2016

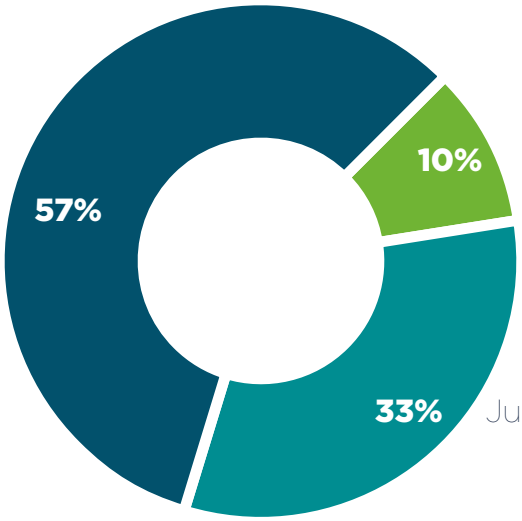
Annual **Report**

ICI MUTUAL

ICI MUTUAL AT A GLANCE

Data as of December 31, 2016

ICI Mutual insureds represent 60%+
of Industry Assets Under Management



$924 Million
Cumulative Claims Paid

Financial Strength Rating
A M BEST
A Excellent

For the latest rating, access www.ambest.com

Message

from the President and the Chairman

Lawrence H. Kaplan, Chairman

Daniel T. Steiner, President

Reduced year-over-year claims frequency helped temper the impact of claims severity on ICI Mutual's financial results for 2016. *The Company's underwriting profit, when combined with investment results, resulted in net income, after dividends and income taxes, of $6.3 million. The Company's year-end equity reached $255 million. In December, the Company's Board of Directors declared a $6 million dividend to be paid to ICI Mutual's Participating Members as a credit against their 2017 renewal premiums. With this dividend, dividends declared over the life of the Company total approximately $88 million. Management's detailed discussion of 2016's operating results is provided on pages 8-9.*

We are pleased to report that 2016 marked another successful year of operations for ICI Mutual. The Company achieved its twelfth consecutive annual underwriting profit, equity reached an all-time high, the Board of Directors declared an increased year-end dividend payable to Participating Members, and A.M. Best reaffirmed the Company's "A" (Excellent) rating. Meanwhile, ICI Mutual continued to honor those long-standing commitments that remain core to its mission: to charge risk-related premiums for its insurance products, to seek to ensure relative stability of premium rates and policy terms through all insurance market cycles, and to craft appropriate and sustainable insurance solutions to address existing, new, and emerging risks faced by funds, fund directors and officers, and fund advisers. The Company also continued to honor another core, equally long-standing commitment: to address and resolve insurance claims promptly, even-handedly, and fairly. Indeed, as the year drew to a close, ICI Mutual stood poised to cross the one billion dollar threshold in total claims paid over the Company's history.

Claims severity in 2016 was again driven in significant part by developments in litigation brought under section 36(b) of the Investment Company Act of 1940—i.e., lawsuits initiated by the plaintiffs' bar that challenge as "excessive" fees charged to mutual funds by their investment advisers. On a fund industry-wide basis, four new lawsuits of this type were filed in 2016. This brings the total number of section 36(b) lawsuits filed since January 2013 to twenty-two and the total number of section 36(b) lawsuits filed since the U.S. Supreme Court's landmark 2010 decision in *Jones v. Harris* to twenty-seven.

ICI Mutual has paid many tens of millions of dollars in recent years—and has reserved tens of millions more—to fund thorough and aggressive defense efforts by advisers named as defendants in post-*Jones* section 36(b) lawsuits, and to ensure that fund independent directors (who may be called as non-party witnesses in these lawsuits) have expert outside counsel to represent them.

Although it remains too early to predict with certainty when and how all of the fund industry's pending section 36(b) lawsuits will be resolved, or when the post-*Jones* wave of new section 36(b) filings by the plaintiffs' bar may ultimately conclude, several positive developments in the courts since mid-2016 provide grounds for cautious optimism in this regard. Meanwhile, ICI Mutual has continued to play an active role in helping insureds to understand and stay current on developments in this important risk area. ICI Mutual's 2016 study, entitled *Section 36(b) Litigation Since Jones v. Harris: An Overview for Investment Advisers and Fund Independent Directors*, discusses how and why, notwithstanding the Supreme Court's decision in *Jones*, section 36(b) has reemerged in recent years as a significant litigation threat for the fund industry. The study is available on ICI Mutual's website (**www.icimutual.com**), as is ICI Mutual's on-line *Litigation Notebook*, which provides real-time information on developments in all section 36(b) lawsuits and other notable litigation now pending in the industry. (For a full list of ICI Mutual's Risk Management Studies, see page 15.)

ICI Mutual has also played an active role in assisting its insureds to manage other types of liability risks faced by fund groups in today's environment.

Particularly notable in this regard was ICI Mutual's development in 2016 of a new cyber-related endorsement to its Directors and Officers/Errors and Omissions (D&O/E&O) Liability Policy and Independent Directors Liability (IDL) Policy. The new endorsement—which is designed to specify the scope of coverage available under these policies for losses that may be incurred in connection with "network security events"—serves as a complement to the "shareholder data breach event" endorsement introduced by the Company in 2015. For more information on ICI Mutual's efforts in the cyber risk area, please see pages 6-7.

In 2017, ICI Mutual will be celebrating its 30th anniversary. Over the past three decades, the ICI Mutual model—that of an insurer created, owned, and operated by the fund industry itself—has proven its value. Now, as in the past, the Company provides fund industry insureds with an expert and reliable alternative to the uncertainties and historical cyclicality of the commercial insurance market. It is a testament to the wisdom of the Company's founders, to the tireless efforts of the Company's Boards of Directors past and present, and to the support and loyalty of the Company's many long-time insureds, that ICI Mutual has become, and remains, such an established and dominant feature in the mutual fund insurance landscape. On behalf of ICI Mutual's directors and professional staff, we look forward to the contributions that the Company will make in 2017 and beyond to meet the specialized insurance and risk management needs of mutual funds, their directors and officers, and their investment advisers.

Daniel T. Steiner
President

Lawrence H. Kaplan
Chairman of the Board of Directors

Managing Cyber Risks

Steering Towards Certainty

Today, the term "cyber" connotes a range of meanings relating to computers and information technology. But the term can be traced back to a word coined in the late 1940s, a word that was itself derived from the Greek *kybernetes* ("steersman," or metaphorically, "guide"). For fund industry insureds, the etymology is apt. This is because certain events in recent years—including a number of highly publicized cyber incidents outside the fund industry—have fueled increased attention by regulators, fund boards, and fund advisers to cyber risks within the fund industry, and to the programs in place at fund groups to manage these risks. Not surprisingly, the events and the attention have led many fund groups to seek detailed and reliable guidance as to how their D&O/E&O liability insurance policies may respond to key cyber risks.

Commercial market D&O/E&O policies available to fund groups have typically been silent in this regard, leaving uncertainty among fund groups as to the scope of D&O/E&O coverage that may be available to their funds, fund directors and officers, and fund advisers for such risks. As the leading provider of D&O/E&O insurance to the fund industry, ICI Mutual takes the view that silence is not an answer. To the contrary, ICI Mutual has long believed that insurance policy language should and must evolve to address and to respond to new and emerging fund industry risks.

In accordance with this belief, ICI Mutual has developed and introduced detailed new policy endorsements that address two of the fund industry's

key cyber risks. The Company's Network Security Event Endorsement, completed in 2016 and introduced prior to publication of this report, is designed to specify the scope of coverage available under the ICI Mutual D&O/E&O Policy (and IDL Policy) for losses that may be incurred by insureds in connection with network security incidents that result in disruption to, or interference with, the ability of insured entities to conduct advisory, shareholder servicing, or other day-to-day investment management operations. The new endorsement complements the Company's Shareholder Data Breach Event Endorsement, introduced in 2015, which is designed to specify the scope of coverage available under the ICI Mutual D&O/E&O Policy (and IDL Policy) for losses that may be incurred by insureds in connection with data breaches involving the unauthorized disclosure, acquisition, or dissemination of confidential information regarding fund shareholders.

Taken together, this pair of endorsements reflects the leading role played by ICI Mutual in addressing the scope of coverage for cyber-related events under mutual fund D&O/E&O policies. The two endorsements provide certainty and guidance to fund groups with regard to the scope of D&O/E&O (and IDL) coverage available for these key cyber risks, reduce the potential for misunderstandings or conflicting expectations as to coverage between insurer and insureds, and assist fund groups in evaluating whether to buttress their cyber risk management programs through the purchase of stand-alone "specialty" cyber insurance products in the commercial market.

More information on these endorsements, including detailed FAQs that provide an overview of each endorsement and a general discussion of the coverage available thereunder, can be found on the Company's website (**www.icimutual.com**).

Financial Overview

ICI Mutual recorded an underwriting profit of $3.4 million in 2016, marking the Company's twelfth consecutive year with an underwriting profit. Income before policyholder dividends and income taxes totaled $14.5 million. A.M. Best also reaffirmed the Company's "A" (Excellent) rating in recognition of its solid financial position.

Gross premiums written amounted to $85.9 million for the year ended 2016, a 1% decrease from 2015. Net premiums earned increased approximately 3.5% to $31.4 million, primarily as a result of the current year benefit from the prior year reduction in the rate the Company pays for certain reinsurance it purchases. The Company's overall retention rate remained high, with over 95% of insureds renewing their coverage.

The Company relies on its comprehensive underwriting approach to charge premiums that are reflective of the underlying risks presented by its insureds. In 2016, as in 2015, most insureds renewed their D&O/E&O coverage at expiring rates and coverage terms. Rates on IDL and Fidelity Bond coverages declined slightly overall, reflecting continued positive underwriting results on these products.

Net loss and loss adjustment expenses equaled $15.5 million for the year, a decrease from the $18.1 million experienced in 2015. The Company's loss ratio for 2016 (net loss and loss adjustment expenses divided by net premiums earned) was 49%. The Company's combined ratio was 89% before dividends to Participating Members, and 107% after dividends to Participating Members.

Net investment income equaled $8.6 million in 2016, slightly higher than the 2015 amount, primarily due to slightly higher interest on debt securities. 2016 investment activities also produced $2.1 million of net realized gains on securities as compared to $0.2 million in 2015.

A policyholder dividend of $6.0 million was declared by the Company's Board of Directors in December 2016 and is payable to Participating Members that renew eligible participating policies in 2017. This dividend is $1.0 million higher than in recent years and reflects the strength of the Company's equity position. Net income, after dividends and income taxes, was $6.3 million in 2016 (as compared to $3.8 million in 2015).

Total equity increased by $5.9 million to $255.0 million, as a result of the $6.3 million in net income and a $1.4 million increase in net unrealized appreciation on investments, partially offset by distributions of capital of $1.3 million and net actuarial unrealized losses on benefit plans of $0.5 million. This level of equity is an all-time high for ICI Mutual and exceeds the amount of equity required to support the Company's business, and to maintain the Company's A.M. Best "A" (Excellent) rating.

Aligned Interests

A nationwide liability insurance crisis in the mid-1980s left the mutual fund industry at risk. The industry had a need for comprehensive, specialized insurance coverage at risk-related prices and with fair claims handling. The commercial insurance market was unwilling or unable to fulfill this need. In 1987, fund industry leaders, working with the Investment Company Institute, the industry's trade association, formed ICI Mutual.

Now, three decades on, ICI Mutual continues to be an established, trusted presence and the top provider of professional liability insurance for the mutual fund industry.

As an insurance company owned and operated by and for the fund industry, ICI Mutual's interests are fully aligned with the interests of its insureds. Towards this end, ICI Mutual seeks to ensure relative stability of premium rates and policy terms through all insurance market cycles, to craft appropriate and sustainable insurance coverages to address existing, new, and emerging risks faced by fund groups, to address and resolve insurance claims promptly, even-handedly, and fairly, and to provide the fund industry with risk management services and assistance.

Fund industry executives and fund independent directors comprise the Company's Board of Directors. Each brings demonstrated leadership and expertise to help guide development by the Company's professional staff of products and services that meet the specialized needs of funds, fund directors and officers, and fund advisers. The involvement and oversight of the Board ensures that ICI Mutual is operated to serve and benefit the Company's member insureds.

Knowledge & Expertise

ICI Mutual is the industry's dedicated insurer. As such, the Company is in a unique position to understand the particular risks associated with the fund industry and to appreciate the perspectives of its insureds. ICI Mutual's professional staff has significant expertise and experience with mutual fund and investment adviser issues. The staff's interaction with the Company's Board of Directors and other leading industry professionals provides the staff with invaluable insights that inform the development of appropriate insurance coverages and risk management services. Few, if any, commercial insurers can match this specialized knowledge and expertise.

Detailed descriptions of ICI Mutual's core coverages may be found online at: ***www.icimutual.com/coverages****.*

ICI Mutual also has the ability to craft custom coverages in response to particular needs of insureds.

Coverages

ICI Mutual's core insurance products are designed to address the specialized insurance needs of funds, fund directors and officers, and fund advisers.

The Directors and Officers/Errors and Omissions Liability Policy generally protects individual directors and officers and insured companies against the financial impact of judgments, settlements, and legal defense costs incurred in shareholder lawsuits and regulatory investigations, and the costs of correcting certain operational errors.

The Investment Company Blanket (Fidelity) Bond provides insureds protection against specified losses caused by employee theft, third-party fraud, and certain other types of events. The Bond meets the basic fidelity bonding requirement for registered investment companies under the Investment Company Act of 1940.

The Independent Directors Liability Policy provides comprehensive coverage tailored to address the concerns, and distinct insurance needs, of fund independent directors.

Services

Underwriting

ICI Mutual's underwriters focus solely on the mutual fund industry and are attuned to its risks and challenges. Each insured is assigned an underwriter who works closely with the insured's representatives to develop a thorough understanding of the insured's business, processes, and procedures. This enables ICI Mutual to structure coverage and offer limits that appropriately reflect each insured's risk profile.

Claims Handling

ICI Mutual is highly regarded for its balanced, prompt, and knowledgeable claims handling. Each submitted claim undergoes a careful analysis of the facts, circumstances, and applicable coverage language. ICI Mutual representatives work closely with affected insureds throughout the claims process.

Risk Management

ICI Mutual's expertise and knowledge of the fund industry are unrivaled among professional liability insurers. The Company is committed to providing practical guidance to help insureds to identify and manage existing, new, and emerging risks. ICI Mutual's Risk Management Studies, listed on page 15, provide in-depth research and analysis on the fund industry's liability exposures and other topics of interest, and are designed to help insureds improve their organizations' risk profiles. *Claims Trends*, *Perspectives*, and the online *Litigation Notebook* address existing, new, and evolving areas of regulatory and litigation exposure and their implications for insurance claims and coverage. These publications and other materials can be accessed on the Company's website (**www.icimutual.com**).

ICI Mutual sponsors an annual Risk Management Conference, at which industry experts and guest speakers present information on an array of risk management topics and facilitate discussion among risk managers, legal personnel, and other representatives of the Company's insureds. In addition, ICI Mutual's professional staff regularly meets with insureds and their boards of directors to discuss underwriting, claims, and notable risk issues. The staff also responds directly to insureds' individual insurance questions and requests throughout the year.

A History

of our Risk Management Publications

2001 Managing Risk in Processing Corporate Actions

2002 Investment Management Compliance Risks

Understanding Bond Fund Risks

2003 Computer Security Lite

2004 Managing Defense Costs

2005 Fair Valuation Study—An Introduction (co-authored with ICI and IDC)

2006 Fair Valuation Study—The Role of the Board (co-authored with ICI and IDC)

The Two Faces of Identity Theft

Independent Director Litigation Risk

2007 Preparing for a Pandemic

What to Expect in the Claims Process

2008 Managing Risks in Trade Allocation

Outsourcing by Advisers and Affiliated Service Providers

2009 Mutual Fund D&O/E&O Insurance: A Guide for Insureds

2010 Mutual Fund Prospectus Liability: Understanding and Managing the Risk

ERISA Liability: A Guide for Investment Advisers and Their Affiliates

2011 Managing Operational Risks of Private Accounts: A Guide for Investment Advisers

2012 Risk Management in the Digital Age: Mobile Computing, Cloud Computing and Social Media

2013 Independent Directors Liability (IDL) Insurance: A Guide for Fund Independent Directors and Their Insurance Advisers

2014 Trends in Fee Litigation: Actions Brought under Section 36(b) and ERISA

2015 Shareholder Authentication: Managing the Risk of Fraudulent Transactions

2016 Section 36(b) Litigation Since *Jones v. Harris*: An Overview for Investment Advisers and Fund Independent Directors

Financial Stability

ICI Mutual's financial success can be attributed to its philosophy of conservative management in every aspect of its business. From underwriting to portfolio management to administration, the Company strives to use resources wisely, to invest prudently, and to manage risk carefully. Through these practices, ICI Mutual has developed and maintained the enduring financial strength and stability necessary to meet the needs of its insureds.

Over the past three decades, ICI Mutual has stood behind its insureds through significant financial market and fund industry-wide events, and has prospered through various economic and insurance cycles. The Company utilizes its strong network of reinsurance partners to provide the full limits of coverage required by insureds and to promote relative stability of premium rates and coverage terms.

As an integral part of the fund industry, ICI Mutual offers funds, fund directors and officers, and advisers the confidence that tailored insurance coverage will be available to them at risk-related prices.

Board of Directors

Lawrence H. Kaplan, Chairman (E, N)
Lord, Abbett & Co. LLC

Barry Fink, Vice Chairman (E, I, N)
American Century Funds

James H. Bodurtha (U)
BlackRock Mutual Funds

Kevin M. Carome (E, U)
Invesco Ltd.

Joseph A. Carrier*
Legg Mason, Inc.

Mark E. Carver (I)
UBS Global Asset Management (Americas), Inc.

Stefanie Chang Yu (U)
Morgan Stanley

Michael J. Downer*
Capital Research & Management Company

Kenneth C. Eich*
Davis Selected Advisers, L.P.

Ronald H. Fielding (I, N)
Saturna Investment Trust

Keith R. Fox CFA (R)
Deutsche Funds

Maureen A. Gemma*
Eaton Vance Management

Robert F. Gunia (I)
Prudential Insurance Mutual Funds

William V. Healey (E, A, N)
Allianz Global Investors U.S. Holdings LLC

Diana P. Herrmann (E, A, R)
Aquila Investment Management LLC

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Waddell & Reed Financial, Inc.

Michael L. Kimmel (R)
Vanguard

Les M. Kratter*
Franklin Resources, Inc.

Paul S. Kulig (A)
Kulig Law Offices P.C.

James J. McMonagle (I, U)
Selected Funds

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T. Rowe Price Associates, Inc.

David M. Pfeffer (E, A)
OppenheimerFunds, Inc.

Mark N. Polebaum*
MFS Investment Management

Brian K. Reid (A, R)
Investment Company Institute

Daniel T. Steiner (E, I, R)
ICI Mutual Insurance Company, RRG

Paul Schott Stevens (E, U)
Investment Company Institute

Alison Taunton-Rigby (R)
Columbia Funds

William F. Truscott, Ex-Officio
Columbia Threadneedle Investments

Board Committees:
Executive (E), Audit (A), Investment (I), Underwriting (U), Risk Management (R), Nominating (N)

* On Sabbatical

Les M. Kratter / Mark E. Carver / James H. Bodurtha
Seated: William V. Healey

Wendy J. Hills / Ronald H. Fielding / Michael L. Kimmel / Michael J. Downer

Brian K. Reid / David M. Pfeffer / James J. McMonagle
Seated: Alison Taunton-Rigby

David Oestreicher / Barry Fink / Daniel T. Steiner / Mark N. Polebaum

Kenneth C. Eich / Robert F. Gunia
Seated: Paul S. Kulig

Diana P. Herrmann / Joseph A. Carrier / Lawrence H. Kaplan / Keith R. Fox

Not pictured / Kevin M. Carome, Stefanie Chang Yu, Paul Schott Stevens, Maureen A. Gemma

Officers and Staff

Officers

Daniel T. Steiner
President

John T. Mulligan
Senior Vice President and Chief Underwriting Officer

Julia S. Ulstrup
Vice President and General Counsel

Charles G. Preseau
Vice President and Chief Financial Officer

Paul S. Kulig
Secretary-Treasurer

Rodolfo C. Sinon
Assistant Secretary

Staff

William Y. Akishev
Director, Information Technology

Virginia S. Barry
Assistant Counsel

Meloney G. Burrell
Senior Accountant

Catherine M. Dalton
Underwriting Manager

Briana R. Davis
Lead Broker

John D. Driggers
Director, Data Analytics

Michael A. Heiser
Controller

Lizabeth S. Hurst
Corporate Communications

Carolyn B. Julia
Executive Assistant

Swenitha Nalli
Underwriter

Colin K. Rouse
Assistant Controller

Margaret M. Sullivan
Director, Underwriting Department

David U. Thomas
Senior Associate Counsel and Director, Cyber Risk Issues

Krystal S. Thomas
Policy Coordinator

Jinhua Zhang
Director, Corporate Reporting

Selected Financial Highlights

Dollar amounts in thousands	For the years ended 2016	2015
Gross Premiums Written	$ 85,932	$ 86,775
Net Premiums Earned	$ 31,432	$ 30,381
Net Investment Income	$ 8,630	$ 8,460
Net Loss and Loss Adjustment Expenses	$ 15,499	$ 18,076
Net Underwriting Profit	$ 3,429	$ 743
Dividends to Policyholders	$ 5,769	$ 4,998
Net Income	$ 6,271	$ 3,792
Total Equity	$ 255,007	$ 249,095
Combined Ratio		
Loss and General Expense Ratio	89%	98%
Policyholder Dividends	18%	16%
Combined Ratio including Policyholder Dividends	107%	114%

ICI Mutual Insurance Company,
A Risk Retention Group

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Washington, DC 20005

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2016 CONSOLIDATED FINANCIAL STATEMENTS

ICI MUTUAL Insurance Company

A Risk Retention Group

ICI Mutual Insurance Company, a Risk Retention Group
Index
December 31, 2016 and 2015

Report of Independent Auditors

To the Board of Directors of
ICI Mutual Insurance Company, a Risk Retention Group:

We have audited the accompanying consolidated financial statements of ICI Mutual Insurance Company, a Risk Retention Group, and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, changes in equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ICI Mutual Insurance Company, a Risk Retention Group, and its subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Boston, Massachusetts
April 21, 2017

PricewaterhouseCoopers LLP, 101 Seaport Boulevard, Boston, MA 02210
T: 617) 530-5000, F: (617) 530 5001, www.pwc.com/us

ICI Mutual Insurance Company, a Risk Retention Group
Consolidated Balance Sheets
December 31, 2016 and 2015 (in 000's)

	2016	2015
Assets		
Cash and cash equivalents	$ 13,469	$ 7,674
Investments		
Debt securities, at fair value (amortized cost of $274,039 and $265,112, respectively)	274,265	267,298
Equity securities, at fair value (cost of $28,851 and $28,731, respectively)	50,456	46,237
Money market funds	1,575	4,002
Total cash and investments	339,765	325,211
Prepaid expenses	519	396
Prepaid federal and state income taxes	1,401	1,722
Deferred policy acquisition costs	2,639	2,766
Premiums receivable	7,595	7,641
Interest receivable	1,993	1,947
Reinsurance recoverables	188,378	89,314
Prepaid reinsurance premiums	36,603	37,420
Other amounts receivable under reinsurance contracts	2,638	2,125
Furniture and fixtures, net	1,181	391
Deferred income taxes	1,289	1,254
Total assets	$ 584,001	$ 470,187
Liabilities and Equity		
Reserve for losses and loss adjustment expenses	$ 252,934	$ 147,116
Unearned premiums	49,984	51,584
Reinsurance premiums payable	6,562	7,185
Premium taxes payable	668	659
Accounts payable and other liabilities	3,357	2,552
Benefits payable	9,438	6,996
Dividends payable	6,051	5,000
Total liabilities	328,994	221,092
Contingencies (Note 10)		
Contributed surplus	18,200	19,491
Accumulated other comprehensive income	11,286	10,354
Accumulated earnings	225,521	219,250
Total equity	255,007	249,095
Total liabilities and equity	$ 584,001	$ 470,187

The accompanying notes are an integral part of these consolidated financial statements.

ICI Mutual Insurance Company, a Risk Retention Group
Consolidated Statements of Operations
Years Ended December 31, 2016 and 2015 (in 000's)

	2016	2015
Revenues		
Net premiums written	$ 30,649	$ 30,987
Change in net unearned premiums	783	(606)
Net premiums earned	31,432	30,381
Net investment income	8,630	8,460
Net realized gains on securities	2,141	178
Other income	324	320
Total revenues	42,527	39,339
Expenses		
Net loss and loss adjustment expenses	15,499	18,076
Underwriting, general and administrative expenses	12,504	11,562
Total expenses	28,003	29,638
Income before dividends to policyholders and provision for income taxes	14,524	9,701
Dividends to policyholders	5,769	4,998
Income before provision for income taxes	8,755	4,703
Provision for income taxes	2,484	911
Net income	6,271	3,792
Other Comprehensive Income		
Net unrealized gains (losses) on securities:		
Net unrealized gains (losses) arising during the period, net of tax	2,782	(4,226)
Reclassification adjustment for gains realized in net income, net of tax	(1,392)	(116)
Net actuarial unrealized (losses) gains on employee benefit plans		
Net unrealized (losses) gains arising during the period, net of tax	(876)	244
Reclassification adjustment for losses realized in net income, net of tax	418	265
Other comprehensive income (loss), net of tax, net of reclassification adjustments	932	(3,833)
Comprehensive income (loss)	$ 7,203	$ (41)
Net realized gains (losses) on securities		
Other-than-temporary impairment losses	$ -	$ (323)
Other net realized investment gains	2,141	501
Net realized gains on securities	$ 2,141	$ 178

The accompanying notes are an integral part of these consolidated financial statements.

ICI Mutual Insurance Company, a Risk Retention Group
Consolidated Statements of Changes in Equity
Years Ended December 31, 2016 and 2015 (in 000's)

	Contributed Surplus	Accumulated Other Comprehensive Income	Accumulated Earnings	Total Equity
Balance at December 31, 2014	$ 19,933	$ 14,187	$ 215,458	$ 249,578
Net income	-	-	3,792	3,792
Other comprehensive loss, net of tax, net of reclassification adjustments	-	(3,833)	-	(3,833)
Distributions of contributed surplus	(442)	-	-	(442)
Balance at December 31, 2015	$ 19,491	$ 10,354	$ 219,250	$ 249,095
Net income	-	-	6,271	6,271
Other comprehensive income, net of tax, net of reclassification adjustments	-	932	-	932
Distributions of contributed surplus	(1,291)	-	-	(1,291)
Balance at December 31, 2016	$ 18,200	$ 11,286	$ 225,521	$ 255,007

The accompanying notes are an integral part of these consolidated financial statements.

ICI Mutual Insurance Company, a Risk Retention Group
Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015 (in 000's)

	2016	2015
Cash Flows from Operating Activities		
Net income	$ 6,271	$ 3,792
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of premium	1,142	1,396
Deferred income taxes	(537)	(627)
Depreciation and amortization	171	111
Net realized gains on securities	(2,141)	(178)
Changes in operating assets and liabilities		
Prepaid expenses	(123)	51
Prepaid federal and state income taxes	321	(1,022)
Deferred policy acquisition costs	127	(85)
Premiums receivable	46	(901)
Interest receivable	(46)	1
Reinsurance recoverables	(99,064)	(481)
Prepaid reinsurance premiums	817	2,111
Other amounts receivable under reinsurance contracts	(513)	(203)
Reserve for losses and loss adjustment expenses	105,818	7,401
Unearned premiums	(1,600)	(1,505)
Reinsurance premiums payable	(623)	2,159
Premium taxes payable	9	(29)
Accounts payable and other liabilities	805	(1,818)
Benefits payable	1,736	1,583
Dividends payable	1,051	-
Net cash provided by operating activities	13,667	11,756
Cash Flows from Investing Activities		
Proceeds from sales of investments available for sale	79,013	38,349
Proceeds from maturities of investments available for sale	16,084	23,033
Purchases of furniture and fixtures	(961)	(177)
Payments for purchases of investments available for sale	(103,144)	(77,748)
Change in money market funds	2,427	(1,974)
Net cash used in investing activities	(6,581)	(18,517)
Cash Flows from Financing Activities		
Distributions of contributed surplus	(1,291)	(442)
Net cash used in financing activities	(1,291)	(442)
Net increase (decrease) in cash and cash equivalents	5,795	(7,203)
Cash and cash equivalents at beginning of year	7,674	14,877
Cash and cash equivalents at end of year	$ 13,469	$ 7,674

The accompanying notes are an integral part of these consolidated financial statements.

1. Significant Accounting Policies

A. Basis of Presentation

ICI Mutual Insurance Company ("Mutual") was incorporated on August 26, 1987 as an association captive insurance company domiciled in the State of Vermont and commenced accepting insurance risks on March 1, 1988. Mutual, together with its wholly owned subsidiaries described below, are collectively referred to as "the Company." The Company primarily writes fidelity bonds and directors and officers and errors and omissions insurance for Members and Associate Members of the Investment Company Institute ("ICI") and their affiliated companies on a claims-made basis. These Members primarily provide services to the regulated investment company industry. On January 1, 2009, the Company converted from a Vermont association captive insurance company to a Vermont risk retention group ("RRG"), under the Federal Liability Risk Retention Act.

ICI Mutual Insurance Brokers, Inc. ("Brokers") is a wholly-owned subsidiary of Mutual. Brokers provides insurance brokerage services to insureds of Mutual.

ICIM Services, Inc. ("Services") is a wholly-owned subsidiary of Mutual. Services provides the underwriting function for Mutual under a written agreement. This agreement provides that Mutual will reimburse Services for all reasonable expenses associated with performing the underwriting function plus a 5% fee.

The Consolidated Financial Statements include the consolidated accounts of Mutual, Brokers, and Services, with all significant intercompany amounts eliminated in consolidation. The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), which are also in accordance with practices prescribed for RRGs by the Vermont Department of Financial Regulation ("VDFR").

GAAP requires management to make certain estimates and assumptions in the preparation of the financial statements. Actual results could differ from those estimates and assumptions.

B. Investments

The Company's debt and equity securities are classified as available-for-sale and reported at fair value as defined in Note 3. Short-term securities and money market funds are stated at amortized cost which approximates fair value.

For securities where the fair value is less than the amortized cost basis for debt securities and cost for equity securities, the Company must determine whether or not an other-than-temporary impairment has occurred. See Note 2 for a detailed explanation of the procedures utilized by the Company in calculating other-than-temporary impairment losses.

All debt investment transactions have credit exposure to the extent that a counterparty may default on an obligation to the Company. Credit risk is a consequence of carrying trading and investing positions. To manage credit risk, the Company focuses on higher quality fixed income securities, limits its exposure in any one investment, and monitors the portfolio quality, taking into account credit ratings assigned by recognized statistical rating organizations.

Interest income on debt securities is recorded on the accrual basis. Dividend income on equity securities is recorded on the ex-dividend date. Unrealized gains and losses from changes in the fair value of the Company's holdings, net of applicable federal income taxes, are reported as a separate component of equity. Realized gains and losses on the sale of the Company's securities are determined based on specific identification and are included as a separate component of operations.

C. Premiums

Net earned premiums have been computed on a semimonthly pro rata basis over the term of the underlying insurance policies with the exception of premiums on "tail" policies which are earned when written. Ceded reinsurance premiums are charged against premiums earned on the same basis. Unearned premiums represent the portion of the gross premium written which is applicable to the unexpired terms of policies in force. Prepaid reinsurance premiums represent the portion of unearned premiums ceded to reinsurers. Commissions on reinsurance premiums ceded are earned when due and are reflected as a reduction to ceded reinsurance premiums.

D. Deferred Policy Acquisition Costs

Acquisition costs consist primarily of underwriter compensation, fees and premium taxes associated with the successful acquisition and underwriting of new and renewal insurance business. These acquisition costs are being amortized over the expected policy period of related policies in proportion to the ratio of the annual earned premiums to the total premium revenue anticipated. Anticipated premium revenue was estimated using the same assumptions as those used for computing the reserve for losses and loss adjustment expenses. Expected losses, related expenses, and investment income are considered in measuring the recoverability of this asset.

E. Reserve for Losses and Loss Adjustment Expenses

The reserve for losses and loss adjustment expenses is based on management's individual case estimates of the ultimate cost of reported losses and estimates for incurred but not reported losses ("IBNR") determined in consultation with independent professional actuaries. The method of making IBNR estimates and for establishing the resulting reserves is based on actuarial assumptions as to future contingencies and as to the applicability of other data sources which the Company's independent actuaries deem to be reasonable and appropriate in the circumstances. However, given the nature of the Company's business, the ultimate amount of losses and loss adjustment expenses may vary significantly from the estimated amounts. Due to this uncertainty, the appropriateness of the current level of such estimated liability can only be determined with the passage of time. Any adjustments to these estimates, which could be significant, will be reflected in income in the period in which the estimates are changed or payments are made.

F. Provision for Income Taxes

The Company accounts for income taxes in accordance with Accounting Standards Codification (ASC) 740, "Accounting for Income Taxes." The codification requires that deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Valuation allowances are established when necessary to reduce deferred tax assets to an amount that, in the opinion of management, is more likely than not to be realized. No valuation allowance was deemed necessary at December 31, 2016 and 2015.

The guidance on accounting for uncertainty in income taxes describes how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. This guidance requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's financial statements to determine whether the tax positions are "more-likely-than-not" to be sustained by the applicable tax authority. Tax positions not deemed to meet the "more-likely-than-not" threshold would be recorded as a tax benefit or expense in the current year. If applicable, interest and penalties are classified as other interest expense and are included in underwriting, general and administrative expenses in the Consolidated Statement of Operations. There were no interest or penalties incurred in 2016 or 2015.

G. Reinsurance

The Company utilizes both treaty and facultative reinsurance to provide protection for claims in excess of the Company's normal retention limits ($3 million). Under the Company's annual treaty reinsurance program (which runs from April 1 to March 31), limits up to $15 million, less the Company's normal retention, are automatically assumed by the treaty participants. For the treaty

years ending March 31, 2012 through 2016, the Company retains an additional $2.5 million in excess of the first $15 million recoverable.

Maximum recoveries under the reinsurance treaties are capped at $100 million for the treaty years ending March 31, 2005 and subsequent years. A treaty year remains open until all noticed claims are paid or otherwise closed. As of December 31, 2016, ceded losses under all of the open treaty years were well below the respective treaty caps. Future adverse development on any of the treaty years could result in the respective caps for such treaty years being exceeded and such excess amounts, if any, would have to be paid out of the Company's earnings and surplus. While management believes that the Company is adequately capitalized to meet its ongoing claims obligations, there can be no assurance that in the event a cap on a reinsurance treaty is exceeded, the Company's resources would be sufficient to meet all of its claims liabilities.

For those insureds that require limits in excess of $15 million on Fidelity Bonds, the Company issues additional limits of up to $5 million. For limits above $20 million on Fidelity Bonds or $15 million on D&O/E&O Policies, the Company purchases facultative (case by case) reinsurance from various other reinsurers. There is no cap on facultative reinsurance except for the actual limits reinsured. In addition, the Company can elect to retain additional limits in the excess layers, generally not more than $5 million per policy.

Although reinsurance agreements contractually obligate the Company's reinsurers to reimburse it for their proportionate shares of losses, they do not discharge the primary responsibility of the Company. Thus, in the event a reinsurer did not meet its obligation under its agreement with the Company, the Company would be responsible for such amount.

The Company monitors the credit worthiness of its reinsurers and only conducts business with reinsurers that are highly rated by reputable rating agencies. As of December 31, 2016, the Company had no reason to believe that any amounts currently due from reinsurers will prove uncollectible. Accordingly, the Company has not made a separate provision for any amounts that might ultimately prove to be uncollectible from reinsurers in the future.

The 2004 and 2005 Treaties contain a profit-sharing feature by which the Company may recover up to 20% of the profits recognized by reinsurers on those Treaties after they have recovered any losses they may have incurred on prior treaties with the Company. The amount of the profit commission can be adjusted up or down depending on the results of the underlying treaties until such time as all of the claims for those particular treaty years are closed. The Company did not recognize any profit commission as a result of these features in 2016 and 2015.

H. Cash and Liquidity

The Company considers all cash on hand and deposits in banks as cash and cash equivalents for purposes of the Consolidated Statement of Cash Flows. As of December 31, 2016 and 2015, the Company held $0 in cash equivalents. The Company maintains short-term investments in amounts considered sufficient to pay claims and other operating expenses.

As of May 15, 2014, the Company is a member of the Federal Home Loan Bank of Boston ("FHLB"). It is part of the Company's strategy to utilize its membership in the FHLB as a backup liquidity facility. The maximum amount the Company borrows fluctuates based on the amount of eligible collateral the Company holds at any given time, as well as on the amount of its investment in FHLB capital stock.

I. Furniture and Fixtures

Furniture and fixtures are stated at cost net of accumulated depreciation. The costs of additions and improvements, including leasehold improvements, are capitalized while expenditures for maintenance, repairs, and minor renewals are charged to expense as incurred. When assets are retired or otherwise disposed of, the assets and related accumulated depreciation and amortization are eliminated from the accounts and any resulting gain or loss is reflected in income. Depreciation of leasehold improvements is offset by the amortization of a rent incentive allowance. Provisions for depreciation are computed using the straight-line method based on useful lives ranging from three to twelve years. Depreciation expense was $171 and $111 for 2016 and 2015, respectively. Accumulated depreciation totaled $653 and $1,044 at December 31, 2016 and 2015, respectively.

J. Recent Accounting Pronouncements

Recently Issued Accounting Standards Not Yet Adopted

In May 2015, the Financial Accounting Standards Board ("FASB") issued final guidance to enhance disclosure requirements for short-duration insurance contracts. The disclosures are aimed at providing more transparent information about an insurance entity's initial claim estimates and subsequent adjustments to those estimates, methodologies and judgments in estimating claims, and the timing, frequency and severity of claims. The impact of adoption is limited to increased disclosures about short-duration insurance liabilities. For nonpublic entities, the amendments are effective for annual periods beginning after December 15, 2016. Early adoption is permitted. The Company is evaluating the effects of this new guidance on its financial statements disclosures, and plans to adopt the new disclosures, as required, in its 2017 annual financial statements.

K. Reclassifications

Certain amounts in prior year's Consolidated Financial Statements and Notes thereto have been reclassified to conform to the 2016 presentation.

L. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The Company has evaluated all such events occurring subsequent to the balance sheet date herein of December 31, 2016 and through the date the financial statements were available to be issued, April 21, 2017. The effects of all subsequent events that provided additional evidence about conditions that existed at the date of the balance sheet, including estimates, if any, have been recognized in the accompanying Consolidated Balance Sheet and Consolidated Statement of Operations as of and for the twelve month period ended December 31, 2016. The Company did not recognize any subsequent events that provided evidence about conditions that arose after the balance sheet date.

2. Investments

A summary comparison of amortized cost and fair value of debt securities is as follows:

	December 31, 2016			
Debt securities available for sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government, agencies and authorities securities	$ 25,802	$ 199	$ (460)	$ 25,541
Mortgage-backed	93,234	1,080	(890)	93,424
All other corporate bonds	155,003	2,715	(2,418)	155,300
Total debt securities	$ 274,039	$ 3,994	$ (3,768)	$ 274,265

	December 31, 2015			
Debt securities available for sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government, agencies and authorities securities	$ 42,785	$ 682	$ (457)	$ 43,010
Mortgage-backed	81,876	1,060	(635)	82,301
All other corporate bonds	140,451	4,614	(3,078)	141,987
Total debt securities	$ 265,112	$ 6,356	$ (4,170)	$ 267,298

The amortized cost and fair value of debt securities at December 31, 2016, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due in one year or less	$ 5,592	$ 5,686
Due after one year through five years	48,775	49,565
Due after five years through ten years	82,182	81,304
Due after ten years	137,490	137,710
Total debt securities	$ 274,039	$ 274,265

A summary comparison of cost and fair value of equity securities is as follows:

	December 31, 2016			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Common stock	$ 28,851	$ 21,614	$ (9)	$ 50,456

	December 31, 2015			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Common stock	$ 28,731	$ 17,830	$ (324)	$ 46,237

Included in equity securities in the Consolidated Balance Sheet as of December 31, 2016 and 2015 is $344 and $225 in restricted FHLB stock, respectively.

At December 31, 2016 and 2015, the gross unrealized gains on investments in debt and equity securities of $21,831 and $19,692, respectively, have been reflected in the Consolidated Balance Sheets as a component of accumulated other comprehensive income, net of deferred taxes of $7,641 and $6,892, respectively.

There are three key investment risks that can impact the Company's investment portfolio: Liquidity Risk, Credit Risk and Market Risk.

1. **Liquidity Risk**: Market conditions create a situation where liquid assets become illiquid. To offset this risk, the Company maintains significant cash balances and holdings in U.S. Treasury securities.

2. **Credit Risk**: An issuer (or counterparty) is unable to pay their claim and defaults. To offset this risk, the Company maintains a well-diversified portfolio containing high quality fixed income securities; 98% of these securities are rated investment grade (BBB- or higher). The portfolio is also closely monitored for downgrades on corporate bonds and cash flows on structured securities.

3. **Market Risk:** Falling market value due to changing risks in a sector or interest rate risks. The Company monitors actual concentrations against both its investment guidelines and market conditions.

Unrealized loss position securities:

	December 31, 2016				
Debt securities available for sale	Fair Value	Gross Unrealized Losses < 12 months	Gross Unrealized Losses > 12 months	Total Gross Unrealized Losses	Numbers of Investment Positions
U.S. Government, agencies and authorities securities	$ 24,231	$ (460)	$ -	$ (460)	9
Mortgage-backed	45,235	(823)	(67)	(890)	56
All other corporate bonds	72,263	(2,313)	(105)	(2,418)	76
Total debt securities	$ 141,729	$ (3,596)	$ (172)	$ (3,768)	141
Equity Securities					
Stock mutual fund	3,823	-	(9)	(9)	1
Total equity securities	$ 3,823	$ -	$ (9)	$ (9)	1

	December 31, 2015				
Debt securities available for sale	Fair Value	Gross Unrealized Losses < 12 months	Gross Unrealized Losses > 12 months	Total Gross Unrealized Losses	Numbers of Investment Positions
U.S. Government, agencies and authorities securities	$ 30,665	$ (386)	$ (71)	$ (457)	13
Mortgage-backed	50,077	(541)	(94)	(635)	56
All other corporate bonds	40,947	(1,804)	(1,274)	(3,078)	56
Total debt securities	$ 121,689	$ (2,731)	$ (1,439)	$ (4,170)	125
Equity Securities					
Stock mutual fund	3,509	-	(324)	(324)	1
Total equity securities	$ 3,509	$ -	$ (324)	$ (324)	1

The Company does not have the intent to sell, nor is it more likely than not that the Company will be required to sell, securities in unrealized loss positions that are not other-than-temporarily impaired, before recovery.

Other-Than-Temporary Impairment Evaluations

The Company reviews its investment securities regularly and determines whether other-than-temporary impairments have occurred. For fixed maturities, if a decline in fair value is judged by management to be other-than-temporary, and the Company does not intend to sell the security and it is not more likely than not that it will be required to sell the security prior to recovery of the security's amortized cost, the impairment is bifurcated into (a) the amount of the total impairment related to the credit loss, and (b) the amount of the total impairment related to interest and all other factors. The amount of the other-than-temporary impairment related to the credit loss is recognized by a charge to total other-than-temporary impairment losses in the Consolidated Statements of Operations, establishing a new cost basis for the security. The amount of the other-than-temporary impairment related to all other factors is recognized in other comprehensive income in the Statement of

Operations. The factors considered by management in its regular review include, but are not limited to: the length of time and extent to which the fair value has been less than amortized cost; the financial condition and near-term prospects of the issuer; adverse changes in ratings announced by one or more rating agencies; subordinated credit support; whether the issuer of a debt security has remained current on principal and interest payments; current expected cash flows; whether the decline in fair value appears to be issuer specific or, alternatively, a reflection of general market or industry conditions (including, in the case of fixed maturities, the effect of changes in market interest rates); and the Company's intent to sell, or requirement to sell, the debt security before the anticipated recovery of its remaining amortized cost basis.

In assessing corporate debt securities for other-than-temporary impairment, the Company evaluates the ability of the issuer to meet its debt obligations and the value of the company or specific collateral securing the debt position. When evaluating whether a mortgage-backed security is other-than-temporarily impaired, the Company examines characteristics of the underlying collateral, such as delinquency and default rates, the quality of the underlying borrower, the type of collateral in the pool, the vintage year of the collateral, subordination levels within the structure of the collateral pool, the Company's intent to sell the security and whether it more likely than not will be required to sell the security before the recovery of its amortized cost basis. For all debt securities evaluated for other-than-temporary impairment (for which the Company does not have the intent to sell and it is not more likely than not that it will be required to sell the security before the recovery of its amortized cost basis), the Company considers the timing and amount of the cash flows.

The Company evaluates its mortgage-backed securities for other-than-temporary impairment using multiple inputs. Loan level defaults are estimated using appropriate modeling techniques. All bonds are modeled individually and each bond is assigned a custom default assumption based on projections for the mortgage pool, historical underlying collateral performance, and borrower characteristics.

Basic inputs to the model include data on:

- voluntary prepayments,
- defaults and,
- expected severity of losses in a liquidation scenario, taking into account loan size, geographic concentration, and loan to value percentages.

Additional variables are applied to each mortgage pool specific to structural elements such as triggers and financial guarantees to the extent that they exist. The cash flows generated by the collateral securing these securities are then determined with these default, loss severity and prepayment assumptions. These collateral cash flows are then utilized, along with consideration for the issuer's position in the overall structure, to determine the cash flows associated with the mortgage-backed security held by the Company.

To the extent that the present value of the cash flows generated by a debt security is less than the amortized cost, a credit loss exists, and an other-than-temporary impairment is recognized through earnings. It is reasonably possible that further declines in estimated fair values of such investments, or changes in assumptions or estimates of anticipated recoveries and/or cash flows, may cause further other-than-temporary impairments in the near term, which could be significant.

In addition, the Company evaluates other asset-backed securities for other-than-temporary impairment (OTTI) by examining similar characteristics referenced above for mortgage-backed securities. The Company evaluates U.S. Treasury securities and obligations of U.S. Government corporations, U.S. Government agencies, and obligations of states and political subdivisions for other-than-temporary impairment by examining similar characteristics referenced above for corporate debt securities.

The Company also evaluates equity securities for OTTI when fair value is less than cost. Equity securities may experience other-than-temporary impairment based on the prospects for full recovery in value in a reasonable period of time and the Company's ability and intent to hold the security to recovery. If a decline in fair value is judged by management to be other-than-temporary, a loss is recognized by a charge to total other-than-temporary impairment losses in the consolidated statements of operations. For the purpose of other-than-temporary impairment evaluations, preferred stocks are treated in a manner similar to debt securities.

Other-than-temporary impairments included in net realized losses on securities in the Consolidated Statements of Operations were $0 and $323 in 2016 and 2015, respectively.

Further deterioration in credit quality of the companies backing the securities, deterioration in the condition of the financial services industry, imbalance in liquidity in the marketplace, a worsening of the current economic environment, or additional declines in real estate values could affect the fair value of these securities and increase the potential that certain unrealized losses be designated as other-than-temporary in future periods and the Company may incur additional write-downs.

Proceeds from sales of debt securities and the associated gross realized gains and gross realized losses are as follows:

	Proceeds from Sales	Gross Realized Gains	Gross Realized Losses
For the year ended December 31, 2016	$ 79,013	$ 2,330	$ (189)
For the year ended December 31, 2015	$ 38,349	$ 703	$ (525)

There were no proceeds from sales of equity securities and no associated gross realized gains or gross realized losses for the years ended December 31, 2016 and 2015.

Net investment income is calculated as follows:

	2016		
Debt securities available for sale	Gross Investment Income	Investment Expenses	Net Investment Income
U.S. Government, agencies and authorities securities	$ 823	$ (46)	$ 777
Mortgage-backed	2,519	(142)	2,377
All other corporate bonds	4,750	(268)	4,482
Equity securities	1,053	(59)	994
Total	$ 9,145	$ (515)	$ 8,630

	2015		
Debt securities available for sale	Gross Investment Income	Investment Expenses	Net Investment Income
U.S. Government, agencies and authorities securities	$ 784	$ (43)	$ 741
Mortgage-backed	1,857	(102)	1,755
All other corporate bonds	5,302	(291)	5,011
Equity securities	1,008	(55)	953
Total	$ 8,951	$ (491)	$ 8,460

3. Fair Value

The valuation techniques required by the authoritative accounting guidance on fair value measurements are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market expectations. These two types of inputs create the following fair value hierarchy:

Level 1 - Quoted prices for identical instruments in active markets.

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 - Instruments where significant value drivers are unobservable.

When available, the Company utilizes quoted market prices to determine fair value and classify such items in Level 1. In some cases, quoted market prices are used for similar instruments in active markets and/or model-derived valuations where inputs are observable in active markets and classify such items in Level 2. When there are limited or inactive trading markets, the Company utilizes industry–standard pricing methodologies, including discounted cash flow models, whose inputs are based on management assumptions and available current market information. These items are classified in Level 3. Further, the Company relies upon independent pricing vendors to assist in valuing certain instruments.

The following section describes the valuation methodologies used by management to measure different financial instruments at fair value.

Investments in fixed maturities and equity securities:

Pricing Level 1: Values are unadjusted quoted prices for identical securities in active markets accessible at the measurement date. Holdings consist of government securities and exchange traded mutual funds.

Pricing Level 2: Valuation is based on quoted prices for similar securities in active markets, quoted prices from those willing to trade in markets that are not active, or other observable inputs. This would include any bonds priced by FT Interactive Data ("IDC") and PricingDirect.

Pricing Level 3: Valuation is derived from unobservable inputs using techniques such as broker quotes, pricing matrices and internal calculations. The Company did not hold any Level 3 securities for the twelve months ended December 31, 2016 or December 31, 2015.

Priority of market value methodology:

1. Price from an independent pricing service, such as IDC
2. Market price from a broker-dealer
3. Matrix pricing

All of the prices are monitored month-over-month to highlight any significant price change. Any security with a significant price change is verified using a secondary pricing source and/or verification from a broker-dealer.

The following is a summary of the inputs used in valuing the Company's assets at fair value:

	December 31, 2016	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment in debt securities	$ 274,265	$ 25,542	$ 248,723	$ -
Investment in equity securities	50,456	50,112	344	-
Investment in money market funds	1,575	1,575	-	-
Total	$ 326,296	$ 77,229	$ 249,067	$ -

	December 31, 2015	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment in debt securities	$ 267,298	$ 36,885	$ 230,413	$ -
Investment in equity securities	46,237	46,012	225	-
Investment in money market funds	4,002	4,002	-	-
Total	$ 317,537	$ 86,899	$ 230,638	$ -

It is the Company's policy to recognize transfers of assets between levels of the fair value hierarchy at the end of a reporting period. For the twelve months ending December 31, 2016, there were no transfers of assets between Level 1 and Level 2 of the fair value hierarchy. No securities were transferred out of Level 2 and into the Level 3 category as a result of limited or inactive markets during 2016. The Company does not transfer out of Level 3 and into Level 2 until such time as observable inputs become available and reliable or the range of available independent prices narrow.

4. Deferred Policy Acquisition Costs

The deferred policy acquisition costs at December 31, 2016 and 2015 are comprised of the following:

	2016	2015
Beginning balance	$ 2,766	$ 2,681
Additional costs capitalized		
Underwriting expenses	1,570	1,667
Royalty fees (Note 7)	859	868
Premium taxes	2,183	2,198
	4,612	4,733
Less current year amortization		
Underwriting expenses	1,644	1,546
Royalty fees (Note 7)	875	883
Premium taxes	2,220	2,219
	4,739	4,648
Ending balance	$ 2,639	$ 2,766

5. Contributed Surplus

The Company has two classes of Members: Participating and Non-Participating. Participating Members are required to make a capital contribution ("reserve premium") equal to 100% of initial annual premium on Participaiting policies.

The reserve premium with respect to a Participating policy is required to be repaid to the Participating Member within 60 days if the Company terminates or fails to renew the policy; in all other cases, the reserve premium generally is not required to be repaid for five years after the insured cancels, terminates, or fails to renew the policy. At December 31, 2016 and 2015, $25 and $272, respectively, related to reserve premium for all such terminated policies that was included in contributed surplus. The Company recorded distributions of $1,291 and $442 in reserve premium to non-renewing Participating Members as of December 31, 2016 and 2015, respectively.

Non-Participating Members are not required to contribute capital. Participating Members receive dividends, share in the Company's net worth, and receive a higher proportion of votes on corporate governance matters than Non-Participating Members. Of the premiums written, 33.3% and 31.8% were attributable to Non-Participating policies during the years ended December 31, 2016 and 2015, respectively.

6. Provision for Income Taxes

The provision for income taxes consists of the following:

	2016	2015
Current provision	$ 3,021	$ 1,538
Deferred benefit	(537)	(627)
Provision for income taxes	$ 2,484	$ 911

Set forth below is a reconciliation of the expected and actual income tax provision:

	2016	2015
Expected tax provision at 34% and 35%, respectively	$ 2,977	$ 1,646
Tax exempt income from municipal bonds	(322)	(478)
State income taxes, net of federal benefit	21	71
Dividend received deduction	(155)	(148)
Foreign tax credits	(22)	(77)
Provision to return adjustments	(11)	(93)
Other (Rate differential 34% vs. 35% on timing)	(4)	(10)
Actual provision for income taxes	$ 2,484	$ 911

The Company's expected current income tax rate changed in 2016 to 34% from 35% in 2015 as a result of the tax rate required to be applied to taxable income based on the tax law.

The Company files a consolidated federal income tax return. Income tax provisions are allocated to the Company's wholly-owned subsidiaries as if they had been calculated on a separate company basis. State income taxes are paid by Mutual, Brokers and Services on a separate company basis. Net payments for federal income taxes were $2,600 and $2,400 in 2016 and 2015, respectively.

The deferred income tax amounts reflected in the Consolidated Balance Sheets at December 31, 2016 and 2015 are comprised of the following items:

	2016	2015
Net unearned premiums	$ 936	$ 991
Discounting of loss reserves	1,233	1,221
Post-retirement employee benefits	3,736	3,146
Other than temporarily impaired securities	1,496	1,496
Nondeductible portion of policyholder dividend	2,118	1,750
Other	560	641
Gross deferred tax assets	10,079	9,245
Deferred policy acquisition costs	(924)	(968)
Net unrealized gains on investments	(7,641)	(6,892)
Bond discount accretion	(225)	(131)
Gross deferred tax liabilities	(8,790)	(7,991)
Valuation allowance	-	-
Net deferred tax assets	$ 1,289	$ 1,254

The Company believes that as of December 31, 2016, there were no material uncertain tax positions that would require disclosure under GAAP. As of December 31, 2016, the Company's 2015, 2014, and 2013 tax years were open under current Internal Revenue Service regulations and as such, potentially subject to examination.

7. Related Party Transactions

The Company is party to a royalty agreement and a services and facilities agreement with the ICI. Under the royalty agreement, Mutual is required to pay 1% of gross annual premium as a royalty fee to the ICI, limited to a total maximum of $1,000 in any calendar year. Royalty fees paid in 2016 and 2015 were $870 and $875, respectively.

The services and facilities agreement requires the Company to reimburse the ICI for actual direct and indirect expenses incurred on behalf of the Company. Service and facility fees amounted to approximately $964 and $908 for 2016 and 2015, respectively. Amounts payable at December 31, 2016 and 2015 under this agreement were approximately $232 and $235, respectively.

8. Reinsurance Agreements

The Company utilizes reinsurance agreements to provide protection for claims in excess of the Company's normal retention limits. In addition, the Company may utilize reinsurance agreements to provide increased limits of liability on a case-by-case basis.

The Company reports ceded reinsurance balances on a gross basis. Accordingly, the following balance sheet accounts are grossed up by the amounts noted below:

	2016	2015
Reserve for losses and loss adjustment expenses	$ 187,235	$ 88,175
Unearned premiums	$ 36,603	$ 37,420

Reinsurance recoverable was mostly concentrated with St. Paul Fire & Marine Insurance Company (approximately 17%), Lloyds of London (approximately 11%), and Endurance Specialty Insurance Ltd (approximately 10%) at December 31, 2016, and St. Paul Fire & Marine Insurance Company (approximately 14%) and Lloyds of London (approximately 14%) at December 31, 2015.

Insurance risks ceded to reinsurance companies would become a liability in the event the reinsurers are unable to meet their obligations assumed under reinsurance contracts.

Premiums and losses in 2016 and 2015 have been adjusted as follows as a result of voluntary reinsurance:

	2016		2015	
Premiums	Written	Earned	Written	Earned
Direct and assumed	$ 85,932	$ 87,532	$ 86,775	$ 88,280
Ceded	(55,283)	(56,100)	(55,788)	(57,899)
Net	$ 30,649	$ 31,432	$ 30,987	$ 30,381

Losses and loss adjustment expenses	2016	2015
Direct	$ 132,844	$ 30,689
Ceded	(117,345)	(12,613)
Net	$ 15,499	$ 18,076

9. Reserve for Losses and Loss Adjustment Expenses

The following table sets forth a reconciliation of beginning and ending reserve for losses and loss adjustment expenses, as shown, in the Company's consolidated financial statements for the periods indicated:

	2016	2015
Balance at January 1	$ 147,116	$ 139,715
Less reinsurance recoverable, unpaid losses	(88,175)	(88,735)
Net balance at January 1	58,941	50,980
Incurred related to		
Current year	23,322	24,748
Prior years	(7,823)	(6,672)
Total incurred	15,499	18,076
Paid related to		
Current year	198	4,921
Prior years	8,543	5,194
Total paid	8,741	10,115
Net balance at December 31	65,699	58,941
Plus reinsurance recoverable, unpaid losses	187,235	88,175
Balance at December 31	$ 252,934	$ 147,116

As a result of changes in estimates of incurred losses related to insured events of prior years, the reserve for losses and loss adjustment expenses decreased $7,823 and $6,672 in 2016 and 2015, respectively. The decrease in 2016 was primarily the result of changes in estimates of incurred losses on D&O/E&O policies of $4,230, $1,808, $2,605, and $1,351 related to insured events of 2014, 2013, 2012, and 2008, respectively, offset by an increase of $3,215 related to insured events of 2015. The decrease in 2015 was primarily the result of changes in estimates of incurred losses on DO/EO policies of $3,255 and $2,171 related to insured events of 2012 and 2013, respectively.

In the first quarter of 2017, the Company paid in excess of $100 million in claims that were included in Reserve for losses and loss adjustment expenses, and collected over $95 million in associated reinsurance that was included in Reinsurance recoverables, on the Consolidated Balance Sheet as of December 31, 2016.

10. Contingencies

In the normal course of its business activities, the Company may be subject to various asserted and unasserted claims and lawsuits covering a wide range of matters. The Company is not aware of any events that would give rise to a claim at December 31, 2016.

11. Policyholders' Dividend

In determining the level of dividend to declare, the Board of Directors ("Board") reviews the financial results of the Company as well as the anticipated capital levels needed to fund the Company's future operations and to maintain the Company's sound financial condition. After a review of all these factors, the Board declared a dividend of $6.0 million and $5.0 million in 2016 and 2015, respectively. $4.7 million of the total dividends declared in 2015 were paid in 2016.

The 2016 dividend will be allocated to Participating Members based equally on each Participating Member's share of the Company's net worth determined at December 31, 2016, before payment of the dividend, and the proportion of 2016 eligible gross earned premium of the Company attributable to each Participating Member. In accordance with the by-laws of the Company, dividends will only be paid to those eligible Participating Members that renew a participating policy in the year after the dividend declaration. Dividends are accounted for on the accrual basis and will be paid on or around the policy renewal date or May 15, 2017, whichever is later.

As per Title 8, Chapter 141, Section 6005 of the Vermont Statutes, the Company sought and received the approval of the Commissioner of the Department prior to the payment of these dividends.

12. Employee Benefit Plans

A. Retirement Plans

The Company has three retirement plans for its employees: a noncontributory defined benefit plan, a 401(k) defined contribution plan, and a supplemental employee retirement plan.

The noncontributory defined benefit plan ("the Plan") covers substantially all regular full-time employees. The Company uses a December 31st measurement date for the Plan. Plan assets consist of equity and balanced mutual funds.

The Plan uses the Projected Unit Credit Method as the actuarial cost method and the following weighted-average assumptions to determine the benefit obligation and net periodic pension cost for the years ended December 31, 2016 and 2015:

	2016	2015
Discount rate for benefit obligation	4.63%	4.97%
Discount rate for pension cost	4.97%	4.39%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	4.00%	4.00%

Plan amounts recognized in the Consolidated Balance Sheets consist of:

	2016	2015
Liabilities	$ 1,917	$ 694

Plan amounts recognized in accumulated other comprehensive income, net of tax, consist of:

	2016	2015
Net loss	$ 1,591	$ 1,425
Prior service cost	-	23
Total	$ 1,591	$ 1,448

Other components of the Plan for the years ended December 31, 2016 and 2015, were as follows:

	2016	2015
Projected benefit obligation	$ 11,235	$ 10,812
Fair value of plan assets	9,318	10,118
Funded status of the plan	$ (1,917)	$ (694)
Employer contributions	$ -	$ -
Lump sum payments	$ 1,588	$ -
Benefits paid	$ 31	$ 31

The Plan's accumulated benefit obligation is $8,134 as of December 31, 2016 and was $7,978 as of December 31, 2015. Pension expense for the Plan equaled $1,002 and $735 for the years ended December 31, 2016 and 2015, respectively, and is included in "Underwriting, general and administrative expenses" in the Consolidated Statements of Operations.

A settlement occurred during the firscal year ending 2016. Settlements are faily common in defined benefit plans that allow lump sum payments. This year, the settlement resulted in a $326 loss to the net periodic benefit cost which is recognized in changes in other comprehensive income.

The net loss and prior service cost for the Plan that was amortized from accumulated other comprehensive income into net periodic pension expense was $108 and $35 in 2016 and $165 and $37 in 2015, respectively.

The Company determines the long-term expected rate of return on Plan assets by examining historical returns and the Plan's asset allocation. Factors such as inflation and current interest rates are also evaluated. The result is reviewed against benchmarking data to ensure that the return is a reasonable and appropriate assumption.

The Plan's asset allocation at December 31, by asset category, is as follows:

	2016	2015
Asset Category:		
Equities	60%	60%
Fixed income securities	40%	40%
Total	100%	100%

The Company's expected long-term rate of return and projected asset allocation are as follows:

	Expected Rate of Return	Guideline Asset Allocation	Expected Net Rate of Return
Asset Category:			
Equities	8%	60%	5%
Fixed income securities	5%	40%	2%
Total		100%	7%

	Guideline Allocation	Permissible Range
Asset Category:		
Equities	60%	+ – 1%
Fixed income securities	40%	+ – 1%

The Plan's assets will be invested in a prudent manner for the exclusive purpose of providing benefits to Plan participants. The Company's objective is to maximize the return on assets, over the long term, by investing a majority of assets in equities. The inclusion of additional asset classes with differing rates of return, volatility, and correlation are utilized to reduce the risk by providing diversification relative to equities. The Company's investment policy states that equities will comprise 60% of assets, and fixed income securities 40% of assets. The actual allocation will be compared to the target allocation monthly and if any fund allocation is more than one percentage point different than the target, funds will be bought or sold to bring the allocation to the target.

The Company made contributions of $0 to the Plan for both years ended December 31, 2016 and 2015, respectively. The Company's funding policy is to make annual contributions, if required, at least equal to normal costs determined to meet benefit payments, including lump sum distributions, and comply with funding requirements of ERISA. The Company does not expect to make contributions to the Plan in 2017.

The estimated net loss and prior service cost for the Plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are $119 and $0, respectively.

Benefit payments expected to be paid from the Plan over the next five years and accumulated over the five years thereafter are as follows as of December 31:

Year	Benefits
2017	$ 446
2018	$ 349
2019	$ 521
2020	$ 1,100
2021	$ 236
2022-2026	$ 3,098

The 401(k) defined contribution plan covers substantially all employees. Effective January 1, 2007, the Company contributes amounts to the plan sufficient to credit each participant's account with an amount equal to 3% of the participant's eligible compensation, subject to IRS limitations, during the plan year. In addition, the Company matches 100% of the first 1% and 50% of the next 1% of employee voluntary contributions of the participant's eligible compensation. Participants are not required to contribute to the plan. Participants may voluntarily contribute up to 50% of eligible compensation paid to the participant during the plan year up to a maximum of $18.0. The Company contributed approximately $170 and $155 to this plan in 2016 and 2015, respectively.

The Company has a supplemental employee retirement plan ("SERP") for certain key employees. The SERP provides benefits equal to what would be available under both the qualified non-contributory defined benefit plan and the 401(k) defined contribution plan, if there were no statutory limitations on the amount of compensation that could be covered by the qualified plans.

Defined Benefit Component:

The SERP uses the Projected Unit Credit Method as the actuarial cost method and the following weighted-average assumptions to determine the benefit obligation and net periodic pension cost for the years ended December 31, 2016 and 2015:

	2016	2015
Discount rate for benefit obligation	4.23%	4.51%
Discount rate for pension cost	4.51%	4.03%
Rate of compensation increase	4.00%	4.00%

SERP amounts recognized in the Consolidated Balance Sheets consist of:

	2016	2015
Liabilities	$ 2,430	$ 2,015

SERP amounts recognized in accumulated other comprehensive income, net of tax, consist of:

	2016	2015
Net loss	$ 368	$ 304
Prior service cost	-	-
Total	$ 368	$ 304

Other components of the SERP for the years ended December 31, 2016 and 2015 were as follows:

	2016	2015
Projected benefit obligation	$ 2,430	$ 2,015
Fair value of plan assets	-	-
Funded status of the plan	$ (2,430)	$ (2,015)
Employer contributions	$ -	$ -
Lump sum payments	$ -	$ -
Benefits paid	$ -	$ -

The SERP's accumulated benefit obligation is $2,097 as of December 31, 2016 and was $1,598 as of December 31, 2015. Included in "Underwriting, general and administrative expenses" in the accompanying Consolidated Statements of Operations at December 31, 2016 and 2015, are net periodic benefit costs attributable to this plan of approximately $318 and $325, respectively. The net loss and prior service cost for this plan that was amortized from accumulated other comprehensive income into net periodic benefit cost was $119 and $0 in 2016 and $135 and $1 in 2015, respectively.

The Company anticipates contributing amounts equal to the benefits payable during future plan years, including $765 in 2017.

The estimated net loss and prior service cost for the SERP that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are $81 and $0, respectively.

Benefit payments expected to be paid from the SERP over the next five years and accumulated over the five years thereafter are as follows as of December 31:

Year	Benefits
2017	$ 765
2018	$ -
2019	$ -
2020	$ 1,938
2021	$ -
2022-2026	$ -

The accrued liability included in the Consolidated Balance Sheet for the defined contribution component of the SERP was $170 at December 31, 2016 and $148 at December 31, 2015. Amounts recognized in the Consolidated Statement of Operations for the defined contribution component of the SERP were $21 at December 31, 2016 and $19 at December 31, 2015.

B. Postretirement Benefit Plan

The Company provides health benefits to qualifying employees and retirees. The Company recognizes the expected cost of these benefits during the years in which employees render service. No assets are set aside for postretirement health benefits. The Company has not applied for benefits under the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the "2003 Act") and any measures of the accumulated postretirement benefit obligation or net periodic postretirement benefit cost in the financial statements or accompanying notes do not reflect the effects of the 2003 Act on the Company's postretirement benefit plan.

As of December 31, 2010, the Company has included a 1% load in the plan's amounts to account for the anticipated impact of the excise tax on high cost plans as a result of the Patient Protection and Affordable Care Act of 2010 (the "2010 Act"). The other provisions of the 2010 Act are not expected to have a material impact on the Company's postretirement benefit plan obligation.

Plan amounts recognized in the Consolidated Balance Sheets consist of:

	2016	2015
Liabilities	$ 3,390	$ 2,754

Plan amounts recognized in accumulated other comprehensive income, net of tax, consist of:

	2016	2015
Net loss	$ 946	$ 694

Other components of the plan for the years ended December 31, 2016 and 2015, were as follows:

	2016	2015
Benefit obligation	$ 3,390	$ 2,754
Fair value of plan assets	-	-
Funded status of the plan	$ (3,390)	$ (2,754)
Employer contributions	$ 62	$ 55
Benefits paid	$ 63	$ 55

The following table shows the plan's obligation by participant as well as assumed discount rates:

	2016	2015
Retirees	$ (1,298)	$ (728)
Other active participants	(2,092)	(2,026)
Accumulated postretirement benefit obligation	$ (3,390)	$ (2,754)
Weighted average assumed discount rate to determine:		
The benefit obligation	4.59%	4.92%
The net benefit cost	4.92%	4.36%

Included in "Underwriting, general and administrative expenses" in the accompanying Consolidated Statements of Operations at December 31, 2016 and 2015, are net periodic benefit costs attributable to this plan of approximately $310 and $314, respectively. The net loss and prior service cost for this plan that was amortized from accumulated other comprehensive income into net periodic benefit cost was $54 and $0 in 2016 and $69 and $0 in 2015, respectively.

The Company's policy is to contribute the amount required to fund postretirement benefits as they become due to retirees. The amount expected to be required in contributions to the plan during 2017 is $60.

The estimated net loss and prior service cost for the plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are $72 and $0, respectively.

Benefit payments expected to be paid from the plan over the next five years and accumulated over the five years thereafter are as follows as of December 31:

Year	Benefits
2017	$ 60
2018	$ 67
2019	$ 73
2020	$ 81
2021	$ 87
2022-2026	$ 609

For measurement purposes, a 7.0% increase in healthcare costs was assumed for fiscal year 2016, trending down to 5% in 2020 and thereafter. A 1% increase in this rate would increase the postretirement benefit obligation by $529 and the service and interest cost by $73. A 1% decrease in this rate would decrease the postretirement benefit obligation by $795 and the service cost and interest cost by $55.

C. Deferred Compensation Plan

During 2010, the Company adopted a deferred compensation plan for certain key employees. The amount and timing of awards to participants is at the sole discretion of the Company and amounts remain unfunded and unvested until the employee meets all of the criteria established by the Company for payment of the awarded amounts. Included in "Underwriting, general and administrative expenses" in the accompanying Consolidated Statements of Operations at December 31, 2016 and 2015 are amounts attributable to this plan of approximately $243 and $274, respectively.

13. Accumulated Other Comprehensive Income

Changes in the Company's accumulated other comprehensive income by component, net of tax, are as follows:

	Unrealized Gains and (Losses) on Investments	Actuarial Unrealized Gains and (Losses) on Benefit Plans	Total
Balance at December 31, 2014	$ 17,142	$ (2,955)	$ 14,187
Net unrealized (losses) gains arising during the period	(4,226)	244	(3,982)
Reclassification adjustment for (gains) losses realized in net income	(116)	265	149
Other comprehensive income (loss)	$ (4,342)	$ 509	$ (3,833)
Balance at December 31, 2015	$ 12,800	$ (2,446)	$ 10,354
Net unrealized gains (losses) arising during the period	2,782	(876)	1,906
Reclassification adjustment for (gains) losses realized in net income	(1,392)	418	(974)
Other comprehensive income (loss)	$ 1,390	$ (458)	$ 932
Balance at December 31, 2016	$ 14,190	$ (2,904)	$ 11,286

The Company's other comprehensive income (loss) is calculated as follows:

For the Year Ended December 31, 2016	Pretax Amount	Tax Expense or Benefit	Net of Tax Amount
Net unrealized gains on investments			
Net unrealized gains arising during the period	$ 4,280	$ 1,498	$ 2,782
Reclassification adjustment for gains realized in net income	(2,141)	(749)	(1,392)
Net actuarial unrealized losses on employee benefit plans			
Net unrealized losses arising during the period	(1,348)	(472)	(876)
Reclassification adjustment for losses realized in net income	643	225	418
Other comprehensive income	$ 1,434	$ 502	$ 932

For the Year Ended December 31, 2015	Pretax Amount	Tax Expense or Benefit	Net of Tax Amount
Net unrealized losses on investments			
Net unrealized losses arising during the period	$ (6,502)	$ (2,276)	$ (4,226)
Reclassification adjustment for gains realized in net income	(178)	(62)	(116)
Net actuarial unrealized losses on employee benefit plans			
Net unrealized gains arising during the period	375	131	244
Reclassification adjustment for losses realized in net income	408	143	265
Other comprehensive loss	$ (5,897)	$ (2,064)	$ (3,833)

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