to write new business and establish premium rates sufficient to cover our estimated claims. We may need to raise additional capital or curtail our growth if the capital of our insurance subsidiaries is insufficient to support future operating requirements and/or cover claims. If we had to raise additional capital, equity or debt financing might not be available to us or might be available only on terms that are not favorable. Future equity offerings could be dilutive to our shareholders and the equity securities issued in any offering may have rights, preferences and privileges senior to our common stock.

If we cannot obtain adequate capital on favorable terms or at all, we may be unable to support future growth or operating requirements and, as a result, our business, financial condition or results of operations could be adversely affected.

**We may have exposure to losses from terrorism for which we are required by law to provide coverage.**

When writing workers' compensation insurance policies, we are required by law to provide workers' compensation benefits for losses arising from acts of terrorism. The impact of any terrorist act is unpredictable, and the ultimate impact on us would depend upon the nature, extent, location and timing of such an act. Our 2017 reinsurance treaty program affords limited coverage for up to $70.0 million for losses arising from terrorism, subject to applicable deductibles, retentions, definitions and aggregate limits.

Notwithstanding the protection provided by reinsurance and the Terrorism Risk Insurance Program Extension Act of 2015 (TRIPRA of 2015), the risk of severe losses to us from acts of terrorism has not been eliminated because our reinsurance treaty program includes various sub-limits and exclusions limiting our reinsurers' obligation to cover losses caused by acts of terrorism. Accordingly, events constituting acts of terrorism may not be covered by, or may exceed the capacity of, our reinsurance and could adversely affect our business and financial condition. In addition, the TRIPRA of 2015 is set to expire on December 31, 2020. If this law is not extended or replaced by legislation affording a similar level of protection to the insurance industry against insured losses arising out of acts of terrorism, reinsurance for losses arising from terrorism may be unavailable or prohibitively expensive, and we may be further exposed to losses arising from acts of terrorism.

***Risks Related to Our Common Stock***

**Our revenues and results of operations may fluctuate as a result of factors beyond our control, which fluctuation may cause the price of our common stock to be volatile.**

The revenues and results of operations of our insurance subsidiaries historically have been subject to significant fluctuations and uncertainties. Our profitability can be affected significantly by:

- rising levels of claims costs, including medical and prescription drug costs, that we cannot anticipate at the time we establish our premium rates;
- fluctuations in interest rates, inflationary or deflationary pressures and other changes in the investment environment that affect returns on our invested assets;
- changes in the frequency or severity of claims;
- the financial stability of our reinsurers and changes in the level of reinsurance capacity and our capital capacity;
- new types of claims and new or changing judicial interpretations relating to the scope of liabilities of insurance companies;
- volatile and unpredictable developments, including man-made, weather-related and other natural catastrophes or terrorist attacks; and
- price competition.

If our revenues and results of operations fluctuate as a result of one or more of these factors, the price of our common stock may become more volatile.

**Provisions of our articles of incorporation and bylaws and the laws of the states of Texas and Nebraska could impede an attempt to replace or remove our directors or otherwise effect a change of control of our company, which could diminish the value of our common stock.**

Our articles of incorporation and bylaws contain provisions that may make it more difficult for shareholders to replace or remove directors even if the shareholders consider it beneficial to do so. In addition, these provisions could delay or prevent a change of control of our company that shareholders might consider favorable. Our articles of incorporation and bylaws contain the following provisions that could have an anti-takeover effect:

- election of our directors is classified, meaning that the members of only one of three classes of our directors are elected each year;
- shareholders have limited ability to call shareholder meetings and to bring business before a meeting of shareholders;
- shareholders may not act by written consent, unless the consent is unanimous; and
- our Board of Directors may authorize the issuance of preferred stock with such rights, preferences and privileges as the board deems appropriate.

These provisions may make it difficult for shareholders to replace management and could have the effect of discouraging a future takeover attempt that is not approved by our Board of Directors, but which individual shareholders might consider favorable.

We are incorporated in Texas. Under the Texas Business Organizations Code, our ability to enter into a business combination with an affiliated shareholder is limited.

In addition, two of our three insurance company subsidiaries, AIIC and SOCI, are incorporated in Nebraska and the other, AIICTX, is incorporated in Texas. Under Nebraska and Texas insurance law, advance approval by the state insurance department is required for any change of control of an insurer. “Control” is presumed to exist through the direct or indirect ownership of 10% or more of the voting securities of a domestic insurance company or any entity that controls a domestic insurance company. Obtaining these approvals may result in the material delay of, or deter, any transaction that would result in a change of control.

**The trading price of our common stock may decline.**

The trading price of our common stock may decline for many reasons, some of which are beyond our control, including, among others:

- our results of operations;
- changes in expectations as to our future results of operations, including financial estimates and projections by securities analysts and investors;
- results of operations that vary from those expected by securities analysts and investors;
- developments in the insurance or healthcare industries;
- current and expected economic conditions;
- changes in laws and regulations;
- announcements of claims against us by third parties; and
- future issuances or sales of our common stock.

In addition, the stock market experiences significant volatility from time to time that is often unrelated to the operating performance of companies whose shares are traded. These market fluctuations could adversely affect the trading price of our common stock, regardless of our actual operating performance.

**Securities analysts may discontinue coverage of our common stock or may issue negative reports, which may adversely affect the trading price of our common stock.**

There is no assurance that securities analysts will continue to cover our company. If securities analysts do not cover our company, this lack of coverage may adversely affect the trading price of our common stock. The trading market for our common stock relies in part on the research and reports that securities analysts publish about us or our business. If one or more of the analysts who cover our company downgrades our common stock, the trading price of our common stock may decline rapidly. If one or more of these analysts ceases to cover our company, we could lose visibility in the market, which, in turn, could also cause the trading price of our common stock to decline.

**Future sales of our common stock may affect the trading price of our common stock.**

We cannot predict what effect, if any, future sales of our common stock, or the availability of shares for future sale, will have on the trading price of our common stock. Sales of a substantial number of shares of our common stock in the public market, or the perception that such sales could occur, may adversely affect the trading price of our common stock and may make it more difficult for you to sell your shares at a time and price that you determine appropriate. As of February 15, 2017, there were 19,230,135 shares of our common stock outstanding.

## Item 1B. Unresolved Staff Comments.

None.

## Item 2. Properties.

We own our principal business office which has approximately 60,000 square feet of office space together with a 3,200 square foot warehouse facility located in DeRidder, Louisiana. AIIC and SOCI lease their corporate headquarters which has approximately 3,500 square feet of office space located in Omaha, Nebraska. The Company leases space at other locations for certain of our service and claims representatives, none of which are material.

## Item 3. Legal Proceedings.

In the ordinary course of our business, we are involved in the adjudication of claims resulting from workplace injuries. We are not involved presently in any legal or administrative proceedings that we believe are likely to have a materially adverse effect on our business, financial condition or results of operations.

## Item 4. Mine Safety Disclosures

None.

## PART II

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

**Market Information and Holders**

Our common stock is traded on the NASDAQ Global Select Market under the symbol "AMSF." As of February 15, 2017, there were 26 holders of record of our common stock.

The table below sets forth the reported high and low sales prices of our common stock as quoted on NASDAQ during each quarter for the last two fiscal years.

| | High | Low |
|---|---|---|
| **2015** | | |
| First Quarter | $ 46.82 | $ 39.59 |
| Second Quarter | $ 48.45 | $ 41.50 |
| Third Quarter | $ 52.50 | $ 44.54 |
| Fourth Quarter | $ 57.20 | $ 48.08 |
| **2016** | | |
| First Quarter | $ 54.48 | $ 46.88 |
| Second Quarter | $ 64.98 | $ 50.02 |
| Third Quarter | $ 63.09 | $ 55.27 |
| Fourth Quarter | $ 66.30 | $ 53.35 |

**Dividend Policy**

In 2016, 2015 and 2014, the Company paid regular quarterly cash dividends of $0.18, $0.15 and $0.12 per share, respectively. In addition, the Company paid extraordinary cash dividends of $3.25 in 2016, $3.00 in 2015 and $0.50 and $1.00 per share in 2014.

On February 21, 2017 the Company declared a regular quarterly cash dividend of $0.20 per share payable on March 24, 2017 to shareholders of record on March 10, 2017.

The Board intends to continue to consider the payment of a regular cash dividend each calendar quarter. On an annualized basis, the cash dividend is expected to be $0.80 per share in 2017.

AMERISAFE is a holding company and has no direct operations. Our ability to pay dividends in the future depends on the ability of our operating subsidiaries to pay dividends to us. Our insurance company subsidiaries are regulated insurance companies and therefore are subject to significant regulatory restrictions limiting their ability to declare and pay dividends. See "Business—Regulation—Dividend Limitations" in Item 1 of this report.

Our existing revolving credit agreement contains covenants that restrict our ability to pay dividends on our common stock. See "Liquidity and Capital Resources" in Item 7 of this report.

**Description of Capital Stock**

AMERISAFE is authorized to issue 60,000,000 shares of capital stock, consisting of:

- 10,000,000 shares of preferred stock, par value $0.01 per share; and
- 50,000,000 shares of common stock, par value $0.01 per share.

As of February 15, 2017, 19,230,135 shares of common stock were outstanding. As of that date, there were no other shares of our capital stock outstanding.

**Share Repurchases**

The Company's Board of Directors initiated a share repurchase program in February 2010. In October 2016, the Board reauthorized this program with a limit of $25.0 million with no expiration date. There were no shares repurchased under this program in 2016, 2015 or 2014. As of December 31, 2016, the Company has repurchased a total of 1,258,250 shares for $22.4 million, or an average price of $17.78, including commissions under the program. The purchases may be affected from time to time depending upon market conditions and subject to applicable regulatory considerations. It is anticipated that any future purchases will be funded from available capital.

## Item 6. Selected Financial Data.

The following tables summarize certain selected financial data that should be read in conjunction with our audited financial statements and accompanying notes thereto for the year ended December 31, 2016 included in this report and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| | (in thousands, except share and per share data) | | | | |
| **Income Statement Data** | | | | | |
| Gross premiums written | $ 373,055 | $ 386,529 | $ 393,819 | $ 372,177 | $ 328,823 |
| Ceded premiums written | (10,307) | (11,228) | (13,793) | (18,425) | (16,305) |
| Net premiums written | $ 362,748 | $ 375,301 | $ 380,026 | $ 353,752 | $ 312,518 |
| Net premiums earned | $ 368,704 | $ 375,894 | $ 375,747 | $ 329,983 | $ 290,689 |
| Net investment income | 28,106 | 27,902 | 27,214 | 27,029 | 27,018 |
| Net realized gains (losses) on investments | (494) | (2,494) | 697 | (1,211) | 2,979 |
| Loss on disposal of assets | (1) | (664) | — | (2) | (1) |
| Fee and other income | 347 | 316 | 361 | 536 | 563 |
| Total revenues | 396,662 | 400,954 | 404,019 | 356,335 | 321,248 |
| Loss and loss adjustment expenses incurred | 199,031 | 214,573 | 244,916 | 228,973 | 219,903 |
| Underwriting and certain other operating costs (1) | 29,470 | 32,162 | 32,573 | 18,951 | 18,450 |
| Commissions | 26,243 | 27,509 | 27,872 | 25,303 | 22,144 |
| Salaries and benefits | 24,881 | 24,442 | 24,518 | 22,862 | 20,839 |
| Interest expense | — | — | — | — | 566 |
| Policyholder dividends | 4,216 | 1,301 | 391 | 1,042 | 2,203 |
| Total expenses | 283,841 | 299,987 | 330,270 | 297,131 | 284,105 |
| Income before taxes | 112,821 | 100,967 | 73,749 | 59,204 | 37,143 |
| Income tax expense | 34,956 | 30,505 | 20,083 | 15,567 | 7,790 |
| Net income | 77,865 | 70,462 | 53,666 | 43,637 | 29,353 |
| Less allocated income to participating securities | — | — | — | 142 | 22 |
| Net income available to common shareholders | $ 77,865 | $ 70,462 | $ 53,666 | $ 43,495 | $ 29,331 |
| Diluted earnings per common share equivalent | $ 4.05 | $ 3.69 | $ 2.84 | $ 2.32 | $ 1.58 |
| Weighted average common shares | 19,105,806 | 18,941,077 | 18,646,128 | 18,373,033 | 18,166,261 |
| Stock options and performance shares | 97,844 | 178,109 | 282,376 | 375,776 | 408,930 |
| Diluted weighted average of common share equivalents outstanding | 19,203,650 | 19,119,186 | 18,928,504 | 18,748,809 | 18,575,191 |
| **Selected Insurance Ratios** | | | | | |
| Current accident year loss ratio (2) | 67.9% | 69.8% | 71.5% | 73.2% | 76.5% |
| Prior accident year loss ratio (3) | (13.9)% | (12.7)% | (6.3)% | (3.8)% | (0.9)% |
| Net loss ratio | 54.0% | 57.1% | 65.2% | 69.4% | 75.6% |
| Net underwriting expense ratio (4) | 21.9% | 22.4% | 22.6% | 20.3% | 21.1% |
| Net dividend ratio (5) | 1.1% | 0.3% | 0.1% | 0.3% | 0.8% |
| Net combined ratio (6) | 77.0% | 79.8% | 87.9% | 90.0% | 97.5% |

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| | | | (in thousands) | | |
| **Balance Sheet Data** | | | | | |
| Cash and cash equivalents | $ 58,936 | $ 69,481 | $ 90,956 | $ 123,077 | $ 92,676 |
| Investments | 1,084,474 | 1,045,152 | 1,016,333 | 878,775 | 808,116 |
| Amounts recoverable from reinsurers | 83,666 | 91,077 | 85,888 | 75,326 | 101,352 |
| Premiums receivable, net | 183,005 | 185,364 | 178,917 | 171,579 | 141,950 |
| Deferred income taxes | 33,811 | 29,905 | 31,231 | 33,645 | 29,521 |
| Deferred policy acquisition costs | 19,300 | 20,412 | 19,649 | 19,171 | 18,419 |
| Total assets | 1,518,856 | 1,502,045 | 1,457,220 | 1,329,001 | 1,220,946 |
| Reserves for loss and loss adjustment expenses | 742,776 | 718,033 | 687,602 | 614,557 | 570,450 |
| Unearned premiums | 162,028 | 167,983 | 168,576 | 164,296 | 140,528 |
| Insurance-related assessments | 31,742 | 32,329 | 29,315 | 25,428 | 22,244 |
| Shareholders' equity | 456,150 | 453,981 | 446,968 | 416,814 | 381,222 |

(1) Includes policy acquisition expenses and other general and administrative expenses, excluding commissions and salaries and benefits, related to insurance operations and corporate operating expenses.

(2) The current accident year loss ratio is calculated by dividing loss and loss adjustment expenses incurred for the current accident year by the current year's net premiums earned.

(3) The prior accident year loss ratio is calculated by dividing the change in loss and loss adjustment expenses incurred for prior accident years by the current year's net premiums earned.

(4) The net underwriting expense ratio is calculated by dividing underwriting and certain other operating costs, commissions and salaries, and benefits by the current year's net premiums earned.

(5) The net dividend ratio is calculated by dividing policyholder dividends by the current year's net premiums earned.

(6) The net combined ratio is the sum of the net loss ratio, the net underwriting expense ratio and the net dividend ratio.

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

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the notes thereto included in Item 8 of this report. This discussion includes forward-looking statements that are subject to risks, uncertainties and other factors described in Item 1A of this report. These factors could cause our actual results in 2017 and beyond to differ materially from those expressed in, or implied by, those forward-looking statements.

### Overview

AMERISAFE is a holding company that markets and underwrites workers' compensation insurance through its insurance subsidiaries. Workers' compensation insurance covers statutorily prescribed benefits that employers are obligated to provide to their employees who are injured in the course and scope of their employment. Our business strategy is focused on providing this coverage to small to mid-sized employers engaged in hazardous industries, principally construction, trucking, logging and lumber, manufacturing, and agriculture. Employers engaged in hazardous industries pay substantially higher than average rates for workers' compensation insurance compared to employers in other industries, as measured per payroll dollar. The higher premium rates are due to the nature of the work performed and the inherent workplace danger of our target employers. Hazardous industry employers also tend to have less frequent but more severe claims as compared to employers in other industries due to the nature of their businesses. We provide proactive safety reviews of employers' workplaces. These safety reviews are a vital component of our underwriting process and also promote safer workplaces. We utilize intensive claims management practices that we believe permit us to reduce the overall cost of our claims. In addition, our audit services ensure that our policyholders pay the appropriate premiums required under the terms of their policies and enable us to monitor payroll patterns that cause underwriting, safety or fraud concerns. We believe that the higher premiums typically paid by our policyholders, together with our disciplined underwriting and safety, claims and audit services, provide us with the opportunity to earn attractive returns for our shareholders.

We actively market our insurance in 27 states through independent agencies, as well as through our wholly owned insurance agency subsidiary. We are also licensed in an additional 20 states, the District of Columbia and the U.S. Virgin Islands.

Two of the key financial measures that we use to evaluate our performance are return on average equity and growth in book value per share adjusted for dividends paid to shareholders. We calculate return on average equity by dividing annual net income by the average of annual shareholders' equity. Our return on average equity was 17.1% in 2016, 15.6% in 2015 and 12.4% in 2014. We calculate book value per share by dividing ending shareholders' equity by the number of common shares outstanding. Our book value per share was $23.72 at December 31, 2016, $23.73 at December 31, 2015 and $23.65 at December 31, 2014. We paid cash dividends of $3.97 per share in 2016, $3.60 per share in 2015 and $1.98 per share in 2014.

Investment income is an important element of our net income. Because the period of time between our receipt of premiums and the ultimate settlement of claims is often several years or longer, we are able to invest cash from premiums for significant periods of time. As a result, we are able to generate more investment income from our premiums as compared to insurance companies that operate in other lines of business that pay claims more quickly. From December 31, 2011 to December 31, 2016, our investment portfolio, including cash and cash equivalents, increased from $851.5 million to $1.1 billion and produced net investment income of $28.1 million in 2016, $27.9 million in 2015 and $27.2 million in 2014.

The use of reinsurance is an important component of our business strategy. We purchase reinsurance to protect us from the impact of large losses. Our reinsurance program for 2017 includes 19 reinsurers that provide coverage to us in excess of a certain specified loss amount, or retention level. Our 2017 reinsurance program provides us with reinsurance coverage for each loss occurrence up to $70.0 million, subject to applicable limitations, deductibles, retentions and aggregate limits. However, for any loss occurrence involving only one claimant, our reinsurance coverage is limited to $10.0 million for any single claimant, subject to applicable deductibles, retentions and aggregate limits. Losses in the layer between $2.0 million and $10.0 million are ceded to a multi-year reinsurance treaty with an aggregate annual deductible of approximately $5.6 million and an aggregate limit of coverage of approximately $29.6 million for 2017. As losses are incurred and recorded, we record amounts recoverable from reinsurers for the portion of the losses ceded to our reinsurers.

Our most significant balance sheet liability is our reserve for loss and loss adjustment expenses. We record reserves for estimated losses under insurance policies that we write and for loss adjustment expenses related to the investigation and settlement of claims. Our reserves for loss and loss adjustment expenses represent the estimated cost of all reported and unreported loss and loss adjustment expenses incurred and unpaid at any given point in time based on known facts and circumstances. Reserves are based on estimates of the most likely ultimate cost of individual claims. These estimates are inherently uncertain. In addition, there are no policy limits on the liability for workers' compensation claims as there are for other forms of insurance. Therefore, estimating reserves for workers' compensation claims may be more uncertain than estimating reserves for other types of insurance claims with shorter or more definite periods between occurrence of the claim and final determination of the loss and with policy limits on liability for claim amounts.

Our focus on providing workers' compensation insurance to employers engaged in hazardous industries results in our receiving relatively fewer but more severe claims than many other workers' compensation insurance companies. Severe claims, which we define as claims having an estimated ultimate cost of more than $1.0 million, usually have a material effect on each accident year's loss reserves (and our reported results of operations) as a result of both the number of severe claims reported in any year and the timing of claims in the year. As a result of our focus on higher severity, lower frequency business, our reserve for loss and loss adjustment expenses may have greater volatility than other workers' compensation insurance companies.

For example, for the five-year period ended December 31, 2016 we had recorded 62 severe claims, or an average of 12 severe claims per year for accident years 2012 through 2016. The number of severe claims reported in any one accident year in this five-year period ranged from a low of eight in 2012 to a high of 17 in 2016. The average reported case severity for these claims ranged from $1.6 million for the 2012 accident year to $3.5 million for the 2014 accident year. For the five accident years, the case incurred for these severe claims accounted for an average of 8.0 percentage points of our overall loss and loss adjustment expense, or LAE, ratio, measured at December 31, 2016.

Further, the ultimate cost of severe claims is more difficult to estimate, principally due to uncertainties as to medical treatment and outcome and the length and degree of disability. Because of these uncertainties, the estimate of the ultimate cost of severe claims can vary significantly as more information becomes available. As a result, at year end, the case reserve for a severe claim reported early in the year may be more accurate than the case reserve established for a severe claim reported late in the year.

A key assumption used by management in establishing loss reserves is that average per claim case incurred loss and loss adjustment expenses will increase year over year. We believe this increase primarily reflects medical and wage inflation and utilization. However, changes in per average claim case incurred loss and loss adjustment expenses can also be affected by frequency of severe claims in the applicable accident years.

As more fully described in "Business—Loss Reserves" in Item 1 of this report, the estimate for loss and loss adjustment expenses is established based upon management's analysis of historical data, and factors and trends derived from that data, including claims reported, average claim amount incurred, case development, duration, severity and payment patterns, as well as subjective assumptions. This analysis includes reviews of case reserves for individual open severe claims in the current and prior years. Management reviews the outcomes from actuarial analyses to confirm the reasonableness of its reserve estimate.

Substantial judgment is required to determine the relevance of our historical experience and industry information under current facts and circumstances. The interpretation of this historical and industry data can be impacted by external forces, principally frequency and severity of unreported claims, length of time to achieve ultimate settlement of claims, utilization, inflation in medical costs and wages, insurance policy coverage interpretations, jury determinations and legislative changes. Accordingly, our reserves may prove to be inadequate to cover our actual losses. If we change our estimates, these changes would be reflected in our results of operations during the period in which the changes occurred, with increases in our reserves resulting in decreases in our earnings. Additional information regarding our reserves for loss and loss adjustment expenses and the actuarial methods and other factors used in establishing these reserves can be found under the caption "Business—Loss Reserves" in Item 1 of this report.

Our gross reserves for loss and loss adjustment expenses at December 31, 2016, 2015 and 2014 were $742.8 million, $718.0 million and $687.6 million, respectively. As a percentage of gross reserves at year end, IBNR represented 22.2% in 2016, 22.2% in 2015 and 22.4% in 2014.

In 2016, we decreased our estimates for prior year loss reserves by $51.3 million. In 2015, we decreased our estimates for prior year loss reserves by $47.8 million. In 2014, we decreased our estimates for prior year loss reserves by $23.7 million.

The workers' compensation insurance industry is cyclical in nature and influenced by many factors, including price competition, medical cost increases, natural and man-made disasters, changes in interest rates, changes in state laws and regulations, and general economic conditions. A hard market in our industry is characterized by decreased competition that results in higher premium rates, more restrictive policy coverage terms, and lower commissions paid to agencies. In contrast, a soft market is characterized by increased competition that results in lower premium rates, expanded policy coverage terms, and higher commissions paid to agencies. Our strategy is to focus on maintaining underwriting profitability throughout the cycle.

For additional information regarding our loss reserves and the analyses and methodologies used by management to establish these reserves, see the information under the caption "Business—Loss Reserves" in Item 1 of this report.

**Principal Revenue and Expense Items**

Our revenues consist primarily of the following:

*Net Premiums Earned.* Net premiums earned is the earned portion of our net premiums written. Net premiums written is equal to gross premiums written less premiums ceded to reinsurers. Gross premiums written includes the estimated annual premiums from each insurance policy we write in our voluntary and assigned risk businesses during a reporting period based on the policy effective date or the date the policy is bound, whichever is later.

Premiums are earned on a daily pro rata basis over the term of the policy. At the end of each reporting period, premiums written that are not earned are classified as unearned premiums and are earned in subsequent periods over the remaining term of the policy. Our insurance policies typically have a term of one year. Thus, for a one-year policy written on July 1, 2016 for an employer with constant payroll during the term of the policy, we would earn half of the premiums in 2016 and the other half in 2017. On a monthly basis, we also recognize net premiums earned from mandatory pooling arrangements.

We estimate the annual premiums to be paid by our policyholders when we issue the policies and record those amounts on our balance sheet as premiums receivable. We conduct premium audits on all of our voluntary business policyholders annually, upon the expiration of each policy, including when the policy is renewed. The purpose of these audits is to verify that policyholders have accurately reported their payroll expenses and employee job classifications, and therefore have paid us the premium required under the terms of the policies. The difference between the estimated premium and the ultimate premium is referred to as "earned but unbilled" premium, or EBUB premium. EBUB premium is subject to significant variability and can either increase or decrease earned premium based upon several factors, including changes in premium growth, industry mix and economic conditions. Due to the timing of audits and other adjustments, the ultimate premium earned is generally not determined for several months after the expiration of the policy.

We review the estimate of EBUB premiums on a quarterly basis using historical data and applying various assumptions based on the current market and economic conditions, and we record an adjustment to premium, related losses, and expenses as warranted.

*Net Investment Income and Net Realized Gains and Losses on Investments.* We invest our statutory surplus funds and the funds supporting our insurance liabilities in fixed maturity, equity securities and alternative investments. In addition, a portion of these funds are held in cash and cash equivalents to pay current claims. Our net investment income includes interest and dividends earned on our invested assets, amortization of premiums and discounts on our fixed-maturity securities and returns on our other investments. We assess the performance of our investment portfolio using a standard tax equivalent yield metric. Investment income that is tax-exempt is increased by our marginal federal tax rate to express yield on tax-exempt securities on the same basis as taxable securities. Net realized gains and losses on our investments are reported separately from our net investment income. Net realized gains occur when our investment securities are sold for more than their cost or amortized cost, as applicable. Net realized losses occur when our investment securities are sold for less than their cost or amortized cost, as applicable, or are written down as a result of other-than-temporary impairment. We classify the majority of our fixed maturity securities as held-to-maturity. The remainder of our fixed-maturity securities are classified as available-for-sale, as are our equity securities and other investments. Net unrealized gains or losses on our securities classified as available-for-sale are reported separately within accumulated other comprehensive income on our balance sheet.

*Fee and Other Income.* We recognize commission income earned on policies issued by other carriers that are sold by our wholly owned insurance agency subsidiary as the related services are performed. We also recognize a small portion of interest income from mandatory pooling arrangements in which we participate.

Our expenses consist primarily of the following:

*Loss and Loss Adjustment Expenses Incurred.* Loss and loss adjustment expenses incurred represents our largest expense item and, for any given reporting period, includes estimates of future claim payments, changes in those estimates from prior reporting periods and costs associated with investigating, defending, and administering claims. These expenses fluctuate based on the amount and types of risks we insure. We record loss and loss adjustment expenses related to estimates of future claim payments based on case-by-case valuations and statistical analyses. We seek to establish all reserves at the most likely ultimate exposure based on our historical claims experience. It is typical for our more serious claims to take several years to settle and we revise our estimates as we receive additional information about the condition of the injured employees. Our ability to estimate loss and loss adjustment expenses accurately at the time of pricing our insurance policies is a critical factor in our profitability. Additional information regarding our reserves for loss and loss adjustment expenses and the actuarial methods and other factors used in establishing these reserves can be found under the caption "Business—Loss Reserves" in Item 1 of this report.

*Underwriting and Certain Other Operating Costs.* Underwriting and certain other operating costs are those expenses that we incur to underwrite and maintain the insurance policies we issue. These expenses include state and local premium taxes and fees and other operating costs, offset by commissions we receive from reinsurers under our reinsurance treaty programs. We pay state and local taxes, licenses and fees, assessments, and contributions to state workers' compensation security funds based on premiums. In addition, other operating costs include general and administrative expenses, excluding commissions and salaries and benefits, incurred at both the insurance company and corporate level.

*Commissions.* We pay commissions to our subsidiary insurance agency and to the independent agencies that sell our insurance based on premiums collected from policyholders.

*Salaries and Benefits.* We pay salaries and provide benefits to our employees.

*Policyholder Dividends.* In limited circumstances, we pay dividends to policyholders in particular states as an underwriting incentive.

*Income Tax Expense.* We incur federal, state, and local income tax expense.

**Critical Accounting Policies**

Understanding our accounting policies is key to understanding our financial statements. Management considers some of these policies to be very important to the presentation of our financial results because they require us to make significant estimates and assumptions. These estimates and assumptions affect the reported amounts of our assets, liabilities, revenues and expenses and related disclosures. Some of the estimates result from judgments that can be subjective and complex and, consequently, actual results in future periods might differ from these estimates.

Management believes that the most critical accounting policies relate to the reporting of reserves for loss and loss adjustment expenses, including losses that have occurred but have not been reported prior to the reporting date, amounts recoverable from reinsurers, premiums receivable, assessments, deferred policy acquisition costs, deferred income taxes, the impairment of investment securities and share-based compensation.

The following is a description of our critical accounting policies.

*Reserves for Loss and Loss Adjustment Expenses.* We record reserves for estimated losses under insurance policies that we write and for loss adjustment expenses, which include defense and cost containment, or DCC, and adjusting and other, or AO expenses, related to the investigation and settlement of policy claims. Our reserves for loss and loss adjustment expenses represent the estimated cost of all reported and unreported loss and loss adjustment expenses incurred and unpaid at any given point in time based on known facts and circumstances.

Our reserves for loss and DCC expenses are estimated using case-by-case valuations based on our estimate of the most likely outcome of the claim at that time. In addition to these case reserves, we establish reserves on an aggregate basis that have been incurred but not reported, or IBNR. Our IBNR reserves are also intended to provide for aggregate changes in case incurred amounts as well as for recently reported claims which an initial case reserve has not been established. The third component of our reserves for loss and loss adjustment expenses is our AO reserve. Our AO reserve is established for those future claims administration costs that cannot be allocated directly to individual claims. The final component of our reserves for loss and loss adjustment expenses is the reserve for mandatory pooling arrangements.

In establishing our reserves, we review the results of analyses using actuarial methods that utilize historical loss data from our more than 31 years of underwriting workers' compensation insurance. The actuarial analysis of our historical data provides the factors we use in estimating our loss reserves. These factors are primarily measures over time of the number of claims paid and reported, average paid and incurred claim amounts, claim closure rates and claim payment patterns. In evaluating the results of our analyses, management also uses substantial judgment in considering other factors that are not considered in these actuarial analyses, including changes in business mix, claims management, regulatory issues, medical trends, employment and wage patterns, insurance policy coverage interpretations, judicial determinations and other subjective factors. Due to the inherent uncertainty associated with these estimates, and the cost of incurred but unreported claims, our actual liabilities may vary significantly from our original estimates.

On a quarterly basis, we review our reserves for loss and loss adjustment expenses to determine whether adjustments are required. Any resulting adjustments are included in the results for the current period. In establishing our reserves, we do not use loss discounting, which would involve recognizing the time value of money and offsetting estimates of future payments by future expected investment income. Additional information regarding our reserves for loss and loss adjustment expenses and the actuarial methods and other factors used in establishing these reserves can be found under the caption "Business—Loss Reserves" in Item 1 of this report.

*Amounts Recoverable from Reinsurers.* Amounts recoverable from reinsurers represent the portion of our paid and unpaid loss and loss adjustment expenses that are assumed by reinsurers and related commissions due from reinsurers. These amounts are separately reported on our balance sheet as assets and do not reduce our reserves for loss and loss adjustment expenses because reinsurance does not relieve us of liability to our policyholders. We are required to pay claims even if a reinsurer fails to pay us under the terms of a reinsurance contract. We calculate amounts recoverable from reinsurers based on our estimates of the underlying loss and loss adjustment expenses, as well as the terms and conditions of our reinsurance contracts, which could be subject to interpretation. In addition, we bear credit risk with respect to our reinsurers, which can be significant because some of the unpaid loss and loss adjustment expenses for which we have reinsurance coverage remain outstanding for extended periods of time.

*Premiums Receivable.* Premiums receivable represents premium-related balances due from our policyholders based on annual premiums for policies written, including surcharges and deposits and adjustments for premium audits, endorsements, cancellations, cash transactions and charge offs. The balance is shown net of the allowance for doubtful accounts and includes an estimate for EBUB. The EBUB estimate is subject to significant variability and can either increase or decrease premiums receivable and earned premiums based upon several factors, including changes in premium growth, industry mix and economic conditions. EBUB assumptions include historical development factors, current economic outlook and current trends in particular sectors of our business.

*Assessments.* We are subject to various assessments and premium surcharges related to our insurance activities, including assessments and premium surcharges for state guaranty funds and second injury funds. Our accrual is based on historical assessments as well as updated assessment rates. Assessments based on premiums are recorded as an expense as premiums are earned and generally paid one year after the calendar year in which the policies are written. Assessments based on losses are recorded as an expense as losses are incurred and are generally paid within one year of the calendar year in which the claims are paid by us. State guaranty fund assessments are used by state insurance oversight agencies to pay claims of policyholders of impaired, insolvent or failed insurance companies and the operating expenses of those agencies. Second injury funds are used by states to reimburse insurers and employers for claims paid to injured employees for aggravation of prior conditions or injuries. In some states, these assessments and premium surcharges may be partially recovered through a reduction in future premium taxes.

*Deferred Policy Acquisition Costs.* We defer commission expenses, premium taxes and certain marketing, sales, underwriting and safety costs that vary with and primarily relate to the successful acquisition of insurance policies. These acquisition costs are capitalized and charged to expense ratably as premiums are earned. In calculating deferred policy acquisition costs, these costs are limited to their estimated realizable value, which gives effect to the premiums to be earned, anticipated losses and settlement expenses and certain other costs we expect to incur as the premiums are earned, less related net investment income. Judgments as to the ultimate recoverability of these deferred policy acquisition costs are highly dependent upon estimated future profitability of unearned premiums. If the unearned premiums were less than our expected claims and expenses after considering investment income, we would reduce the deferred costs.

*Deferred Income Taxes.* We use the liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributed 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 tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities resulting from a tax rate change impacts our net income or loss in the reporting period that includes the enactment date of the tax rate change.

In assessing whether our deferred tax assets will be realized, management considers whether it is more likely than not that we will generate future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, tax planning strategies and projected future taxable income in making this assessment. If necessary, we establish a valuation allowance to reduce the deferred tax assets to the amounts that are more likely than not to be realized.

*Impairment of Investment Securities.* Impairment of an investment security results in a reduction of the carrying value of the security and the realization of a loss when the fair value of the security declines below our cost or amortized cost, as applicable, for the security, and the impairment is deemed to be other-than-temporary. We regularly review our investment portfolio to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value of specific investments. We consider various factors in determining if a decline in the fair value of an individual security is other-than-temporary. Some of the factors we consider include:

- any reduction or elimination of preferred stock dividends, or nonpayment of scheduled principal or interest payments;
- the financial condition and near-term prospects of the issuer of the applicable security, including any specific events that may affect its operations or earnings;

- how long and by how much the fair value of the security has been below its cost or amortized cost;
- any downgrades of the security by a rating agency;
- our intent not to sell the security for a sufficient time period for it to recover its value;
- the likelihood of being forced to sell the security before the recovery of its value; and
- an evaluation as to whether there are any credit losses on debt securities.

*Share-Based Compensation.* In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718, *Compensation-Stock Compensation*, we recognize compensation costs for restricted stock, performance-based stock and stock option awards over the applicable vesting periods.

**Results of Operations**

The table below summarizes certain operating results and key measures we use in monitoring and evaluating our operations.

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | | (in thousands) | |
| **Income Statement Data** | | | |
| Gross premiums written | $ 373,055 | $ 386,529 | $ 393,819 |
| Ceded premiums written | (10,307) | (11,228) | (13,793) |
| Net premiums written | $ 362,748 | $ 375,301 | $ 380,026 |
| Net premiums earned | $ 368,704 | $ 375,894 | $ 375,747 |
| Net investment income | 28,106 | 27,902 | 27,214 |
| Net realized gains (losses) on investments | (494) | (2,494) | 697 |
| Loss on disposal of assets | (1) | (664) | — |
| Fee and other income | 347 | 316 | 361 |
| Total revenues | 396,662 | 400,954 | 404,019 |
| Loss and loss adjustment expenses incurred | 199,031 | 214,573 | 244,916 |
| Underwriting and certain other operating costs (1) | 29,470 | 32,162 | 32,573 |
| Commissions | 26,243 | 27,509 | 27,872 |
| Salaries and benefits | 24,881 | 24,442 | 24,518 |
| Policyholder dividends | 4,216 | 1,301 | 391 |
| Total expenses | 283,841 | 299,987 | 330,270 |
| Income before taxes | 112,821 | 100,967 | 73,749 |
| Income tax expense | 34,956 | 30,505 | 20,083 |
| Net income | $ 77,865 | $ 70,462 | $ 53,666 |
| **Selected Insurance Ratios** | | | |
| Current accident year loss ratio (2) | 67.9% | 69.8% | 71.5% |
| Prior accident year loss ratio (3) | (13.9)% | (12.7)% | (6.3)% |
| Net loss ratio | 54.0% | 57.1% | 65.2% |
| Net underwriting expense ratio (4) | 21.9% | 22.4% | 22.6% |
| Net dividend ratio (5) | 1.1% | 0.3% | 0.1% |
| Net combined ratio (6) | 77.0% | 79.8% | 87.9% |

| | As of December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | | (in thousands) | |
| **Balance Sheet Data** | | | |
| Cash and cash equivalents | $ 58,936 | $ 69,481 | $ 90,956 |
| Investments | 1,084,474 | 1,045,152 | 1,016,333 |
| Amounts recoverable from reinsurers | 83,666 | 91,077 | 85,888 |
| Premiums receivable, net | 183,005 | 185,364 | 178,917 |
| Deferred income taxes | 33,811 | 29,905 | 31,231 |
| Deferred policy acquisition costs | 19,300 | 20,412 | 19,649 |
| Total assets | 1,518,856 | 1,502,045 | 1,457,220 |
| Reserves for loss and loss adjustment expenses | 742,776 | 718,033 | 687,602 |
| Unearned premiums | 162,028 | 167,983 | 168,576 |
| Insurance-related assessments | 31,742 | 32,329 | 29,315 |
| Shareholders' equity | 456,150 | 453,981 | 446,968 |

(1) Includes policy acquisition expenses, and other general and administrative expenses, excluding commissions and salaries and benefits, related to insurance operations and corporate operating expenses.
(2) The current accident year loss ratio is calculated by dividing loss and loss adjustment expenses incurred for the current accident year by the current year's net premiums earned.
(3) The prior accident year loss ratio is calculated by dividing the change in loss and loss adjustment expenses incurred for prior accident years by the current year's net premiums earned.
(4) The net underwriting expense ratio is calculated by dividing underwriting and certain other operating costs, commissions and salaries, and benefits by the current year's net premiums earned.
(5) The net dividend ratio is calculated by dividing policyholder dividends by the current year's net premiums earned.
(6) The net combined ratio is the sum of the net loss ratio, the net underwriting expense ratio and the net dividend ratio.

## Overview of Operating Results

### *Year Ended December 31, 2016 Compared to Year Ended December 31, 2015*

*Gross Premiums Written.* Gross premiums written for 2016 were $373.1 million, compared to $386.5 million for 2015, a decrease of 3.5%. The decrease was attributable to a $8.4 million decrease in annual premiums on voluntary policies written during the period, a $4.2 million decrease in premiums resulting from payroll audits and related premium adjustments and a $0.9 million decrease in premiums from mandatory pooling arrangements.

*Net Premiums Written.* Net premiums written for 2016 were $362.7 million, compared to $375.3 million for 2015, a decrease of 3.3%. The decrease was primarily attributable to the decrease in gross premiums written. As a percentage of gross premiums earned, ceded premiums were 2.7% for 2016 compared to 2.9% for 2015.

*Net Premiums Earned*. Net premiums earned for 2016 were $368.7 million, compared to $375.9 million for 2015, a decrease of $1.9%.

*Net Investment Income.* Net investment income in 2016 was $28.1 million, an increase of 0.7% from the $27.9 million reported in 2015. The pre-tax investment yield on our investment portfolio was 2.5% per annum for 2016 and 2015. The tax-equivalent yield on our investment portfolio was 3.2% per annum for 2016, compared to 3.3% per annum for 2015. The tax-equivalent yield is calculated using the effective interest rate and the appropriate marginal tax rate. Average invested assets, including cash and cash equivalents, increased 2.2%, from an average of $1,140.7 million for 2015 to an average of $1,165.4 million for 2016.

*Net Realized Gains (Losses) on Investments.* Net realized losses on investments in 2016 totaled $0.5 million, compared to losses of $2.5 million in 2015. In 2016, net realized losses of $0.9 million resulted from the sale of fixed maturity securities classified as available-for-sale. These losses were partially offset by realized gains of $0.3 million on called fixed maturity securities. In 2015, net realized losses of $2.7 million resulted from an other-than-temporary impairment of four fixed maturity securities. These losses were partially offset by realized gains of $0.2 million on called fixed maturity securities and other sales of securities.

*Loss and Loss Adjustment Expenses Incurred.* Loss and LAE incurred totaled $199.0 million for 2016, compared to $214.6 million for 2015, a decrease of $15.5 million, or 7.2%. The current accident year losses and LAE incurred were $250.3 million, or 67.9% of net premiums earned, compared to $262.4 million, or 69.8% of net premiums earned for 2015. We recorded favorable prior accident year development of $51.3 million in 2016, compared to $47.8 million in 2015. This is discussed in more detail below in "Prior Year Development." Our net loss ratio was 54.0% for 2016 and 57.1% for 2015.

*Underwriting and Certain Other Operating Costs, Commissions and Salaries and Benefits.* Underwriting and certain other operating costs, commissions and salaries and benefits for 2016 were $80.6 million, compared to $84.1 million for 2015, a decrease of 4.2%. This decrease was primarily due to a $1.9 million decrease in insurance related assessments, a $1.4 million decrease in premium taxes and a $1.3 million decrease in commission expense. These decreases were partially offset by an increase of $1.2 million in bad debt expense due to a change in estimate of $1.1 million recorded in 2015. Our underwriting expense ratio decreased to 21.9% in 2016 from 22.4% in 2015.

*Income tax expense.* Income tax expense for 2016 was $35.0 million, compared to $30.5 million for 2015. The increase was primarily attributable to an increase in pre-tax income, from $101.0 million for 2015 to $112.8 million for 2016. The effective tax rate also increased to 31.0% for 2016, compared to 30.2% for 2015. This increase is due to improvement in underwriting margins which resulted in a higher proportion of underwriting income to tax-exempt investment income relative to 2015.

***Year Ended December 31, 2015 Compared to Year Ended December 31, 2014***

*Gross Premiums Written.* Gross premiums written for 2015 were $386.5 million, compared to $393.8 million for 2014, a decrease of 1.9%. The decrease was attributable to a $4.6 million decrease in premiums resulting from payroll audits and related premium adjustments, a $2.5 million decrease in annual premiums on voluntary policies written during the period, a $0.4 million decrease in direct assigned risk premiums, offset by a $0.3 million increase in premiums from mandatory pooling arrangements. Related premium adjustments in 2015 include a $2.4 million increase in "earned but unbilled", or EBUB, premium.

*Net Premiums Written.* Net premiums written for 2015 were $375.3 million, compared to $380.0 million for 2014, a decrease of 1.2%. The decrease was primarily attributable to the decrease in gross premiums written. As a percentage of gross premiums earned, ceded premiums were 2.9% for 2015 compared to 3.5% for 2014.

*Net Premiums Earned*. Net premiums earned for 2015 were $375.9 million, compared to $375.7 million for 2014, an immaterial increase.

*Net Investment Income.* Net investment income in 2015 was $27.9 million, an increase of 2.5% from the $27.2 million reported in 2014. The pre-tax investment yield on our investment portfolio was 2.5% per annum for 2015 and 2.6% for 2014. The tax-equivalent yield on our investment portfolio was 3.3% per annum for 2015, compared to 3.4% per annum for 2014. The tax-equivalent yield is calculated using the effective interest rate and the appropriate marginal tax rate. Average invested assets, including cash and cash equivalents, increased 7.2%, from an average of $1,064.4 million for 2014 to an average of $1,140.7 million for 2015.

*Net Realized Gains (Losses) on Investments.* Net realized losses on investments in 2015 totaled $2.5 million, compared to a gain of $0.7 million in 2014. In 2015, net realized losses of $2.7 million resulted from an other-than-temporary impairment of four fixed maturity securities. These losses were partially offset by realized gains of $0.2 million on called fixed maturity securities and other sales of securities. In 2014, net realized gains of $0.9 million resulted from gains from called fixed maturity securities, the sale of equity securities and the sale of fixed maturity securities. These gains were partially offset by a realized loss of $0.2 million from an other-than-temporary impairment of a fixed maturity security.

*Loss and Loss Adjustment Expenses Incurred.* Loss and LAE incurred totaled $214.6 million for 2015, compared to $244.9 million for 2014, a decrease of $30.3 million, or 12.4%. The current accident year losses and LAE incurred were $262.4 million, or 69.8% of net premiums earned, compared to $268.6 million, or 71.5% of net premiums earned for 2014. We recorded favorable prior accident year development of $47.8 million in 2015, compared to $23.7 million in 2014. This is discussed in more detail below in "Prior Year Development." Our net loss ratio was 57.1% for 2015 and 65.2% for 2014.

*Underwriting and Certain Other Operating Costs, Commissions and Salaries and Benefits.* Underwriting and certain other operating costs, commissions and salaries and benefits for 2015 were $84.1 million, compared to $85.0 million for 2014, a decrease of 1.0%. This decrease was primarily due to a $1.5 million decrease in insurance related assessments, a $0.4 million decrease in commission expense, a $0.3 million decrease in bad debt expense offset by a $0.3 million increase in experience-rated commissions. Our underwriting expense ratio decreased to 22.4% in 2015 from 22.6% in 2014.

*Income tax expense.* Income tax expense for 2015 was $30.5 million, compared to $20.1 million for 2014. The increase was primarily attributable to an increase in pre-tax income, from $73.7 million for 2014 to $101.0 million for 2015. The effective tax rate also increased to 30.2% for 2015, compared to 27.2% for 2014. This increase is due to the changing mix of taxable income versus non-taxable investment income.

## Prior Year Development

The Company recorded favorable prior accident year loss and loss adjustment expense development of $51.3 million in calendar year 2016, $47.8 million in calendar year 2015 and $23.7 million in calendar year 2014. The table below sets forth the favorable development for accident years 2011 through 2015 and, collectively, all accident years prior to 2011.

| | Favorable/(Unfavorable) Development for Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | | (in millions) | |
| 2015 | $ — | $ — | $ — |
| 2014 | 19.7 | — | — |
| 2013 | 13.2 | 8.2 | — |
| 2012 | 9.1 | 19.2 | 9.3 |
| 2011 | 2.3 | 3.0 | 1.0 |
| Prior to 2011 | 7.0 | 17.4 | 13.4 |
| Total net development | $ 51.3 | $ 47.8 | $ 23.7 |

The table below sets forth the number of open claims as of December 31, 2016, 2015 and 2014, and the numbers of claims reported and closed during the years then ended.

| | Twelve Months Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Open claims at beginning of period | 5,300 | 5,515 | 5,297 |
| Claims reported | 5,338 | 5,465 | 5,785 |
| Claims closed | (5,443) | (5,680) | (5,567) |
| Open claims at end of period | 5,195 | 5,300 | 5,515 |

At December 31, 2016, our incurred amounts for certain accident years, particularly 2013 and 2014, developed more favorably than management previously expected. Multiple factors can cause loss development both unfavorable and favorable. The favorable loss development we experienced across accident years was largely due to favorable case reserve development from closed claims and claims where the worker had reached maximum medical improvement. We believe the favorable loss development in 2013 and 2014 resulted primarily from an intensive claims management focus with the Company actively seeking to settle claims, leading to favorable development.

The assumptions we used in establishing our reserves for these accident years were based on our historical claims data. However, as of December 31, 2016, actual results for these accident years have been better than our assumptions would have predicted. We do not presently intend to modify our assumptions for establishing reserves in light of recent results. However, if actual results for current and future accident years are consistent with, or different than, our results in these recent accident years, our historical claims data will reflect this change and, over time, will impact the reserves we establish for future claims.

Our reserves for loss and loss adjustment expenses are inherently uncertain and our focus on providing workers' compensation insurance to employers engaged in hazardous industries results in our receiving relatively fewer but more severe claims than many other workers' compensation insurance companies. As a result of this focus on higher severity, lower frequency business, our reserve for loss and loss adjustment expenses may have greater volatility than other workers' compensation insurance companies. Additional information regarding our reserves for loss and loss adjustment expenses and the actuarial methods and other factors used in establishing these reserves can be found under the caption "Business—Loss Reserves" in Item 1 of this report.

## Liquidity and Capital Resources

Our principal sources of operating funds are premiums, investment income, and proceeds from maturities of investments. Our primary uses of operating funds include payments for claims and operating expenses. We pay claims and operating expenses using cash flow from operations and invest our excess cash in fixed maturity, equity securities and other investments. We expect that our projected cash flow from operations will provide us sufficient liquidity to fund future operations, including payment of claims and operating expenses and other holding company expenses, for at least the next 18 months.

We forecast claim payments based on our historical trends. We seek to manage the funding of claim payments by actively managing available cash and forecasting cash flows on a short- and long-term basis. Cash payments, net of reinsurance, for claims were $187.7 million in 2016, $189.7 million in 2015 and $182.5 million in 2014. We fund claim payments out of cash flow from operations, principally premiums, net of amounts ceded to our reinsurers, and net investment income. Our investment portfolio increased from $851.5 million at December 31, 2011 to $1.1 billion at December 31, 2016.

As discussed above under "Overview," we purchase reinsurance to protect us against severe claims and catastrophic events. Based on our estimates of future claims, we believe we are sufficiently capitalized to satisfy the deductibles and retentions in our 2017 reinsurance program. We reevaluate our reinsurance program at least annually, taking into consideration a number of factors, including cost of reinsurance, our liquidity requirements, operating leverage and coverage terms.

Even if we maintain our existing retention levels, if the cost of reinsurance increases, our cash flow from operations would decrease as we would cede a greater portion of our written premiums to our reinsurers. Conversely, our cash flow from operations would increase if the cost of reinsurance declined relative to our retention.

In December 2016, the Company commuted reinsurance agreements with Hannover Reinsurance Limited (Ireland) ("Hannover") and Tokio Millennium Re Limited ("Tokio") covering portions of accident years 2011 through 2013. The Company received cash of $0.2 million and an additional $25.4 million payment effectuated solely through offset against the balance of the funds withheld account under the reinsurance agreements in exchange for releasing Hannover and Tokio from their reinsurance obligations under the commuted agreements. Both Hannover and Tokio remain obligated to the subsidiaries of the Company under other reinsurance agreements. As a result of the commutation, the effect on the Company's net income in the year ended December 31, 2016 was immaterial.

Net cash provided by operating activities was $114.2 million in 2016, as compared to $92.9 million in 2015, and 140.7 million in 2014. Major components of cash provided by operating activities in 2016 were net premiums collected of $364.6 million and investment income collected of $44.7 million, offset in-part by claim payments of $189.9 million, $72.9 million of operating expenditures, federal taxes paid of $32.5 million and dividends to policyholders paid of $0.5 million.

Major components of cash provided by operating activities in 2015 were net premiums collected of $368.6 million and investment income collected of $44.3 million, offset in-part by claim payments of $190.1 million, $75.4 million of operating expenditures, $27.8 of an increase in amounts held by others, federal taxes paid of $26.1 million and dividends to policyholders paid of $0.5 million.

Major components of cash provided by operating activities in 2014 were net premiums collected of $373.1 million and investment income collected of $42.1 million, offset in-part by claim payments of $183.7 million, $71.7 million of operating expenditures, federal taxes paid of $19.9 million and dividends to policyholders paid of $1.1 million.

Net cash used in investing activities was $50.5 million in 2016, as compared to $49.8 million in 2015 and $141.3 million in 2014. In 2016, major components of net cash used in investing activities included investment purchases of $354.6 million and net purchases of furniture, fixtures and equipment of $1.6 million, offset by proceeds from sales and maturities of investment of investments of $305.8 million. In 2015, major components of net cash used in investing activities included investment purchases of $326.2 million and net purchases of furniture, fixtures and equipment of $1.0 million, offset by proceeds from sales and maturities of investment of investments of $277.3 million. In 2014, major components of net cash used in investing activities included investment purchases of $455.2 million and net purchases of furniture, fixtures and equipment of $1.0 million, offset by proceeds from sales and maturities of investments of $315.2 million.

Net cash used in financing activities was $74.3 million in 2016, as compared to net cash used in financing activities of $64.5 million in 2015 and net cash used in financing activities of $31.6 million in 2014. Major components of cash used in financing activities in 2016 included cash used for dividends paid to shareholders of $76.1 million, offset by $1.0 million of tax benefit from share-based compensation and $0.8 million of proceeds from the exercise of stock options. Major components of cash used in financing activities in 2015 included $1.8 million of proceeds from the exercise of stock options and $2.2 million of tax benefit from share-based compensation, offset by cash used for dividends paid to shareholders of $68.6 million. Major components of cash provided in financing activities in 2014 included $2.7 million of proceeds from the exercise of stock options and $2.8 million of tax benefit from share-based compensation, offset by cash used for dividends paid to shareholders of $37.1 million.

The Company has a line of credit agreement with Frost Bank for borrowings up to a maximum of $20.0 million. Under the agreement, advances may be made either in the form of loans or letters of credit. Borrowings under the agreement accrue at interest rates based upon prime rate or LIBOR and are unsecured. Under the agreement, the Company pays a fee of 0.25% on the unused portion of the loan in arrears quarterly, for a fee of $50,000 annually. At December 31, 2016, there were no outstanding borrowings. Unless renewed, the agreement will expire in December 2019.

The Board of Directors initially authorized the Company's share repurchase program in February 2010. In October 2016, the Board reauthorized this program with no expiration date. As of December 31, 2016, we had repurchased a total of 1,258,250 shares of our outstanding common stock for $22.4 million. The Company had $25.0 million available for future purchases at December 31, 2016 under this program. There were no share repurchases in 2016, 2015 or 2014. The purchases may continue to be effected from time to time depending upon market conditions and subject to applicable regulatory considerations. It is anticipated that future purchases will be funded from available capital.

AMERISAFE is a holding company that transacts business through its operating subsidiaries, including AIIC, SOCI and AIICTX. AMERISAFE's primary assets are the capital stock of these insurance subsidiaries. The ability of AMERISAFE to fund its operations depends upon the surplus and earnings of its subsidiaries and their ability to pay dividends to AMERISAFE. Payment of dividends by our insurance subsidiaries is restricted by state insurance laws, including laws establishing minimum solvency and liquidity thresholds. Based upon the prescribed calculation, the insurance subsidiaries could pay to AMERISAFE dividends of up to $78.9 million in 2017 without seeking regulatory approval. See "Business—Regulation—Dividend Limitations" in Item 1 of this report.

In 2016, 2015 and 2014, the Company paid regular quarterly cash dividends of $0.18, $0.15 and $0.12 per share, respectively. In addition, the Company paid extraordinary cash dividends of $3.25 in 2016, $3.00 in 2015 and $0.50 and $1.00 per share in 2014.

On February 21, 2017 the Company declared a regular quarterly cash dividend of $0.20 per share payable on March 24, 2017 to shareholders of record on March 10, 2017.

The Board intends to continue to consider the payment of a regular cash dividend each calendar quarter. On an annualized basis, the cash dividend is expected to be $0.80 per share in 2017.

**Investment Portfolio**

The principal objectives of our investment portfolio are to preserve capital and surplus and to maintain appropriate liquidity for corporate requirements. Additional objectives are to support our A.M. Best rating of "A" (Excellent) and to maximize after-tax income and total return. We presently expect to maintain sufficient liquidity from funds generated by operations to meet our anticipated insurance obligations and operating and capital expenditure needs. Excess funds from operations will be invested in accordance with our investment policy and statutory requirements.

We allocate our portfolio into four categories: cash and cash equivalents, short term investments, fixed maturity securities and equity securities. Cash and cash equivalents include cash on deposit, money market funds and municipal securities, corporate securities and certificates of deposit with an original maturity of less than 90 days. Short-term investments include municipal securities, corporate securities and certificates of deposit with an original maturity greater than 90 days but less than one year. Our fixed maturity securities include obligations of the U.S. Treasury or U.S. agencies, obligations of states and their subdivisions, U.S. Dollar-denominated obligations of the U.S. or Canadian corporations, U.S. agency-based mortgage-backed securities, commercial mortgage-backed securities and asset-backed securities.

Under Nebraska and Texas law, as applicable, each of AIIC, SOCI and AIICTX is required to invest only in securities that are either interest-bearing, interest-accruing or eligible for dividends, and must limit its investment in the securities of any single issuer, other than direct obligations of the United States, to five percent of the insurance company's assets. As of December 31, 2016, we were in compliance with these requirements.

We employ diversification policies and balance investment credit risk and related underwriting risks to minimize our total potential exposure to any one business sector or security.

As of December 31, 2016, our investment portfolio, including cash and cash equivalents, totaled $1.1 billion, an increase of 2.6% from December 31, 2015. The majority of our fixed maturity securities are classified as held-to-maturity, as defined by FASB ASC Topic 320, *Investments-Debt and Equity Securities.* As such, the reported value of those securities is equal to their amortized cost, and is not impacted by changing interest rates. The remainder of our fixed maturity securities and all of our equity securities are classified as available-for-sale and reported at fair value.

On January 1, 2008, we adopted FASB ASC Topic 820, *Fair Value Measurements and Disclosures,* which defines fair value, establishes a fair value hierarchy and requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. As disclosed in Note 18 of the financial statements, our securities available-for-sale are classified using Level 1, 2 and 3 inputs. We did not elect the fair value option prescribed under FASB ASC Topic 825, *Financial Instruments,* for any financial assets or financial liabilities in 2015 or 2016.

The composition of our investment portfolio, including cash and cash equivalents, as of December 31, 2016 is shown in the following table.

| | Carrying Value (in thousands) | Percentage of Portfolio | Effective Interest Rate |
|---|---|---|---|
| Fixed maturity securities—held-to-maturity: | | | |
| State and political subdivisions | $ 394,875 | 34.6% | 2.9% |
| Corporate bonds | 143,858 | 12.6% | 2.0% |
| Commercial mortgage-backed securities | 70 | 0.0% | 4.9% |
| U.S. agency-based mortgage-backed securities | 9,967 | 0.8% | 5.1% |
| U.S. Treasury securities and obligations of U.S. Government agencies | 11,737 | 1.0% | 3.0% |
| Asset-backed securities | 1,927 | 0.2% | 3.6% |
| Total fixed maturity securities—held-to-maturity | 562,434 | 49.2% | 2.7% |
| Fixed maturity securities—available-for-sale: | | | |
| State and political subdivisions | 232,293 | 20.3% | 3.2% |
| Corporate bonds | 182,515 | 16.0% | 2.0% |
| U.S. agency-based mortgage-backed securities | 9,342 | 0.8% | 2.4% |
| U.S. Treasury securities and obligations of U.S. Government agencies | 54,947 | 4.8% | 1.5% |
| Total fixed maturity securities—available-for-sale | 479,097 | 41.9% | 2.6% |
| Equity securities | 33 | 0.0% | 0.1% |
| Other investments | 13,330 | 1.2% | 0.0% |
| Cash and cash equivalents | 58,936 | 5.1% | 0.3% |
| Short-term investments | 29,580 | 2.6% | 0.9% |
| Total Investments, including cash and cash equivalents | $ 1,143,410 | 100.0% | 2.4% |

For our securities classified as available-for-sale, the securities are "marked to market" as of the end of each calendar quarter. As of that date, unrealized gains and losses are recorded against Accumulated Other Comprehensive Income (Loss), except when such securities are deemed to be other-than-temporarily impaired. For our securities classified as held-to-maturity, unrealized gains and losses are not recorded in the financial statements until realized or until a decline in fair value, below amortized cost, is deemed to be other-than-temporary.

We regularly review our investment portfolio to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value of our investments. We consider various factors in determining if a decline in the fair value of an individual security is other-than-temporary. The key factors we consider are:

- any reduction or elimination of preferred stock dividends, or nonpayment of scheduled principal or interest payments;
- the financial condition and near-term prospects of the issuer of the applicable security, including any specific events that may affect its operations or earnings;
- how long and by how much the fair value of the security has been below its cost or amortized cost;
- any downgrades of the security by a rating agency;
- our intent not to sell the security for a sufficient time period for it to recover its value;
- the likelihood of being forced to sell the security before the recovery of its value; and
- an evaluation as to whether there are any credit losses on debt securities.

The following table summarizes the fair value of, and the amount of, unrealized losses on our investment securities, segregated by the time period each security has been in a continuous unrealized loss position as of December 31, 2016 and 2015:

| | Less Than Twelve Months | | Twelve Months or Longer | |
|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (in thousands) | | | |
| December 31, 2016: | | | | |
| Fixed maturity securities | $ 379,702 | $ (7,396) | $ 23,517 | $ (1,576) |
| Equity securities | — | — | — | — |
| December 31, 2015: | | | | |
| Fixed maturity securities | $ 314,137 | $ (2,272) | $ 35,005 | $ (1,965) |
| Equity securities | — | — | — | — |

We reviewed all securities with unrealized losses in accordance with the impairment policy described above. We determined that the unrealized losses in the fixed maturity securities portfolio related primarily to changes in market interest rates since the date of purchase, current conditions in the capital markets and the impact of those conditions on market liquidity and prices. We expect to recover the carrying value of these securities as it is not more likely than not that we will be required to sell the security before the recovery of its amortized cost basis. In addition, none of the unrealized losses on debt securities are considered credit losses.

During 2016, the Company had no impairments losses recognized for other-than-temporary declines in the fair value of our investments.

During 2015, the Company impaired securities totaling $2.7 million related to four fixed maturity securities. The impairment charge is included in “Net realized gains (losses) on investments” for 2015. We impaired the securities due to downgrades of the securities and the amounts of the accumulated unrealized losses.

During 2014, the Company impaired securities totaling $0.2 million related to a fixed maturity security. The impairment charge is included in “Net realized gains (losses) on investments” for 2014. We impaired the security due to a downgrade of the security and the amount of the accumulated unrealized loss.

The pre-tax investment yield on our investment portfolio was 2.5% per annum during the twelve months ended December 31, 2016, compared to 2.5% per annum during the same period in 2015.

**Contractual Obligations and Commitments**

We manage risk on certain long-duration claims by settling these claims through the purchase of annuities from unaffiliated life insurance companies. In the event these companies are unable to meet their obligations under these annuity contracts, we could be liable to the claimants, but our reinsurers remain obligated to indemnify us for all or part of these obligations in accordance with the terms of our reinsurance contracts. As of December 31, 2016, the present value of these annuities was $96.1 million, as estimated by our annuity providers. Substantially all of the annuities are issued or guaranteed by life insurance companies that have an A.M. Best rating of “A” (Excellent) or better. For additional information, see Note 16 to our consolidated financial statements in Item 8 of this report.

We lease equipment and office space under noncancelable operating leases. Future minimum lease payments at December 31, 2016, were as follows:

| Year | Future Minimum Lease Payments |
|---|---|
| | (in thousands) |
| 2017 | $ 131 |
| 2018 | 74 |
| 2019 | 6 |
| | $ 211 |

Rental expense was $0.2 million in 2016, 2015 and 2014.

The table below provides information with respect to our contractual obligations as of December 31, 2016.

| Contractual Obligations | Total | Less Than 1 Year | 1-3 Years | 3-5 Years | More Than 5 Years |
|---|---|---|---|---|---|
| | Payment Due By Period | | | | |
| | | | (in thousands) | | |
| Loss and loss adjustment expenses (1) | $ 742,776 | $ 241,501 | $ 302,037 | $ 85,706 | $ 113,532 |
| Loss-based insurance assessments (2) | 15,209 | 4,945 | 6,184 | 1,755 | 2,325 |
| Capital lease obligations | 177 | 53 | 124 | — | — |
| Operating lease obligations | 211 | 131 | 80 | — | — |
| Purchase obligations | 1,055 | 987 | 68 | — | — |
| Total | $ 759,428 | $ 247,617 | $ 308,493 | $ 87,461 | $ 115,857 |

(1) The loss and loss adjustment expense payments due by period in the table above are based upon the loss and loss adjustment expense estimates as of December 31, 2016 and actuarial estimates of expected payout patterns and are not contractual liabilities as to a time certain. Our contractual liability is to provide benefits under the policy. As a result, our calculation of loss and loss adjustment expense payments due by period is subject to the same uncertainties associated with determining the level of loss and loss adjustment expenses generally and to the additional uncertainties arising from the difficulty of predicting when claims (including claims that have not yet been reported to us) will be paid. For a discussion of our loss and loss adjustment expense process, see "Business—Loss Reserves" in Item 1 of this report. Actual payments of loss and loss adjustment expenses by period will vary, perhaps materially, from the amounts shown in the table above to the extent that current estimates of loss and loss adjustment expenses vary from actual ultimate claims amounts and as a result of variations between expected and actual payout patterns. See "Risk Factors— Risks Related to Our Business—Our loss reserves are based on estimates and may be inadequate to cover our actual losses" in Item 1A of this report for a discussion of the uncertainties associated with estimating loss and loss adjustment expenses.

(2) We are subject to various annual assessments imposed by certain of the states in which we write insurance policies. These assessments are generally based upon the amount of premiums written or losses paid during the applicable year. Assessments based on premiums are generally paid within one year after the calendar year in which the policies are written, while assessments based on losses are generally paid within one year after calendar year in which the loss is paid. When we establish a reserve for loss and loss adjustment expenses for a reported claim, we accrue our obligation to pay any applicable assessments. If settlement of the claim is to be paid out over more than one year, our obligation to pay any related loss-based assessments extends for the same period of time. Because our reserves for loss and loss adjustment expenses are based on estimates, our accruals for loss-based insurance assessments are also based on estimates. Actual payments of loss and loss adjustment expenses may differ, perhaps materially, from our reserves. Accordingly, our actual loss-based insurance assessments may vary, perhaps materially, from our accruals.

### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

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

Market risk is the risk of potential economic loss principally arising from adverse changes in the fair value of financial instruments. The major components of market risk affecting us are credit risk, interest rate risk, and equity price risk. We currently have no exposure to foreign currency risk.

### *Credit Risk*

Credit risk is the potential loss arising principally from adverse changes in the financial condition of the issuers of our fixed maturity securities and the financial condition of our reinsurers.

We address the credit risk related to the issuers of our fixed maturity securities by primarily investing in fixed maturity securities that are rated as investment grade by one or more of Moody's, Standard & Poor's or Fitch. We also independently monitor the financial condition of all issuers of our fixed maturity securities. To limit our risk exposure, we employ diversification policies that limit our credit exposure to any single issuer or business sector.

We are also subject to credit risk with respect to our reinsurers. Although our reinsurers are obligated to reimburse us to the extent we cede risk to them, we are ultimately liable to our policyholders on all risks we have reinsured. As a result, reinsurance contracts do not limit our ultimate obligations to pay claims and, in some cases, we might not be able to collect amounts recoverable from our reinsurers. We address this credit risk by initially selecting reinsurers with an A.M. Best rating of "A-" (Excellent) or better and by performing, along with our reinsurance broker, periodic credit reviews of our reinsurers. If one of our reinsurers suffers a credit downgrade, we may consider various options to lessen the risk of asset impairment, including commutation, novation or letters of credit. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" in Item 7 of this report.

***Interest Rate Risk***

Interest rate risk is the risk that we may incur losses due to adverse changes in interest rates. As of December 31, 2016, we had fixed maturity securities with a fair value of $1,048.0 million and a carrying value of $1,041.5 million. These securities are all subject to interest rate risk, but because we classify the majority of our fixed maturity securities as held-to-maturity, changes in fair values have a small effect on the carrying value of our portfolio. We manage our exposure to interest rate risk with respect to these securities by investing in a portfolio of securities with moderate effective duration. At December 31, 2016, the effective duration of the total investment portfolio, including cash and short term investments, was 3.4 years. Given the current low interest rate environment, the risk to the portfolio from higher rates exceeds the potential benefit to the portfolio from lower rates. Should we experience a large rise in interest rates, the effect on the carrying value of our portfolio could be substantial.

The table below summarizes the interest rate risk associated with our fixed maturity securities by illustrating the sensitivity of the fair value and carrying value of our fixed maturity securities as of December 31, 2016 to selected hypothetical changes in interest rates, and the associated impact on our shareholders' equity. The change in carrying value is less than the change in fair value due to our held-to-maturity portfolio.

| Hypothetical Change in Interest Rates | Fair Value | Estimated Change in Fair Value | Carrying Value | Estimated Change in Carrying Value | Hypothetical Percentage Increase (Decrease) in Shareholders' Equity |
|---|---|---|---|---|---|
| 200 basis point increase | $ 963,109 | $ (84,919) | $ 993,755 | $ (47,776) | (10.5)% |
| 100 basis point increase | 1,005,648 | (42,380) | 1,017,744 | (23,787) | (5.2)% |
| No change | 1,048,028 | — | 1,041,531 | — | — |
| 100 basis point decrease | 1,087,531 | 39,503 | 1,063,082 | 21,551 | 4.7% |
| 200 basis point decrease | 1,125,632 | 77,604 | 1,083,175 | 41,644 | 9.1% |

***Equity Price Risk***

Equity price risk is the risk that we may incur losses due to adverse changes in the market prices of the equity securities we hold in our investment portfolio. We classify our portfolio of equity securities as available-for-sale and carry these securities on our balance sheet at fair value. Accordingly, adverse changes in the market prices of our equity securities result in a decrease in the value of our total assets and shareholders' equity. In order to minimize our exposure to equity price risk, we independently monitor the financial condition of our equity securities, and diversify our investments. In addition, we limit the percentage of equity securities held in our investment portfolio to the lesser of 10% of the investment portfolio or 30% of shareholders' equity. As of December 31, 2016, the equity securities in our investment portfolio had a fair value of $0.03 million, representing less than 0.1% of shareholders' equity on that date. As of December 31, 2016, the Company held an investment in a limited partnership hedge fund with a fair value of $13.3 million, representing 2.9% of shareholders' equity on that date. See "Business—Investments" in Item 1 of this report.

## Item 8. Financial Statements and Supplementary Data.

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and shareholders of AMERISAFE, Inc. and subsidiaries

We have audited the accompanying consolidated balance sheets of AMERISAFE, Inc. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2016. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AMERISAFE, Inc. and subsidiaries at December 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), AMERISAFE, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 24, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New Orleans, Louisiana
February 24, 2017

**AMERISAFE, INC. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**
**(in thousands, except share data)**

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| **Assets** | | |
| Investments: | | |
| Fixed maturity securities—held-to-maturity, at amortized cost (fair value $568,931 and $662,276 in 2016 and 2015, respectively) | $ 562,434 | $ 645,164 |
| Fixed maturity securities—available-for-sale, at fair value (cost $479,871 and $376,109 in 2016 and 2015, respectively) | 479,097 | 380,022 |
| Equity securities—available-for-sale, at fair value (cost $0, in 2016 and 2015) | 33 | 31 |
| Short-term investments | 29,580 | 7,718 |
| Other investments | 13,330 | 12,217 |
| Total investments | 1,084,474 | 1,045,152 |
| Cash and cash equivalents | 58,936 | 69,481 |
| Amounts recoverable from reinsurers | 83,666 | 91,077 |
| Premiums receivable, net of allowance | 183,005 | 185,364 |
| Deferred income taxes | 33,811 | 29,905 |
| Accrued interest receivable | 11,360 | 11,685 |
| Property and equipment, net | 6,636 | 6,181 |
| Deferred policy acquisition costs | 19,300 | 20,412 |
| Other assets | 37,668 | 42,788 |
| Total assets | $ 1,518,856 | $ 1,502,045 |
| **Liabilities and shareholders' equity** | | |
| Liabilities: | | |
| Reserves for loss and loss adjustment expenses | $ 742,776 | $ 718,033 |
| Unearned premiums | 162,028 | 167,983 |
| Reinsurance premiums payable | 28 | 154 |
| Amounts held for others | 31,974 | 49,790 |
| Policyholder deposits | 49,130 | 48,380 |
| Insurance-related assessments | 31,742 | 32,329 |
| Federal income tax payable | 4,017 | 911 |
| Accounts payable and other liabilities | 31,510 | 30,484 |
| Payable for investments purchased | 9,501 | — |
| **Total liabilities** | 1,062,706 | 1,048,064 |
| Shareholders' equity: | | |
| Common stock: | | |
| Voting—$0.01 par value authorized shares—50,000,000 in 2016 and 2015; 20,488,385 and 20,388,396 shares issued and 19,230,135 and 19,130,146 shares outstanding in 2016 and 2015, respectively | 204 | 203 |
| Additional paid-in capital | 208,390 | 204,688 |
| Treasury stock at cost (1,258,250 shares in 2016 and 2015) | (22,370) | (22,370) |
| Accumulated earnings | 270,418 | 268,873 |
| Accumulated other comprehensive income (loss), net | (492) | 2,587 |
| **Total shareholders' equity** | 456,150 | 453,981 |
| **Total liabilities and shareholders' equity** | $ 1,518,856 | $ 1,502,045 |

See accompanying notes.

**AMERISAFE, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF INCOME**
**(in thousands, except share data)**

| | Year Ended December 31, 2016 | 2015 | 2014 |
|---|---|---|---|
| **Revenues** | | | |
| Net premiums earned | $ 368,704 | $ 375,894 | $ 375,747 |
| Net investment income | 28,106 | 27,902 | 27,214 |
| Net realized gains (losses) on investments | (494) | (2,494) | 697 |
| Loss on disposal of assets | (1) | (664) | — |
| Fee and other income | 347 | 316 | 361 |
| Total revenues | 396,662 | 400,954 | 404,019 |
| **Expenses** | | | |
| Loss and loss adjustment expenses incurred | 199,031 | 214,573 | 244,916 |
| Underwriting and certain other operating costs | 29,470 | 32,162 | 32,573 |
| Commissions | 26,243 | 27,509 | 27,872 |
| Salaries and benefits | 24,881 | 24,442 | 24,518 |
| Policyholder dividends | 4,216 | 1,301 | 391 |
| Total expenses | 283,841 | 299,987 | 330,270 |
| Income before income taxes | 112,821 | 100,967 | 73,749 |
| Income tax expense | 34,956 | 30,505 | 20,083 |
| Net income | 77,865 | 70,462 | 53,666 |
| Net income available to common shareholders | $ 77,865 | $ 70,462 | $ 53,666 |
| **Earnings per share** | | | |
| Basic | $ 4.08 | $ 3.72 | $ 2.88 |
| Diluted | $ 4.05 | $ 3.69 | $ 2.84 |
| **Shares used in computing earnings per share** | | | |
| Basic | 19,105,806 | 18,941,077 | 18,646,128 |
| Diluted | 19,203,650 | 19,119,186 | 18,928,504 |
| Extraordinary cash dividends declared per common share | $ 3.25 | $ 3.00 | $ 1.50 |
| Cash dividends declared per common share | $ 0.72 | $ 0.60 | $ 0.48 |

See accompanying notes.

**AMERISAFE, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**(in thousands)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Net income | $ 77,865 | $ 70,462 | $ 53,666 |
| Other comprehensive income: | | | |
| Unrealized gain (loss) on securities, net of tax | (3,079) | (223) | 7,105 |
| Comprehensive income | $ 74,786 | $ 70,239 | $ 60,771 |

See accompanying notes.

## AMERISAFE, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
### (in thousands, except share data)

| | Common Stock | | Treasury Stock | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amounts | Additional Paid-In Capital | Accumulated Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
| Balance at December 31, 2013 | 19,855,430 | $ 198 | (1,258,250) | $(22,370) | $ 192,537 | $ 250,744 | $ (4,295) | $416,814 |
| Comprehensive income: | | | | | | | | |
| Net income | — | — | — | — | — | 53,666 | — | 53,666 |
| Other comprehensive income: | | | | | | | | |
| Change in unrealized losses, net of tax | — | — | — | — | — | — | 7,105 | 7,105 |
| Comprehensive income | — | — | — | — | — | — | — | 60,771 |
| Common stock issued upon exercise of options | 294,165 | 3 | — | — | 2,671 | — | — | 2,674 |
| Restricted common stock issued | 6,341 | — | — | — | — | — | — | — |
| Share-based compensation | — | — | — | — | 1,089 | — | — | 1,089 |
| Tax benefit from share-based payments | — | — | — | — | 2,841 | — | — | 2,841 |
| Dividends to shareholders | — | — | — | — | — | (37,221) | — | (37,221) |
| Balance at December 31, 2014 | 20,155,936 | $ 201 | (1,258,250) | $(22,370) | $ 199,138 | $ 267,189 | $ 2,810 | $446,968 |
| Comprehensive income: | | | | | | | | |
| Net income | — | — | — | — | — | 70,462 | — | 70,462 |
| Other comprehensive income: | | | | | | | | |
| Change in unrealized gains, net of tax | — | — | — | — | — | — | (223) | (223) |
| Comprehensive income | — | — | — | — | — | — | — | 70,239 |
| Common stock issued upon exercise of options | 193,204 | 2 | — | — | 1,842 | — | — | 1,844 |
| Restricted common stock issued | 39,256 | — | — | — | 502 | — | — | 502 |
| Share-based compensation | — | — | — | — | 1,003 | — | — | 1,003 |
| Tax benefit from share-based payments | — | — | — | — | 2,203 | — | — | 2,203 |
| Dividends to shareholders | — | — | — | — | — | (68,778) | — | (68,778) |
| Balance at December 31, 2015 | 20,388,396 | $ 203 | (1,258,250) | $(22,370) | $ 204,688 | $ 268,873 | $ 2,587 | $453,981 |
| Comprehensive income: | | | | | | | | |
| Net income | — | — | — | — | — | 77,865 | — | 77,865 |
| Other comprehensive income: | | | | | | | | |
| Change in unrealized gains, net of tax | — | — | — | — | — | — | (3,079) | (3,079) |
| Comprehensive income | — | — | — | — | — | — | — | 74,786 |
| Common stock issued upon exercise of options | 68,879 | 1 | — | — | 836 | — | — | 837 |
| Restricted common stock issued | 31,110 | — | — | — | 603 | — | — | 603 |
| Share-based compensation | — | — | — | — | 1,268 | — | — | 1,268 |
| Tax benefit from share-based payments | — | — | — | — | 995 | — | — | 995 |
| Dividends to shareholders | — | — | — | — | — | (76,320) | — | (76,320) |
| Balance at December 31, 2016 | 20,488,385 | $ 204 | (1,258,250) | $(22,370) | $ 208,390 | $ 270,418 | $ (492) | $456,150 |

See accompanying notes.

**AMERISAFE, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(in thousands)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| **Operating activities** | | | |
| Net income | $ 77,865 | $ 70,462 | $ 53,666 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 1,181 | 1,348 | 1,298 |
| Net amortization of investments | 16,247 | 16,424 | 15,243 |
| Deferred income taxes | (2,249) | 1,446 | (1,412) |
| Net realized (gains) losses on investments | 509 | 2,494 | (697) |
| Net realized losses on disposal of assets | 1 | 664 | — |
| Share-based compensation | 1,603 | 1,223 | 1,519 |
| Changes in operating assets and liabilities: | | | |
| Premiums receivable, net | 2,359 | (6,447) | (7,338) |
| Accrued interest receivable | 325 | (48) | (395) |
| Deferred policy acquisition costs | 1,112 | (763) | (478) |
| Amounts held by others | 1,016 | (27,847) | (1,082) |
| Other assets | 1,631 | (1,042) | (4,306) |
| Reserves for loss and loss adjustment expenses | 24,743 | 30,431 | 73,045 |
| Unearned premiums | (5,955) | (593) | 4,280 |
| Reinsurance balances | 7,285 | (5,878) | (10,326) |
| Amounts held for others and policyholder deposits | (17,066) | 6,621 | 11,190 |
| Accounts payable and other liabilities | 3,605 | 4,364 | 6,477 |
| Net cash provided by operating activities | 114,212 | 92,859 | 140,684 |
| **Investing activities** | | | |
| Purchases of investments held-to-maturity | (102,830) | (178,010) | (223,028) |
| Purchases of investments available-for-sale | (216,466) | (135,915) | (149,956) |
| Purchases of short-term investments | (35,295) | (12,246) | (79,957) |
| Proceeds from maturities of investments held-to-maturity | 177,159 | 160,834 | 112,100 |
| Proceeds from sales and maturities of investments available-for-sale | 115,552 | 78,637 | 72,535 |
| Proceeds from sales and maturities of short-term investments | 13,040 | 37,833 | 128,043 |
| Purchases of property and equipment | (1,638) | (953) | (989) |
| Net cash used in investing activities | (50,478) | (49,820) | (141,252) |
| **Financing activities** | | | |
| Proceeds from stock option exercises | 837 | 1,844 | 2,674 |
| Tax benefit from share-based payments | 995 | 2,203 | 2,841 |
| Dividends to shareholders | (76,111) | (68,561) | (37,068) |
| Net cash used in financing activities | (74,279) | (64,514) | (31,553) |
| Change in cash and cash equivalents | (10,545) | (21,475) | (32,121) |
| Cash and cash equivalents at beginning of year | 69,481 | 90,956 | 123,077 |
| Cash and cash equivalents at end of year | $ 58,936 | $ 69,481 | $ 90,956 |
| **Supplemental disclosure of cash flow information** | | | |
| Income taxes paid | $ 31,500 | $ 23,851 | $ 19,926 |

See accompanying notes.

## 1. Summary of Significant Accounting Policies

### *Organization*

AMERISAFE, Inc. is an insurance holding company incorporated in the state of Texas. The accompanying consolidated financial statements include the accounts of AMERISAFE and its subsidiaries: American Interstate Insurance Company ("AIIC") and its insurance subsidiaries, Silver Oak Casualty, Inc. ("SOCI") and American Interstate Insurance Company of Texas ("AIICTX"), Amerisafe Risk Services, Inc. ("RISK") and Amerisafe General Agency, Inc. ("AGAI"). AIIC and SOCI are property and casualty insurance companies organized under the laws of the state of Nebraska. AIICTX is a property and casualty insurance company organized under the laws of the state of Texas. RISK, a wholly owned subsidiary of the Company, is a claims and safety service company currently servicing only affiliated insurance companies. AGAI, a wholly owned subsidiary of the Company, is a general agent for the Company. AGAI sells insurance, which is underwritten by AIIC, SOCI and AIICTX, as well as by nonaffiliated insurance carriers. The assets and operations of AGAI are not significant to that of the Company and its consolidated subsidiaries.

The terms "AMERISAFE," the "Company," "we," "us" or "our" refer to AMERISAFE, Inc. and its consolidated subsidiaries, as the context requires.

The Company provides workers' compensation insurance for small to mid-sized employers engaged in hazardous industries, principally construction, trucking, manufacturing, agriculture, and oil and gas. Assets and revenues of AIIC represent at least 95% of comparable consolidated amounts of the Company for each of 2016, 2015 and 2014.

### *Basis of Presentation*

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### *Adopted Accounting Guidance*

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2015-07, Fair Value Measurements (Topic 820): *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The amendments in this update change the disclosure requirements for investments in certain entities that calculate net asset value (NAV) per share. Under current accounting standards entities are permitted to estimate the fair value of certain investments using the investment's NAV as a practical expedient. The disclosure guidance also permits entities to disclose the investment at NAV in the fair value hierarchy table as either Level 2 or Level 3, based upon certain criteria. The measurement basis utilizing NAV is different than the measurement criteria of all other investments which utilize inputs to calculate fair value. Due to this inconsistency, the FASB issued this ASU which requires entities to remove investments measured at NAV from the fair value hierarchy table. Other than the change in presentation, the adoption of this new guidance in interim periods beginning in 2016 did not have an impact on our consolidated financial statements.

In May 2015, FASB issued Accounting Standards Update (ASU) 2015-09, Financial Services – Insurance (Topic 944): Disclosures about Short-Duration Contracts. The guidance requires additional disclosures for short-duration insurance contracts. New disclosures are to include more information about initial claim estimates and subsequent adjustments to those estimates, the methodologies and judgments used to estimate claims, and the timing, frequency, and severity of claims. This standard is effective for us beginning with this 2016 annual financial statement. The guidance requires a change in disclosure only (see Note 9 to our financial statements), and thus has no impact on our financial condition or results of operations.

### *Prospective Accounting Guidance*

In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The new guidance requires that all tax effects related to share-based payments be made through the income statement at the time of settlement as opposed to recognizing excess tax benefits in additional paid-in capital. It also requires the cash flows resulting from share-based payments to be included as an operating activity. In addition to the changes, the guidance permits reporting entities to elect to estimate forfeitures related to share-based payments or recognize them as they occur. The threshold to qualify for equity classification has also been revised to permit withholding up to the maximum statutory tax rates in the applicable jurisdictions. The standard is effective for us in the first quarter of 2017. Adoption of this guidance is not expected to have a material impact on our financial condition and results of operations.

In May 2014, the FASB Issued ASU 2014-09 (Topic 606): Revenue from Contracts with Customers. The guidance revises the criteria for revenue recognition and requires that the revenue recognized reflect the transfer of promised goods or services to customers in an amount that represents the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is effective for us in the first quarter of 2018. Revenue from insurance contracts is excluded from the scope of the new guidance and as a result, adoption of this guidance is not expected to have a material impact on our financial condition and results of operations.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This guidance requires fair value measurement for equity investments (not including those that result in consolidation of the investee or use the equity method of accounting) and the recognition of changes in fair value to be presented as a component of net income. The guidance also revises the disclosure requirements related to fair value changes of liabilities presented in comprehensive income, eliminates disclosure related to the methods and assumptions underlying fair value for financial instruments measured at amortized cost, and simplifies impairment assessments for equity investments without readily determinable fair values. This standard is effective for us in the first quarter of 2018. The Company will continue to monitor the impact as the implementation date approaches.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). Under current guidance for lessees, leases are only included on the balance sheet if certain criteria, classifying the contract as a capital lease, are met. The new guidance requires a lessee to recognize a lease liability and a right of use asset for all leases extending beyond twelve months. The new guidance is effective for us in the first quarter of 2019. Upon adoption, leases will be recognized and measured at the beginning of the earliest period presented using a modified retrospective approach. Adoption of the guidance is not expected to have a material effect on the Company's consolidated financial statements as the Company does not have any significant leases.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses. The new guidance replaces the methodology of credit loss impairment, which currently, delays the recognition of credit losses until a probable loss has been incurred. The new guidance requires credit losses for securities measured at amortized cost, to be determined using current expected credit losses estimates. These estimates are to be derived from historical, current and reasonable supporting forecasts, including prepayments and estimates, and will be recorded through a valuation allowance account that will run through the income statement. The same method will be used for available-for-sale securities, but the valuation allowance will be limited to the amount by which the fair value is below amortized cost. The standard is effective for us in the first quarter of 2020. The Company will continue to monitor the impact as the implementation date approaches.

### *Reclassifications*

Certain prior year amounts have been reclassified to conform with the current year presentation.

### *Investments*

The Company has the ability and positive intent to hold certain investments until maturity. Therefore, fixed maturity securities classified as held-to-maturity are recorded at amortized cost. Equity securities and fixed maturity securities classified as available-for-sale are recorded at fair value. Temporary changes in the fair value of these securities are reported in shareholders' equity as a component of other comprehensive income, net of deferred income taxes.

Investment income is recognized as it is earned. The discount or premium on fixed maturity securities is amortized using the "constant yield" method. Anticipated prepayments, where applicable, are considered when determining the amortization of premiums or discounts. Realized investment gains and losses are determined using the specific identification method.

The Company regularly reviews the fair value of its investments. Impairment of an investment security results in a reduction of the carrying value of the security and the realization of a loss when the fair value of the security declines below the cost or amortized cost, as applicable, for the security and the impairment is deemed to be other-than-temporary. The Company regularly reviews its investment portfolio to evaluate the existence of other-than-temporary declines in the fair value of investments. The Company considers various factors in determining if a decline in the fair value of an individual security is other-than-temporary, including but not limited to a reduction or interruption in scheduled cash flows, the financial condition of the issuer, how long and by how much the fair value has been below amortized cost, losses due to credit concerns, downgrades and the Company's intent to sell or ability to hold the security.

Other-than-temporary impairment losses on equity securities are recognized in net income and are measured as the difference between cost and fair value. Impairment losses on fixed maturities are recognized in the financial statements depending on the facts and circumstances related to the specific security. If we intend to sell a security or it is more likely than not that we would be required to sell a security before the recovery of its amortized cost, less any current period credit loss, an other-than-temporary impairment would be recognized in net income for the difference between amortized cost and fair value. If we do not expect to recover the amortized cost basis, we do not plan to sell the security and if it is not more likely than not that we would be required to sell a security before the recovery of its amortized cost, less any current period credit loss, the recognition of the other-than-temporary impairment is bifurcated. The credit loss portion would be recognized in net income and the noncredit loss portion in other comprehensive income.

***Cash and Cash Equivalents***

Cash equivalents include short-term money market funds and corporate bonds with an original maturity of 90 days or less.

***Short-Term Investments***

Short-term investments include municipal securities, corporate bonds and certificates of deposit with an original maturity greater than 90 days but less than one year.

***Other Investments***

Other investments consist of a limited partnership interest that is accounted for under the equity method, valued using the net asset value provided by the general partner of the limited partnership, which approximates the fair value of the interest. The limited partnership's objective is to generate absolute returns by investing long and short in publicly-traded global securities. Redemptions are allowed monthly following a 60-day notice with no lock up periods. The Company has no unfunded commitments to the limited partnership.

***Premiums Receivable***

Premiums receivable consist primarily of premium-related balances due from policyholders. The Company considers premiums receivable as past due based on the payment terms of the underlying policy. The balance is shown net of the allowance for doubtful accounts. Receivables due from insureds are charged off when a determination has been made by management that a specific balance will not be collected. An estimate of amounts that are likely to be charged off is established as an allowance for doubtful accounts as of the balance sheet date. The estimate is primarily comprised of specific balances that are considered probable to be charged off after all collection efforts have ceased, as well as historical trends and an analysis of the aging of the receivables.

***Property and Equipment***

The Company's property and equipment, including certain costs incurred to develop or obtain software for internal use, are stated at cost less accumulated depreciation. Depreciation is calculated primarily by the straight-line method over the estimated useful lives of the respective assets, generally 39 years for buildings and three to seven years for all other fixed assets.

***Deferred Policy Acquisition Costs***

The direct costs of successfully acquiring and renewing business are capitalized to the extent recoverable and are amortized over the effective period of the related insurance policies in proportion to premium revenue earned. These capitalized costs consist mainly of sales commissions, premium taxes and other underwriting costs. The Company evaluates deferred policy acquisition costs for recoverability by comparing the unearned premiums to the estimated total expected claim costs and related expenses, offset by anticipated investment income. The Company would reduce the deferred costs if the unearned premiums were less than expected claims and expenses after considering investment income, and report any adjustments in amortization of deferred policy acquisition costs. There were no adjustments necessary in 2016, 2015 or 2014.

***Reserves for Loss and Loss Adjustment Expenses***

Reserves for loss and loss adjustment expenses represent the estimated ultimate cost of all reported and unreported losses incurred through December 31. The Company does not discount loss and loss adjustment expense reserves. The reserves for loss and loss adjustment expenses are estimated using individual case-basis valuations, statistical analyses and estimates based upon experience for unreported claims and their associated loss and loss adjustment expenses. Such estimates may be more or less than the amounts ultimately paid when the claims are settled. The estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in these estimates, management believes that the reserves for loss and loss adjustment expenses are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known. Any adjustments are included in current operations.

Subrogation recoverables, as well as deductible recoverables from policyholders, are estimated using individual case-basis valuations and aggregate estimates. Deductibles that are recoverable from policyholders and other recoverables from state funds decrease the liability for loss and loss adjustment expenses.

The Company funds its obligations under certain settled claims where the payment pattern and ultimate cost are fixed and determinable on an individual claim basis through the purchase of annuities. These annuities are purchased from unaffiliated carriers and name the claimant as payee. The cost of purchasing the annuity is recorded as paid loss and loss adjustment expenses. To the extent the annuity funds estimated future claims, reserves for loss and loss adjustment expense are reduced.

***Premium Revenue***

Premiums on workers' compensation insurance are based on actual payroll costs or production during the policy term and are normally billed monthly in arrears or annually. However, the Company generally requires a deposit at the inception of a policy.

Premium revenue is earned on a pro rata basis over periods covered by the policies. The reserve for unearned premiums on these policies is computed on a daily pro rata basis.

The Company estimates the annual premiums to be paid by its policyholders when the Company issues the policies and records those amounts on the balance sheet as premiums receivable. The Company conducts premium audits on all of its voluntary business policyholders annually, upon the expiration of each policy, including when the policy is renewed. The purpose of these audits is to verify that policyholders have accurately reported their payroll expenses and employee job classifications, and therefore have paid the Company the premium required under the terms of the policies. The difference between the estimated premium and the ultimate premium is referred to as "earned but unbilled" premium, or EBUB premium. EBUB premium can be higher or lower than the estimated premium. EBUB premium is subject to significant variability and can either increase or decrease earned premium based upon several factors, including changes in premium growth, industry mix and economic conditions. Due to the timing of audits and other adjustments, ultimate premium earned is generally not determined for several months after the expiration of the policy.

The Company estimates EBUB premiums on a quarterly basis using historical data and applying various assumptions based on the current market and economic conditions, and records an adjustment to premium, related losses, and expenses as warranted.

***Reinsurance***

Reinsurance premiums, losses and allocated loss adjustment expenses are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

Amounts recoverable from reinsurers include balances currently owed to the Company for losses and allocated loss adjustment expenses that have been paid to policyholders, amounts that are currently reserved for and will be recoverable once the related expense has been paid and experience-rated commissions recoverable upon commutation.

Upon management's determination that an amount due from a reinsurer is uncollectible due to the reinsurer's insolvency or other matters, the amount is written off.

Ceding commissions are earned from certain reinsurance companies and are intended to reimburse the Company for policy acquisition costs related to those premiums ceded to the reinsurers. Ceding commission income is recognized over the effective period of the related insurance policies in proportion to premium revenue earned and is reflected as a reduction in underwriting and certain other operating costs.

Experience-rated commissions are earned from certain reinsurance companies based on the financial results of the applicable risks ceded to the reinsurers. These commission revenues on reinsurance contracts are recognized during the related reinsurance treaty period and are based on the same assumptions used for recording loss and allocated loss adjustment expenses. These commissions are reflected as a reduction in underwriting and certain other operating costs and are adjusted as necessary as experience develops or new information becomes known. Any such adjustments are included in income from current operations. Experience-rated commissions had no impact on underwriting and certain other operating costs in 2016 compared to $0.3 in 2015 and no impact in 2014.

In December 2016, the Company commuted reinsurance agreements with Hannover Reinsurance Limited (Ireland) ("Hannover") and Tokio Millennium Re Limited ("Tokio") covering portions of accident years 2011 through 2013. The Company received cash of $0.2 million and an additional $25.4 million payment effectuated solely through offset against the balance of the funds withheld account under the reinsurance agreements in exchange for releasing Hannover and Tokio from their reinsurance obligations under the commuted agreements. Both Hannover and Tokio remain obligated to the subsidiaries of the Company under other reinsurance agreements. As a result of the commutation, the effect on the Company's net income in the year ended December 31, 2016 was immaterial.

***Fee and Other Income***

The Company recognizes income related to commissions earned by AGAI as the related services are performed.

***Advertising***

All advertising expenditures incurred by the Company are charged to expense in the period to which they relate and are included in underwriting and certain other operating costs in the consolidated statements of income. Total advertising expenses incurred were $0.7 million in 2016 and 2015 and $0.5 million in 2014.

***Income Taxes***

The Company accounts for income taxes using the liability method. The provision for income taxes has two components, amounts currently payable or receivable and deferred amounts. Deferred income tax assets and liabilities are recognized for the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company considers deferred tax assets to be recoverable if it is probable that the related tax losses can be offset by future taxable income. The Company includes reversal of existing temporary differences, tax planning strategies available and future operating income in this assessment. To the extent the deferred tax assets exceed the amount expected to be recovered in future years, the Company records a valuation allowance for the amount determined unrecoverable.

***Insurance-Related Assessments***

Insurance-related assessments are accrued in the period in which they have been incurred. The Company is subject to a variety of assessments related to insurance commerce, including those by state guaranty funds and workers' compensation second-injury funds. State guaranty fund assessments are used by state insurance oversight agencies to cover losses of policyholders of insolvent or rehabilitated insurance companies and for the operating expenses of such agencies. Assessments based on premiums are generally paid one year after the calendar year in which the premium is written, while assessments based on losses are generally paid within one year of the calendar year in which the loss is paid.

### *Policyholder Dividends*

The Company writes certain policies for which the policyholder may participate in favorable claims experience through a dividend. An estimated provision for workers' compensation policyholders' dividends is accrued as the related premiums are earned. Dividends do not become a fixed liability unless and until declared by the respective Boards of Directors of AMERISAFE's insurance subsidiaries. The dividend to which a policyholder may be entitled is set forth in the policy and is related to the amount of losses sustained under the policy. Dividends are calculated after the policy expiration. The Company is able to estimate the policyholder dividend liability because the Company has information regarding the underlying loss experience of the policies written with dividend provisions and can estimate future dividend payments from the policy terms.

### *Earnings Per Share*

The Company computes earnings per share (EPS) in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 260, *Earnings Per Share.* Additionally, during 2013, the Company applied the "two-class method" in computing basic and diluted earnings per share as a result of the participating unvested common shares which contained nonforfeitable rights to dividends during this period. As of January 1, 2014, the Company no longer has participating unvested common shares which contain nonforfeitable rights to dividends and now applies the treasury stock method in computing basic and diluted earnings per share.

Under the two-class method, net income available to common and participating common shareholders is reduced by the amount of dividends declared in the current period and by the contractual amount of dividends that must be paid for the current period related to the Company's common and participating common shares. Participating common shares include unvested share-based payment awards that contain nonforfeitable rights to dividends, whether paid or unpaid. Any remaining undistributed earnings are allocated to the common and participating common shareholders to the extent that each security shares in earnings as if all of the earnings for the period had been distributed. The amount of earnings allocable to each security is divided by the number of outstanding shares of the security to which the earnings are allocated to determine the EPS for the security. In a period of loss, no losses are allocated to the participating common shareholders. Instead, all such losses are allocated to the common shareholders.

Basic EPS is calculated by dividing income available to common shareholders by the weighted-average number of common shares outstanding during the period. The diluted EPS calculation includes potential common shares assumed issued under the treasury stock method, which reflects the potential dilution that would occur if any outstanding options or warrants were exercised or restricted stock becomes vested, and includes the "if converted" method for participating securities if the effect is dilutive. Prior to 2014, we determined diluted EPS as the more dilutive result of either the treasury method or the two-class method.

### *Share-Based Compensation*

The Company recognizes the impact of its share-based compensation in accordance with FASB ASC Topic 718, *Compensation-Stock Compensation.* All share-based grants are recognized as compensation expense over the vesting period. The target value of long-term incentive awards are recognized as compensation over the performance period.

## 2. Investments

Short-term investments held at December 31, 2016 include $ 21.9 million of U.S. Treasury securities and obligation of U.S. government agencies, $4.9 million of states and political subdivisions and $2.8 million of corporate bonds. Short-term investments held at December 31, 2015 include $7.7 million of corporate bonds.

AMERISAFE holds an investment in a limited partnership hedge fund accounted for under the equity method. The carrying value of this investment is $13.3 million at December 31, 2016.

The gross unrealized gains and losses on, and the amortized cost and fair value of, those investments classified as held-to-maturity at December 31, 2016 are summarized as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| | (in thousands) | | | |
| States and political subdivisions | $ 394,875 | $ 7,622 | $ (3,014) | $ 399,483 |
| Corporate bonds | 143,858 | 423 | (265) | 144,016 |
| Commercial mortgage-backed securities | 70 | — | — | 70 |
| U.S. agency-based mortgage-backed securities | 9,967 | 948 | — | 10,915 |
| U.S. Treasury securities and obligations of U.S. government agencies | 11,737 | 746 | (67) | 12,416 |
| Asset-backed securities | 1,927 | 163 | (59) | 2,031 |
| Totals | $ 562,434 | $ 9,902 | $ (3,405) | $ 568,931 |

The gross unrealized gains and losses on, and the cost or amortized cost and fair value of, those investments classified as available-for-sale at December 31, 2016 are summarized as follows:

| | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| | (in thousands) | | | |
| Fixed maturity: | | | | |
| States and political subdivisions | $ 231,168 | $ 4,340 | $ (3,215) | $ 232,293 |
| Corporate bonds | 182,350 | 436 | (271) | 182,515 |
| U.S. agency-based mortgage-backed securities | 10,428 | 17 | (1,103) | 9,342 |
| U.S. Treasury securities and obligations of U.S. government agencies | 55,925 | — | (978) | 54,947 |
| Total fixed maturity | 479,871 | 4,793 | (5,567) | 479,097 |
| Other investments | 10,000 | 3,330 | — | 13,330 |
| Equity securities | — | 33 | — | 33 |
| Totals | $ 489,871 | $ 8,156 | $ (5,567) | $ 492,460 |

The gross unrealized gains and losses on, and the amortized cost and fair value of, those investments classified as held-to-maturity at December 31, 2015 are summarized as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| | (in thousands) | | | |
| States and political subdivisions | $ 408,447 | $ 15,352 | $ (45) | $ 423,754 |
| Corporate bonds | 171,224 | 159 | (810) | 170,573 |
| Commercial mortgage-backed securities | 37,494 | 204 | (15) | 37,683 |
| U.S. agency-based mortgage-backed securities | 13,223 | 1,249 | (1) | 14,471 |
| U.S. Treasury securities and obligations of U.S. government agencies | 12,487 | 897 | (4) | 13,380 |
| Asset-backed securities | 2,289 | 202 | (76) | 2,415 |
| Totals | $ 645,164 | $ 18,063 | $ (951) | $ 662,276 |

The gross unrealized gains and losses on, and the cost or amortized cost and fair value of, those investments classified as available-for-sale at December 31, 2015 are summarized as follows:

| | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| | (in thousands) | | | |
| Fixed maturity: | | | | |
| States and political subdivisions | $ 164,684 | $ 6,942 | $ (207) | $ 171,419 |
| Corporate bonds | 202,537 | 253 | (1,486) | 201,304 |
| U.S. agency-based mortgage-backed securities | 8,888 | 4 | (1,593) | 7,299 |
| Total fixed maturity | 376,109 | 7,199 | (3,286) | 380,022 |
| Other investments | 10,000 | 2,217 | — | 12,217 |
| Equity securities | — | 31 | — | 31 |
| Totals | $ 386,109 | $ 9,447 | $ (3,286) | $ 392,270 |

A summary of the amortized cost and fair value of investments in fixed maturity securities, classified as held-to-maturity at December 31, 2016, by contractual maturity, is as follows:

| | Amortized Cost | Fair Value |
|---|---|---|
| | (in thousands) | |
| Maturity: | | |
| Within one year | $ 109,707 | $ 110,469 |
| After one year through five years | 259,942 | 263,620 |
| After five years through ten years | 105,396 | 106,341 |
| After ten years | 75,425 | 75,485 |
| Commercial mortgage-backed securities | 70 | 70 |
| U.S. agency-based mortgage-backed securities | 9,967 | 10,915 |
| Asset-backed securities | 1,927 | 2,031 |
| Totals | $ 562,434 | $ 568,931 |

A summary of the amortized cost and fair value of investments in fixed maturity securities, classified as available-for-sale at December 31, 2016, by contractual maturity, is as follows:

| | Amortized Cost | Fair Value |
|---|---|---|
| | (in thousands) | |
| Maturity: | | |
| Within one year | $ 64,852 | $ 65,174 |
| After one year through five years | 215,486 | 215,624 |
| After five years through ten years | 30,846 | 30,488 |
| After ten years | 158,259 | 158,469 |
| U.S. agency-based mortgage-backed securities | 10,428 | 9,342 |
| Totals | $ 479,871 | $ 479,097 |

Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

At December 31, 2016, there were $21.2 million of held-to-maturity investments, $0.4 million of available-for-sale investments and $0.1 million of cash on deposit with regulatory agencies of states in which the Company does business.

A summary of the Company's realized gains and losses on sales, calls or redemptions of investments for 2016, 2015 and 2014 is as follows:

| | Fixed Maturity Securities Available for Sale | Equity Securities | Other | Total |
|---|---|---|---|---|
| | (in thousands) | | | |
| **Year ended December 31, 2016** | | | | |
| Proceeds from sales | $ 54,730 | $ — | $ 4,609 | $ 59,339 |
| Gross realized investment gains | $ 823 | $ — | $ 68 | $ 891 |
| Gross realized investment losses | (1,728) | — | — | (1,728) |
| Net realized investment gains (losses) | (905) | — | 68 | (837) |
| Other, including gains on calls and redemptions | 274 | — | 69 | 343 |
| Net realized gains (losses) on investments | $ (631) | $ — | $ 137 | $ (494) |
| **Year ended December 31, 2015** | | | | |
| Proceeds from sales | $ 4,432 | $ — | $ — | $ 4,432 |
| Gross realized investment gains | $ 177 | $ — | $ — | $ 177 |
| Gross realized investment (losses) | (162) | — | — | (162) |
| Net realized investment gains | 15 | — | — | 15 |
| Impairments | (2,653) | — | — | (2,653) |
| Other, including gains on calls and redemptions | 102 | — | 42 | 144 |
| Net realized gains (losses) on investments | $ (2,536) | $ — | $ 42 | $ (2,494) |
| **Year ended December 31, 2014** | | | | |
| Proceeds from sales | $ 768 | $ 9,780 | $ — | $ 10,548 |
| Gross realized investment gains | $ 1 | $ 749 | $ — | $ 750 |
| Gross realized investment (losses) | — | (451) | — | (451) |
| Net realized investment gains | 1 | 298 | — | 299 |
| Impairments | (222) | — | — | (222) |
| Other, including gains on calls and redemptions | 244 | — | 376 | 620 |
| Net realized gains on investments | $ 23 | $ 298 | $ 376 | $ 697 |

In 2016, the Company sold bonds that were classified as held-to-maturity. In February, Moody's downgraded the bonds to B2 from B1 citing increasing liquidity concerns and also placed the bonds on negative outlook indicating the rating could be downgraded further. Given the evidence of significant deterioration, the Company elected to sell the bonds for $3.0 million, recognizing a $0.1 million realized gain.

Major categories of the Company's net investment income are summarized as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | | (in thousands) | |
| Gross investment income: | | | |
| Fixed maturity securities | $ 27,837 | $ 28,498 | $ 26,622 |
| Short-term investments and cash and cash equivalents | 348 | 149 | 426 |
| Equity securities | — | — | 232 |
| Other investments | 1,568 | 763 | 1,611 |
| Total gross investment income | 29,753 | 29,410 | 28,891 |
| Investment expenses | (1,647) | (1,508) | (1,677) |
| Net investment income | $ 28,106 | $ 27,902 | $ 27,214 |

The following table summarizes the fair value and gross unrealized losses on securities, aggregated by major investment category and length of time that the individual securities have been in a continuous unrealized loss position:

| | Less Than 12 Months | | 12 Months or Greater | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value of Investments with Unrealized Losses | Gross Unrealized Losses | Fair Value of Investments with Unrealized Losses | Gross Unrealized Losses | Fair Value of Investments with Unrealized Losses | Gross Unrealized Losses |
| | | | (in thousands) | | | |
| **December 31, 2016** | | | | | | |
| **Held-to-Maturity** | | | | | | |
| Fixed maturity securities: | | | | | | |
| States and political subdivisions | $ 157,507 | $ 3,014 | $ — | $ — | $ 157,507 | $ 3,014 |
| Corporate bonds | 44,654 | 202 | 6,292 | 63 | 50,946 | 265 |
| U.S. Treasury securities and obligations of U.S. government agencies | 3,968 | 67 | — | — | 3,968 | 67 |
| Asset-backed securities | — | — | 1,173 | 59 | 1,173 | 59 |
| Total held-to-maturity securities | 206,129 | 3,283 | 7,465 | 122 | 213,594 | 3,405 |
| **Available-for Sale** | | | | | | |
| Fixed maturity securities: | | | | | | |
| States and political subdivisions | $ 73,505 | $ 2,976 | $ 4,523 | $ 239 | $ 78,028 | $ 3,215 |
| Corporate bonds | 41,419 | 111 | 7,922 | 160 | 49,341 | 271 |
| U.S. agency-based mortgage-backed securities | 3,702 | 48 | 3,607 | 1,055 | 7,309 | 1,103 |
| U.S. Treasury securities and obligations of U.S. government agencies | 54,947 | 978 | — | — | 54,947 | 978 |
| Total available-for-sale securities | 173,573 | 4,113 | 16,052 | 1,454 | 189,625 | 5,567 |
| Total | $ 379,702 | $ 7,396 | $ 23,517 | $ 1,576 | $ 403,219 | $ 8,972 |
| **December 31, 2015** | | | | | | |
| **Held-to-Maturity** | | | | | | |
| Fixed maturity securities: | | | | | | |
| States and political subdivisions | $ 24,068 | $ 45 | $ — | $ — | $ 24,068 | $ 45 |
| Corporate bonds | 128,436 | 687 | 18,139 | 123 | 146,575 | 810 |
| Commercial mortgage-backed securities | 9,784 | 15 | — | — | 9,784 | 15 |
| U.S. agency-based mortgage-backed securities | 18 | — | 28 | 1 | 46 | 1 |
| U.S. Treasury securities and obligations of U.S. government agencies | 2,980 | 4 | — | — | 2,980 | 4 |
| Asset-backed securities | — | — | 1,389 | 76 | 1,389 | 76 |
| Total held-to-maturity securities | 165,286 | 751 | 19,556 | 200 | 184,842 | 951 |
| **Available-for Sale** | | | | | | |
| Fixed maturity securities: | | | | | | |
| States and political subdivisions | $ 6,560 | $ 9 | $ 4,439 | $ 198 | $ 10,999 | $ 207 |
| Corporate bonds | 141,857 | 1,475 | 4,216 | 11 | 146,073 | 1,486 |
| U.S. agency-based mortgage-backed securities | 434 | 37 | 6,794 | 1,556 | 7,228 | 1,593 |
| Total available-for-sale securities | 148,851 | 1,521 | 15,449 | 1,765 | 164,300 | 3,286 |
| Total | $ 314,137 | $ 2,272 | $ 35,005 | $ 1,965 | $ 349,142 | $ 4,237 |

At December 31, 2016, the Company held 260 individual fixed maturity securities that were in an unrealized loss position, of which 17 were in a continuous unrealized loss position for longer than 12 months.

The Company regularly reviews its investment portfolio to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value of our investments. The Company considers various factors in determining if a decline in the fair value of an individual security is other-than-temporary. The key factors considered are:

- any reduction or elimination of preferred dividends, or nonpayment of scheduled principal or interest payments;
- the financial condition and near-term prospects of the issuer of the applicable security, including any specific events that may affect its operations or earnings;
- how long and by how much the fair value of the security has been below its cost or amortized cost;
- any downgrades of the security by a rating agency;
- our intent not to sell the security for a sufficient time period for it to recover its value;
- the likelihood of being forced to sell the security before the recovery of its value; and
- an evaluation as to whether there are any credit losses on debt securities.

We reviewed all securities with unrealized losses in accordance with the impairment policy described above. The Company determined that the unrealized losses in the fixed maturity securities portfolio related primarily to changes in market interest rates since the date of purchase, current conditions in the capital markets and the impact of those conditions on market liquidity and prices generally. We expect to recover the carrying value of these securities as it is not more likely than not that we will be required to sell the securities before the recovery of its amortized cost basis.

In 2016, there were no impairment losses recognized for other-than-temporary declines in the fair value of our investments.

## 3. Premiums Receivable

Premiums receivable consist primarily of premium-related balances due from policyholders. The balance is shown net of the allowance for doubtful accounts. The components of premiums receivable are shown below:

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| | (in thousands) | |
| Premiums receivable | $ 188,217 | $ 190,216 |
| Allowance for doubtful accounts | (5,212) | (4,852) |
| Premiums receivable, net | $ 183,005 | $ 185,364 |

The following summarizes the activity in the allowance for doubtful accounts:

| | December 31, 2016 | December 31, 2015 | December 31, 2014 |
|---|---|---|---|
| | | (in thousands) | |
| Balance, beginning of year | $ 4,852 | $ 5,211 | $ 5,458 |
| Provision for bad debts | 1,646 | 806 | 673 |
| Write-offs | (1,286) | (1,165) | (920) |
| Balance, end of year | $ 5,212 | $ 4,852 | $ 5,211 |

Included in premiums receivable at December 31, 2016, 2015 and 2014 is the Company's estimate for EBUB premium of $7.7 million, $7.6 million and $5.2 million, respectively.

## 4. Deferred Policy Acquisition Costs

Deferred policy acquisition costs represent those costs that are incremental and directly related to the successful acquisition of new or the renewal of existing insurance contracts. We defer incremental costs that result directly from, and are essential to, the acquisition or renewal of an insurance contract.

We also defer a portion of employee total compensation costs directly related to time spent performing specific acquisition or renewal activities.

These costs are deferred and expensed over the life of the related policies. Major categories of the Company's deferred policy acquisition costs are summarized as follows:

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| | (in thousands) | |
| Agents' commissions | $ 15,286 | $ 15,997 |
| Premium taxes | 2,578 | 3,121 |
| Deferred underwriting expenses | 1,436 | 1,294 |
| Total deferred policy acquisition costs | $ 19,300 | $ 20,412 |

The following summarizes the activity in the deferred policy acquisition costs:

| | Year Ended December 31, 2016 | 2015 | 2014 |
|---|---|---|---|
| | | (in thousands) | |
| Balance, beginning of year | $ 20,412 | $ 19,649 | $ 19,171 |
| Policy acquisition costs deferred | 43,209 | 45,604 | 44,295 |
| Amortization expense during the year | (44,321) | (44,841) | (43,817) |
| Balance, end of year | $ 19,300 | $ 20,412 | $ 19,649 |

## 5. Property and Equipment

Property and equipment consist of the following:

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| | (in thousands) | |
| Land and office building | $ 7,515 | $ 7,069 |
| Furniture and equipment | 6,509 | 6,227 |
| Software | 6,739 | 6,277 |
| Automobiles | 74 | 74 |
| | 20,837 | 19,647 |
| Accumulated depreciation | (14,201) | (13,466) |
| Property and equipment, net | $ 6,636 | $ 6,181 |

Furniture and equipment included property held under capital leases of $0.2 million at December 31, 2016. Accumulated depreciation includes $80,000 that is related to these properties at December 31, 2016. Furniture and equipment included property held under capital leases of $0.1 million at December 31, 2015. Accumulated depreciation includes $97,000 that is related to these properties at December 31, 2015. Furniture and equipment included property held under capital leases of $0.1 million at December 31, 2014. Accumulated depreciation includes $49,000 that is related to these properties at December 31, 2014. The capital lease obligations related to these properties are included in accounts payable and other liabilities.

Future minimum lease payments related to the capital lease obligations are detailed below (in thousands):

| | |
|---|---|
| 2017 | $ 56 |
| 2018 | 42 |
| 2019 | 42 |
| 2020 | 42 |
| Present value of net minimum lease payments | $ 182 |

The Company made a partial disposition election under tax regulations to write-off capitalized amounts for book and tax purposes of certain fixed assets and deductible repairs in the amount of $0.6 million in 2015 and this amount is included in "Loss on disposal of assets."

## 6. Reinsurance

The Company cedes certain premiums and losses to various reinsurers under quota share and excess-of-loss treaties. These reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. Ceded reinsurance contracts do not relieve the Company from its obligations to policyholders. The Company remains liable to its policyholders for the portion reinsured to the extent that any reinsurer does not meet the obligations assumed under the reinsurance agreements. To minimize its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers on a continual basis. The effect of reinsurance on premiums written and earned in 2016, 2015 and 2014 was as follows:

| | 2016 Premiums | | 2015 Premiums | | 2014 Premiums | |
|---|---|---|---|---|---|---|
| | Written | Earned | Written | Earned | Written | Earned |
| | (in thousands) | | | | | |
| Gross | $ 373,055 | $ 379,011 | $ 386,529 | $ 387,122 | $ 393,819 | $ 389,540 |
| Ceded | (10,307) | (10,307) | (11,228) | (11,228) | (13,793) | (13,793) |
| Net premiums | $ 362,748 | $ 368,704 | $ 375,301 | $ 375,894 | $ 380,026 | $ 375,747 |

The amounts recoverable from reinsurers consist of the following:

| | December 31, | |
|---|---|---|
| | 2016 | 2015 |
| | (in thousands) | |
| Unpaid losses recoverable: | | |
| Case basis | $ 49,361 | $ 37,207 |
| Incurred but not reported | 28,895 | 27,651 |
| Paid losses recoverable | 485 | 414 |
| Experience-rated commissions recoverable | 4,925 | 25,805 |
| Total | $ 83,666 | $ 91,077 |

Amounts recoverable from reinsurers consists of ceded case reserves, ceded incurred but not reported ("IBNR") reserves, paid losses recoverable and experience-rated commissions recoverable. Ceded case and ceded IBNR reserves represent the portion of gross loss and loss adjustment expense liabilities that are recoverable under reinsurance agreements, but are not yet due from reinsurers. Paid losses recoverable are receivables currently due from reinsurers for ceded paid losses. The Company considers paid losses recoverable outstanding for more than 90 days to be past due. At December 31, 2016, there were no paid losses recoverable past due. Experience-rated commissions recoverable represents earned commission from certain reinsurance companies based on the financial results of the applicable risks ceded to the reinsurers, and these amounts declined during 2016 as a result of the December 2016 commutation of the 2011 through 2013 reinsurance agreements with Hannover and Tokio.

The Company received reinsurance recoveries of $0.5 million in 2016, $1.0 million in 2015 and $ 1.5 million in 2014.

The Company generally secures large reinsurance recoverable balances with various forms of collateral, including funds withheld accounts, irrevocable letters of credit and secured trusts. At December 31, 2016, reinsurance recoverables from reinsurers that exceeded 1.5% of statutory surplus of the Company's insurance subsidiaries are shown below (in thousands). The A.M. Best Company rating for the reinsurer is shown parenthetically.

| | | |
|---|---|---|
| Hannover Reinsurance Limited (Ireland) (A+) | $ | 29,670 |
| Odyssey America Reinsurance Corporation (A) | | 12,600 |
| Minnesota Workers' Compensation Reinsurance Association (NR) | | 9,623 |
| Other reinsurers | | 31,773 |
| Total amounts recoverable from reinsurers | | 83,666 |
| Funds withheld and letters of credit related to the above recoverables | | (38,453) |
| Total unsecured amounts recoverable from reinsurers | $ | 45,213 |

## 7. Income Taxes

The Company's deferred income tax assets and liabilities are as follows:

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| | (in thousands) | |
| Deferred income tax assets: | | |
| Discounting of net unpaid loss and loss adjustment expenses | $ 16,035 | $ 15,415 |
| Unearned premiums | 14,483 | 14,839 |
| Accrued expenses and other | 3,640 | 3,904 |
| State income tax | 617 | 488 |
| Accrued policyholder dividends | 2,024 | 719 |
| Impaired securities | 70 | 238 |
| Capital loss carryforward | 15 | 715 |
| Accrued insurance-related assessments | 5,323 | 4,953 |
| Net unrealized loss on securities | 265 | — |
| Total deferred tax assets | 42,472 | 41,271 |
| Deferred income tax liabilities: | | |
| Deferred policy acquisition costs | (8,492) | (9,012) |
| Callable bond amortization | (10) | — |
| Unrealized gain on securities available-for-sale | — | (1,393) |
| Property and equipment and other | 204 | (696) |
| Salvage and subrogation | (363) | (265) |
| Guaranty fund related items | — | — |
| Total deferred income tax liabilities | (8,661) | (11,366) |
| Net deferred income taxes | $ 33,811 | $ 29,905 |

The components of consolidated income tax expense (benefit) are as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | | (in thousands) | |
| Current: | | | |
| Federal | $ 35,602 | $ 28,047 | $ 20,811 |
| State | 1,603 | 1,012 | 684 |
| | 37,205 | 29,059 | 21,495 |
| Deferred: | | | |
| Federal | (2,120) | 1,343 | (821) |
| State | (129) | 103 | (591) |
| | (2,249) | 1,446 | (1,412) |
| Total | $ 34,956 | $ 30,505 | $ 20,083 |

During 2016, 2015 and 2014, there was no valuation allowance on the Company's deferred income tax assets and liabilities.

Income tax expense from operations is different from the amount computed by applying the U.S. federal income tax statutory rate of 35% to income before income taxes as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | | (in thousands) | |
| Income tax computed at federal statutory tax rate | $ 39,487 | $ 35,338 | $ 25,812 |
| Tax-exempt interest, net | (5,370) | (5,630) | (5,620) |
| State income tax | 913 | 762 | (146) |
| Dividends received deduction | (125) | (19) | (60) |
| Other | 51 | 54 | 97 |
| | $ 34,956 | $ 30,505 | $ 20,083 |

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. There were no uncertain tax positions as of December 31, 2016, 2015 and 2014.

Tax years 2013 through 2016 are subject to examination by the federal and state taxing authorities. In 2016, the Company was notified by the Illinois Department of Revenue that the examination of tax years 2011 and 2012 had been completed with no findings.

## 8. Line of Credit

In 2013, the Company entered into an agreement providing for a line of credit in the maximum amount of $20.0 million with Frost Bank. In December 2016, the agreement was renewed. The agreement expires in December 2019. Under the agreement, advances may be made either in the form of loans or letters of credit. Borrowings under the agreement accrue at interest rates based upon prime rate or LIBOR. Under the agreement, the Company will pay a fee of 0.25% on the unused portion of the loan in arrears quarterly for a fee of $50,000 annually, assuming the line of credit is not used during the calendar year. The line of credit is unsecured. No borrowings or letters of credit were outstanding under the line of credit arrangement at December 31, 2016 or 2015.

## 9. Loss and Loss Adjustment Expenses

The following development tables provide the incurred and paid claims and allocated claim adjustment expenses, net of reinsurance, for workers' compensation and general liability for accident years 2007 through 2016. The incurred but not reported ("IBNR") claims and claims frequency is included for each accident year presented.

**Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance**
**For the Years Ended December 31,**
(Dollars in thousands)

| Accident Year | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | As of December 31,2016: Total IBNR plus Expected Development on Reported Claims | As of December 31,2016: Cumulative Number of Claims Reported |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2007 | $208,480 | $218,448 | $206,044 | $196,773 | $185,225 | $181,633 | $180,229 | $179,373 | $ 178,608 | $ 178,582 | $ 1,620 | 7,122 |
| 2008 | - | 196,923 | 200,371 | 195,619 | 190,905 | 187,695 | 184,547 | 182,846 | 183,608 | 182,901 | 2,751 | 6,486 |
| 2009 | - | - | 185,359 | 188,746 | 188,462 | 187,943 | 184,006 | 182,274 | 177,795 | 176,586 | 3,199 | 5,371 |
| 2010 | - | - | - | 179,156 | 202,479 | 208,035 | 205,769 | 198,861 | 193,029 | 191,000 | 5,786 | 5,970 |
| 2011 | - | - | - | - | 196,384 | 199,522 | 199,163 | 198,213 | 195,262 | 192,988 | 7,461 | 6,040 |
| 2012 | - | - | - | - | - | 222,549 | 222,075 | 212,738 | 193,515 | 184,460 | 7,798 | 5,743 |
| 2013 | - | - | - | - | - | - | 241,810 | 241,811 | 233,656 | 220,457 | 11,868 | 5,761 |
| 2014 | - | - | - | - | - | - | - | 268,846 | 268,846 | 249,097 | 21,004 | 5,815 |
| 2015 | - | - | - | - | - | - | - | - | 262,573 | 262,573 | 28,658 | 5,477 |
| 2016 | - | - | - | - | - | - | - | - | - | 250,491 | 34,737 | 5,104 |
| | | | | | | | | | Total | $2,089,136 | $ 124,882 | |

**Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance**
**For the Years Ended December 31,**
(Dollars in thousands)

| Accident Year | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Claim Frequency * |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2007 | $43,470 | $97,657 | $128,254 | $141,595 | $152,136 | $158,056 | $162,903 | $164,970 | $ 166,734 | $ 167,996 | 21.77 |
| 2008 | - | 47,685 | 103,057 | 132,515 | 147,377 | 157,388 | 163,933 | 166,814 | 170,347 | 171,496 | 20.98 |
| 2009 | - | - | 42,332 | 96,173 | 123,946 | 142,667 | 150,925 | 155,365 | 158,214 | 159,345 | 19.82 |
| 2010 | - | - | - | 47,520 | 108,714 | 141,029 | 156,974 | 165,834 | 169,565 | 172,426 | 24.93 |
| 2011 | - | - | - | - | 53,329 | 111,029 | 140,831 | 153,968 | 161,639 | 165,967 | 22.80 |
| 2012 | - | - | - | - | - | 50,579 | 107,467 | 133,658 | 149,161 | 154,553 | 18.71 |
| 2013 | - | - | - | - | - | - | 51,396 | 119,507 | 150,304 | 165,994 | 16.54 |
| 2014 | - | - | - | - | - | - | - | 53,060 | 119,820 | 153,320 | 14.93 |
| 2015 | - | - | - | - | - | - | - | - | 54,141 | 121,599 | 14.15 |
| 2016 | - | - | - | - | - | - | - | - | - | 52,238 | 13.47 |
| | | | | | | | | | Total | 1,484,933 | |
| | | | | | | | | | All outstanding claim liabilities before 2007, net of reinsurance | 60,317 | |
| | | | | | | | | | Liabilities for claims and claim adjustment expenses, net of reinsurance | 664,520 | |

*Frequency, as calculated above, refers to reported claims divided by gross premium earned

The average annual percentage payout of incurred claims by age, net of reinsurance, for workers' compensation and general liability as of December 31, 2016 is summarized below. Since workers' compensation has long payout periods, the table below shows less than 100% in the years disclosed.

**Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance (Unaudited)**

| Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
|---|---|---|---|---|---|---|---|---|---|
| 24.0% | 29.7% | 15.4% | 8.1% | 4.6% | 2.7% | 1.9% | 1.2% | 0.8% | 0.7% |

The following table provides a reconciliation of the beginning and ending reserve balances, net of related amounts recoverable from reinsurers, for 2016, 2015 and 2014:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | | (in thousands) | |
| Balance, beginning of period | $ 718,033 | $ 687,602 | $ 614,557 |
| Less amounts recoverable from reinsurers on unpaid loss and loss adjustment expenses | 64,858 | 59,334 | 48,699 |
| Net balance, beginning of period | 653,175 | 628,268 | 565,858 |
| Add incurred related to: | | | |
| Current accident year | 250,337 | 262,387 | 268,633 |
| Prior accident years | (51,306) | (47,814) | (23,717) |
| Total incurred | 199,031 | 214,573 | 244,916 |
| Less paid related to: | | | |
| Current accident year | 52,085 | 53,955 | 52,848 |
| Prior accident years | 135,601 | 135,711 | 129,658 |
| Total paid | 187,686 | 189,666 | 182,506 |
| Net balance, end of period | 664,520 | 653,175 | 628,268 |
| Add amounts recoverable from reinsurers on unpaid loss and loss adjustment expenses | 78,256 | 64,858 | 59,334 |
| Balance, end of period | $ 742,776 | $ 718,033 | $ 687,602 |

The foregoing reconciliation reflects favorable development of the net reserves at December 31, 2016, 2015 and 2014. The favorable development reduced loss and loss adjustment expense incurred by $51.3 million in 2016 driven primarily by accident years 2012, 2013 and 2014 of $9.1 million, $13.2 million and $19.7 million, respectively. In 2015 and 2014, the Company recorded favorable development of $47.8 million and $23.7 million, respectively. The revisions to the Company's reserves reflect new information gained by claims adjusters in the normal course of adjusting claims and is reflected in the financial statements when the information becomes available. It is typical for more serious claims to take several years or longer to settle and the Company continually revises estimates as more information about claimants' medical conditions and potential disability becomes known and the claims get closer to being settled. Multiple factors can cause loss development both unfavorable and favorable. The favorable loss development we experienced across accident years was largely due to favorable case reserve development from closed claims and claims where the worker had reached maximum medical improvement.

Reserves established for workers' compensation insurance have included the exposure to occupational disease or accidents related to asbestos or environmental claims. The exposure to asbestos claims emanate from the direct sale of workers' compensation insurance. These claims resulted from industry workers who were exposed to tremolite asbestos dust and electricians and carpenters who were exposed to products that contained asbestos. There has been no known exposure to asbestos claims arising from assumed business. The emergence of these claims is slow and highly unpredictable. The Company estimates full impact of the asbestos exposure by establishing full case basis reserves on all known losses. Reserves for losses incurred but not reported (IBNR) include a provision for development of reserves on reported losses. Reserves are established for loss adjustment expenses (LAE) associated with these case and IBNR loss reserves.

The following table details our exposures to various asbestos related claims:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | | (in thousands) | |
| Reserves for loss and LAE at beginning of year | $ 958 | $ 819 | $ 219 |
| Incurred losses and LAE during the current year | 816 | 444 | 882 |
| Loss and LAE payments | (287) | (305) | (282) |
| Reserves for loss and LAE at end of year | $ 1,487 | $ 958 | $ 819 |

The Company has historically written general liability coverages that are reported in other liability lines of business. These coverages may be associated with the property and casualty industry's exposure to environmental claims. However, the Company has not been notified by any insured for which exposure exists due to these types of claims. Company management believes potential exposure to environmental claims to be remote. Therefore, the Company has no loss or loss adjustment expense reserves for such liabilities.

The anticipated effect of inflation is implicitly considered when estimating liabilities for loss and loss adjustment expenses. Average severities are projected based on historical trends adjusted for implemented changes in underwriting standards, policy provisions and general economic trends. These anticipated trends are monitored based on actual development and are modified if necessary.

## 10. Statutory Accounting and Regulatory Requirements

The Company's insurance subsidiaries file financial statements prepared in accordance with statutory accounting principles prescribed or permitted by the insurance regulatory authorities of the states in which the subsidiaries are domiciled. Statutory-basis shareholders' capital and surplus at December 31, 2016, 2015 and 2014 of the directly owned insurance subsidiary, AIIC, and the combined statutory-basis net income and realized investment gains for all AMERISAFE's insurance subsidiaries for the three years in the period ended December 31, 2016, were as follows (in thousands):

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Capital and surplus | $ 394,016 | $ 371,365 | $ 377,742 |
| Net income | 79,858 | 71,937 | 50,205 |
| Net realized gains (losses) on investments | (504) | (3,131) | 693 |

Property and casualty insurance companies are subject to certain risk-based capital ("RBC") requirements specified by the National Association of Insurance Commissioners. Under these requirements, a target minimum amount of capital and surplus maintained by a property/casualty insurance company is determined based on the various risk factors related to it. At December 31, 2016, the capital and surplus of AIIC and its subsidiaries exceeded the minimum RBC requirement.

Pursuant to regulatory requirements, AIIC cannot pay dividends to the Company in excess of the greater of 10% of statutory surplus, or statutory net income, excluding realized investment gains, for the preceding 12-month period, without the prior approval of the Nebraska Director of Insurance. However, for purposes of this dividend calculation, net income from the previous two calendar years may be carried forward to the extent that it has not already been paid out as dividends. AIIC paid $67.0 million in dividends to the Company in 2016, $50.0 million in 2015 and $25.0 million in 2014. Based upon the dividend limitation described above, AIIC could pay to the Company dividends of up to $68.7 million in 2017 without seeking regulatory approval.

## 11. Capital Stock

### *Common Stock*

The Company is authorized to issue 50,000,000 shares of common stock, par value $0.01 per share. At December 31, 2016, there were 20,488,385 shares of common stock issued and 19,230,135 shares outstanding.

### *Preferred Stock*

The Company is authorized to issue 10,000,000 shares of preferred stock, par value $0.01 per share. At December 31, 2016, there were no shares of preferred stock outstanding.

## 12. Stock Options and Restricted Stock

### *2005 Incentive Plan*

The AMERISAFE 2005 Equity Incentive Plan (the "2005 Incentive Plan") is administered by the Compensation Committee of the Board and was designed to provide incentive compensation to executive officers and other key management personnel. The 2005 Incentive Plan permitted awards in the form of incentive stock options, as defined in Section 422(b) of the Internal Revenue Code of 1986, non-qualified stock options, restricted shares of common stock and restricted stock units. In connection with the approval of the 2012 Equity and Incentive Compensation Plan by the Company's shareholders, no further grants will be made under the 2005 Incentive Plan. All grants made under the 2005 Incentive plan will continue in effect, subject to the terms and conditions of the 2005 Incentive Plan.

Stock options granted under the 2005 Incentive Plan have an exercise price of not less than 100% of the fair value of the common stock on the date of grant. Stock option grants are exercisable, subject to vesting requirements determined by the Compensation Committee, for periods of up to ten years from the date of grant. Stock options generally expire 90 days after the cessation of an optionee's service as an employee. However, in the case of an optionee's death or disability, the unexercised portion of a stock option remains exercisable for up to one year after the optionee's death or disability. Stock options granted under the 2005 Incentive Plan are not transferable, except by will or the laws of descent and distribution.

The Company uses the Black-Scholes-Merton option pricing model to estimate the fair value of each option on the date of grant. The expected terms of options are developed by considering the Company's historical attrition rate for those employees at the officer level, who are eligible to receive options. Further, the Company aggregates individual awards into homogenous groups based upon grant date. Expected volatility is estimated using daily historical volatility for six companies within the property and casualty insurance sector. The Company believes that historical volatility of this peer group is currently the best estimate of expected volatility of the market price of the Company's common shares. The dividend yield was assumed to be zero as the Company did not pay cash dividends until 2013. The risk-free interest rate is the yield on the grant date of U.S. Treasury zero coupon securities with a maturity comparable to the expected term of the options.

The following table summarizes information about the stock options outstanding under the 2005 Incentive Plan at December 31, 2014, 2015 and 2016:

| | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life (in years) |
|---|---|---|---|
| Outstanding at January 1, 2014 | 576,248 | 11.12 | 3.8 |
| Granted | — | — | — |
| Exercised | (294,165) | 9.09 | — |
| Canceled, forfeited, or expired | — | — | — |
| Outstanding at December 31, 2014 | 282,083 | 11.30 | 3.6 |
| Exercisable at December 31, 2014 | 282,083 | 11.30 | 3.6 |
| Outstanding at January 1, 2015 | 282,083 | 11.30 | 3.6 |
| Granted | — | — | — |
| Exercised | (193,204) | 9.55 | — |
| Canceled, forfeited, or expired | — | — | — |
| Outstanding at December 31, 2015 | 88,879 | 12.10 | 4.3 |
| Exercisable at December 31, 2015 | 88,879 | 12.10 | 4.3 |
| Outstanding at January 1, 2016 | 88,879 | 12.10 | 4.3 |
| Granted | — | — | — |
| Exercised | (68,879) | 12.14 | 3.3 |
| Canceled, forfeited, or expired | — | — | — |
| Outstanding at December 31, 2016 | 20,000 | 8.71 | 3.1 |
| Exercisable at December 31, 2016 | 20,000 | 8.71 | 3.1 |

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| | | (in thousands) | |
| Cash received from option exercises | $ 837 | $ 1,844 | $ 2,674 |
| Total tax benefits realized for tax deductions from options exercised | 833 | 2,109 | 2,797 |
| Total intrinsic value of options exercised | 2,967 | 6,969 | 9,145 |
| Grant date fair value of options vested | — | — | 144 |
| Aggregate intrinsic value of vested options outstanding | 1,073 | 3,448 | 8,763 |

The following table summarizes information about the restricted stock outstanding under the 2005 Incentive Plan at December 31, 2016:

| | Shares | Weighted-Average Grant-Date Fair Value per Share |
|---|---|---|
| Nonvested balance at January 1, 2014 | 6,400 | 27.47 |
| Granted | — | — |
| Vested | (800) | 27.35 |
| Forfeited | (3,200) | 27.59 |
| Nonvested balance at December 31, 2014 | 2,400 | 27.35 |
| Granted | — | — |
| Vested | (800) | 27.35 |
| Forfeited | — | — |
| Nonvested balance at December 31, 2015 | 1,600 | 27.35 |
| Granted | — | — |
| Vested | (800) | 27.35 |
| Forfeited | — | — |
| Nonvested balance at December 31, 2016 | 800 | 27.35 |

The Company recognized compensation expense of $58,000 in 2016 and $138,000 in 2015 and $325,000 in 2014, related to awards made under the 2005 Incentive Plan. Total tax benefits realized for tax deductions from vesting of restricted stock in 2016, 2015 and 2014 were $110,000, $81,000 and $38,000, respectively.

### *Non-Employee Director Restricted Stock Plan*

The AMERISAFE Non-Employee Director Restricted Stock Plan (the "Restricted Stock Plan") is administered by the Compensation Committee of the Board and provides for the automatic grant of restricted stock awards to non-employee directors of the Company. Awards to non-employee directors are generally subject to terms including non-transferability, immediate vesting upon death or total disability of a director, forfeiture of unvested shares upon termination of service by a director and acceleration of vesting upon a change of control of the Company. The maximum number of shares of common stock that may be issued pursuant to restricted stock awards under the Restricted Stock Plan is 100,000 shares, subject to the authority of the Board to adjust this amount in the event of a merger, consolidation, reorganization, stock split, combination of shares, recapitalization or similar transaction affecting the common stock. At December 31, 2016, there were 20,122 shares of common stock available for future awards under the Restricted Stock Plan.

Under the Restricted Stock Plan, each non-employee director is automatically granted a restricted stock award for a number of shares equal to $45,000 divided by the closing price of the Company's common stock on the date of the annual meeting of shareholders at which the non-employee director is elected or is continuing as a member of the Board. Each restricted stock award vests on the date of the next annual meeting of shareholders following the date of grant, subject to the continued service of the non-employee director. Under the terms of the Restricted Stock Plan, the Company's Board of Directors may increase the dollar amount of the annual award to an amount up to $75,000 without shareholder approval.

As of December 31, 2016, there were 5,576 shares of restricted stock outstanding under the Non-Employee Director Restricted Stock Plan, all of which will vest on the date of the annual meeting of shareholders in 2017.

The following table summarizes information about the restricted stock outstanding under the Non-Employee Director Restricted Stock Plan at December 31, 2016:

| | Shares | Weighted-Average Grant-Date Fair Value per Share |
|---|---|---|
| Nonvested balance at January 1, 2014 | 5,376 | 33.47 |
| Granted | 5,229 | 37.27 |
| Vested | (5,376) | 33.47 |
| Forfeited | — | — |
| Nonvested balance at December 31, 2014 | 5,229 | 37.27 |
| Granted | 7,112 | 44.26 |
| Vested | (5,229) | 37.27 |
| Forfeited | — | — |
| Nonvested balance at December 31, 2015 | 7,112 | 44.26 |
| Granted | 5,952 | 63.57 |
| Vested | (7,488) | 44.54 |
| Forfeited | — | — |
| Nonvested balance at December 31, 2016 | 5,576 | 64.50 |

The Company recognized compensation expense of $361,000 in 2016, $266,000 in 2015 and $184,000 in 2014 related to the Non-Employee Director Restricted Stock Plan. Total tax benefits realized for tax deductions from vesting of restricted stock in 2016, 2015 and 2014 were $52,000, $13,000 and $7,000, respectively.

***2012 Equity and Incentive Compensation Plan***

In 2012, the Company's shareholders approved the AMERISAFE 2012 Equity and Incentive Compensation Plan (the "2012 Incentive Plan"). The 2012 Incentive Plan is administered by the Compensation Committee of the Board and is designed to attract, retain and motivate non-employee directors, officers, key employees and consultants by providing incentives for superior performance. The 2012 Incentive Plan authorizes the grant of equity-based compensation in the form of option rights, appreciation rights, restricted shares, restricted stock units, cash incentive awards, performance shares and units, and other types of awards.

A maximum of 500,000 shares of common stock may be issued or transferred upon the exercise of option rights or appreciation rights, as restricted shares and released from substantial risk of forfeiture, in payment of restricted stock units, in payment of performance shares or performance units that have been earned, as awards of shares of common stock, as other awards granted under the 2012 Incentive Plan, or in payment of dividend equivalents paid with respect to awards made under the plan subject to adjustment in the event of a merger, stock dividend, stock split or similar event, which may be original issue shares or treasury shares or a combination of the two.

In 2016, 27,077 shares of restricted stock were granted under the 2012 Incentive Plan, which will vest through 2021. In 2015, 50,461 shares of restricted stock were granted under the 2012 Incentive Plan, which will vest through 2020. At December 31, 2016, there were 355,777 shares of common stock available for future awards under the 2012 Incentive Plan.

The following table summarizes information about the restricted stock outstanding under the 2012 Incentive Plan at December 31, 2016:

| | Shares | Weighted-AverageGrant-Date Fair Value per Share |
|---|---|---|
| Nonvested balance at January 1, 2014 | 82,609 | 33.93 |
| Granted | 4,312 | 43.83 |
| Vested | (14,000) | 33.58 |
| Forfeited | — | — |
| Nonvested balance at December 31, 2014 | 72,921 | 34.59 |
| Granted | 50,461 | 45.80 |
| Vested | (27,537) | 37.27 |
| Forfeited | (18,317) | 35.48 |
| Nonvested balance at December 31, 2015 | 77,528 | 40.57 |
| Granted | 27,077 | 54.44 |
| Vested | (26,294) | 45.18 |
| Forfeited | (1,919) | — |
| Nonvested balance at December 31, 2016 | 76,392 | 43.91 |

The Company recognized compensation expense of $849,000, $599,000 and $580,000 in 2016, 2015 and 2014, respectively, related to share-based grants. The Company recognized compensation expense of $334,000, $220,000 and $429,000 million in 2016 2015 and 2014, respectively, related to long-term incentive awards under the 2012 Incentive Plan. The long-term incentive award is a liability award.

## 13. Earnings Per Share

Diluted earnings per share includes common shares assumed issued under the "treasury stock method," which reflects the potential dilution that would occur if any outstanding options are exercised. Diluted earnings per share also includes the "if converted" method for participating securities if the result is dilutive.

The calculation of basic and diluted EPS for the years ended December 31, 2016, 2015 and 2014 are presented below.

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | (in thousands, except earnings per share amounts) | | |
| Basic EPS: | | | |
| Net income available to common shareholders – basic | $ 77,865 | $ 70,462 | $ 53,666 |
| Basic weighted-average common shares | 19,106 | 18,941 | 18,646 |
| Basic earnings per share | $ 4.08 | $ 3.72 | $ 2.88 |
| Diluted EPS: | | | |
| Net income available to common shareholders - diluted | $ 77,865 | $ 70,462 | $ 53,666 |
| Diluted weighted average common shares: | | | |
| Weighted average common shares | 19,106 | 18,941 | 18,646 |
| Stock options and performance shares | 98 | 178 | 282 |
| Diluted weighted average common shares | 19,204 | 19,119 | 18,928 |
| Diluted earnings per common share | $ 4.05 | $ 3.69 | $ 2.84 |

The table below sets forth the reconciliation of the weighted average shares used for the basic and diluted EPS calculation.

| | Years Ended | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Basic weighted average common shares | 19,105,806 | 18,941,077 | 18,646,128 |
| Add: Other common shares eligible for common dividends: | | | |
| Weighted average restricted shares and stock options (including tax benefit component) | 97,844 | 178,109 | 282,376 |
| Diluted weighted average common shares | 19,203,650 | 19,119,186 | 18,928,504 |

## 14. Comprehensive Income and Accumulated Other Comprehensive Income

Comprehensive income includes net income plus unrealized gains/losses on our available-for-sale investment securities, net of tax. In reporting comprehensive income on a net basis in the statement of income, we used a 35 percent tax rate. The following table illustrates the changes in the balance of each component of accumulated other comprehensive income (loss) for each period presented in the financial statements.

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | | (in thousands) | |
| Beginning balance | $ 2,587 | $ 2,810 | $ (4,295) |
| Other comprehensive income (loss) before reclassification | (3,231) | (1,584) | 6,558 |
| Amounts reclassified from accumulated other comprehensive income | 152 | 1,361 | 547 |
| Net current period other comprehensive income (loss) | (3,079) | (223) | 7,105 |
| Ending balance | $ (492) | $ 2,587 | $ 2,810 |

The sale or other-than-temporary impairment (OTTI) of an available-for-sale security results in amounts being reclassified from accumulated other comprehensive income to current period net income. The effects of reclassifications out of accumulated other comprehensive income by the respective line items of net income are presented in the following table.

| Component of Accumulated Other Comprehensive Income | Year Ended December 31, | | | Affected line item in the statement of income |
|---|---|---|---|---|
| | 2016 | 2015 | 2014 | |
| | | (in thousands) | | |
| Unrealized losses on available-for-sale securities | $ (234) | $ (494) | $ (825) | Net realized gains (losses) on investments |
| Other-than-temporary impairment | — | (1,600) | (16) | Net realized gains (losses) on investments |
| | (234) | (2,094) | (841) | Income before income taxes |
| | 82 | 733 | 294 | Income tax expense |
| | $ (152) | $ (1,361) | $ (547) | Net income |

| | Pre-Tax Amount | Tax Expense | Net-of-Tax Amount |
|---|---|---|---|
| | (in thousands) | | |
| **December 31, 2016** | | | |
| Unrealized loss on securities: | | | |
| Unrealized loss on available-for-sale securities | $ (4,908) | $ (1,718) | $ (3,190) |
| Less amortization of differences between fair value and amortized cost for fixed maturity security transfer | (63) | (22) | (41) |
| Reclassification adjustment for gains realized in net income | 234 | 82 | 152 |
| Net unrealized loss | (4,737) | (1,658) | (3,079) |
| Other comprehensive income | $ (4,737) | $ (1,658) | $ (3,079) |
| **December 31, 2015** | | | |
| Unrealized loss on securities: | | | |
| Unrealized loss on available-for-sale securities | $ (2,572) | $ (900) | $ (1,672) |
| Change in unrealized losses on available-for-sale securities with OTTI | 176 | 62 | 114 |
| Less amortization of differences between fair value and amortized cost for fixed maturity security transfer | (40) | (14) | (26) |
| Reclassification adjustment for gains realized in net income | 2,093 | 732 | 1,361 |
| Net unrealized loss | (343) | (120) | (223) |
| Other comprehensive income | $ (343) | $ (120) | $ (223) |
| **December 31, 2014** | | | |
| Unrealized gain on securities: | | | |
| Unrealized gain on available-for-sale securities | $ 10,133 | $ 3,546 | $ 6,587 |
| Less amortization of differences between fair value and amortized cost for fixed maturity security transfer | (44) | (15) | (29) |
| Reclassification adjustment for gains realized in net income | 842 | 295 | 547 |
| Net unrealized gain | 10,931 | 3,826 | 7,105 |
| Other comprehensive income | $ 10,931 | $ 3,826 | $ 7,105 |

## 15. Employee Benefit Plan

The Company's 401(k) benefit plan is available to all employees. The Company matches up to 2% of employee compensation for participating employees, subject to certain limitations. Employees are fully vested in employer contributions to this plan after five years. Company contributions to this plan were $0.4 million in 2016, 2015 and 2014.

## 16. Commitments and Contingencies

The Company is a party to various legal actions arising principally from claims made under insurance policies and contracts. Those actions are considered by the Company in estimating reserves for loss and loss adjustment expenses. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position or results of operations.

The Company provides workers' compensation insurance in several states that maintain second-injury funds. Incurred losses on qualifying claims that exceed certain amounts may be recovered from these state funds. There is no assurance that the applicable states will continue to provide funding under these programs.

The Company manages risk on certain long-duration claims by settling these claims through the purchase of annuities from unaffiliated carriers. In the event these carriers are unable to meet their obligations under these contracts, the Company could be liable to the claimants. The following table summarizes (in thousands) the fair value of the annuities at December 31, 2016, that the Company has purchased to satisfy its obligations. The A.M. Best Company rating is shown parenthetically.

| Life Insurance Company | Statement Value of Annuities Exceeding 1% of Statutory Surplus |
|---|---|
| Metropolitan Life Insurance Company (A+) | $ 17,098 |
| Pacific Life and Annuity Company (A+) | 16,688 |
| American General Life Insurance (A) | 15,049 |
| New York Life Insurance Company (A++) | 11,408 |
| John Hancock Life Insurance Company USA (A+) | 6,724 |
| Athene Annuity and Life Assurance Company (A-) | 5,164 |
| Other | 23,925 |
| | $ 96,056 |

Substantially all of the annuities are issued or guaranteed by life insurance companies that have an A.M. Best Company rating of “A” (Excellent) or better.

In February 2015, the Company was notified of an adverse verdict against its subsidiary, AIIC, related to a 2009 workers’ compensation claim in the State of Iowa. The verdict was for $25.3 million, of which $0.3 million was for actual damages and $25.0 million was awarded for punitive damages. AIIC is appealing both the verdict and the damage awards. The Company has posted an appeal bond in the amount of $27.8 million, as required by law. The Company maintains reinsurance against catastrophic losses, including court ordered judgments. As of December 31, 2016, the Company’s total reserve for the claim was $2.4 million. The $2.4 million reserve does not include payments that the Company has previously paid in this case. The payments, plus the $2.4 million reserve, total $5.4 million. The Company’s retention is $5.0 million before its reinsurance providers are obligated to reimburse the Company for additional costs. The Company presently believes that the reserve amount, together with its reinsurance coverage, is adequate to satisfy this claim.

The Company leases equipment and office space under noncancelable operating leases. At December 31, 2016, future minimum lease payments are as follows (in thousands):

| | |
|---|---|
| 2017 | $ 131 |
| 2018 | 74 |
| 2019 | 6 |
| | $ 211 |

Rental expense was $0.2 million in 2016, 2015 and 2014.

## 17. Concentration of Operations

The Company derives its revenues almost entirely from its operations in the workers’ compensation insurance line of business. Total net premiums earned for the different lines of business are shown below:

| | 2016 | | 2015 | | 2014 | |
|---|---|---|---|---|---|---|
| | Dollars | Percent | Dollars | Percent | Dollars | Percent |
| | (Dollars in thousands) | | | | | |
| Workers’ compensation | $ 368,704 | 100.0% | $ 375,894 | 100.0% | $ 375,746 | 100.0% |
| General liability | — | 0.0% | — | 0.0% | 1 | 0.0% |
| Total net premiums earned | $ 368,704 | 100.0% | $ 375,894 | 100.0% | $ 375,747 | 100.0% |

Net premiums earned during 2016, 2015 and 2014 for the top ten states in 2016 and all others are shown below:

| | 2016 | | 2015 | | 2014 | |
|---|---|---|---|---|---|---|
| | Dollars | Percent | Dollars | Percent | Dollars | Percent |
| | (Dollars in thousands) | | | | | |
| Pennsylvania | $ 39,460 | 10.7% | $ 36,294 | 9.7% | $ 35,488 | 9.4% |
| Georgia | 38,168 | 10.4% | 40,497 | 10.8% | 36,761 | 9.8% |
| Louisiana | 30,426 | 8.3% | 38,874 | 10.3% | 47,643 | 12.7% |
| Florida | 29,051 | 7.9% | 24,792 | 6.6% | 20,691 | 5.5% |
| Illinois | 25,796 | 7.0% | 23,285 | 6.2% | 20,606 | 5.5% |
| North Carolina | 20,784 | 5.6% | 20,062 | 5.3% | 20,872 | 5.6% |
| Virginia | 16,599 | 4.5% | 15,656 | 4.2% | 16,764 | 4.5% |
| Minnesota | 15,130 | 4.1% | 14,618 | 3.9% | 13,159 | 3.5% |
| South Carolina | 13,897 | 3.8% | 12,955 | 3.4% | 12,414 | 3.3% |
| Wisconsin | 13,544 | 3.7% | 11,203 | 3.0% | 9,408 | 2.5% |
| All others | 125,849 | 34.0% | 137,658 | 36.6% | 141,941 | 37.7% |
| Total net premiums earned | $ 368,704 | 100.0% | $ 375,894 | 100.0% | $ 375,747 | 100.0% |

## 18. Fair Values of Financial Instruments

The Company determines fair value amounts for financial instruments using available third-party market information. When such information is not available, the Company determines the fair value amounts using appropriate valuation methodologies. Nonfinancial instruments such as real estate, property and equipment, deferred policy acquisition costs, deferred income taxes and loss and loss adjustment expense reserves are excluded from the fair value disclosure.

*Cash and Cash Equivalents*—The carrying amounts reported in the accompanying consolidated balance sheets for these financial instruments approximate their fair values.

*Investments*—The fair values for fixed maturity and equity securities are based on quoted market prices where available. For those securities not actively traded, fair values were obtained from a third-party investment manager.

*Short Term Investments*—The carrying amounts reported in the accompanying consolidated balance sheets for these financial instruments approximate their fair value.

*Other Investments*— Other investments consist of a limited partnership interest that is accounted for under the equity method valued using the net asset value provided by the general partner of the limited partnership, which approximates the fair value of the interest. The limited partnership's objective is to generate absolute returns by investing long and short in publicly-traded global securities. Redemptions are allowed monthly following a 60-day notice with no lock up periods. The Company has no unfunded commitments to the limited partnership.

The following table summarizes the carrying or reported values and corresponding fair values for financial instruments:

| | December 31, | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | (in thousands) | | | |
| Assets: | | | | |
| Fixed maturity securities—held to maturity | $ 562,434 | $ 568,931 | $ 645,164 | $ 662,276 |
| Fixed maturity securities—available for sale | 479,097 | 479,097 | 380,022 | 380,022 |
| Equity securities | 33 | 33 | 31 | 31 |
| Cash and cash equivalents | 58,936 | 58,936 | 69,481 | 69,481 |
| Short-term investments | 29,580 | 29,580 | 7,718 | 7,718 |
| Other investments | 13,330 | 13,330 | 12,217 | 12,217 |

The Company carries available-for-sale securities at fair value in our consolidated financial statements and determines fair value measurements and disclosure in accordance with FASB ASC Topic 820, *Fair Value Measurements and Disclosures.*

The Company determines the fair values of its financial instruments based on the fair value hierarchy established in ASC Topic 820, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard defines fair value, describes three levels of inputs that may be used to measure fair value, and expands disclosures about fair value measurements.

Fair value is defined in ASC Topic 820 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is the price to sell an asset or transfer a liability and, therefore, represents an exit price, not an entry price. Fair value is the exit price in the principal market (or, if lacking a principal market, the most advantageous market) in which the reporting entity would transact. Fair value is a market-based measurement, not an entity-specific measurement, and, as such, is determined based on the assumptions that market participants would use in pricing the asset or liability. The exit price objective of a fair value measurement applies regardless of the reporting entity's intent and/or ability to sell the asset or transfer the liability at the measurement date.

ASC Topic 820 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present value amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset, also known as current replacement cost. Valuation techniques used to measure fair value are to be consistently applied.

In ASC Topic 820, inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model) and/or the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable:

- Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity.
- Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Valuation techniques used to measure fair value are intended to maximize the use of observable inputs and minimize the use of unobservable inputs. ASC Topic 820 establishes a fair value hierarchy that prioritizes the use of inputs used in valuation techniques into the following three levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.
- Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs are to be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters.

The fair values of the Company's investments are based upon prices provided by an independent pricing service. The Company has reviewed these prices for reasonableness and has not adjusted any prices received from the independent provider. Securities reported at fair value utilizing Level 1 inputs represent assets whose fair value is determined based upon observable unadjusted quoted market prices for identical assets in active markets. Level 2 securities represent assets whose fair value is determined using observable market information such as previous day trade prices, quotes from less active markets or quoted prices of securities with similar characteristics. There were no transfers between Level 1 and Level 2 during the year ended December 31, 2016.

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2016 and 2015 are as follows:

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Fair Value |
| | (in thousands) | | | |
| Financial instruments carried at fair value, classified as part of: | | | | |
| Securities available for sale—equity: | | | | |
| Domestic common stock | $ 33 | $ — | $ — | $ 33 |
| Securities available for sale—fixed maturity: | | | | |
| States and political subdivisions | — | 232,293 | — | 232,293 |
| Corporate bonds | — | 182,515 | — | 182,515 |
| U.S. agency-based mortgage-backed securities | — | 9,342 | — | 9,342 |
| U.S. Treasury securities and obligations of U.S. government agencies | 54,947 | — | — | 54,947 |
| Total available for sale—fixed maturity | 54,947 | 424,150 | — | 479,097 |
| Total available for sale | $ 54,980 | $ 424,150 | $ — | $ 479,130 |

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Fair Value |
| | (in thousands) | | | |
| Financial instruments carried at fair value, classified as part of: | | | | |
| Securities available for sale—equity: | | | | |
| Domestic common stock | $ 31 | $ — | $ — | $ 31 |
| Securities available for sale—fixed maturity: | | | | |
| States and political subdivisions | — | 171,419 | — | 171,419 |
| Corporate bonds | — | 201,304 | — | 201,304 |
| U.S. agency-based mortgage-backed securities | — | 7,299 | — | 7,299 |
| Total available for sale—fixed maturity | — | 380,022 | — | 380,022 |
| Total available for sale | $ 31 | $ 380,022 | $ — | $ 380,053 |

Assets and liabilities measured at amortized cost as of December 31, 2016 and 2015 are as follows:

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Fair Value |
| | (in thousands) | | | |
| Securities held-to-maturity—fixed maturity: | | | | |
| States and political subdivisions | $ — | $ 399,483 | $ — | $ 399,483 |
| Corporate bonds | — | 144,016 | — | 144,016 |
| Commercial mortgage-backed securities | — | 70 | — | 70 |
| U.S. agency-based mortgage-backed securities | — | 10,915 | — | 10,915 |
| U.S. Treasury securities | 6,779 | — | — | 6,779 |
| Obligations of U.S. government agencies | — | 5,637 | — | 5,637 |
| Asset-backed securities | — | 2,031 | — | 2,031 |
| Total held-to-maturity | $ 6,779 | $ 562,152 | $ — | $ 568,931 |

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Fair Value |
| | (in thousands) | | | |
| Securities held-to-maturity—fixed maturity: | | | | |
| States and political subdivisions | $ — | $ 423,754 | $ — | $ 423,754 |
| Corporate bonds | — | 170,573 | — | 170,573 |
| Commercial mortgage-backed securities | — | 37,683 | — | 37,683 |
| U.S. agency-based mortgage-backed securities | — | 14,471 | — | 14,471 |
| U.S. Treasury securities | 7,599 | — | — | 7,599 |
| Obligations of U.S. government agencies | — | 5,781 | — | 5,781 |
| Asset-backed securities | — | 2,415 | — | 2,415 |
| Total held-to-maturity | $ 7,599 | $ 654,677 | $ — | $ 662,276 |

The Company determines fair value amounts for financial instruments using available third-party market information. When such information is not available, the Company determines the fair value amounts using appropriate valuation methodologies. Nonfinancial instruments such as real estate, property and equipment, deferred policy acquisition costs, deferred income taxes and loss and loss adjustment expense reserves are excluded from the fair value disclosure.

At December 31, 2016, the Company held two securities measured at fair value on a nonrecurring basis due to a recognized impairment of $0.3 million. The securities are valued using Level 2 inputs and had a value of $0.3 million at December 31, 2016. The securities were valued at fair value at the time of impairment and are currently being carried at the adjusted amortized cost. The fair value of the securities was $0.5 million at December 31, 2016.

## 19. Quarterly Financial Data (Unaudited)

The following table represents unaudited quarterly financial data for the years ended December 31, 2016 and 2015.

| | Three Months Ended | | | |
|---|---|---|---|---|
| | March 31 | June 30 | September 30 | December 31 |
| | (in thousands, except per share amounts) | | | |
| **2016** | | | | |
| Net premiums earned | $ 95,961 | $ 90,728 | $ 89,918 | $ 92,097 |
| Net investment income | 6,044 | 6,201 | 8,006 | 7,855 |
| Net realized gains (losses) on investments | 248 | 545 | 181 | (1,468) |
| Total revenues | 102,335 | 97,563 | 98,206 | 98,558 |
| Income before income taxes | 34,395 | 24,615 | 26,027 | 27,784 |
| Net income | 24,257 | 16,639 | 17,896 | 19,073 |
| Net income available to common shareholders | 24,257 | 16,639 | 17,896 | 19,073 |
| Earnings per share: | | | | |
| Basic | $ 1.27 | $ 0.87 | $ 0.94 | $ 1.00 |
| Diluted | $ 1.27 | $ 0.87 | $ 0.93 | $ 0.99 |
| Comprehensive income | 27,051 | 19,568 | 16,183 | 11,985 |
| Extraordinary cash dividends declared per common share | $ — | $ — | $ — | $ 3.25 |
| Cash dividends declared per common share | $ 0.18 | $ 0.18 | $ 0.18 | $ 0.18 |
| | | | | |
| **2015** | | | | |
| Net premiums earned | $ 94,787 | $ 95,569 | $ 90,504 | $ 95,034 |
| Net investment income | 6,833 | 6,890 | 6,923 | 7,256 |
| Net realized gains (losses) on investments | 59 | (2,617) | 40 | 24 |
| Total revenues | 101,788 | 99,936 | 97,470 | 101,760 |
| Income before income taxes | 21,197 | 20,112 | 25,890 | 33,768 |
| Net income | 15,130 | 14,319 | 17,940 | 23,073 |
| Net income available to common shareholders | 15,130 | 14,319 | 17,940 | 23,073 |
| Earnings per share: | | | | |
| Basic | $ 0.80 | $ 0.76 | $ 0.95 | $ 1.21 |
| Diluted | $ 0.79 | $ 0.75 | $ 0.94 | $ 1.21 |
| Comprehensive income | 15,948 | 12,744 | 19,248 | 22,299 |
| Extraordinary cash dividends declared per common share | $ — | $ — | $ — | $ 3.00 |
| Cash dividends declared per common share | $ 0.15 | $ 0.15 | $ 0.15 | $ 0.15 |

## 20. Capital Management

The Company’s Board of Directors initiated a share repurchase program in February 2010. In October 2016, the Board reauthorized this program with a limit of $25.0 million with no expiration date. There were no shares repurchased under this program in 2016. Since the beginning of this plan, the Company has repurchased a total of 1,258,250 shares for $22.4 million, or an average price of $17.78, including commissions.

In 2013, the Company’s Board of Directors initiated a regular quarterly dividend. During 2016, the Company’s Board of Directors declared a quarterly dividend of $0.18 per share compared to $0.15 per share in 2015, $0.12 per share in 2014 and $0.08 per share in 2013. The Company declared extraordinary dividends totaling $3.25 per share in 2016, $3.00 per share in 2015 and $1.50 per share in 2014. There were no extraordinary dividends declared in 2013.

**21. Subsequent Events**

On February 21, 2017 the Company declared a regular quarterly cash dividend of $0.20 per share payable on March 24, 2017 to shareholders of record on March 10, 2017. In 2016, the Company paid a quarterly cash dividend of $0.18 per share.

The Board intends to continue to consider the payment of a regular cash dividend each calendar quarter. On an annualized basis, the cash dividend is expected to be $0.80 per share.

### Schedule II. Condensed Financial Information of Registrant

**AMERISAFE, INC.**
**CONDENSED BALANCE SHEETS**

| | December 31, | |
|---|---|---|
| | 2016 | 2015 |
| | (in thousands) | |
| **Assets** | | |
| Investments: | | |
| Short-term investments | $ 11,939 | $ — |
| Other investments | 13,330 | 12,217 |
| Investment in subsidiaries | 415,767 | 408,135 |
| Total investments | 441,036 | 420,352 |
| Cash and cash equivalents | 9,596 | 26,968 |
| Deferred income taxes | 675 | 292 |
| Notes receivable from subsidiaries | 1,587 | 1,505 |
| Property and equipment, net | 1,942 | 1,817 |
| Other assets | 1,314 | 3,047 |
| | $ 456,150 | $ 453,981 |
| **Liabilities, redeemable preferred stock and shareholders' equity** | | |
| Total liabilities | — | — |
| Shareholders' equity (net of Treasury stock of $22,370 at December 31, 2016 and 2015 | 456,150 | 453,981 |
| | $ 456,150 | $ 453,981 |

**Schedule II. Condensed Financial Information of Registrant – (Continued)**

**AMERISAFE, INC.**
**CONDENSED STATEMENTS OF INCOME**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | | (in thousands) | |
| **Revenues** | | | |
| Net investment income | $ 1,509 | $ 854 | $ 1,541 |
| Fee and other income | 5,843 | 5,893 | 5,368 |
| Total revenues | 7,352 | 6,747 | 6,909 |
| **Expenses** | | | |
| Other operating costs | 7,352 | 6,747 | 6,909 |
| Total expenses | 7,352 | 6,747 | 6,909 |
| Income (loss) before income taxes and equity in earnings of subsidiaries | — | — | — |
| Income tax expense (benefit) | (156) | (57) | (13) |
| Gain (loss) before equity in earnings of subsidiaries | 156 | 57 | 13 |
| Equity in net income of subsidiaries | 77,709 | 70,405 | 53,653 |
| Net income | $ 77,865 | $ 70,462 | $ 53,666 |

**Schedule II. Condensed Financial Information of Registrant – (Continued)**

**AMERISAFE, INC.**
**CONDENSED STATEMENTS OF CASH FLOWS**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | | (in thousands) | |
| **Operating activities** | | | |
| Net cash (used in) provided by operating activities | $ 2,771 | $ (1,727) | $ 2,161 |
| **Investing activities** | | | |
| Purchases of investments | (11,940) | — | (1,462) |
| Proceeds from sales of investments | — | 250 | 2,404 |
| Purchases of property and equipment | (924) | (627) | (691) |
| Dividends from subsidiary | 67,000 | 50,000 | 25,000 |
| Net cash provided by investing activities | 54,136 | 49,623 | 25,251 |
| **Financing activities** | | | |
| Proceeds from stock option exercises | 837 | 1,844 | 2,674 |
| Tax benefit from share-based payments | 995 | 2,204 | 2,841 |
| Dividends to shareholders | (76,111) | (68,561) | (37,068) |
| Net cash used in financing activities | (74,279) | (64,513) | (31,553) |
| Change in cash and cash equivalents | (17,372) | (16,617) | (4,141) |
| Cash and cash equivalents at beginning of year | 26,968 | 43,585 | 47,726 |
| Cash and cash equivalents at end of year | $ 9,596 | $ 26,968 | $ 43,585 |

## Schedule VI. Supplemental Information Concerning Property—Casualty Insurance Operations

### AMERISAFE, INC. AND SUBSIDIARIES

| | Deferred Policy Acquisition Costs | Reserves for Unpaid Loss and Loss Adjustment Expense | Unearned Premium | Earned Premium | Net Investment Income | Loss and LAE Related to Current Period | Loss and LAE Related to Prior Periods | Amortization of Deferred Policy Acquisition Costs | Paid Claims and Claim Adjustment Expenses | Net Premiums Written |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | (in thousands) | | | | | |
| 2016 | $ 19,300 | $ 742,776 | $162,028 | $368,704 | $ 28,106 | $250,337 | $(51,306) | $ (44,321) | $ 187,686 | $362,748 |
| 2015 | 20,412 | 718,033 | 167,983 | 375,894 | 27,902 | 262,387 | (47,814) | (44,841) | 189,666 | 375,301 |
| 2014 | 19,649 | 687,602 | 168,576 | 375,747 | 27,214 | 268,633 | (23,717) | (43,817) | 182,506 | 380,026 |

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

None.

## Item 9A. Controls and Procedures.

*Evaluation of Disclosure Controls and Procedures*

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report to provide reasonable assurance that information we are required to disclose in reports that are filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms specified by the SEC. We note that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving the stated goals under all potential future conditions.

*Management's Report on Internal Control over Financial Reporting*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934. Our internal control over financial reporting is a process designed under the supervision of our Chief Executive Officer and our Chief Financial Officer, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles.

Management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2016. In making this assessment, management used the criteria described in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on management's assessment under the framework in Internal Control—Integrated Framework, our management has concluded that our internal control over financial reporting was effective as of December 31, 2016.

Our independent registered public accounting firm, Ernst & Young LLP, has audited the effectiveness of internal controls over financial reporting, as stated in their report included herein.

*Changes in Internal Control Over Financial Reporting*

There have not been any changes in our internal control over financial reporting during the fourth quarter of the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

*Limitations on Controls*

Because of its inherent limitations, management does not expect that our disclosure controls and procedures and our internal controls over financial reporting will prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with policies and procedures may deteriorate. Any control system, no matter how well designed and operated, is based upon certain assumptions and can only provide reasonable, not absolute assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to errors or fraud will not occur or that all control issues and instances of fraud, if any within the Company, have been detected.

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and shareholders of AMERISAFE, Inc. and subsidiaries

We have audited AMERISAFE, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). AMERISAFE, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's 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 generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, AMERISAFE, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of AMERISAFE, Inc. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2016 of AMERISAFE, Inc. and subsidiaries and our report dated February 24, 2017, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New Orleans, Louisiana
February 24, 2017

**Item 9B. Other Information.**

None.

## PART III

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

The information required by Item 10 with respect to our executive officers and key employees is included in Part I of this report.

The information required by Item 10 with respect to our directors is incorporated by reference to the information included under the caption "Election of Directors" in our Proxy Statement for the 2017 Annual Meeting of Shareholders. We plan to file our Proxy Statement within 120 days after December 31, 2016, the end of our fiscal year.

The information required by Item 10 with respect to compliance with Section 16 of the Exchange Act is incorporated by reference to the information included under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in our Proxy Statement for the 2017 Annual Meeting of Shareholders.

The information required by Item 10 with respect to our audit committee and our audit committee financial expert is incorporated by reference to the information included under the caption "The Board, Its Committees and Its Compensation—Audit Committee" in our Proxy Statement for the 2017 Annual Meeting of Shareholders.

The information required by Item 10 with respect to our code of business conduct and ethics for executive and financial officers and directors is posted on our website at *www.amerisafe.com* in the Investor Relations section under "Governance—Code of Conduct." We will post information regarding any amendment to, or waiver from, our code of business conduct and ethics on our website in the Investor Relations section under Corporate Governance.

### Item 11. Executive Compensation.

The information required by Item 11 is incorporated by reference to the information included under the captions "Executive Compensation," "The Board, Its Committees, and Its Compensation—Director Compensation," "Compensation Committee Interlocks and Insider Participation," "Compensation Discussion and Analysis" and "Compensation Committee Report" in our Proxy Statement for the 2017 Annual Meeting of Shareholders.

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

The information required by Item 12 is incorporated by reference to the information included under the captions "Security Ownership of Management and Certain Beneficial Holders" and "Equity Compensation Plan Information" in our Proxy Statement for the 2017 Annual Meeting of Shareholders.

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

The information required by Item 13 with respect to certain relationships and related transactions is incorporated by reference to the information included under the caption "Executive Compensation—Certain Relationships and Related Transactions" in our Proxy Statement for the 2017 Annual Meeting of Shareholders.

The information required by Item 13 with respect to director independence is incorporated by reference to the information included under the caption "The Board, Its Committees and Its Compensation—Director Independence" in our Proxy Statement for the 2017 Annual Meeting of Shareholders.

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

The information required by Item 14 with respect to the fees and services of Ernst & Young LLP, our independent registered public accounting firm, and the audit committee's pre-approved policies and procedures, are incorporated by reference to the information included under the caption "Independent Public Accountants" in our Proxy Statement for the 2017 Annual Meeting of Shareholders.

## PART IV

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

The following consolidated financial statements and schedules are filed in Item 8 of Part II of this report:



(Schedules I, III, IV and V are not applicable and have been omitted.)

**Exhibits:**

3.1 Amended and Restated Certificate of Formation of AMERISAFE, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q filed August 6, 2010)

3.2 Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed August 6, 2010)

10.1* Amended and Restated Employment Agreement, dated March 4, 2015 by and between the Company and G. Janelle Frost (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed March 5, 2015)

10.2* Employment Agreement, dated January 15, 2013 by and between the Company and Vincent J. Gagliano (incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K filed March 6, 2013)

10.3* Employment Agreement effective as of September 15, 2015 by and between the Company and Neal Fuller (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed August 31, 2015)

10.4* Employment Agreement effective as of March 1, 2016 by and between the Company and Kathryn H. Shirley (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed April 29, 2016)

10.5* AMERISAFE, Inc. 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-1, Amendment No. 3 (File No. 333-127133), filed October 31, 2005)

10.6* Form of Non-Qualified Stock Option Award Agreement for the AMERISAFE, Inc. 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.8 to the Company's Registration Statement on Form S-1, Amendment No. 3 (File No. 333-127133), filed October 31, 2005)

10.7* AMERISAFE, Inc. 2012 Equity and Incentive Compensation Plan (incorporated by reference to Appendix A to the Company's Proxy Statement on Schedule 14A filed April 27, 2012)

10.8* Form of 2012 Equity and Incentive Compensation Plan Long-Term Incentive Award Agreement (incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K filed February 27, 2015)

10.9* AMERISAFE, Inc. Non-Employee Director Restricted Stock Plan

10.10* Form of 2012 Equity and Incentive Compensation Plan Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K filed February 28, 2014)

10.11* Form of Director and Officer Indemnification Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed August 6, 2010)

10.12* Form of Annual Incentive Compensation Agreement (incorporated by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K filed February 26, 2016)

10.13 Second Casualty Excess of Loss Reinsurance Contract, effective as of January 1, 2008, issued to the Company by the reinsurers and named therein (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed February 15, 2008)

10.14 Casualty Catastrophe Excess of Loss Reinsurance Contract, effective as of January 1, 2008, issued to the Company by the reinsurers named therein (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed February 15, 2008)

10.15 Second Casualty Excess of Loss Reinsurance Agreement, effective as of January 1, 2009 issued to the Company by Hannover Reinsurance (Ireland), Limited (incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K, filed March 9, 2009)

10.16 Casualty Catastrophe Excess of Loss Reinsurance Contract, effective as of January 1, 2009 issued to the Company by the reinsurers named therein (incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K, filed March 9, 2009)

10.17 Casualty Catastrophe Excess of Loss Reinsurance Contract, effective as of January 1, 2010 issued to the Company by the reinsurers named therein (incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K, filed March 7, 2011)

**Exhibits:**

10.18 Casualty Catastrophe Excess of Loss Reinsurance Contract, effective as of January 1, 2011, issued to the Company by the reinsurers named therein (incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K, filed March 7, 2011)

10.19 Second Casualty Excess of Loss Reinsurance Agreement, effective as of January 1, 2012 issued to the Company by the reinsurers named therein (incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K filed March 9, 2012)

10.20 Casualty Catastrophe Excess of Loss Reinsurance Contract, effective as of January 1, 2012, issued to the Company by the reinsurers named therein (incorporated by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K filed March 9, 2012)

10.21 Casualty Catastrophe Excess of Loss Reinsurance Contract, effective as of January 1, 2013, issued to the Company by the reinsurers named therein (incorporated by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K filed March 6, 2013)

10.22 Casualty Catastrophe Excess of Loss Reinsurance Contract effective as of January 1, 2014, issued to the Company by the reinsurers named therein (incorporated by reference to Exhibit 10.32 to the Company's Quarterly Report on Form 10-Q filed May 2, 2014)

10.23 Casualty Excess of Loss Reinsurance Contract, effective as of January 1, 2014, issued to the Company by the reinsurers named therein (incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K filed February 27, 2015)

10.24 Casualty Catastrophe Excess of Loss Reinsurance Contract, effective as of January 1, 2015, issued to the Company by the reinsurers named therein (incorporated by reference to Exhibit 10.31 to the Company's Annual Report on Form 10-K filed February 27, 2015)

10.25 Endorsement No. 1 to the Casualty Excess of Loss Reinsurance Contract, effective as of June 1, 2015, issued to the Company by the reinsurers named therein (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed July 31, 2015)

10.26 Endorsement No. 1 to the Casualty Catastrophe Excess of Loss Reinsurance Contract, effective as of June 1, 2015, issued to the Company by the reinsurers named therein (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed July 31, 2015)

10.27 Casualty Catastrophe Excess of Loss Reinsurance Contract, effective as of January 1, 2016, issued to the Company by the reinsurers named therein (incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K filed February 26, 2016)

10.28 Casualty Catastrophe Excess of Loss Reinsurance Contract effective as of January 1, 2017, issued to the Company by the reinsurers named therein

10.29 Casualty Excess of Loss Reinsurance Contract effective as of January 1, 2017, issued to the Company by the reinsurers named therein

21.1 Subsidiaries of the Company (incorporated by reference to Exhibit 21.1 to the Company's Annual Report on Form 10-K filed February 26, 2016)

23.1 Consent of Ernst & Young LLP

24.1 Powers of Attorney for our directors and certain executive officers

31.1 Certification of G. Janelle Frost filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Neal A. Fuller filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of G. Janelle Frost and Neal A. Fuller filed pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

| Exhibits: | |
|---|---|
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

* Management contract, compensatory plan or arrangement

## 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 on February 24, 2017.

AMERISAFE, INC.

By: /s/ G. Janelle Frost
**G. Janelle Frost**
**President, Chief Executive Officer and Director**

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 indicated on February 24, 2017.

| | |
|---|---|
| /s/ G. Janelle Frost<br>**G. Janelle Frost** | President, Chief Executive Officer and Director<br>(Principal Executive Officer) |
| /s/ Neal A. Fuller<br>**Neal A. Fuller** | Executive Vice President and<br>Chief Financial Officer<br>(Principal Financial and Accounting Officer) |
| *<br>**Jared A. Morris** | Chairman and Director |
| *<br>**Michael J. Brown** | Director |
| *<br>**Teri G. Fontenot** | Director |
| *<br>**Philip A. Garcia** | Director |
| *<br>**Millard E. Morris** | Director |
| *<br>**Daniel Phillips** | Director |
| *<br>**Randall Roach** | Director |
| *<br>**Austin P. Young, III** | Director |

Kathryn H. Shirley, by signing her name hereto, does hereby sign this Annual Report on Form 10-K on behalf of the above-named directors of AMERISAFE, Inc. on this 24th day of February 2017, pursuant to powers of attorney executed on behalf of such directors and contemporaneously filed with the Securities and Exchange Commission.

*By: /s/ Kathryn H. Shirley
**Kathryn H. Shirley, Attorney-in-Fact**

## EXHIBIT INDEX

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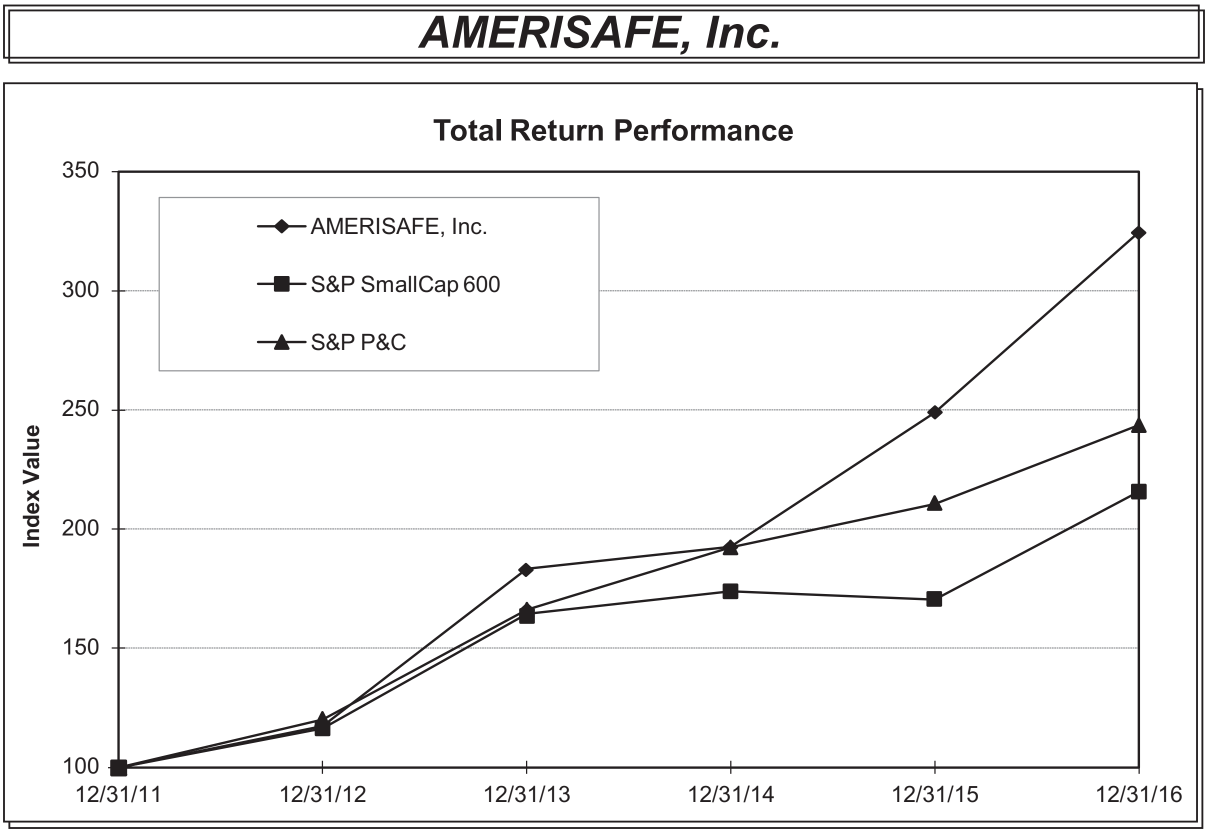
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

* Management contract, compensatory plan or arrangement

## SHAREHOLDER RETURN PERFORMANCE GRAPH

The following performance graph compares the cumulative total shareholder return on AMERISAFE's common stock with the S&P Small Cap 600 Index and the S&P Property & Casualty Insurance Index, assuming an initial investment of $100 on December 31, 2011, and the reinvestment of all dividends, if any.




| Index | Period Ending 12/31/11 | 12/31/12 | 12/31/13 | 12/31/14 | 12/31/15 | 12/31/16 |
|---|---|---|---|---|---|---|
| AMERISAFE, Inc. | 100.00 | 117.20 | 183.33 | 192.69 | 248.85 | 324.58 |
| S&P SmallCap 600 | 100.00 | 116.33 | 164.38 | 173.84 | 170.41 | 215.67 |
| S&P P&C | 100.00 | 120.11 | 166.10 | 192.25 | 210.57 | 243.65 |

**Executive Officers**

G. Janelle Frost
President, Chief Executive
Officer and Director

Neal Fuller
Executive Vice President and
Chief Financial Officer

Vincent J. Gagliano
Executive Vice President and
Chief Risk Officer

Kathryn H. Shirley
Executive Vice President, General
Counsel and Secretary

**Securities Traded**
NASDAQ Global Select Market
Symbol: AMSF

**Corporate Headquarters**
2301 Highway 190 West
DeRidder, LA 70634
(337) 463-9052
www.amerisafe.com

**Independent Accountants**
Ernst & Young LLP

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Paper from responsible sources
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FSC www.fsc.org

**Directors**

Jared A. Morris (1)(2)(3)(4)

Michael J. Brown (1)(2)(4)

Terri G. Fontenot (1)(3)(4)

G. Janelle Frost (4)

Philip A. Garcia (1)(2)(4)

Millard E. Morris (4)

Daniel Phillips (3)(4)

Randy Roach (2)(3)(4)

Austin P. Young, III (1)(3)(4)

(1) Audit Committee member
(2) Compensation Committee member
(3) Nominating and Corporate Governance Committee member
(4) Risk Committee member

**Annual Meeting**
The Annual Meeting will be held on June 9, 2017 at 9:00 a.m. at AMERISAFE's corporate headquarters. A proxy statement will be sent to shareholders on or about May 2, 2017.

**Registrar and Transfer Agent**
American Stock Transfer & Trust Company
59 Maiden Lane
New York, NY 10038
(800) 937-5449