Zenith National Insurance Corp. and Subsidiaries

Consolidated Financial Statements
as of March 31, 2017 and December 31, 2016 and for the three months ended March 31, 2017 and 2016
(unaudited)

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ZENITH NATIONAL INSURANCE CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(In thousands, except par value)	March 31, 2017	December 31, 2016
Assets:		
Investments:		
Fixed maturity securities, at fair value (amortized cost $465,735 in 2017 and $565,099 in 2016)	$ 482,072	$ 591,581
Equity securities, at fair value (cost $415,530 in 2017 and $413,035 in 2016)	282,727	271,119
Short-term investments, at fair value which approximates cost	712,469	644,377
Other investments	215,091	142,102
Derivative assets, at fair value (cost $41,532 in 2017 and $41,058 in 2016)	7,042	7,518
Assets pledged for derivative obligations, at fair value which approximates cost	9,567	19,892
Total investments	1,708,968	1,676,589
Cash	20,843	21,409
Accrued investment income	6,109	7,495
Premiums receivable	40,146	36,161
Reinsurance recoverables	67,514	69,657
Deferred policy acquisition costs	13,318	10,928
Deferred tax asset	107,026	105,175
Goodwill	20,985	20,985
Other assets	53,340	57,141
Total assets	$ 2,038,249	$ 2,005,540
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 1,186,805	$ 1,208,572
Unearned premiums	98,580	80,400
Policyholders' dividends accrued	38,648	36,401
Long-term debt	38,174	38,167
Income tax payable	6,482	1,526
Derivative liabilities	3,185	3,089
Other liabilities	63,618	69,534
Total liabilities	1,435,492	1,437,689
Commitments and contingencies (see Note 9)		
Stockholders' equity:		
Common stock, $1 par value, 40 authorized shares; 39 shares issued and outstanding	39	39
Additional paid-in capital	401,949	401,249
Retained earnings	207,047	173,430
Accumulated other comprehensive loss	(6,278)	(6,867)
Total stockholders' equity	602,757	567,851
Total liabilities and stockholders' equity	$ 2,038,249	$ 2,005,540

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

ZENITH NATIONAL INSURANCE CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)

	Three Months Ended March 31,	
(In thousands)	2017	2016
Revenues:		
Net premiums earned	$ 188,177	$ 187,329
Net investment income	9,130	7,531
Net realized gains (losses) on investments	9,110	(15,082)
Change in net unrealized gains/losses on fair value option investments	(1,200)	(13,784)
Net losses on derivatives	(3,611)	(17,103)
Service fee income	2,448	2,155
Total revenues	204,054	151,046
Expenses:		
Losses and loss adjustment expenses incurred	78,767	87,594
Underwriting and other operating expenses:		
Policyholder acquisition costs	34,370	31,896
Underwriting and other costs	33,841	32,149
Policyholders' dividends	6,480	6,884
Interest expense	830	830
Total expenses	154,288	159,353
Income (loss) before tax	49,766	(8,307)
Income tax expense (benefit)	16,149	(4,363)
Net income (loss)	33,617	(3,944)
Net change in unrealized gains/losses on available-for-sale and other investments, net of tax and reclassification adjustment	1,252	(713)
Change in unrealized foreign currency translation adjustment, net of tax	(663)	(762)
Other comprehensive income (loss)	589	(1,475)
Total comprehensive income (loss)	$ 34,206	$ (5,419)

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

ZENITH NATIONAL INSURANCE CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(In thousands)	Three Months Ended March 31, 2017	2016
Cash flows from operating activities:		
Premiums collected	$ 205,112	$ 196,509
Investment income received	6,011	3,724
Losses and loss adjustment expenses paid	(98,636)	(94,474)
Underwriting and other operating expenses paid	(74,051)	(68,548)
Interest paid	(1,646)	(1,646)
Income taxes paid	(13,361)	(876)
Net cash provided by operating activities	23,429	34,689
Cash flows from investing activities:		
Purchases of investments:		
Fixed maturity securities – fair value option	(3,526)	(258,089)
Equity securities – fair value option	(2,496)	
Other investments	(67,643)	(44,979)
Derivatives	(474)	
Proceeds from maturities and redemptions of investments:		
Fixed maturity securities – fair value option	25,190	
Other investments	159	2,601
Proceeds from sales of investments:		
Fixed maturity – available-for-sale		300
Equity securities – fair value option	85,042	57,444
Other investments		11
Net decrease (increase) in short-term investments	(56,262)	196,631
Net derivative cash settlements	(2,565)	61,700
Capital expenditures and other	(1,317)	(1,076)
Net cash provided by (used in) investing activities	(23,892)	14,543
Cash flows from financing activities:		
Dividends paid to common stockholders		(55,000)
Purchase of Fairfax shares for restricted stock awards	(103)	(100)
Net cash used in financing activities	(103)	(55,100)
Net decrease in cash	(566)	(5,868)
Cash at beginning of period	21,409	22,739
Cash at end of period	$ 20,843	$ 16,871

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

ZENITH NATIONAL INSURANCE CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(UNAUDITED)

(In thousands)	Three Months Ended March 31, 2017	2016
Reconciliation of net income (loss) to net cash provided by operating activities:		
Net income (loss)	$ 33,617	$ (3,944)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation expense	844	938
Net amortization (accretion)	(1,142)	59
Net realized losses (gains) on investments	(9,110)	15,082
Change in net unrealized gains/losses on fair value option investments	1,200	13,784
Net losses on derivatives	3,611	17,103
Equity in losses/earnings of investee	(3,220)	157
Stock-based compensation expense	803	638
Decrease (increase) in:		
Accrued investment income	1,386	(3,808)
Premiums receivable	(6,519)	(9,938)
Reinsurance recoverables	2,143	1,487
Deferred policy acquisition costs	(2,390)	(1,956)
Net income taxes	2,790	(5,239)
Increase (decrease) in:		
Unpaid losses and loss adjustment expenses	(21,767)	(9,143)
Unearned premiums	18,180	14,687
Policyholders’ dividends accrued	2,247	4,270
Accrued expenses	(4,072)	(3,932)
Interest payable	(823)	(823)
Other	5,651	5,267
Net cash provided by operating activities	$ 23,429	$ 34,689

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

ZENITH NATIONAL INSURANCE CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)

(In thousands)	Three Months Ended March 31, 2017	2016
Common stock:	$ 39	$ 39
Additional paid-in capital:		
Beginning of period	401,249	402,593
Stock-based compensation expense	803	638
Purchases of Fairfax shares for restricted stock awards	(103)	(100)
End of period	401,949	403,131
Retained earnings:		
Beginning of period	173,430	298,842
Net income (loss)	33,617	(3,944)
Dividends declared to common stockholders		(55,000)
End of period	207,047	239,898
Accumulated other comprehensive loss:		
Beginning of period	(6,867)	(3,433)
Net change in unrealized gains/losses on available-for-sale and other investments, net of tax and reclassification adjustment	1,252	(713)
Change in unrealized foreign currency translation adjustment, net of tax	(663)	(762)
End of period	(6,278)	(4,908)
Total stockholders' equity	$ 602,757	$ 638,160

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

Note 1. Basis of Presentation

Zenith National Insurance Corp. (“Zenith National”) is a Delaware holding company, which is a wholly-owned indirect subsidiary of Fairfax Financial Holdings Limited (“Fairfax”). Fairfax is a Canadian financial services holding company, whose common stock is publicly traded on the Toronto Stock Exchange, and is principally engaged in property and casualty insurance, reinsurance and associated investment management. Zenith National’s wholly-owned subsidiaries (primarily Zenith Insurance Company (“Zenith Insurance”)), specialize in the workers’ compensation insurance business, nationally and, since 2010, in the property-casualty business for California agriculture. Unless otherwise indicated, all references to the “Company” refer to Zenith National together with its subsidiaries.

The accompanying unaudited Consolidated Financial Statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (including normal, recurring adjustments) necessary for a fair presentation of the Company’s financial position and results of operations for the periods presented have been included. The results of operations for an interim period are not necessarily indicative of the results for an entire year. For further information, refer to the Audited Consolidated Financial Statements and Notes thereto of the Company for the year ended December 31, 2016.

The accompanying Consolidated Financial Statements differ from the financial information published by Fairfax in regards to the Company primarily due to differences between GAAP and International Financial Reporting Standards (“IFRS,” the reporting basis used by Fairfax), intercompany investment transactions and accounting adjustments recorded by Fairfax related to the acquisition of the Company.

Subsequent Events
The Company evaluated subsequent events through the date and time that the Consolidated Financial Statements were issued on May 5, 2017.

Note 2. Investments

As of March 31, 2017 and December 31, 2016, $1.5 billion of investments in fixed maturities and equity securities and short-term investments were recorded under the fair value option and changes in fair value for these investments are recorded in the change in net unrealized gains/losses on fair value option investments in the Consolidated Statements of Comprehensive Income (Loss). As of March 31, 2017 and December 31, 2016, $14.7 million and $14.5 million, respectively, of investments in equity securities were classified as available-for-sale and reported at fair value with changes in unrealized gains/losses excluded from earnings and reported in a separate component of stockholders’ equity, net of tax.

The cost or amortized cost and fair value of fixed maturity and equity securities and short-term investments at March 31, 2017 and December 31, 2016 were as follows:

(In thousands)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
March 31, 2017				
Fair value option investments:				
Fixed maturity securities:				
State and local government debt	$ 423,934	$ 19,461	$ (3,290)	$ 440,105
U.S. Government debt	8,166	925	(129)	8,962
Corporate debt	33,635	1,678	(2,308)	33,005
Total fixed maturity securities	465,735	22,064	(5,727)	482,072
Equity securities	394,736	6,252	(132,914)	268,074
Short-term investments (a)	722,036			722,036
Total fair value option investments	1,582,507	28,316	(138,641)	1,472,182
Available-for-sale investments:				
Equity securities	20,794	10	(6,151)	14,653
Total available-for-sale investments	20,794	10	(6,151)	14,653
Total fixed maturity, equity securities and short-term investments	**$ 1,603,301**	**$ 28,326**	**$ (144,792)**	**$ 1,486,835**
December 31, 2016				
Fair value option investments:				
Fixed maturity securities:				
State and local government debt	$ 521,977	$ 32,082	$ (2,716)	$ 551,343
U.S. Government debt	13,031	890	(486)	13,435
Corporate debt	30,091	226	(3,514)	26,803
Total fixed maturity securities	565,099	33,198	(6,716)	591,581
Equity securities	392,241	3,368	(138,975)	256,634
Short-term investments (a)	664,269			664,269
Total fair value option investments	1,621,609	36,566	(145,691)	1,512,484
Available-for-sale investments:				
Equity securities	20,794	9	(6,318)	14,485
Total available-for-sale investments	20,794	9	(6,318)	14,485
Total fixed maturity, equity securities and short-term investments	**$ 1,642,403**	**$ 36,575**	**$ (152,009)**	**$ 1,526,969**

(a) Includes investments of $9.6 million and $19.9 million pledged for derivative obligations at March 31, 2017 and December 31, 2016, respectively.

Fixed maturity securities, including short-term investments, by contractual maturity at March 31, 2017 were as follows:

(In thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 722,036	$ 722,036
Due after one year through five years	28,038	26,823
Due after five years through ten years	21,673	22,484
Due after ten years	416,024	432,765
Total	$ 1,187,771	$ 1,204,108

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.

Total investments at March 31, 2017 also include other investments in equity-method common stocks and partnerships and limited liability companies; and derivatives. Derivative contracts are described in Note 3.

Other investments consist of the following:

(In thousands)	March 31, 2017	December 31, 2016
Equity-method common stock (a)	$ 164,773	$ 83,679
Equity-method partnerships (a)	26,439	36,626
Cost-method partnerships, at fair value (cost $20,744 in 2017 and $20,286 in 2016) (b)	23,879	21,797
Total other investments	$ 215,091	$ 142,102

(a) Equity-method common stock and partnership and limited liability company investments are recorded at cost, adjusted for subsequent purchases/distributions and the Company's share of the changes in the investee's net asset value ("NAV") since the initial acquisition. Significant acquisitions and disposals of equity-method common stocks and partnerships are described in Note 5.

(b) Partnerships and limited liability company investments where the Company's ownership is minor and the Company does not have significant operating or financial influence are recorded at fair value.

At March 31, 2017, the Company had commitments to invest an additional $5.8 million in partnerships and limited liability companies.

Net realized gains (losses) on investments, excluding derivatives, were as follows:

	Three Months Ended March 31,	
(In thousands)	2017	2016
Sales of fixed maturity securities, including short-term investments and other (a)	$ 7,288	$ 176
Gains (losses) from other investments	1,822	(441)
Sale of equity securities (b)		(14,817)
Net realized gains (losses) on investments	$ 9,110	$ (15,082)

(a) Net realized gains on sales of fixed maturity securities, including short-term investments in the three months ended March 31, 2017 included $8.3 million of gross realized gains and $1.0 million of gross realized losses, respectively, on sales of fair value option securities.

(b) Net realized losses on sales of equity securities in the three months ended March 31, 2016 included $14.8 million of gross realized losses on sales of fair value option securities.

The changes in net unrealized gains/losses on available-for-sale investments, investments in cost-method partnerships and investments in equity-method common stocks are recognized as a separate component of stockholders' equity and were as follows:

	Three Months Ended March 31,	
(In thousands)	2017	2016
Investments in cost-method partnerships	$ 1,624	$ (675)
Equity securities	168	(422)
Investments in equity-method common stocks	134	
Total before tax	$ 1,926	$ (1,097)
After tax	$ 1,252	$ (713)

The change in net unrealized gains/losses on fair value option investments still held was as follows:

	Three Months Ended March 31,	
(In thousands)	2017	2016
Change in net unrealized gains/losses recognized on fair value option investments	$ (1,200)	$ (13,784)
Less: Net losses (gains) recognized on fair value option investments sold	(9,177)	14,014
Change in net unrealized gains/losses recognized on fair value option investments still held at the reporting date	$ 7,977	$ (27,798)

Net investment income was as follows:

	Three Months Ended March 31,	
(In thousands)	2017	2016
Fixed maturity securities	$ 5,669	$ 9,910
Income (loss) from equity-method investments (a)	3,220	(157)
Short-term and other investments	1,156	405
Equity securities	729	1,617
Derivatives	103	(2,134)
Subtotal	10,877	9,641
Investment expenses	1,747	2,110
Net investment income	$ 9,130	$ 7,531

(a) Income from equity-method investments in the three months ended March 31, 2017 includes $3.7 million income related to the Company's share of the net income from an equity-method common stock investment and a $1.2 million loss related to the Company's share of the net loss from an equity-method partnership.

At both March 31, 2017 and December 31, 2016, investments with a fair value of approximately $1.1 billion were on deposit with regulatory authorities in compliance with insurance company regulations. At March 31, 2017, the Company had additional qualifying securities with a fair value of $107.2 million available for deposit.

Note 3. Derivative Contracts

Derivative contracts entered into by the Company are considered investments or economic hedges and are not designated as accounting hedges. Derivatives are carried at fair value on the Consolidated Balance Sheets with changes in fair value recorded in the Consolidated Statements of Comprehensive Income (Loss) as net gains/losses on derivatives. The fair value of derivatives in a gain position is presented as derivative assets on the Consolidated Balance Sheets. The fair value of derivatives in a loss position are presented as derivative liabilities on the Consolidated Balance Sheets. The initial premium paid for a derivative contract, if any, would be recorded as a derivative asset and subsequently adjusted for changes in the fair value of the contract at each balance sheet date. Cash settlements related to fair value changes on derivative contracts are also recorded in the Consolidated Statements of Comprehensive Income (Loss) as net gains/losses on derivatives and are recorded as an investing activity in the Consolidated Statements of Cash Flows. Securities received from counterparties as collateral are not recorded as assets of the Company. Securities delivered to counterparties as collateral for derivative contracts are reflected as assets pledged for derivative obligations on the Consolidated Balance Sheets.

The following table summarizes the notional amount, cost and fair value of derivative contracts as of March 31, 2017 and December 31, 2016:

	Notional		Fair Value of Derivative		
(In thousands)	Amount	Cost	Assets	Liabilities	
March 31, 2017					
Equity derivatives:					
Equity total return swaps – long positions	$ 29,250		$ 787	$ 972	(a)
Equity warrants	4,928	$ 474	482		
CPI-linked derivative contracts	7,766,061	41,058	5,773		
U.S. government bond forward contracts	95,000			1,970	(a)
Foreign exchange forward contracts	42,996			243	
Total		$ 41,532	$ 7,042	$ 3,185	
December 31, 2016					
Equity derivatives:					
Equity warrants	$ 921		$ 31		
CPI-linked derivative contracts	7,734,980	$ 41,058	7,141		
U.S. government bond forward contracts	175,000			$ 3,089	(a)
Foreign exchange forward contracts	47,464		346		
Total		$ 41,058	$ 7,518	$ 3,089	

(a) Represents the change in fair value since the most recent cash settlement date prior to the reporting date.

The gains (losses) from settlements and changes in fair value of the derivative contracts are recorded as net gains (losses) on derivatives in the Consolidated Statements of Comprehensive Income (Loss) as follows:

	Three Months Ended March 31,	
(In thousands)	2017	2016
Gains (losses) on settlements		
Equity derivatives:		
Equity index total return swaps – short positions		$ 64,713
U.S. government bond forward contracts	$ (2,720)	
Foreign exchange forward contracts	155	(3,013)
Total	(2,565)	61,700
Change in fair value		
Equity derivatives:		
Equity index total return swaps – short positions		(72,302)
Equity total return swaps – long positions	(185)	
Equity warrants	(23)	(77)
CPI-linked derivative contracts	(1,368)	(3,416)
U.S. government bond forward contracts	1,119	
Foreign exchange forward contracts	(589)	(3,008)
Total	(1,046)	(78,803)
Net losses on derivatives		
Equity derivatives:		
Equity index total return swaps – short positions		(7,589)
Equity total return swaps – long positions	(185)	
Equity warrants	(23)	(77)
CPI-linked derivative contracts	(1,368)	(3,416)
U.S. government bond forward contracts	(1,601)	
Foreign exchange forward contracts	(434)	(6,021)
Total net losses on derivatives	$ (3,611)	$ (17,103)

Equity Derivative Contracts

In the first quarter of 2017, the Company began investing in long equity total return swaps on individual equities for investment purposes. The Company's long equity total return swaps allow the company to receive the total return on a notional amount of an individual equity (including dividends and capital gains or losses) in exchange for the payment of a floating rate of interest on the notional amount.

During the three months ended March 31, 2017, the Company received $0.1 million of dividend income on its long equity total return swaps, which was recorded as investment income.

In prior years and through the fourth quarter of 2016, the Company protected its equity and equity-related holdings against a potential decline in equity markets by way of short positions effected through short equity index total return swaps in the Russell 2000 Index. The Company's economic equity hedges were structured to provide a return which was inverse to changes in the fair values of the Russell 2000 Index. The Company terminated all of its short equity index total return swap contracts during the fourth quarter of 2016.

During the three months ended March 31, 2016, the Company incurred $2.1 million of dividend and interest expense on its short equity index total return swaps, which was recorded as a reduction to investment income.

The Company's long equity total return swap and short equity index total return swap contracts entitle the Company to receive or require the Company to pay the total return on a notional amount of the underlying equity or equity index, including dividends declared and income on the notional amount at a stated interest rate. Interest and dividends were recorded in investment income in the Consolidated Statements of

Comprehensive Income (Loss). These swaps require no initial net cash investment and at inception the fair value was zero. The Company's long equity and short equity index total return swaps contain contractual reset provisions requiring counterparties to cash-settle on a quarterly basis any fair value movements arising subsequent to the prior settlement date. To the extent that a contractual reset date did not correspond to the balance sheet date, the Company adjusted the carrying value of the corresponding derivative asset or liability associated with each long equity total return swap or short equity index total return swap contracts to reflect its fair value at the balance sheet date with the offset to net gains/losses on derivatives in the Consolidated Statements of Comprehensive Income (Loss).

CPI-linked Derivative Contracts

The Company has purchased derivative contracts referenced to consumer price indexes (''CPI'') in the United States and Europe to serve as an economic hedge against the potential adverse financial impact on the Company of decreasing consumer price levels. In the event of a sale, expiration or early settlement of any of these contracts, the Company would receive the fair value of that contract on the date of the transaction. The Company's maximum potential loss on any contract is limited to the original cost of that contract. Net unrealized gains (losses) on CPI-linked derivative contracts typically reflect the market's expectation of decreases (increases) in the values of the CPI indexes underlying these contracts at their respective maturities during the periods presented (these contracts are structured to benefit the Company during periods of decreasing CPI index values). At March 31, 2017, these contracts had a remaining weighted average life of 6 years.

The following table summarizes the notional amounts and underlying CPI Index price ("strike price") for the Company's CPI-linked derivative contracts at initiation and the index value at March 31, 2017 and December 31, 2016:

	Notional Amount			Weighted Average Strike Price	
(Notional amount in thousands)	Original Currency		US Dollars	In Original Currency	Index Value
Underlying CPI Index:					
March 31, 2017					
United States	5,520,000	$	5,520,000	232.81	243.80
European Union	2,100,000		2,246,061	97.66	101.59
		$	7,766,061		
December 31, 2016					
United States	5,520,000	$	5,520,000	232.81	241.43
European Union	2,100,000		2,214,980	97.66	101.26
		$	7,734,980		

U.S. Government Bond Forward Contracts

To reduce its exposure to interest rate risk (specifically exposure to state and local government bonds and long dated U.S. treasury bonds held in its fixed income portfolio), the Company entered into forward contracts to sell long dated U.S. treasury bonds with a notional amount of $95.0 million and $175.0 million at March 31, 2017 and December 31, 2016, respectively. These contracts have an average term to maturity of less than one year and may be renewed at market rates.

Foreign Exchange Forward Contracts

The Company is currently exposed to currency rate fluctuations through its holding of foreign investments. Foreign currency contracts denominated in Euros are used to manage certain foreign currency exposures arising from foreign currency denominated investments. These foreign currency contracts require no initial net cash investment and at inception the fair value is zero. These contracts have a term to maturity of less than one year and may be renewed at market rates.

Counterparty Risk

The Company endeavors to limit counterparty risk through the terms of master netting agreements negotiated with the counterparties to its derivative contracts. Pursuant to these agreements, the counterparties to these transactions are contractually required to deposit eligible collateral in collateral accounts (subject to certain minimum thresholds) for the benefit of the Company depending on the then current fair value of the derivative contracts. Agreements negotiated with counterparties also provide for a single net settlement of all financial instruments covered by the agreement in the event of default by the counterparty, thereby permitting obligations owed by the Company to a counterparty to be offset to the extent of the aggregate amount receivable by the Company from that counterparty (“net settlement arrangements”).

The following table sets out the Company’s exposure to credit risk related to the counterparties to its derivative contracts:

(In thousands)		March 31, 2017		December 31, 2016
Total derivative assets (a)	$	6,560	$	7,487
Impact of net settlement arrangements		(2,757)		(3,089)
Fair value of collateral deposited for the benefit of the Company not recorded as assets of the Company (U.S. Treasury notes and bonds)		(2,803)		(3,884)
Net derivative counterparty exposure after net settlement and collateral arrangements	$	1,000	$	514

(a) Excludes equity warrants with a fair value of $482,000 and $31,000 at March 31, 2017 and December 31, 2016, respectively, which are not subject to counterparty risk.

The net derivative counterparty exposure after net settlement and collateral arrangements relates principally to the timing of collateral placement.

At March 31, 2017 and December 31, 2016, the Company pledged to its counterparties securities with a fair value of $9.6 million and $19.9 million, respectively, as independent collateral for CPI-linked, U.S. government bond forward and long equity total return swap derivative contracts and recorded this amount as assets pledged for derivative obligations in the Company’s Consolidated Balance Sheets.

As of March 31, 2017 and December 31, 2016, the counterparties pledged $2.8 million and $5.5 million, respectively, of securities at fair value for the Company’s benefit. The Company does not record in its Consolidated Balance Sheets securities pledged by counterparties as collateral for derivatives in a gain position.

Offsetting of Derivative Assets/Liabilities

The Company entered into master netting agreements with certain of its derivative counterparties whereby the collateral provided (held) is calculated on a net basis. In accordance with GAAP, the Company elected not to offset derivative assets and liabilities in the Consolidated Balance Sheets for the counterparties with the master netting agreement. The following table summarizes by counterparty (1) the gross and net amounts reflected as derivative assets (excluding equity warrants) and liabilities in the Consolidated Balance Sheets; (2) the gross amounts of the derivative instruments eligible for netting but not offset in the Consolidated Balance Sheets; and (3) financial collateral received and pledged which is contractually permitted to be offset upon an event of default, but is not allowed to be presented net under GAAP (net amount of exposure).

(In thousands)	Gross and net amounts reflected in the Consolidated Balance Sheets	Gross amounts not offset in the Consolidated Balance Sheets: Derivative asset (liability)	Gross amounts not offset in the Consolidated Balance Sheets: Collateral provided (held) - financial instruments (a)	Net amount of exposure
March 31, 2017				
Derivative assets:				
Citibank, N.A.	$ 4,896	$ (1,970)	$ (1,992)	$ 934
Deutsche Bank AG London	877		(811)	66
Bank of America	787	(787)		
Total derivative assets (b)	$ 6,560	$ (2,757)	$ (2,803)	$ 1,000
Derivative liabilities:				
Citibank, N.A.	$ (1,970)	$ 1,970		
Bank of America	(972)	787		$ (185)
Bank of New York Mellon (c)	(243)			(243)
Total derivative liabilities	$ (3,185)	$ 2,757		$ (428)
December 31, 2016				
Derivative assets:				
Citibank, N.A.	$ 6,168	$ (3,089)	$ (3,079)	
Deutsche Bank AG London	973		(805)	$ 168
Bank of New York Mellon (c)	346			346
Total derivative assets (b)	$ 7,487	$ (3,089)	$ (3,884)	$ 514
Derivative liabilities:				
Citibank, N.A.	$ (3,089)	$ 3,089		
Total derivative liabilities	$ (3,089)	$ 3,089		

(a) Amounts of collateral pledged to the Company by the counterparties (collateral held) and pledged by the Company to the counterparties (collateral provided) reflected above are to the extent of the net counterparty exposure before collateral.

(b) Excludes equity warrants with a fair value of $482,000 and $31,000 at March 31, 2017 and December 31, 2016, respectively, which are not subject to counterparty risk.

(c) Represents foreign currency contracts that are not subject to a master netting arrangement.

Note 4. Fair Value Measurements

Fair values for substantially all of the Company's financial instruments are measured using market or income approaches. Considerable judgment may be required in interpreting market data used to develop estimates of fair value. Accordingly, actual values realized in future market transactions may differ from the estimates presented in these consolidated financial statements. In determining fair value, the Company primarily uses prices and other relevant information generated by market transactions involving identical or comparable assets ("market approach"). The Company also considers the impact of a significant decrease in volume and level of activity for an asset or liability when compared with normal activity to identify transactions that are not orderly.

Fair value measurements are determined under a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value, distinguishing between market participant assumptions developed based on market data obtained from sources independent of the reporting entity ("observable inputs") and the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances ("unobservable inputs"). The hierarchy level assigned to each security carried at fair value is based on the Company's assessment of the transparency and reliability of the inputs used in the valuation of each instrument at the measurement date. The highest priority is given to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Securities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company recognizes transfers between levels at the end of each reporting period in which the transfer is identified. The three hierarchy levels are defined as follows:

Level 1— Inputs represent unadjusted quoted prices for identical instruments exchanged in active markets. The fair values of publicly traded equity securities, highly liquid cash management funds and short-term U.S. Government securities are based on published quotes in active markets.

Level 2— Inputs include directly or indirectly observable inputs (other than Level 1 inputs) such as quoted prices for similar financial instruments exchanged in active markets, quoted prices for identical or similar financial instruments exchanged in inactive markets and other market observable inputs. The fair value of the vast majority of the Company's investments in fixed maturity securities along with most derivative contracts (including short and long equity and equity-index total return swaps, foreign exchange forward contracts, U.S. government bond forward contracts) are priced based on information provided by independent pricing service providers while much of the remainder are based primarily on non-binding third party broker-dealer quotes that are prepared using Level 2 inputs. Where third party broker-dealer quotes are used, typically one quote is obtained from a broker-dealer with particular expertise in the instrument being priced. Certain common stock investments which are measured at fair value using the net asset value per share ("NAV") practical expedient have been excluded due to a change in accounting guidance.

Level 3— Inputs include unobservable inputs used in the measurement of financial instruments. Management is required to use its own assumptions regarding unobservable inputs as there is little, if any, market activity in these instruments or related observable inputs that can be corroborated at the measurement date. Certain cost-method partnership investments which are measured at fair value using the NAV practical expedient have been excluded due to a change in accounting guidance. Investments for which NAV is only a component of the fair value measurement continue to be included.

The following table presents the Company's investments measured at fair value on a recurring basis as of March 31, 2017 and December 31, 2016 classified by the valuation hierarchy discussed previously:

		Fair Value Measurement Using		
(In thousands)	Total	Level 1	Level 2	Level 3
March 31, 2017				
Fair value option securities:				
Fixed maturity securities:				
State and local government debt	$ 440,105		$ 440,105	
U.S. government debt	8,962		8,962	
Corporate debt	33,005			$ 33,005
Total fixed maturity securities	482,072		449,067	33,005
Equity securities (a)	268,074	$ 221,558		
Short-term investments	722,036	722,036		
Total fair value option investments	$ 1,472,182	$ 943,594	$ 449,067	$ 33,005
Available-for-sale investments:				
Equity securities	$ 14,653		$ 42	$ 14,611
Total available-for-sale investments	$ 14,653		$ 42	$ 14,611
Derivatives:				
Equity total return swaps – long positions	$ 787		$ 787	
Equity warrants	482		35	$ 447
CPI-linked derivative contracts	5,773			5,773
Total derivative assets	7,042		822	6,220
Equity total return swaps – long positions	(972)		(972)	
U.S. government bond forward contracts	(1,970)		(1,970)	
Foreign exchange forward contracts	(243)		(243)	
Total derivative liabilities	(3,185)		(3,185)	
Net derivatives	$ 3,857		$ (2,363)	$ 6,220
December 31, 2016				
Fair value option securities:				
Fixed maturity securities:				
State and local government debt	$ 551,343		$ 551,343	
U.S. government debt	13,435		13,435	
Corporate debt	26,803		7,200	$ 19,603
Total fixed maturity securities	591,581		571,978	19,603
Equity securities (a)	256,634	$ 211,621		
Short-term investments	664,269	664,269		
Total fair value option investments	$ 1,512,484	$ 875,890	$ 571,978	$ 19,603
Available-for-sale investments:				
Equity securities	$ 14,485		$ 41	$ 14,444
Total available-for-sale investments	$ 14,485		$ 41	$ 14,444
Derivatives:				
Equity warrants	$ 31		$ 31	
CPI-linked derivative contracts	7,141			$ 7,141
Foreign exchange forward contracts	346		346	
Total derivative assets	7,518		377	7,141
U.S. government bond forward contracts	(3,089)		(3,089)	
Total derivative liabilities	(3,089)		(3,089)	
Net derivatives	$ 4,429		$ (2,712)	$ 7,141

(a) In accordance with recent accounting guidance, certain common stock investments with a fair value of $46.5 million and $45.0 million that are measured using the NAV practical expedient have not been classified in the fair value hierarchy at March 31, 2017 and December 31, 2016, respectively. The fair value amounts presented in the "Total" column are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Consolidated Balance Sheets.

The following table presents changes in the Company's Level 3 fixed maturity, equity securities, and derivatives measured at fair value on a recurring basis:

(In thousands)		Corporate Debt		Equity Securities		Derivatives
Balance at December 31, 2016	$	19,603	$	14,444	$	7,141
Purchases		3,589				474
Realized and unrealized gains/losses included in:						
Other comprehensive income (a)				167		
Change in net unrealized gains/losses on fair value option investments		2,445				
Net losses on derivatives						(1,395)
Transfers from Level 2 to Level 3 (b)		7,368				
Balance at March 31, 2017	$	33,005	$	14,611	$	6,220
Balance at December 31, 2015	$	22,195	$	17,142	$	22,801
Realized and unrealized gains/losses included in:						
Other comprehensive loss (a)				(415)		
Change in net unrealized gains/losses on fair value option investments		(486)				
Net losses on derivatives						(3,416)
Balance at March 31, 2016	$	21,709	$	16,727	$	19,385

(a) Change in unrealized gains/losses for equity securities include change in fair value and foreign currency fluctuation.

(b) In 2017, two private placement corporate debt securities were transferred from Level 2 to Level 3 due to the modification of terms and a change in the observability of a key valuation input.

The following table provides information on the valuation techniques, significant unobservable inputs and ranges for each major category of Level 3 assets measured at fair value on a recurring basis at March 31, 2017:

(In thousands)		Balance at March 31, 2017	Valuation Techniques	Significant Unobservable Inputs
Corporate debt (a)	$	33,005	Market approach	Credit spread of issuer
Equity securities, available-for-sale (b)	$	14,611	Market approach	Estimated NAV multiple
CPI-linked derivatives (c)	$	5,773	Market approach	Broker quotes
Equity warrants (d)	$	447	Market approach	Probability of the issuer receiving requisite shareholder approval to issue additional shares

(a) The Level 3 corporate debt securities consist of two convertible bonds with the fair values determined using a Black-Scholes Model and three private placement debt securities with the fair value obtained from Bloomberg valuation services and a broker quote. Prices for identical instruments are not available and significant subjectivity may be involved when fair value is determined using pricing data available for comparable instruments. Two of the private debt securities were previously classified as Level 2 investments and transferred into Level 3 as of March 31, 2017.

(b) The Level 3 equity securities consist primarily of common stock of a company based in the United Kingdom with a fair value estimated as NAV multiple because a significant portion of its NAV, excluding cash balances, is comprised of real estate holdings supported by appraisals. The estimated fair value of this equity security also includes foreign currency fluctuations and considers the value of an unrecognized tax loss carryforward.

(c) The Level 3 CPI-linked derivatives are valued using broker-dealer quotes which management has determined use market observable inputs except for the inflation volatility input which is not market observable.

(d) The Level 3 equity warrants were received in connection with the three private placement debt securities, described in (a) above and are valued using an internal valuation model using both observable and unobservable inputs.

Note 5. Related Party Transactions

Investments

Management of all of the Company's investments is centralized at Fairfax through investment management agreements entered into in 2010. The parties to these agreements are Zenith National's insurance subsidiaries, Fairfax and Hamblin Watsa Investment Counsel, Ltd. ("HWIC"), a Fairfax affiliate. Investment management expenses incurred under these agreements for the three months ended March 31, 2017 and 2016 were $1.2 million and $1.3 million, respectively.

The Company owns common shares in various mutual fund classes of HWIC Asia which is a wholly-owned subsidiary of Fairfax. At March 31, 2017 and December 31, 2016, the aggregate fair value of these investments was $46.5 million and $45.0 million, respectively. Changes in fair value for these investments are recorded in the change in net unrealized gains/losses on fair value option investments in the Consolidated Statements of Comprehensive Income (Loss). During the three months ended March 31, 2017, the Company recorded a net increase in unrealized gains/losses of $1.5 million on these investments. During the three months ended March 31, 2016, the Company recorded a net increase in unrealized gains/losses of $0.1 million, realized loss of $0.4 million and dividend income of $0.3 million on these investments.

The Company owns common stock in publicly-traded and private companies and invests in limited partnerships which are affiliates of Fairfax (including the investments described in the following paragraphs). These investments are recorded under the equity-method of accounting. At March 31, 2017 and December 31, 2016, the aggregate value of these investments recorded in the Consolidated Balance Sheets was $191.2 million and $105.3 million, respectively. See Note 2.

In March 2017, we invested $21.0 million in Farmers Edge Inc., a private Canadian company that became an affiliate of Fairfax and the Company simultaneously with our investment.

In February 2017, the Company invested $35.0 million in the newly issued common stock of Fairfax Africa Holdings Corp. ("Fairfax Africa"), as part of the initial public offering ("Offering"). Fairfax Africa became an affiliate of the Company simultaneously with this investment. Concurrent with the closing of the Offering, the Company's investment in Agrigroupe LP ("Agrigroupe") carried at $10.0 million was contributed to Fairfax Africa at its estimated fair value of $11.2 million. The Company recorded its share of Agrigroupe's net loss through the disposition date of $1.2 million in net investment income, and recognized realized gain of $2.4 million on the disposition of Agrigroupe.

In January 2017, the Company invested an additional $2.5 million in Fairfax India Holdings Corp. ("FIH"), an affiliate of Fairfax, as part of the additional share offering. The carrying value of this investment of $14.8 million as of March 31, 2017 represents the Company's cost plus its share of FIH's earnings, cumulative translation adjustment and other changes in equity, as well as realized loss on dilution resulted from additional shares issued in February 2015, soon after the initial public offering.

In January 2017, the Company invested $3.8 million in 2018296 Alberta ULC ("Alberta"), a private Canadian company wholly owned by Fairfax. Alberta was established for the purposes of investing in Mosaic Capital Corporation, a Canadian investment company. Alberta became an affiliate of Fairfax and the Company simultaneously with this investment.

In January 2017, the Company invested $4.8 million in Astarta Holding N.V. ("Astarta"), a Netherland company whose common stock is publicly traded on the Polish stock exchange. Astarta became an affiliate of Fairfax and the Company shortly after this investment.

In December 2016, the Company invested $10.0 million in the common shares of 99388983 Canada Inc., a private Canadian company ("Performance Sports") that became an affiliate of Fairfax simultaneously with this investment. Performance Sports provided a debtor-in-possession financing to Performance Sports Group Ltd. ("PSG"), a Canadian company in the process of restructuring. On March 1, 2017, substantially all of the assets and certain related operating liabilities of PSG were sold to Performance Sports. In connection with this transaction, the Company recorded $0.3 million of dividend income of which $0.1 million was received in cash and the remaining $0.2 million was "paid-in-kind" in the form of additional common shares of Performance Sports. The carrying value of our investment in Performance Sports was $10.2 million and $10.0 million as of March 31, 2017 and December 31, 2016, respectively.

In June 2016, the Company invested $15.0 million in Davos Brands LLC ("Davos"), a U.S. limited liability company involved in manufacturing and distributing luxury alcohol brands including sake, vodka and other spirits. Fairfax affiliates and the Company own approximately 35% and 11% of Davos, respectively. The Company's investment in Davos has previously been classified as a non-affiliated partnership investment based on the uncertainty of obtaining regulatory approval from liquor licensing boards in Canada and the U.S. During the first quarter of 2017, Fairfax received regulatory approval from most jurisdictions. Due to this change in circumstances, Fairfax and the Company classified this investment as an affiliated equity-method partnership as of March 31, 2017.

As of December 31, 2015, the Company owned a common stock investment in APR Energy Plc. that was privatized through a consortium of investors including Fairfax during the first quarter of 2016. In connection with the terms of the privatization deal, the Company, along with other Fairfax affiliates, invested $35.0 million in the common stock shares of the newly formed entity. Existing shares with a fair value of $7.9 million were subsequently converted into shares of the newly formed entity in February 2016. The newly formed entity became an affiliate of Fairfax simultaneous with the privatization transaction. The carrying value of this investment of $41.6 million and $37.9 million as of March 31, 2017 and December 31, 2016, respectively, was recorded under the equity-method of accounting, with the Company's share of net income of this investee subsequent to the privatization of $3.7 million for the three months ended March 31, 2017 recorded in net investment income (see Note 2).

Other

The Company continues to be a party to various reinsurance treaties with affiliates of Fairfax that were entered into in the ordinary course of business, primarily excess of loss reinsurance agreements with Odyssey Re for 2010 through 2016. In the fourth quarter 2016, the Company commuted a quota-share ceded reinsurance contract with Odyssey Re, received cash of $2.4 million in full and final settlement of the contract, and recorded a loss of $0.6 million. At March 31, 2017 and December 31, 2016, the Company recorded net reinsurance recoverables of $27,000 and $0.1 million, respectively, related to the reinsurance transactions with the affiliates of Fairfax.

Zenith National paid Fairfax $0.1 million in each of the three months ended March 31, 2017 and 2016, for the cost of the open market purchase made by Fairfax on Zenith National's behalf of Fairfax Subordinate Voting Shares granted to certain officers under the Restricted Stock Plan.

In April 2015, Zenith National entered into an agreement with MFXchange US, Inc., an indirect, wholly-owned subsidiary of Fairfax, to provide information technology services to Zenith National. The Company recorded expenses of $0.1 million in each of the three months ended March 31, 2017 and 2016.

In November 2014, the Company entered into a Master Administrative Services Agreement with various affiliates of Fairfax. Under the agreement, the affiliated parties provide and receive administration services such as accounting, underwriting, claims, reinsurance, preparation of regulatory reports, and actuarial services. The Company began providing claims processing services for Seneca Insurance Company, Inc.

("Seneca") under this agreement in March 2016 and recorded service fee income of $0.1 million and $37,000 in the three months ended March 31, 2017 and 2016, respectively, in the Consolidated Statements of Comprehensive Income (Loss) which is substantially offset by costs of dedicated staff and allocated shared services. Other liabilities at March 31, 2017 and December 31, 2016, respectively, include a loss fund of $0.6 million maintained by the Company to process future workers' compensation claim payments on behalf of Seneca.

In March 2013, the Company entered into an agreement with TIG Insurance Company ("TIG") to become their primary workers' compensation claims service provider. The Company recorded service fee income of $2.3 million and $2.1 million in the three months ended March 31, 2017 and 2016, respectively, in the Consolidated Statements of Comprehensive Income (Loss) which is substantially offset by costs of dedicated staff and allocated shared services. Other liabilities at March 31, 2017 include a net liability of $2.3 million which includes net loss fund liability of $3.7 million reduced by a service fee income receivable of $1.4 million. Other liabilities at December 31, 2016 include a net liability of $2.5 million which includes net loss fund liability of $3.4 million reduced by a service fee income receivable of $0.9 million.

The insurance subsidiaries are subject to insurance regulations, which restrict their ability to distribute dividends. The maximum dividend which can be paid to Zenith National by Zenith Insurance Company without prior approval from the California DOI during 2017 is $115.2 million. In December 2016, Zenith Insurance Company paid ordinary dividends of $80.0 million to Zenith National. In January 2016, Zenith National paid a $55.0 million ordinary dividend to affiliates of Fairfax with the proceeds from the sale of its investment in common shares of a mutual fund which is a wholly-owned subsidiary of Fairfax.

The maximum dividend which can be paid to Zenith Insurance Company by ZNAT Insurance Company ("ZNAT"), a wholly owned subsidiary of Zenith Insurance Company, without prior approval of the California DOI during 2017 is $2.7 million.

Note 6. Reinsurance Recoverable

Amounts recoverable for paid and unpaid losses from reinsurers at March 31, 2017 and December 31, 2016 and their respective A.M. Best ratings were as follows:

(In thousands)		March 31, 2017(a)		December 31, 2016 (a)	A.M. Best Rating (b)	A.M. Best Rating Date
General Reinsurance Corp.	$	54,443	$	55,955	A++	12/2016
Inter-Ocean Re Ins Co. Ltd. (c)		3,874		3,902	NR	
National Union Fire Ins. Co. of Pittsburgh		1,723		1,294	A	1/2017
Lloyds Underwriters		783		1,085	A	9/2016
All others (d)		6,691		7,421		
Total	$	67,514	$	69,657		

(a) Under insurance regulations in California, reinsurers placed securities on deposit equal to the California component of the Company's ceded workers' compensation loss reserves.

(b) A.M. Best, in assigning ratings, is primarily concerned with the ability of insurance and reinsurance companies to pay the claims of policyholders. In the A.M. Best ratings scheme, ratings of B+ to A++ are considered "Secure" and ratings of B and below are considered "Vulnerable." NR means A.M. Best does not rate the reinsurer.

(c) Reinsurance recoverable from the Inter-Ocean Re Ins Co. Ltd. is fully secured by an investment grade security held in a bank trust account on the Company's behalf.

(d) No individual reinsurer in excess of $0.8 million and $1.0 million at March 31, 2017 and December 31, 2016, respectively.

Note 7. Other Comprehensive Income (Loss)

Other comprehensive income (loss) is comprised of changes in unrealized gains/losses on investments classified as available-for-sale, other investments in cost-method partnerships, other investments in equity-method common stocks and foreign currency translation adjustments. The following table summarizes the components of the Company's other comprehensive income:

(In thousands)		Pre-Tax		Income Tax Effect		After-Tax
Three months ended March 31, 2017						
Net unrealized gains arising during the period	$	1,926	$	674	$	1,252
Change in unrealized foreign currency translation adjustment		(1,020)		(357)		(663)
Total other comprehensive income	$	906	$	317	$	589
Three months ended March 31, 2016						
Net unrealized losses arising during the period	$	(1,086)	$	(380)	$	(706)
Less: reclassification adjustment for net realized gains included in net loss		(11)		(4)		(7)
Change in unrealized foreign currency translation adjustment		(1,172)		(410)		(762)
Total other comprehensive loss	$	(2,269)	$	(794)	$	(1,475)

The following table summarizes the net unrealized gains (losses) on available-for-sale, other investments in cost-method partnerships, other investments in equity-method common stocks and foreign currency translation adjustment recognized in accumulated other comprehensive loss:

(In thousands)		March 31, 2017		December 31, 2016
Equity securities	$	(6,141)	$	(6,309)
Other investments in cost-method partnerships		3,135		1,511
Other investments in equity-method common stocks		134		
Net unrealized loss on investments, before tax		(2,872)		(4,798)
Deferred tax benefit		(1,005)		(1,679)
Net unrealized loss on investments, after tax		(1,867)		(3,119)
Net unrealized loss on foreign currency translation adjustment, before tax		(6,786)		(5,766)
Deferred tax benefit		(2,375)		(2,018)
Net unrealized loss on foreign currency translation adjustment, after tax		(4,411)		(3,748)
Total accumulated other comprehensive loss	$	(6,278)	$	(6,867)

Note 8. Stock-Based Compensation

The following table provides information regarding the Fairfax Subordinate Voting Shares under the Restricted Stock Plan:

	Number of Shares
Authorized for purchases and grants at plan inception in 2010	200,000
Purchased and restricted	(48,577)
Vested	(33,920)
Purchased and available for future grants	(326)
Available for future purchases at March 31, 2017	117,177

The following represents open market purchases of Fairfax Subordinate Voting Shares under the Restricted Stock Plan which also resulted in charges to the Company's Stockholders' equity:

(Dollars in thousands, except share data)	Number of Shares	Weighted Average Purchase Price Per Share	Total Purchase Price
Purchased through December 31, 2011	29,970	$ 388.11	$ 11,632
Purchased in 2012	10,554	381.59	4,027
Purchased in 2013	6,145	390.86	2,402
Purchased in 2014	5,898	501.47	2,958
Purchased in 2015	19,844	486.34	9,651
Purchased in 2016	10,191	443.31	4,518
Purchased in 2017	221	465.88	103
Total purchased since plan inception	82,823	426.10	$ 35,291

Changes in the restricted shares outstanding were as follows:

(Dollars in thousands, except share data)	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Grant Date Fair Value
Restricted Shares at December 31, 2013	29,426	$ 385.67	$ 11,348
Granted during 2014	7,600	390.92	2,971
Forfeited during 2014	(1,281)	382.53	(490)
Vested during 2014	(3,908)	385.40	(1,506)
Restricted Shares at December 31, 2014	31,837	387.08	12,323
Granted during 2015	15,423	518.20	7,993
Forfeited during 2015	(50)	514.49	(26)
Vested during 2015	(11,411)	388.29	(4,431)
Restricted Shares at December 31, 2015	35,799	443.01	15,859
Granted during 2016	10,183	449.52	4,577
Forfeited during 2016	(240)	479.30	(115)
Vested during 2016	(4,296)	394.01	(1,692)
Restricted Shares at December 31, 2016	41,446	449.48	18,629
Granted during 2017	12,360	439.04	5,426
Forfeited during 2017	(2,167)	418.80	(907)
Vested during 2017	(3,062)	384.78	(1,178)
Restricted Shares at March 31, 2017	48,577	452.27	$ 21,970

Stock-based compensation expense before tax was $0.8 million and $0.6 million for the three months ended March 31, 2017 and 2016, respectively.

Unrecognized compensation expense before tax under the Restricted Stock Plan was $15.9 million and $12.2 million at March 31, 2017 and December 31, 2016, respectively.

Note 9. Commitments and Contingencies

The Company is involved in various litigation proceedings that arise in the ordinary course of business. Disputes adjudicated in the workers' compensation administrative systems may be appealed to review boards or civil courts, depending on the issues and local jurisdictions involved. From time to time, plaintiffs also sue the Company on theories falling outside of the exclusive jurisdiction and remedies of the workers' compensation claims adjudication systems. Certain of these legal proceedings seek injunctive relief or substantial monetary damages, including claims for punitive damages, which may not be covered by reinsurance agreements. Historically, the Company has not experienced any material exposure or damages from any of these legal proceedings. In addition, in the opinion of management, after consultation with legal counsel, currently outstanding litigation is either without merit or the ultimate liability, if any, is not expected to have a material adverse effect on the Company's consolidated financial condition, results of operations or cash flows.

Note 10. Recent Accounting Guidance Not Yet Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued new guidance on how an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance does not apply to contracts within the scope of other standards (for example, insurance contracts or lease contracts). In August 2015, the FASB deferred the effective date of this new guidance by one year. This guidance is now effective for annual reporting periods beginning after December 15, 2018 and interim periods thereafter. Early adoption is not permitted. The guidance is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In February 2015, the FASB amended the consolidation guidance, including the guidance related to determining whether an entity is a variable interest entity ("VIE"). In October 2016, the FASB issued additional guidance which amends the consolidation guidance on how a reporting entity that is a single decision maker of a VIE should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. The primary beneficiary of a VIE is the reporting entity that has a controlling financial interest in a VIE and, therefore, consolidates the VIE. A reporting entity has an indirect interest in a VIE if it has a direct interest in a related party that, in turn, has a direct interest in the VIE. The amended consolidation guidance is effective for annual reporting periods beginning after December 15, 2016, and interim periods thereafter. Early adoption is permitted. The guidance is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In May 2015, the FASB issued new guidance which requires insurance entities to provide additional disclosures related to claims liabilities related to short-duration contracts. The additional disclosure requirements include: (1) the claims development information by accident year, net of reinsurance, for the number of years for which claims incurred remain outstanding but not to exceed the most recent 10 years; (2) a reconciliation of claims development information and the aggregate carrying amount of the liability for unpaid claims and claim adjustment expenses; and (3) information about the claims frequency and the amount of the incurred-but-not-reported liabilities for each accident year presented. In addition, a description of the methodologies and assumptions used to determine the amounts disclosed and significant changes in methodologies and assumptions are required. The roll forward of the liability for unpaid claims and claims adjustment expenses, currently required only for annual periods, will also be required for interim periods. The guidance will be effective for annual periods beginning after December 15, 2016 and interim periods thereafter. Early adoption is permitted. This guidance is not expected to have a material impact on the Company's financial statements.

In January 2016, the FASB issued updated guidance to address the recognition, measurement, presentation, and disclosure of certain financial instruments. The updated guidance requires equity investments, except those accounted for under the equity method of accounting, that have readily determinable fair value to be measured at fair value with changes in fair value recognized in net income. Equity investments that do not have readily determinable fair values may be remeasured at fair value either upon the occurrence of an observable price change or upon identification of impairment. A qualitative assessment for impairment is required for equity investments without readily determinable fair values. The updated guidance also eliminates the requirement to disclose the method and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost on the balance sheet. The updated guidance is effective for annual periods beginning after December 15, 2018 and interim periods thereafter and will require recognition of a cumulative effect adjustment at adoption. The guidance is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In February 2016, the FASB issued updated guidance to require lessees to recognize a right-to-use asset and a lease liability for leases with terms of more than 12 months. The updated guidance retains the two classifications of a lease as either an operating or finance lease (previously referred to as a capital lease). Both lease classifications require the lessee to record the right-to-use asset and the lease liability based upon the present value of cash flows. Finance leases will reflect the financial arrangement by recognizing interest expense on the lease liability separately from the amortization expense of the right-to-use asset. Operating leases will recognize lease expense (with no separate recognition of interest expense) on a straight-line basis over the term of the lease. The accounting by lessors is not significantly changed by the updated guidance. The updated guidance requires expanded qualitative and quantitative disclosures, including additional information about the amounts recorded in the financial statements. The updated guidance is effective for annual periods beginning after December 15, 2019 and interim periods thereafter, and will require that the earliest comparative period presented include the measurement and recognition of existing leases with an adjustment to equity as if the updated guidance had always been applied. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In March 2016, the FASB issued updated guidance to simplify and improve several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liability, and classification on the statement of cash flows. Additionally, the updated guidance allows an entity to make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or recognize forfeitures of awards when they occur. The updated guidance is effective for annual periods beginning after December 15, 2017 and interim periods thereafter. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In June 2016, the FASB issued new guidance which requires a financial asset (or a group of financial assets) measured at amortized cost to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value of the amount expected to be collected on the financial asset. The guidance broadens the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually; measurement of expected credit losses will be based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. Furthermore, the new guidance requires credit losses relating to available-for-sale securities to be recorded through an allowance for credit losses, and an entity will be able to record reversals of credit losses in current period net income. The guidance is effective for annual periods beginning after December 15, 2020 and interim periods thereafter. All entities may adopt this guidance as early as periods beginning after December 15, 2018. The guidance is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In August 2016, the FASB issued new guidance which addresses how certain cash receipts and cash payments are presented and classified on the statement of cash flows. The guidance will be effective for annual periods beginning after December 15, 2018 and interim periods thereafter. Early adoption is permitted. This guidance is not expected to have a material impact on the Company's financial statements.

In October 2016, the FASB issued new guidance which requires recognition of current and deferred income taxes resulting from an intra-entity transfer of any asset (excluding inventory) when the transfer occurs. This is a change from existing GAAP which prohibits recognition of current and deferred income taxes until the asset is sold to a third party. The guidance will be effective for annual periods beginning after December 15, 2018 and interim periods thereafter. Early adoption is permitted. This guidance is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In November 2016, the FASB issued new guidance on how entities should present restricted cash and restricted cash equivalents in the statement of cash flows. The guidance requires entities to present the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. The guidance will be effective for annual periods beginning after December 15, 2018 and interim periods thereafter. Early adoption is permitted. The guidance is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In January 2017, the FASB issued new guidance to simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Under the new guidance, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value. The guidance will be effective for annual periods or any interim goodwill impairment tests beginning after December 15, 2021. Early adoption is permitted. The guidance is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In March 2017, the FASB issued updated guidance to shorten the amortization period for certain callable debt securities held at a premium. The guidance requires the premium to be amortized to the earliest call date, however, securities held at a discount will continue to be amortized to maturity. The guidance will be effective for annual periods beginning after December 15, 2019, and interim periods thereafter. Early adoption is permitted. This guidance is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.