Zenith National Insurance Corp. and Subsidiaries

Consolidated Financial Statements and Supplementary Consolidating Information
December 31, 2015 and 2014 and for the Three Years Ended December 31, 2015

Zenith National Insurance Corp. and Subsidiaries
Consolidated Financial Statements

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Independent Auditor's Report

To Management of Zenith National Insurance Corp.:

We have audited the accompanying consolidated financial statements of Zenith National Insurance Corp. and its subsidiaries (collectively, the "Company"), which comprise the consolidated balance sheets as of December 31, 2015 and December 31, 2014, and the related consolidated statements of comprehensive income (loss), cash flows and stockholders' equity for each of the three years in the period ended December 31, 2015.

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.

Auditor's 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 Zenith National Insurance Corp. and its subsidiaries at December 31, 2015 and December 31, 2014, and the results of their operations and their cash flows for the three years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

February 18, 2016

ZENITH NATIONAL INSURANCE CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)	December 31, 2015	December 31, 2014
Assets:		
Investments:		
Fixed maturity securities, at fair value (amortized cost $765,780 in 2015 and $683,951 in 2014)	$ 796,335	$ 744,438
Equity securities, at fair value (cost $553,678 in 2015 and $439,139 in 2014)	480,791	469,618
Short-term investments, at fair value (cost $444,695 in 2015 and $407,668 in 2014)	444,695	407,129
Mortgage loan, at unpaid principal balance		29,675
Other investments	76,055	76,760
Derivative assets, at fair value (cost $40,829 in 2015 and $39,161 in 2014)	39,495	34,002
Assets pledged for derivative obligations, at fair value (amortized cost $22,821 in 2015 and $67,157 in 2014)	25,876	73,182
Total investments	1,863,247	1,834,804
Cash	22,739	33,926
Accrued investment income	8,963	8,872
Premiums receivable	30,060	27,700
Reinsurance recoverables	80,155	146,619
Deferred policy acquisition costs	10,657	9,895
Deferred tax asset	52,139	34,629
Income tax receivable	17,037	4,245
Goodwill	20,985	20,985
Other assets	53,684	57,179
Total assets	$ 2,159,666	$ 2,178,854
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 1,250,163	$ 1,300,378
Unearned premiums	78,451	74,497
Policyholders' dividends accrued	25,379	11,010
Long-term debt	38,440	38,434
Derivative liabilities	1,436	7,953
Other liabilities	67,756	67,494
Total liabilities	1,461,625	1,499,766
Commitments and contingencies (see Note 15)		
Stockholders' equity:		
Common stock, $1 par value, 40 authorized shares; 39 shares issued and outstanding	39	39
Additional paid-in capital	402,593	409,384
Retained earnings	298,842	270,677
Accumulated other comprehensive loss	(3,433)	(1,012)
Total stockholders' equity	698,041	679,088
Total liabilities and stockholders' equity	$ 2,159,666	$ 2,178,854

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

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

	Year Ended December 31,		
(In thousands)	2015	2014	2013
Revenues:			
Net premiums earned	$ 766,366	$ 714,305	$ 673,813
Net investment income	47,969	22,020	23,669
Net realized gains on investments	28,370	31,638	65,153
Change in net unrealized gains/losses on fair value option investments	(135,400)	67,276	(52,075)
Net gains (losses) on derivatives	44,162	13,638	(134,306)
Service fee income	8,522	6,371	3,171
Total revenues	759,989	855,248	579,425
Expenses:			
Losses and loss adjustment expenses incurred	357,381	377,141	420,174
Underwriting and other operating expenses:			
Policy acquisition costs	130,632	122,506	118,436
Underwriting and other costs	126,954	122,558	116,202
Policyholders' dividends	27,309	10,116	5,328
Interest expense	3,321	3,321	3,321
Total expenses	645,597	635,642	663,461
Income (loss) before tax	114,392	219,606	(84,036)
Income tax expense (benefit) before valuation allowance on deferred tax asset	36,227	70,714	(36,117)
Increase (decrease) in valuation allowance on deferred tax asset		(95,084)	39,222
Net income (loss)	$ 78,165	$ 243,976	$ (87,141)
Net change in unrealized gains/losses on available-for-sale and other investments, net of tax and reclassification adjustment	(871)	1,496	(3,651)
Change in unrealized foreign currency translation adjustment, net of tax	(1,550)	(1,251)	(2,112)
Other comprehensive income (loss)	(2,421)	245	(5,763)
Total comprehensive income (loss)	$ 75,744	$ 244,221	$ (92,904)

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

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

	Year Ended December 31,		
(In thousands)	2015	2014	2013
Cash flows from operating activities:			
Premiums collected	$ 777,803	$ 730,205	$ 702,963
Investment income received	22,312	21,394	22,990
Losses and loss adjustment expenses paid	(339,358)	(379,491)	(378,476)
Underwriting and other operating expenses paid	(264,518)	(250,667)	(236,542)
Interest paid	(3,292)	(3,292)	(3,292)
Income taxes received (paid)	(65,224)	(14,638)	2,483
Net cash provided by operating activities	127,723	103,511	110,126
Cash flows from investing activities:			
Purchases of investments:			
Fixed maturity securities – fair value option	(67,322)		(230,949)
Equity securities – fair value option	(179,585)	(220,848)	(6,229)
Other investments	(27,516)	(39,079)	(2,309)
Derivatives	(1,668)	(12,563)	(3,377)
Proceeds from maturities and redemptions of investments:			
Fixed maturity securities – available-for-sale	13,457	23,176	62,583
Fixed maturity securities – fair value option	8,000	14,451	
Equity securities – available-for-sale	4,810		
Mortgage loan	29,675	480	480
Other investments	6,614	22,415	12,210
Proceeds from sales of investments:			
Fixed maturity securities – fair value option			190,142
Equity securities – fair value option	89,063	58,582	82,746
Other investments	38,665	14,661	8,961
Derivatives			227
Net decrease (increase) in short-term investments	(25,437)	31,325	(79,127)
Net derivative cash settlements	35,254	(7,727)	(123,237)
Capital proceeds (expenditures) and other	(3,269)	(3,303)	1,137
Net cash used in investing activities	(79,259)	(118,430)	(86,742)
Cash flows from financing activities:			
Dividends paid to common stockholders	(50,000)		
Capital contribution			10,000
Purchase of Fairfax shares for restricted stock awards	(9,651)	(2,958)	(2,402)
Net cash provided by (used in) financing activities	(59,651)	(2,958)	7,598
Net increase (decrease) in cash	(11,187)	(17,877)	30,982
Cash at beginning of year	33,926	51,803	20,821
Cash at end of year	$ 22,739	$ 33,926	$ 51,803

The accompanying notes are an integral part of these financial statements

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

	Year Ended December 31,		
(In thousands)	2015	2014	2013
Reconciliation of net income (loss) to net cash provided by operating activities:			
Net income (loss)	$ 78,165	$ 243,976	$ (87,141)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation expense	4,275	5,742	6,749
Net accretion	(1,554)	(690)	(226)
Net realized gains on investments	(28,370)	(31,638)	(65,153)
Change in net unrealized gains/losses on fair value option investments	135,400	(67,276)	52,075
Net losses (gains) on derivatives	(44,162)	(13,638)	134,306
Equity in losses/earnings of investee	(24,344)	(1,168)	580
Stock-based compensation expense	2,860	2,328	3,422
Decrease (increase) in:			
Accrued investment income	(91)	593	162
Premiums receivable	(1,679)	(2,467)	(4,926)
Reinsurance recoverables	66,464	20,802	12,129
Deferred policy acquisition costs	(762)	(769)	(2,205)
Net income taxes	(28,996)	(39,007)	5,586
Increase (decrease) in:			
Unpaid losses and loss adjustment expenses	(50,215)	(21,598)	28,147
Unearned premiums	3,954	4,069	18,228
Policyholders' dividends accrued	14,369	4,362	(219)
Accrued expenses	(986)	489	5,521
Other	3,395	(599)	3,091
Net cash provided by operating activities	$ 127,723	$ 103,511	$ 110,126

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

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

	Year Ended December 31,		
(In thousands)	2015	2014	2013
Common stock:			
Beginning of year	$ 39	$ 39	$ 38
Capital contribution			1
End of year	39	39	39
Additional paid-in capital:			
Beginning of year	409,384	410,014	398,995
Capital contribution			9,999
Stock-based compensation expense	2,860	2,328	3,422
Purchases of Fairfax shares for restricted stock awards	(9,651)	(2,958)	(2,402)
End of year	402,593	409,384	410,014
Retained earnings:			
Beginning of year	270,677	26,701	113,842
Net income (loss)	78,165	243,976	(87,141)
Dividends declared to common stockholders	(50,000)		
End of year	298,842	270,677	26,701
Accumulated other comprehensive income (loss):			
Beginning of year	(1,012)	(1,257)	4,506
Net change in unrealized gains/losses on available-for-sale and other investments, net of tax and reclassification adjustment	(871)	1,496	(3,651)
Change in unrealized foreign currency translation adjustment, net of tax	(1,550)	(1,251)	(2,112)
End of year	(3,433)	(1,012)	(1,257)
Total stockholders' equity	$ 698,041	$ 679,088	$ 435,497

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

Note 1. Basis of Presentation and Summary of Operations

Basis of Presentation

The accompanying Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include Zenith National Insurance Corp. ("Zenith National") and its subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Organization and Operations

Zenith National is a Delaware holding company, which is an indirect wholly-owned 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 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.

Use of Estimates

GAAP requires the use of assumptions and estimates in reporting certain assets and liabilities and related disclosures. Actual results could differ from those estimates.

Reclassifications

Certain prior year amounts in the accompanying consolidated financial statements have been reclassified to conform to the current year presentation.

Subsequent Events

The Company evaluated subsequent events through the date and time that the Consolidated Financial Statements were issued on February 18, 2016.

Note 2. Summary of Accounting Policies

Investments

As of December 31, 2015 and 2014, $1.7 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 December 31, 2015 and 2014, $17.2 million of investments in equity securities and $37.0 million of investments in fixed maturity and equity securities, respectively, were classified as available-for-sale and reported at fair value with changes in unrealized gains and losses excluded from earnings and reported in a separate component of stockholders' equity, net of tax.

The mortgage loan was carried at the unpaid principal balance, was secured by a first lien in real estate, would have matured in October 2020 and was repaid in 2015.

Other investments at December 31, 2015 and 2014 are comprised of investments in partnerships and limited liability companies managed by professionals and related to commercial real estate, alternative energy, investing and trading securities, privately-held educational investments and entertainment assets, as well as common stock. 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 using the cost method of accounting. Changes in fair value of these investments are excluded from earnings and reported as a separate component of stockholders' equity, net of tax. Investments in partnerships where the Company's ownership share is more than minor are recorded under the equity method of accounting. Investments in common stocks of an entity over which the Company is deemed to have significant influence are also recorded under the equity method of accounting. The carrying value of the Company's investments in the equity method partnerships and common stocks represents initial cost, adjusted for any additional purchases/distributions and the Company's share of the changes in the investee's net asset value ("NAV") since the initial acquisition. The investments in commercial rental properties were sold in 2014.

Investments classified as available-for-sale that the Company currently owns could be subject to default by the issuer or declines in fair value that become other-than-temporary. The Company continually assesses the prospects for individual available-for-sale securities as part of its ongoing portfolio management, including the identification of other-than-temporary declines in fair values. The Company's other-than-temporary assessment includes reviewing the extent and duration of declines in fair values of such investments below the amortized cost basis, the seniority and duration of the securities, historical and projected company financial performance, company-specific news and other developments, the outlook for industry sectors, credit ratings, and macro-economic changes, including government policy initiatives. For available-for-sale fixed maturity securities, the amount of an other-than-temporary impairment related to a credit loss or an impairment on a security that the Company has the intent, at the balance sheet date, to sell before recovery of its cost is recognized in earnings and reflected as a reduction in the cost basis of the security. The amount of an other-than-temporary impairment on available-for-sale fixed maturity securities related to other factors is recorded consistent with changes in the fair value of all other available-for-sale securities as a component of stockholders' equity in other comprehensive income with no change to the cost basis of the security. For available-for-sale equity securities, an other-than-temporary impairment is recognized in earnings and reflected as a reduction in the cost basis of the security based on the extent and duration that fair value is below cost, in addition to issuer specific events. There were no other-than-temporary impairments on available-for-sale securities for the years ended December 31, 2015, 2014 and 2013.

Investment income is recorded when earned. Realized capital gains and losses are determined under the "average cost" method.

Derivative Contracts

The Company purchases derivative contracts to protect a portion of the value of its equity and equity-linked investments against a major market downturn and to protect the value of certain foreign investments against foreign currency fluctuations, as well as to hedge the risk of deflation. Derivative contracts entered into by the Company are considered 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. 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.

The fair value of derivative contracts in a gain position is presented as derivative assets in the Consolidated Balance Sheets. The fair value of derivative contracts in a loss position is presented as derivative liabilities in the Consolidated Balance Sheets. Securities pledged by counterparties as collateral for derivatives in a gain position are not recorded as assets of the Company. Securities pledged to counterparties by the Company as collateral for derivative contracts in a loss position, as well as contractually required independent collateral, are reflected in the Consolidated Balance Sheets as assets pledged for derivative obligations.

Equity index total return swaps ("total return swaps") derive their value primarily from changes in fair value of the underlying equity index fund traded on an exchange. These swaps require no initial net cash investment; and at inception the fair value is zero. The Company's total return swaps contain quarterly reset provisions requiring counterparties to settle in cash any fair value movements arising subsequent to the prior settlement date. On the contractual settlement dates, the Company is also required to pay dividends declared on the underlying equity index and is entitled to receive, or is required to pay, income on the notional amount at a stated interest rate. Interest earned is recorded as investment income while interest incurred and dividends declared are recorded as a reduction of such investment income in the Consolidated Statements of Comprehensive Income (Loss). To the extent that a contractual reset date does not correspond to the balance sheet date, the Company adjusts the carrying value of the corresponding derivative asset or liability associated with each total return swap 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). At December 31, 2015 and 2014, the Company pledged securities with a fair value of $18.6 million and $41.6 million, respectively, as collateral to counterparties for the total return swaps.

Derivative contracts referenced to the consumer price index in the United States and Europe ("CPI-linked derivatives") serve as an economic hedge against the potential adverse financial impact on the Company of decreasing consumer price levels (i.e., deflation). These contracts have a remaining weighted average life of 6 years. The initial premium paid for each contract is recorded as a derivative asset and is subsequently adjusted for changes in the fair value of the contract at each balance sheet date with a corresponding offset to net gains (losses) on derivatives in the Consolidated Statements of Comprehensive Income (Loss). In the event of a sale, expiration or early settlement of any of these contracts, the Company will receive a cash settlement equal to 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. At December 31, 2015 and 2014, the Company pledged securities with a fair value of $5.4 million and $31.6 million, respectively, as contractually required independent collateral to a counterparty for the CPI-linked derivatives.

The Company is currently exposed to currency rate fluctuations through its holding of foreign investments. Foreign exchange forward contracts ("foreign exchange forwards") denominated in Euros are used to manage certain foreign currency exposures arising from foreign currency denominated investments. These foreign exchange forwards 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. At December 31, 2015, the Company pledged securities with a fair value of $1.9 million as contractually required independent collateral to a counterparty for a foreign exchange forward contract. There was no collateral pledged for these contracts as of December 31, 2014.

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. The Company had not exercised its right to sell or repledge collateral at December 31, 2015 and 2014. 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").

See Note 4 for additional information related to derivative contracts.

Cash

Cash includes demand deposits with financial institutions.

Recognition of Property-Casualty Revenue and Expense

Revenue Recognition

The consideration paid for an insurance policy is generally known as a "premium." Premiums billed to the Company's policyholders are recorded as revenues in the Consolidated Statements of Comprehensive Income (Loss). Premiums are billed and collected according to policy terms, predominantly in the form of installments during the policy period. Premiums are earned pro-rata over the terms of the policies. Billed premiums applicable to the unexpired terms of policies in-force are recorded in the accompanying Consolidated Balance Sheets as a liability for unearned premiums.

Certain states in which the Company conducts business require that the Company bill additional amounts, or assessments, to policyholders in accordance with state statutes. In some cases, the Company is required to pay in advance estimated amounts of these assessments to the relevant regulatory agency. Premiums do not include these assessments and their collection does not have any impact on the Company's results of operations.

Any amounts receivable for billed premiums are charged-off upon initiating the legal collection process. An estimate of amounts that are likely to be charged-off is established as an allowance for doubtful accounts as of the balance sheet date. The estimate is comprised of any specific accounts that are past due and are considered probable to be charged-off and a provision against remaining accounts receivable based on historical bad debt expense. Premiums receivable is reported net of an allowance for estimated uncollectible amounts which was $0.3 million and $0.8 million at December 31, 2015 and 2014, respectively.

Workers' compensation premiums are determined based upon the payroll of the insured, the applicable premium rates and, where applicable, an experience-based modification factor and a debit or credit applied by the Company's underwriters based upon individual risk characteristics. Audits of policyholders' records are conducted after policy expiration to make a final determination of applicable premiums. Included with premiums earned is an estimate of the impact of final audit premiums. The Company can estimate this adjustment because it monitors, by policy, how much additional premium will be billed or refunded in final audit invoices as a percentage of the original estimated amount that was billed. The Company uses the historical percentage and current trends to estimate the probable amount to be billed or refunded as of the balance sheet date. When payrolls decline during policy periods (such as during a recession), the Company may bill more premium than is actually owed and will establish liability for the estimated amount to be refunded to its policyholders. When payrolls increase during policy periods, the Company may bill less premium than is actually owed and will establish a receivable for the estimated amount due from its policyholders. Included in premiums receivable was $4.5 million and $3.6 million at December 31, 2015 and 2014, respectively, for estimated additional amounts of premiums to be billed to the Company's policyholders.

The Company has written a relatively small number of workers' compensation policies that are retrospectively rated. Under this type of policy, subsequent to policy expiration, the policyholder may be entitled to a refund or owe additional premium based on the amount of losses sustained under the policy. These retrospective premium adjustments are limited in the amount by which they increase or decrease the standard amount of premium applicable to the policy. The Company can estimate these retrospective premium adjustments because it knows the underlying loss experience of the policies involved. At December 31, 2015 and 2014, the net premiums receivable under retrospectively rated workers' compensation policies reflected in unearned premiums was $1.0 million and $0.4 million, respectively.

Losses and Loss Adjustment Expenses Incurred

Losses and loss adjustment expenses incurred in the accompanying Consolidated Statements of Comprehensive Income (Loss) include provisions for the amount the Company expects to ultimately pay for all reported and unreported claims for the applicable periods. Loss adjustment expenses are the expenses applicable to the process of administering, settling and investigating claims, including related legal expenses.

Estimates of losses from environmental and asbestos related claims are included in overall loss reserves and to date have not been material.

Unpaid Losses and Loss Adjustment Expenses

The liabilities for unpaid losses and loss adjustment expenses ("loss reserves") in the accompanying Consolidated Balance Sheets are estimates of the unpaid amounts that the Company expects to pay for the ultimate cost of reported and unreported claims as of the balance sheet date. Loss reserves are estimates and are inherently uncertain; they do not and cannot represent an exact measure of ultimate liability. The Company performs a comprehensive review of its loss reserves at the end of every quarter. Estimating loss reserves is a complex process that involves a combination of actuarial techniques and methods and management judgment to establish the most reasonable estimate of loss reserves. Any resulting adjustments to loss reserves are reflected in the Company's Consolidated Statements of Comprehensive Income (Loss) in the period in which the change is made.

When losses are reported to the Company, it establishes individual estimates of the ultimate cost of the claims, known as "case reserves." These case reserves are continually monitored and revised in response to new information and for amounts paid. The Company's actuaries use this information about reported claims in some of their estimation techniques. In estimating the Company's total loss reserves, the Company makes provision for two types of loss development. At the end of any calendar period, there are a number of claims that have not yet been reported but will arise out of accidents that have already occurred. These are referred to in the insurance industry as incurred but not reported ("IBNR") claims and the Company's loss reserves contain an estimate for IBNR claims. In addition to this provision for late reported claims, the Company also has to estimate, and make provision for, the extent to which the case reserves on known claims may also develop.

These types of reserves are referred to in the insurance industry as "bulk" reserves. The Company's loss reserves make provision for both IBNR and bulk reserves in total, but not separately.

The principal uncertainty in the Company's workers' compensation loss reserve estimates is the risk of increasing claim costs, particularly medical. In estimating loss reserves, the Company's actuaries consider medical costs by evaluating long-term trends. The additional uncertainties considered in estimating ultimate loss costs include the ultimate number of expensive cases and the length of time required to settle long-term expensive cases. Expensive claims are those involving permanent disability of an injured worker and are paid over many years. The ultimate costs of expensive claims are difficult to estimate because of such factors as the on-going and possibly increasing need for medical care, complications from comorbidity, the duration of disability, life expectancy and benefits for dependents, as well as increased costs associated with obtaining settlement approval from Medicare.

The Company believes its loss reserve estimates are adequate. However, the ultimate losses will not be known with any certainty for several years. The Company assumes that increasing medical cost trends will continue and will impact its long-term claim costs and loss reserves. The Company evaluates its loss reserve estimates every quarter to reflect the most current data and judgments.

Deferred Policy Acquisition Costs

Policy acquisition costs, consisting of agent commissions and premium taxes that vary with, and are primarily related to, the production of new or renewal business are deferred and amortized as the related premiums are earned.

A premium deficiency is recognized if the sum of expected losses and loss adjustment expenses, expected dividends to policyholders, unamortized acquisition costs and policy maintenance costs exceeds the remaining unearned premiums. A premium deficiency would first be recognized by charging any unamortized acquisition costs to expense to the extent required to eliminate the deficiency. If the premium deficiency were greater than unamortized acquisition costs, a liability would be accrued for the excess deficiency. The Company does not consider anticipated investment income when determining if a premium deficiency exists. There was no premium deficiency at December 31, 2015 or 2014.

Policyholders' Dividends

The Company issues certain policies in which the policyholder may qualify to receive a dividend. An estimated provision for workers' compensation policyholders' dividends is accrued as the related premiums are earned. Such dividends do not become a fixed liability unless and until declared by the respective Board of Directors of Zenith National's insurance subsidiaries. The dividend to which a policyholder may be entitled is set forth in the policy. Dividends are calculated after policy expiration. The Company is able to estimate any liability it may have because it knows the underlying loss experience of the policies it has written with dividend provisions and can estimate the future liability from the policy terms. Approximately 45% of the Company's workers' compensation net premiums were earned from participating policies with dividend provisions.

State Guaranty Fund Assessments

Guaranty funds ("Guaranty Funds") exist in several states to ensure that policyholders (holders of direct insurance policies but not of reinsurance policies) receive payment of their claims if insurance companies become insolvent. A Guaranty Fund is funded primarily by statutorily required assessments on insurance companies doing business in the state. Various mechanisms exist in some of these states for assessed insurance companies to recover these assessments. Upon the insolvency of an insurance company, the Guaranty Funds become primarily liable for the payment of the insolvent company's liabilities to policyholders. The declaration of an insolvency establishes the presumption that assessments by the Guaranty Funds are probable. The Company writes workers' compensation insurance in many states in which unpaid workers' compensation liabilities are the responsibility of the Guaranty Funds and has received, and expects to continue to receive, Guaranty Fund assessments, some of which may be based on a certain amount of the premiums it has already earned as of December 31, 2015.

The Company recorded an estimate of $5.8 million and $6.4 million for the expected net liability at December 31, 2015 and 2014, respectively, for Guaranty Fund assessments; the ultimate impact of such assessments will depend upon the amount and timing of actual assessments and of any recoveries to which the Company may be entitled.

Reinsurance Ceded

In the ordinary course of business and in accordance with general insurance industry practices, the Company purchases excess of loss reinsurance to protect it against the impact of large, irregularly occurring losses in the workers' compensation business. Such reinsurance reduces the magnitude of such losses on net income and the capital of the Company. Reinsurance makes the assuming reinsurer liable to the ceding company to the extent of the reinsurance. It does not, however, discharge the ceding company from its primary liability to its policyholders in the event the reinsurer is unable to meet its obligations under such reinsurance agreement. The Company monitors the financial condition of its reinsurers and does not believe that it is currently exposed to any material credit risk through its ceded reinsurance arrangements because most of its reinsurance is recoverable from large, well-capitalized reinsurance companies. As such, the Company did not record an allowance for uncollectible recoverables from its reinsurers. Historical write-offs have been infrequent and insignificant.

Premiums earned and losses and loss adjustment expenses incurred are stated in the accompanying Consolidated Statements of Comprehensive Income (Loss) after deduction of amounts ceded to reinsurers. Balances due from reinsurers on unpaid losses, including an estimate of such recoverables related to reserves for IBNR losses, are reported as assets and are included in reinsurance recoverables even though amounts due on unpaid losses and loss adjustment expenses are not recoverable from the reinsurer until such losses are paid.

In 1998, Zenith Insurance acquired substantially all of the assets and certain liabilities of RISCORP, Inc. and certain of its subsidiaries (collectively, "RISCORP") related to its workers' compensation business. Also, in 1998, the Company entered into an aggregate excess of loss reinsurance agreement which provides ceded reinsurance for unpaid losses assumed by Zenith Insurance from RISCORP up to $50.0 million in excess of $182.0 million. Reinsurance recoverables on unpaid losses and loss adjustment expenses at December 31, 2015 and 2014 includes recoverables under such insurance of $4.2 million and $4.5 million, respectively, which is fully secured by an investment grade security held in a trust account. The deferred gain associated with such reinsurance was $1.0 million and $1.3 million at December 31, 2015 and 2014, respectively.

Properties and Equipment

Properties and equipment used in operations, including certain costs incurred to develop and obtain computer software, are capitalized and carried at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis using the following useful lives: buildings — up to 40 years; and other property and equipment — 3 to 10 years. Expenditures for maintenance and repairs are charged to operations as incurred. Additions and improvements to buildings and other fixed assets are capitalized and depreciated over the useful lives of the properties and equipment. Upon disposition, the asset cost and related depreciation are removed from the accounts and the resulting gain or loss is included in the Company's results of operations.

Intangible Assets

At December 31, 2015 and 2014, goodwill from acquisitions was $21.0 million, of which $19.0 million is included in the assets of Zenith Insurance with the remaining $2.0 million included in Zenith National's assets. Other than goodwill, the Company had no intangible assets at December 31, 2015 or 2014. The Company tests goodwill for impairment annually and more frequently if an event occurs or circumstances change that management determines would more likely than not reduce the fair value of a reporting unit below its carrying amount. A reporting unit is an operating segment or a unit one level below the operating segment. The impairment tests include a comparison of the carrying amount of goodwill to the present value of future cash flows of both the Company's total workers' compensation business and the Florida workers' compensation business operation, a reporting unit. The fair value, estimated based on the present value of future cash flows of the reporting unit, exceeded its carrying amount as of December 31, 2015. Therefore, goodwill of the reporting unit is not considered impaired.

Restricted Stock

Under a restricted stock plan adopted by Fairfax in September 2010 ("Restricted Stock Plan"), certain Company officers are awarded shares of Fairfax Subordinate Voting Shares, no par value, with restricted ownership rights ("Restricted Stock"). Shares of Restricted Stock awarded during 2011 and 2010 vest in two equal installments on the third and fifth anniversary of the award date. Vesting of shares awarded in 2012 through November 2014 are conditioned upon the Company meeting a performance criterion in either the third, fourth or fifth year following the award date, with vesting to occur in three equal consecutive annual installments following the first year in which the condition is met. If the condition is not met, vesting will occur in two equal installments in the seventh and eighth years following the award date. The Restricted Stock awarded during 2015 vests on the fifth anniversary of the award date. The Restricted Stock vests in full upon the death or disability of the recipient of Restricted Stock. Restricted Stock is generally forfeited by employees who terminate employment prior to vesting. During the vesting period, the Restricted Stock Plan participants are entitled to voting rights and ordinary cash dividends paid by Fairfax from the date of the award. Restricted Stock awards under the Restricted Stock Plan are accounted for as equity awards based on the amount paid by the Company for the open market purchase of Fairfax Subordinate Voting Shares prior to each award. Compensation expense is recognized over the vesting period based on the grant date fair value with an offsetting entry to the initial charge to the Company's stockholders' equity.

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 within annual periods beginning after December 15, 2019. The guidance is not expected to have a material impact on the Company's consolidated financial condition, results of operations or cash flows.

In April 2015, the FASB issued guidance simplifying the presentation of debt issuance costs, requiring debt issuance costs related to debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability. The guidance is effective for fiscal years beginning after December 15, 2015. Early application is permitted for financial statements that have not been previously issued. The guidance is not expected to have a material impact on the Company's consolidated financial condition.

In May 2015, the FASB issued guidance on disclosures for investments in certain entities that calculate NAV per share or its equivalent. Under this amendment, investments for which fair value is measured at NAV using the practical expedient should not be categorized in the fair value hierarchy. The guidance is effective for periods beginning after December 15, 2016. Early adoption is permitted. The guidance is not expected to have a material impact on the Company's financial statements.

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. 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 periods beginning after December 15, 2019 and will require recognition of a cumulative effect adjustment at adoption. The Company does not currently expect the adoption of this guidance to impact its financial position or liquidity.

Note 3. Investments

The cost or amortized cost and fair value of fixed maturity and equity securities and short-term investments at December 31, 2015 and 2014 were as follows:

(In thousands)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
December 31, 2015				
Fair value option investments:				
Fixed maturity securities:				
State and local government debt	$ 549,670	$ 37,329	$ (237)	$ 586,762
U.S. Government debt	205,779	4,253	(5,171)	204,861
Corporate debt	29,597	1,764	(4,328)	27,033
Total fixed maturity securities (a)	785,046	43,346	(9,736)	818,656
Equity securities	532,885	81,257	(150,535)	463,607
Short-term investments (b)	448,250			448,250
Total fair value option investments	1,766,181	124,603	(160,271)	1,730,513
Available-for-sale investments:				
Equity securities	20,793	11	(3,620)	17,184
Total available-for-sale investments	20,793	11	(3,620)	17,184
Total fixed maturity, equity securities and short-term investments	**$ 1,786,974**	**$ 124,614**	**$ (163,891)**	**$ 1,747,697**
December 31, 2014				
Fair value option investments:				
Fixed maturity securities:				
State and local government debt	$ 504,341	$ 52,165		$ 556,506
U.S. Government debt	205,707	8,835		214,542
Corporate debt	15,000	4,998		19,998
Total fixed maturity securities (a)	725,048	65,998		791,046
Equity securities	412,252	132,320	$ (98,047)	446,525
Short-term investments (b)	420,308		(539)	419,769
Total fair value option investments	1,557,608	198,318	(98,586)	1,657,340
Available-for-sale investments:				
Fixed maturity securities:				
State and local government debt	5,008	68		5,076
Corporate debt	8,412	446		8,858
Total fixed maturity securities	13,420	514		13,934
Equity securities	26,887	2	(3,796)	23,093
Total available-for-sale investments	40,307	516	(3,796)	37,027
Total fixed maturity, equity securities and short-term investments	**$ 1,597,915**	**$ 198,834**	**$ (102,382)**	**$ 1,694,367**

(a) Includes investments with amortized cost of $19.3 million and fair value of $22.3 million pledged for derivative obligations at December 31, 2015 and $54.5 million and $60.5 million at December 31, 2014, respectively.

(b) Includes investments of $3.6 million and $12.7 million pledged for derivative obligations at December 31, 2015 and 2014, respectively.

Fixed maturity securities, including short-term investments, by contractual maturity at December 31, 2015 were as follows:

(In thousands)		Amortized Cost		Fair Value
Due in 1 year or less	$	448,251	$	448,251
Due after 1 year through 5 years		24,000		21,602
Due after 5 years through 10 years		5,597		5,431
Due after 10 years		755,448		791,622
Total fixed maturity securities and short-term investments	$	1,233,296	$	1,266,906

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 December 31, 2015 also include other investments in partnerships and limited liability companies, equity-method common stocks and derivative assets. Derivative contracts are described in Note 4. In July 2015, the Company received $29.7 million in full settlement of the mortgage loan investment.

Other investments consist of the following:

	December 31,			
(In thousands)		2015		2014
Equity-method common stock (a)	$	33,408	$	11,666
Equity-method partnerships (a)		21,803		37,588
Cost-method partnerships, at fair value (cost $17,403 in 2015 and $23,053 in 2014) (b)		20,844		27,506
Total other investments	$	76,055	$	76,760

(a) Equity-method common stock and partnership investments are recorded at cost, adjusted for subsequent purchases/distributions and the Company's share of the changes in the investee's NAV since the initial acquisition.

(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 December 31, 2015, the Company had commitments to invest an additional $11.9 million in partnerships and limited liability companies.

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

	Year Ended December 31,					
(In thousands)		2015		2014		2013
Sale of equity securities (a)	$	28,827	$	29,442	$	21,771
Sales of fixed maturity securities, including short-term investments and other		891		1,112		41,794
Gains (losses) from other investments		(1,348)		1,084		1,588
Net realized gains on investments	$	28,370	$	31,638	$	65,153

(a) Net realized gains on sales of equity securities in the year ended December 31, 2015 include $41.6 million of gross realized gains and $11.5 million of gross realized losses on sales of fair value option equity securities and $1.3 million of gross realized losses on sales of available-for-sale equity securities. Net realized gains on sales of equity securities in the year ended December 31, 2014 included $34.5 million of gross realized gains and $5.1 million of gross realized losses on sales of fair value option equity securities. Net realized gains on sales of equity securities in the year ended December 31, 2013 included $21.8 million of gross realized gains on sales of fair value option equity securities.

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

	Year Ended December 31,		
(In thousands)	2015	2014	2013
Equity securities	$ 185	$ (1,407)	$ (3,844)
Fixed maturity securities, including short-term investments	(514)	(744)	(1,773)
Investments in cost-method partnerships	(1,012)	4,453	
Total before tax	(1,341)	2,302	(5,617)
After tax	$ (871)	$ 1,496	$ (3,651)

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

	Year Ended December 31,		
(In thousands)	2015	2014	2013
Change in net unrealized gains/losses recognized on fair value option investments	$ (135,400)	$ 67,276	$ (52,075)
Less: Net gains recognized on fair value option investments sold	(36,703)	(15,000)	(41,466)
Change in net unrealized gains/losses recognized on fair value option investments still held at the reporting date	$ (98,697)	$ 82,276	$ (10,609)

Net investment income was as follows:

	Year Ended December 31,		
(In thousands)	2015	2014	2013
Fixed maturity securities	$ 31,262	$ 31,973	$ 33,595
Income (loss) from equity-method investments (a)	24,344	1,168	(580)
Equity securities	6,838	2,305	3,074
Mortgage loan	663	1,206	1,225
Short-term and other investments	1,131	1,373	2,195
Derivatives (see Note 4)	(8,941)	(8,054)	(8,547)
Subtotal	55,297	29,971	30,962
Investment expenses	(7,328)	(7,951)	(7,293)
Net investment income	$ 47,969	$ 22,020	$ 23,669

(a) Income from equity-method investments in the year ended December 31, 2015 includes $21.4 million from a limited partnership which completed a sale in June 2015 of 50 multi-family buildings located throughout Japan. The Company received a final net cash distribution of $34.4 million upon liquidation of the partnership during the year ended December 31, 2015 and recognized its share of profit of the investee as income (including amounts previously recorded in accumulated other comprehensive income).

Investments with a fair value of $1.0 billion at both December 31, 2015 and 2014 were on deposit with regulatory authorities in compliance with insurance company regulations. At December 31, 2015, the Company had additional qualifying securities with a fair value of $235.7 million available for deposit.

Note 4. Derivative Contracts

See Note 2 for a description of the Company's accounting policies related to derivative contracts.

The following table summarizes the notional amount, cost and fair value of derivative contracts as of December 31, 2015 and 2014:

(In thousands)	Notional Amount	Cost	Fair Value of Derivative Assets		Fair Value of Derivative Liabilities	
December 31, 2015						
CPI-linked derivatives	$ 7,801,220	$ 40,829	$ 22,801			
Total return swaps	446,959		15,528	(a)		(a)
Foreign exchange forwards	148,822		905		$ 1,436	
Equity rights/warrants	921		261			
Total		$ 40,829	$ 39,495		$ 1,436	
December 31, 2014						
CPI-linked derivatives	$ 8,061,112	$ 39,161	$ 19,944			
Total return swaps	399,239		445	(a)	$ 7,953	(a)
Foreign exchange forwards	186,953		13,379			
Equity rights/warrants	921		234			
Total		$ 39,161	$ 34,002		$ 7,953	

(a) Represents the change in fair value since the most recent cash settlement date through 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:

	Year Ended December 31,		
(In thousands)	2015	2014	2013
Gains (losses) on settlements			
Foreign exchange forwards	$ 30,401	$ 8,555	$ (1,868)
Total return swaps (a)	3,417	(16,282)	(121,369)
CPI-linked derivatives			(403)
Equity rights/warrants		2,602	
Total	33,818	(5,125)	(123,640)
Change in fair value (b)			
Foreign exchange forwards	(13,910)	16,561	(2,683)
Total return swaps	23,037	1,463	(170)
CPI-linked derivatives	1,189	1,025	(8,333)
Equity rights/warrants	28	(286)	520
Total	10,344	18,763	(10,666)
Net gains (losses) on derivatives			
Foreign exchange forwards	16,491	25,116	(4,551)
Total return swaps	26,454	(14,819)	(121,539)
CPI-linked derivatives	1,189	1,025	(8,736)
Equity rights/warrants	28	2,316	520
Total	$ 44,162	$ 13,638	$ (134,306)

(a) Amounts for total return swaps include net gains (losses) where the Company and its counterparties are required to cash-settle on a quarterly basis the fair value movement since the previous quarterly reset date notwithstanding that the total return swap positions remain open subsequent to the cash settlement.

(b) Change in fair value of total return swaps is measured from the contract inception or most recent cash settlement date prior to the reporting date. Change in fair value of CPI-linked derivatives and foreign exchange forwards include unrealized foreign exchange gains. Change in fair value of equity rights/warrants is measured from the contract inception date.

During the years ended December 31, 2015, 2014 and 2013, the Company incurred $8.9 million, $8.1 million and $8.5 million, respectively, of dividend and interest expense on its total return swaps, which was recorded as a reduction to investment income.

The following table summarizes the units, original notional amount and weighted average index value of the Company's open short position total return swaps on the Russell 2000 Index at initiation and the index value at December 31, 2015 and 2014:

(Units and original notional amounts in thousands)	Units	Original Notional Amount	Weighted Average Index Value	Index Value
December 31, 2015	3,835	$ 473,448	123.53	112.62
December 31, 2014	3,399	$ 381,355	112.29	119.62

The following table summarizes the notional amounts and underlying CPI Index price ("strike price") for the Company's CPI-linked derivatives at initiation and the index value at December 31, 2015 and 2014:

(Notional amount in thousands)	Notional Amount Original Currency		Notional Amount US Dollars	Weighted Average Strike Price In Original Currency	Index Value
Underlying CPI Index:					
December 31, 2015					
United States	5,520,000	$	5,520,000	232.81	236.53
European Union	2,100,000		2,281,220	113.84	117.21
		$	7,801,220		
December 31, 2014					
United States	5,520,000	$	5,520,000	232.81	234.81
European Union	2,100,000		2,541,112	112.24	117.01
		$	8,061,112		

At December 31, 2015 and 2014, the Company pledged to its counterparties securities with a fair value of $25.9 million and $73.2 million, respectively, as collateral for derivatives and recorded this amount as assets pledged for derivative obligations in the Consolidated Balance Sheets as follows:

(In thousands)		December 31, 2015		December 31, 2014
Independent collateral for CPI-linked derivatives and total return swaps	$	22,321	$	63,723
Mark-to-market collateral for total return swaps and foreign exchange forwards		3,555		9,459
Total assets pledged for derivatives obligations	$	25,876	$	73,182

As of December 31, 2015 and 2014, the counterparties pledged $26.0 million and $8.4 million, respectively, of securities at fair value for the Company's benefit. The Company does not record in the Consolidated Balance Sheets securities pledged by counterparties as collateral for derivatives in a gain position.

The following table summarizes the Company's exposure to credit risk related to the counterparties to its derivative contracts:

(In thousands)		December 31, 2015		December 31, 2014
Total derivative assets (a)	$	39,234	$	33,768
Impact of net settlement arrangements				(6,228)
Fair value of collateral deposited for the benefit of the Company not recorded as assets of the Company (U.S. Treasury notes and bonds)		(25,978)		(8,352)
Excess of collateral pledged by the Company in favor of counterparties		2,120		7,734
Net derivative counterparty exposure after net settlement and collateral arrangements	$	15,376	$	26,922

(a) Excludes equity rights and warrants with a fair value of $261,000 and $234,000 at December 31, 2015 and 2014, 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.

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 rights and 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).

	Gross and net amounts reflected in the Consolidated Balance Sheets	Gross amounts not offset in the Consolidated Balance Sheets		
(In thousands)		Derivative asset (liability)	Collateral provided (held) - financial Instruments (b)	Net amount of exposure
December 31, 2015				
Derivative assets:				
Citibank, N.A.	$ 29,849		$ (22,517)	$ 7,332
Deutsche Bank AG London	7,488		(3,461)	4,027
Bank of New York Mellon (a)	905			905
Bank of America, N.A.	992			992
Total derivative assets (c)	$ 39,234		$ (25,978)	$ 13,256
Derivative liabilities:				
Wells Fargo	$ (1,436)		$ 1,436	
Total derivative liabilities	$ (1,436)		$ 1,436	
December 31, 2014				
Derivative assets:				
Citibank, N.A.	$ 17,638	$ (3,922)	$ (8,352)	$ 5,364
Deutsche Bank AG London	2,306	(2,306)		
Bank of New York Mellon (a)	13,379			13,379
Bank of America, N.A.	445			445
Total derivative assets (c)	$ 33,768	$ (6,228)	$ (8,352)	$ 19,188
Derivative liabilities:				
Citibank, N.A.	$ (3,922)	$ 3,922		
Deutsche Bank AG London	(4,031)	2,306	$ 1,725	
Total derivative liabilities	$ (7,953)	$ 6,228	$ 1,725	

(a) Represents foreign exchange forward contracts that are not subject to a master netting arrangement.

(b) 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 the collateral.

(c) Excludes equity rights and warrants with a fair value of $261,000 and $234,000 at December 31, 2015 and 2014, respectively, which are not subject to counterparty risk.

Note 5. Fair Value Measurements

The Company's fixed maturity securities, including short-term investments, equity securities, derivative contracts and other investments in cost-method partnerships are recorded at fair value in the accompanying Consolidated Balance Sheets. Fair value is the price that would be received to sell an asset or would be paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. 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. The three hierarchy levels are defined as follows:

Level 1—Valuations based on unadjusted quoted market prices in active markets for identical securities. The fair values of investments included in the Level 1 category were based on quoted prices that were readily and regularly available in an active market. The Level 1 category includes publicly traded equity securities, highly liquid cash management funds and short-term U.S. Government securities.

Level 2—Valuations based on observable inputs (other than Level 1 prices), such as quoted prices for similar assets at the measurement date; quoted prices in markets that are not active; or other inputs that are observable, such as benchmark yields, broker-dealer quotes, issuer spreads and bids. The fair values of securities included in the Level 2 category were based on publicly traded over-the-counter prices, broker-dealer quotes or industry accepted valuation models, which are sensitive to certain market observable assumptions, including share price volatility and credit spreads of the issuer.

Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement and involve management judgment. Further qualitative and quantitative information on the Company's Level 3 securities is provided in the following pages.

The following table presents the Company's investments measured at fair value on a recurring basis as of December 31, 2015 and 2014 classified by the valuation hierarchy discussed previously:

		Fair Value Measurement Using		
(In thousands)	Total	Level 1	Level 2	Level 3
December 31, 2015				
Fair value option securities:				
Fixed maturity securities:				
State and local government debt	$ 586,762		$ 586,762	
U.S. Government debt	204,861		204,861	
Corporate debt	27,033		4,838	$ 22,195
Total fixed maturity securities	818,656		796,461	22,195
Equity securities	463,607	$ 343,300	120,307	
Short-term investments	448,250	448,250		
Total fair value option investments	$ 1,730,513	$ 791,550	$ 916,768	$ 22,195
Available-for-sale investments:				
Equity securities	$ 17,184		$ 42	$ 17,142
Total available-for-sale investments	$ 17,184		$ 42	$ 17,142
Other investments:				
Cost-method partnerships	$ 20,844			$ 20,844
Total other investments	$ 20,844			$ 20,844
Derivatives:				
CPI-linked derivatives	$ 22,801			$ 22,801
Total return swaps	15,528		$ 15,528	
Foreign exchange forwards	905		905	
Equity rights/warrants	261		261	
Total derivative assets	39,495		16,694	22,801
Foreign exchange forwards	(1,436)		(1,436)	
Total derivative liabilities	(1,436)		(1,436)	
Net derivatives	$ 38,059		$ 15,258	$ 22,801
December 31, 2014				
Fair value option securities:				
Fixed maturity securities:				
State and local government debt	$ 556,506		$ 556,506	
U.S. Government debt	214,542		214,542	
Corporate debt	19,998			$ 19,998
Total fixed maturity securities	791,046		771,048	19,998
Equity securities	446,525	$ 315,425	131,100	
Short-term investments	419,769	419,769		
Total fair value option investments	$ 1,657,340	$ 735,194	$ 902,148	$ 19,998
Available-for-sale investments:				
Fixed maturity securities:				
State and local government debt	$ 5,076		$ 5,076	
Corporate debt	8,858		8,858	
Total fixed maturity securities	13,934		13,934	
Equity securities	23,093		34	$ 23,059
Total available-for-sale investments	$ 37,027		$ 13,968	$ 23,059
Other investments:				
Cost-method partnerships	$ 27,506			$ 27,506
Total other investments	$ 27,506			$ 27,506
Derivatives:				
CPI-linked derivatives	$ 19,944			$ 19,944
Foreign exchange forwards	13,379		$ 13,379	
Total return swaps	445		445	
Equity rights/warrants	234		234	
Total derivative assets	34,002		14,058	19,944
Total return swaps	(7,953)		(7,953)	
Total derivative liabilities	(7,953)		(7,953)	
Net derivatives	$ 26,049		$ 6,105	$ 19,944

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

(In thousands)	Corporate Debt	Equity Securities	Cost-Method Partnerships	CPI-linked Derivatives
Balance at December 31, 2013	$ 16,000	$ 24,466	$ 30,331	$ 7,958
Purchases			5,511	10,961
Sales			(14,815)	
Realized and unrealized gains/losses included in:				
Other comprehensive income (loss) (a)		(1,407)	4,453	
Change in net unrealized gains/losses on fair value option investments	4,998			
Net realized gains (losses) on investments	(1,000)		2,026	
Net gains on derivatives				1,025
Balance at December 31, 2014	$ 19,998	$ 23,059	$ 27,506	$ 19,944
Purchases	5,597		3,915	1,668
Sales		(4,810)	(8,217)	
Realized and unrealized gains/losses included in:				
Other comprehensive income (loss) (a)		176	(1,012)	
Change in net unrealized gains/losses on fair value option investments	(3,400)			
Net realized gains (losses) on investments		(1,283)	(1,348)	
Net gains on derivatives				1,189
Balance at December 31, 2015	$ 22,195	$ 17,142	$ 20,844	$ 22,801

(a) Other comprehensive income (loss) on equity securities includes change in fair value net of foreign currency fluctuations.

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 December 31, 2015:

(in thousands)		Balance at December 31, 2015	Valuation Techniques	Significant Unobservable Inputs	Range
Corporate debt (a)	$	22,195	Market approach	Credit spread of issuer	
Equity securities, available-for-sale (b)	$	17,142	Market approach	Estimated NAV multiple which incorporates estimated market value of underlying real estate holdings supported by appraisals	(b)
Cost-method partnerships (c)	$	20,844	NAV or Market approach	Investees' Financial Statements or fair value based on recent real estate appraisals	
CPI-linked derivatives (d)	$	22,801	Market approach	Broker quotes	

(a) The Level 3 corporate debt securities consist of two convertible bonds purchased in November 2013 and September 2015. The fair value of these bonds was determined using a Black-Scholes Model. 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.

(b) The Level 3 equity securities consist primarily of common stock of a company based in the United Kingdom with a fair value approximating its NAV 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 cost-method partnerships are primarily valued based on the Company's share of the NAV of the investee based on the most recent financial statements received, with the NAV generally reported at fair value in the investee's financial statements. Fair value of one cost-method partnership was estimated primarily based on the value of the real estate holdings supported by appraisals. These limited partnerships are classified as Level 3 because they may require at least three months of notice to liquidate.

(d) 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.

Note 6. Properties and Equipment

Properties and equipment, included in other assets, consist of the following:

	December 31,	
(In thousands)	2015	2014
Land	$ 15,208	$ 15,208
Buildings	37,135	37,072
Other property and equipment	85,598	82,998
Subtotal	137,941	135,278
Accumulated depreciation	(104,768)	(100,501)
Total	$ 33,173	$ 34,777

Depreciation expense for the years ended December 31, 2015, 2014, and 2013 was $4.3 million, $5.7 million and $6.7 million, respectively.

Note 7. Income Tax

The Company is included in the consolidated federal income tax return of Fairfax (US) Inc. and its eligible subsidiaries and in various state combined or consolidated income tax returns. Zenith National and Fairfax (US) Inc. are parties to a tax allocation agreement whereby federal income taxes are allocated by Fairfax (US) Inc. to Zenith National equal to the taxes that would have been payable/refunded between the Company and the Internal Revenue Service ("IRS") if it had filed a stand-alone consolidated federal income tax return. The insurance subsidiaries pay premium taxes on direct premiums written in lieu of most state income or franchise taxes.

The difference between the statutory income tax rate of 35% and the Company's effective tax rate on income, as reflected in the Consolidated Statements of Comprehensive Income (Loss), was as follows:

	Year Ended December 31,		
(In thousands)	2015	2014	2013
Statutory income tax expense (benefit)	$ 40,037	$ 76,862	$ (29,413)
Increase (reduction) in tax:			
Tax-exempt interest and other investments	(6,763)	(6,740)	(7,366)
Foreign taxes paid	3,621		
Non-deductible expenses and other	(668)	592	662
Income tax expense (benefit) before valuation allowance	36,227	70,714	(36,117)
Increase (decrease) in valuation allowance on deferred tax assets		(95,084)	39,222
Income tax expense (benefit)	$ 36,227	$ (24,370)	$ 3,105

Deferred tax is provided based upon temporary differences between the tax and book basis of assets and liabilities. The components of the deferred tax assets and liabilities were as follows:

	December 31,			
	2015		2014	
	Deferred Tax		Deferred Tax	
(In thousands)	Assets	Liabilities	Assets	Liabilities
Unpaid losses and loss adjustment expenses discount	$ 26,191		$ 38,152	
Limitation on deduction for unearned premiums	10,491		10,115	
Investments	5,044			$ 35,483
Policyholders' dividends accrued	8,882		3,853	
Compensation and benefits	5,140		4,352	
Tax credits			10,596	
Net operating losses			4,537	
Deferred policy acquisition costs		$ 4,064		3,685
Properties and equipment		715		956
Other	1,170		3,148	
	$ 56,918	$ 4,779	$ 74,753	$ 40,124
Net deferred tax asset	$ 52,139		$ 34,629	

GAAP requires the Company to evaluate the recoverability of its deferred tax assets and establish a valuation allowance, if necessary, to reduce the deferred tax asset to an amount that is more likely than not to be realized (a likelihood of more than 50%). In making this evaluation, the Company is required to consider all available evidence, both positive and negative, including objectively verifiable evidence of taxable income in the immediate ensuing years. At December 31, 2014, the Company concluded that it met this test and eliminated the $95.1 million valuation allowance against deferred tax assets. Deferred tax assets consist primarily of the discounting of loss reserves for tax purposes which reverse over 10 to 20 years and the limitation on deductions for unearned premiums which reverses in the following year.

At December 31, 2015 and 2014, there were no material unrecognized tax benefits.

The Company recognizes any interest and penalties related to uncertain tax positions in income tax expense; however, there were none during the years ended December 31, 2015, 2014 and 2013.

At December 31, 2015, the Company had no net operating loss carryforwards or alternative minimum tax credits.

The IRS is examining tax year 2015. Tax years 2011 through 2015 are subject to examination by state taxing authorities.

Note 8. Unpaid Losses and Loss Adjustment Expenses

The following table represents a reconciliation of changes in the liability for unpaid losses and loss adjustment expenses:

	Year Ended December 31,		
	2015	2014	2013
Beginning of year, net of reinsurance	$ 1,156,027	$ 1,160,841	$ 1,119,439
Incurred claims:			
Current accident year	451,365	449,730	456,158
Prior accident years	(93,984)	(72,589)	(35,984)
Total incurred claims	357,381	377,141	420,174
Payments:			
Current accident year	(116,169)	(113,008)	(106,440)
Prior accident years	(223,952)	(268,947)	(272,332)
Total payments	(340,121)	(381,955)	(378,772)
End of year, net of reinsurance	1,173,287	1,156,027	1,160,841
Receivable from reinsurers for unpaid losses	76,876	144,351	161,135
End of year, gross of reinsurance	$ 1,250,163	$ 1,300,378	$ 1,321,976

The net favorable development of $94.0 million in 2015 was principally attributable to workers' compensation favorable loss development trends for 2011 through 2014 accident years. The net favorable development of $72.6 million in 2014 was principally attributable to workers' compensation favorable loss development trends for 2011, 2012 and 2013 accident years. The net favorable development of $36.0 million in 2013 was principally attributable to workers' compensation favorable loss development trends for the 2012 accident year during 2013.

Note 9. Long-Term Debt

At December 31, 2015 and 2014, the outstanding principal amount and fair value of the Company's Subordinated Deferrable Interest Debentures ("long-term debt") was $38.5 million. The long-term debt is due in 2028 and bears interest at the rate of 8.55% per annum.

The semi-annual interest payments on the long-term debt may be deferred by Zenith National for up to ten consecutive semi-annual periods. This debt is redeemable by Zenith National at 100% of the principal amount plus a ''make-whole premium,'' if any, together with accrued and unpaid interest. The make-whole premium is the excess of the sum of the present value of the principal amount at maturity and the present value of the remaining scheduled payments of interest over 100% of the principal amount. The original issue costs and discount on the long-term debt of $1.7 million are being amortized over the term of the long-term debt. Interest, issue costs and discount expense were $3.3 million for each of the years ended December 31, 2015, 2014 and 2013.

Note 10. Reinsurance Ceded

2016 Reinsurance ceded coverage

The Company maintains excess of loss and catastrophe reinsurance which provides protection up to $150 million for workers' compensation losses including catastrophe losses arising out of California earthquakes and acts of terrorism excluding nuclear, biological and chemical attacks. For the California agriculture business, the Company retains the first $10 million and the layer from $20 million to $30 million of each loss arising from industrial accidents. For all other business classes, the Company retains the first $30 million of each loss.

2015 Reinsurance ceded coverage

The Company maintained excess of loss and catastrophe reinsurance which provides protection up to $100 million for workers' compensation losses including catastrophe losses arising out of California earthquakes and acts of terrorism excluding nuclear, biological and chemical attacks. For the California agriculture business, the Company retained the first $10 million of each loss arising from industrial accidents. For all other business classes, the Company retained the first $20 million of each loss.

2014 Reinsurance ceded coverage

The Company maintained excess of loss and catastrophe reinsurance which provides protection up to $100 million for workers' compensation losses including catastrophe losses arising out of California earthquakes and acts of terrorism excluding nuclear, biological and chemical attacks. The Company retained the first $20 million of each loss.

2013 Reinsurance ceded coverage

The Company maintained excess of loss and catastrophe reinsurance which provides protection up to $75 million for workers' compensation losses including catastrophe losses arising out of California earthquakes. The Company retained the first $5 million of each loss. In the $5 million excess of $5 million layer, the Company retained any losses that exceed the annual aggregate limit of $15 million. In the $10 million excess of $10 million layer, the Company retained 100%.

The Company maintained excess of loss and catastrophe reinsurance which provided protection up to $100 million for acts of terrorism excluding nuclear, biological and chemical attacks and up to $10 million for acts of terrorism arising out of nuclear, biological or chemical attacks. The Company retained the first $5 million of each loss. The Company retained any losses in the $5 million excess $5 million layer which exceed the annual aggregate of $5 million. In the $10 million excess of $10 million layer, the Company retained 100%.

Reinsurance transactions reflected in the accompanying Consolidated Statements of Comprehensive Income (Loss) were as follows:

	Year Ended December 31,		
(In thousands)	2015	2014	2013
Direct premiums earned	$ 771,842	$ 718,909	$ 683,891
Assumed premiums earned	6,615	6,838	5,092
Ceded premiums earned	(12,091)	(11,442)	(15,170)
Net premiums earned	$ 766,366	$ 714,305	$ 673,813
Ceded losses and loss adjustment expenses incurred	$ 21,620	$ 10,873	$ 3,634

Amounts recoverable for paid and unpaid losses from reinsurers at December 31, 2015 and 2014 and their respective A.M. Best ratings were as follows:

	December 31,		A.M. Best	A.M. Best
(In thousands)	2015 (a)	2014 (a)	Rating (b)	Rating Date
General Reinsurance Corp.	$ 59,114	$ 64,800	A++	10/2015
Inter-Ocean Re Ins Co. Ltd. (c)	4,245	4,555	NR	
Odyssey Reinsurance Co. (d)	3,981	5,744	A	5/2015
National Union Fire Ins. Co. of Pittsburgh	1,281	1,464	A	2/2015
Lloyds Underwriters	978	877	A	9/2015
Partner Reinsurance Co. of the US	931	2,615	A	8/2015
The Continental Insurance Co.	857	731	A	12/2014
Hannover Ruckversicherungs AG	828	2,514	A+	9/2015
Lloyd's Syndicate 2987 (e)	826	2,514	A	9/2015
All others (f)	7,114	60,805		
Total	$ 80,155	$ 146,619		

(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) Odyssey Reinsurance Company ("Odyssey") is an affiliate of Fairfax, see Note 12.

(e) All policies written by Lloyd's syndicates from 1993 are backed by security that is partially mutualized by the Central Fund at Lloyd's. The Lloyd's Market is rated A by A.M. Best.

(f) No individual reinsurer in excess of $0.8 million at December 31, 2015. In July 2015, the Company commuted $38.7 million of ceded workers' compensation loss reserves for a payment of $38.7 million from the Swiss Re group, which includes Westport Insurance Corporation and Swiss Reinsurance America Corporation. The amounts recoverable from paid and unpaid losses from these reinsurers were approximately $51.9 million at December 31, 2014.

Note 11. Stockholders' Equity and Statutory Financial Information

Dividend Restrictions

The California Insurance Holding Company System Regulatory Act limits the ability of Zenith Insurance to pay dividends to Zenith National and for Zenith Insurance to receive dividends from its insurance subsidiary by providing that the appropriate insurance regulatory authorities in the state of California must approve any dividend that, together with all other such dividends paid during the preceding twelve months, exceeds the greater of: (a) 10% of the paying company's statutory surplus as regards policyholders at the preceding December 31; or (b) 100% of the net income for the preceding year. In addition, any such dividend must be paid from policyholders' surplus attributable to accumulated earnings. Such restrictions on dividends are not cumulative. Dividend payments from Zenith Insurance to Zenith National must also be in compliance with the California Corporations Code that permit dividends to be paid only out of retained earnings and only if specified ratios between assets and liabilities and between current assets and current liabilities exist after payment.

Zenith Insurance paid dividends to Zenith National of $60.0 million and $50.0 million in 2015 and 2014, respectively. Zenith Insurance has the ability to pay up to $121.0 million of dividends to Zenith National without prior approval of the California Department of Insurance ("DOI") during 2016.

In April 2015, ZNAT Insurance Company ("ZNAT") paid a dividend of $2.7 million to Zenith Insurance to reduce the excess capital in ZNAT, a wholly-owned subsidiary of Zenith Insurance. The maximum dividend which can be paid to Zenith Insurance by ZNAT without prior approval of the California DOI during 2016 is $2.6 million.

Statutory Financial Data

The capital stock and surplus and net income of the Company's insurance subsidiaries, prepared in accordance with the statutory accounting practices of the National Association of Insurance Commissioners, were as follows:

	As of and for the Year Ended December 31,		
(In thousands)	2015	2014	2013
Capital stock and surplus	$ 621,672	$ 564,535	$ 515,788
Net income (loss)	$ 120,588	$ 112,527	$ (17,380)

Statutory accounting net income (loss) differs from GAAP primarily due to the timing of the recognition of changes in fair value of investment securities.

The insurance business is subject to state-by-state regulation and legislation focused on solvency, pricing, market conduct, claims practices, underwriting, accounting, investment criteria, and other areas. Such regulation and legislation changes frequently. Compliance is essential and is an inherent risk and cost of the business. The Company believes it is in compliance with all material regulations.

Note 12. 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 years ended December 31, 2015, 2014 and 2013 were $5.1 million, $5.0 million and $4.7 million, respectively.

The Company owned a fixed maturity investment with a fair value of $8.9 million at December 31, 2014 that was issued by Fairfax and purchased in the ordinary course of business. Investment income from this fixed maturity investment was $0.6 million for the year ended December 31, 2015 and $0.7 million for each of the years ended December 31, 2014 and 2013. This investment matured on October 1, 2015 and the Company received $8.8 million of principal and interest in full settlement of the security.

The Company owns common shares in various classes of mutual funds, which are wholly-owned subsidiaries of Fairfax. In 2015, the Company purchased an additional $18.0 million of shares in a new class of a fund. At December 31, 2015 and 2014, the aggregate fair value of these investments was $97.5 million and $86.3 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 years ended December 31, 2015, 2014 and 2013, the Company recorded a net decrease in unrealized gains/losses of $6.8 million, a net increase in unrealized gains/losses of $2.8 million and a net decrease in unrealized gains/losses $1.6 million, respectively. The Company recorded dividend income of $3.5 million from these investments during the year ended December 31, 2015 and none in 2014 and 2013.

The Company owns common stock in publicly-traded companies and invests in limited partnerships which are affiliates of Fairfax. These investments are recorded under the equity-method of accounting. See Note 3 for additional information related to equity-method investments. In 2015, the Company invested $23.6 million in two new equity-method common stock investments. At December 31, 2015 and 2014, the aggregate value of these investments in Fairfax affiliates recorded in the Consolidated Balance Sheets was $55.2 million and $33.9 million, respectively.

In December 2015, the Company purchased three municipal bonds with par value of $49.9 million for $53.5 million, including accrued interest and 7.5 million shares of common stock for $50.3 million from Fairfax affiliates. Approval from the California DOI was not required as these amounts were below the applicable regulatory threshold.

In January 2014, the Company purchased 13.3 million Canadian dollars from a Fairfax affiliate for $12.0 million. The Canadian dollars were used in February 2014 to fund the purchase of a Canadian investment.

In July 2013, Zenith Insurance purchased two municipal bonds with total par value of $26.0 million for $29.6 million from a Fairfax affiliate.

All affiliate investments were acquired at fair value at the date of purchase.

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 consisting of a quota share reinsurance agreement with Odyssey in which the Company ceded 10% of its workers' compensation premiums written from January 1, 2002 through December 31, 2004. Odyssey also participates in the Company's excess of loss reinsurance agreements for 2010 through 2015. At December 31, 2015 and 2014, the Company recorded net reinsurance recoverables of $5.3 million and $6.2 million, respectively, related to these transactions.

Zenith National paid Fairfax approximately $9.7 million, $3.0 million and $2.4 million for the years ended December 31, 2015, 2014 and 2013, respectively, 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 $0.2 million for the year ended December 31, 2015.

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 did not have any material transactions under this agreement in 2015 and 2014.

In March 2013, the Company entered into an agreement with certain Fairfax affiliates to become their primary workers' compensation claims service provider. The Company recorded service fee income of $8.5 million, $6.4 million and $3.2 million for the years ended December 31, 2015, 2014 and 2013, 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 December 31, 2015 and 2014, include a loss fund of $1.4 million and $1.9 million, respectively, maintained by the Company to process future workers' compensation claim payments on behalf of Fairfax affiliates.

In 2015, Zenith Insurance paid ordinary cash dividends of $60.0 million to Zenith National who in turn paid a $50.0 million dividend to its stockholders (all affiliates of Fairfax). In 2014, Zenith Insurance paid ordinary cash dividends of $50.0 million to Zenith National. The proceeds from the dividend in 2014 were used by Zenith National to invest in common shares of a mutual fund which is a wholly-owned subsidiary of Fairfax. In January 2016, Zenith National sold its investment in common shares of the mutual fund and used the proceeds to pay a $55.0 million cash dividend to its stockholders. In June 2013, Zenith National received a $10.0 million cash capital contribution from Fairfax (US) Inc., and in return, issued 716 shares of Zenith National common stock. Upon receipt of the $10.0 million, Zenith National made a cash capital contribution of $10.0 million to Zenith Insurance.

Note 13. 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, and foreign currency translation adjustments. The following table summarizes the components of the Company's other comprehensive income (loss):

(In thousands)	Pre-Tax	Income Tax Effect	After-Tax
Year ended December 31, 2015			
Net unrealized losses arising during the year	$ (1,311)	$ (459)	$ (852)
Less: reclassification adjustment for net realized gains included in net income	(30)	(11)	(19)
Net change in unrealized gains/losses on available-for-sale and other investments	(1,341)	(470)	(871)
Unrealized foreign currency translation adjustment arising during the year	(3,628)	(1,270)	(2,358)
Less: reclassification adjustment for net realized foreign exchange gains included in net income	1,243	435	808
Change in unrealized foreign currency translation adjustment	(2,385)	(835)	(1,550)
Total other comprehensive loss	$ (3,726)	$ (1,305)	$ (2,421)
Year ended December 31, 2014			
Net unrealized gains arising during the year	$ 1,319	$ 462	$ 857
Less: reclassification adjustment for net realized gains included in net income	983	344	639
Net change in unrealized gains/losses on available-for-sale and other investments	2,302	806	1,496
Change in unrealized foreign currency translation adjustment	(1,925)	(674)	(1,251)
Total other comprehensive income	$ 377	$ 132	$ 245
Year ended December 31, 2013			
Net unrealized losses arising during the year	$ (5,632)	$ (1,971)	$ (3,661)
Less: reclassification adjustment for net realized gains included in net loss	15	5	10
Net change in unrealized gains/losses on available-for-sale and other investments	(5,617)	(1,966)	(3,651)
Change in unrealized foreign currency translation adjustment	(3,248)	(1,136)	(2,112)
Total other comprehensive loss	$ (8,865)	$ (3,102)	$ (5,763)

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

	December 31,	
(In thousands)	2015	2014
Equity securities	$ (3,609)	$ (3,794)
Other investments in cost-method partnerships	3,441	4,453
Fixed maturity securities, including short-term investments		514
Net unrealized gains (losses) on investments, before tax	(168)	1,173
Deferred tax expense (benefit)	(59)	411
Net unrealized gains (losses) on investments, after tax	(109)	762
Net unrealized loss on foreign currency translation adjustment, before tax	(5,114)	(2,729)
Deferred tax benefit	(1,790)	(955)
Net unrealized loss on foreign currency translation adjustment, after tax	(3,324)	(1,774)
Total accumulated other comprehensive loss	$ (3,433)	$ (1,012)

Note 14. Employee Benefit and Retirement Plans

The Company offers a tax deferred savings plan created under Section 401(k) of the Internal Revenue Code for all eligible employees. The Company matches 50% of employee contributions that are 6% or less of salary on a current basis (subject to certain limits) and is not liable for any future payments under the plan. The Company contributed $2.9 million, $3.0 million and $2.7 million under the plan for the years ended December 31, 2015, 2014 and 2013, respectively.

In June 2010, an employee stock purchase plan was approved by Zenith National's Board of Directors providing for the purchase of up to 100,000 Fairfax Subordinate Voting Shares. The plan limits employee contributions to 10% of base salary or wages before tax for each payroll period. Under this stock purchase plan, the Company matches 30% of employee contributions and purchases Fairfax Subordinate Voting Shares at market value. If the Company achieves certain annual profitability conditions, it will provide an additional 20% match on the total contributions made during the year to employees who are employed on the date the additional match is made. The Company contributed $1.6 million, $1.5 million and $0.6 million in matching contributions under the plan for years ended December 31, 2015, 2014 and 2013, respectively.

Note 15. Commitments and Contingencies

Leases

The Company has office space, equipment and automobile leases expiring through 2021. The minimum lease payments on these non-cancelable operating leases at December 31, 2015 were as follows:

(In thousands)	Equipment and Auto Fleet	Offices	Total
2016	$ 1,026	$ 5,478	$ 6,504
2017	363	4,494	4,857
2018	87	4,245	4,332
2019		3,203	3,203
2020		2,491	2,491
Thereafter		1,184	1,184
Total	$ 1,476	$ 21,095	$ 22,571

Rent expense for the years ended December 31, 2015, 2014 and 2013 was $8.3 million, $7.9 million, $8.5 million, respectively.

Litigation

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 16. 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	(35,799)
Vested	(26,562)
Purchased and available for future grants	(10,050)
Available for future purchases at December 31, 2015	127,589

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
Total purchased since plan inception	72,411	$	423.55	$	30,670

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, 2012	34,970	$	390.58	$	13,659
Granted during 2013	6,030		362.21		2,184
Forfeited during 2013	(331)		388.29		(129)
Vested during 2013	(11,243)		388.29		(4,366)
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

Stock-based compensation expense before tax was $2.9 million, $2.3 million and $3.4 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Unrecognized compensation expense before tax under the Restricted Stock Plan was $11.0 million and $6.0 million at December 31, 2015 and 2014, respectively.

Supplementary Consolidating Information

Independent Auditor's Report on Supplementary Consolidating Information

To Management of Zenith National Insurance Corp.:

We have audited the consolidated financial statements of Zenith National Insurance Corp. and its subsidiaries (collectively, the "Company"), which comprise the consolidated balance sheets as of December 31, 2015 and December 31, 2014, and the related consolidated statements of comprehensive income (loss), cash flows and of stockholders' equity for each of the three years in the period ended December 31, 2015, and our report thereon appears on pages 2 and 3 of this document. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies.

PricewaterhouseCoopers LLP

February 18, 2016

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ZENITH NATIONAL INSURANCE CORP. AND SUBSIDIARIES
SUPPLEMENTARY CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2015

(In thousands)	Zenith Insurance Company	ZNAT Insurance Company	1390 Main Street LLC	Zenith of Nevada, Inc.	Zenith Insurance Company Eliminations	Note	**Zenith Insurance Company & Subsidiaries**	Zenith National Insurance Corp.	Zenith National Insurance Corp. Eliminations	Note	**Zenith National Insurance Corp. & Subsidiaries**
Assets:											
Investments	$ 1,738,488	$ 63,104					$ 1,801,592	$ 61,655			$ 1,863,247
Cash	12,886	3,736		$ 1,591			18,213	4,526			22,739
Accrued investment income	8,955	8					8,963				8,963
Premiums receivable	29,257	803					30,060				30,060
Reinsurance recoverables	102,798	178,685			$ (201,328)	(2a)	80,155				80,155
Deferred policy acquisition costs	8,387	2,270					10,657				10,657
Deferred tax asset	50,216	794	$ (33)				50,977	1,162			52,139
Income tax receivable	16,954	300	2				17,256	(219)			17,037
Investment in subsidiaries	37,650				(37,650)	(2b)		670,586	$ (670,586)	(2c)	
Goodwill	18,976						18,976	2,009			20,985
Other assets	44,195	370	9,039				53,604	80			53,684
Intercompany	15,540	(15,781)	586				345	(345)			
Total assets	$ 2,084,302	$ 234,289	$ 9,594	$ 1,591	(238,978)		$ 2,090,798	$ 739,454	$ (670,586)		$ 2,159,666
Liabilities:											
Unpaid losses and loss adjustment expenses	$ 1,247,638	$ 185,081			$ (182,556)	(2a)	$ 1,250,163				$ 1,250,163
Unearned premiums	78,451	18,772			(18,772)	(2a)	78,451				78,451
Policyholders’ dividends accrued	22,355	3,024					25,379				25,379
Long-term debt								$ 38,440			38,440
Derivative liabilities	1,436						1,436				1,436
Other liabilities	63,836	947					64,783	2,973			67,756
Total liabilities	1,413,716	207,824			(201,328)		1,420,212	41,413			1,461,625
Total stockholders' equity	670,586	26,465	$ 9,594	$ 1,591	(37,650)	(2b)	670,586	698,041	$ (670,586)	(2c)	698,041
Total liabilities and stockholders' equity	$ 2,084,302	$ 234,289	$ 9,594	$ 1,591	$ (238,978)		$ 2,090,798	$ 739,454	$ (670,586)		$ 2,159,666

This supplementary consolidating balance sheet should be read in connection with the accompanying notes to supplementary consolidating balance sheet, the consolidated financial statements and notes to the consolidated financial statements.

ZENITH NATIONAL INSURANCE CORP. AND SUBSIDIARIES
NOTES TO SUPPLEMENTARY CONSOLIDATING BALANCE SHEET

1. Basis of Presentation

The accompanying supplementary consolidating Balance Sheet has been prepared in accordance with GAAP and includes the accounts of Zenith Insurance, ZNAT, 1390 Main Street LLC, Zenith of Nevada, Inc. and Zenith National.

2. Consolidating Eliminations

The following eliminations are reflected in the accompanying supplementary consolidating Balance Sheet as of December 31, 2015:

(a) To eliminate intercompany reinsurance balances;

(b) To eliminate Zenith Insurance's investment in ZNAT, 1390 Main Street LLC and Zenith of Nevada, Inc.; and

(c) To eliminate Zenith National's investment in Zenith Insurance.