Zenith National Insurance Corp. and Subsidiaries

Consolidated Financial Statements
as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015
(unaudited)

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

(In thousands, except par value)	September 30, 2016	December 31, 2015
Assets:		
Investments:		
Fixed maturity securities, at fair value (amortized cost $993,852 in 2016 and $765,780 in 2015)	$ 1,089,832	$ 796,335
Equity securities, at fair value (cost $432,103 in 2016 and $553,678 in 2015)	304,243	480,791
Short-term investments, at fair value which approximates cost	219,285	444,695
Other investments	131,873	76,055
Derivative assets, at fair value (cost $40,829 in 2016 and 2015)	13,672	39,495
Assets pledged for derivative obligations, at fair value (amortized cost $37,544 in 2016 and $22,821 in 2015)	43,936	25,876
Total investments	1,802,841	1,863,247
Cash	14,360	22,739
Accrued investment income	11,463	8,963
Premiums receivable	36,514	30,060
Reinsurance recoverables	74,047	80,155
Deferred policy acquisition costs	12,956	10,657
Deferred tax asset	74,042	52,139
Income tax receivable	34,345	17,037
Goodwill	20,985	20,985
Other assets	56,684	53,684
Total assets	$ 2,138,237	$ 2,159,666
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 1,222,870	$ 1,250,163
Unearned premiums	96,909	78,451
Policyholders' dividends accrued	36,366	25,379
Long-term debt	38,160	38,138
Derivative liabilities	10,007	1,436
Other liabilities	66,640	68,058
Total liabilities	1,470,952	1,461,625
Commitments and contingencies (see Note 9)		
Stockholders' equity:		
Common stock, $1 par value, 40 authorized shares; 39 shares issued and outstanding	39	39
Additional paid-in capital	404,728	402,593
Retained earnings	267,944	298,842
Accumulated other comprehensive loss	(5,426)	(3,433)
Total stockholders' equity	667,285	698,041
Total liabilities and stockholders' equity	$ 2,138,237	$ 2,159,666

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2016	2015	2016	2015
Revenues:				
Net premiums earned	$ 211,739	$ 200,149	$ 596,131	$ 565,790
Net investment income	7,182	5,273	18,920	41,685
Net realized gains (losses) on investments	(12,988)	(153)	(27,249)	37,766
Change in net unrealized gains/losses on fair value option investments	27,039	(55,338)	15,772	(153,088)
Net gains (losses) on derivatives	(52,914)	62,717	(87,967)	60,299
Service fee income	2,224	2,049	6,702	6,157
Total revenues	182,282	214,697	522,309	558,609
Expenses:				
Losses and loss adjustment expenses incurred	86,160	96,093	271,961	261,761
Underwriting and other operating expenses:				
Policyholder acquisition costs	36,013	33,341	97,977	95,522
Underwriting and other costs	32,709	31,072	97,495	98,810
Policyholders' dividends	7,621	6,946	21,344	20,013
Interest expense	830	830	2,490	2,490
Total expenses	163,333	168,282	491,267	478,596
Income before tax	18,949	46,415	31,042	80,013
Income tax expense	5,641	14,906	6,940	25,783
Net income	$ 13,308	$ 31,509	$ 24,102	$ 54,230
Net change in unrealized gains/losses on available-for-sale and other investments, net of tax and reclassification adjustment	(524)	45	(2,125)	(307)
Change in unrealized foreign currency translation adjustment, net of tax	(503)	5	132	(362)
Other comprehensive income (loss)	(1,027)	50	(1,993)	(669)
Total comprehensive income	$ 12,281	$ 31,559	$ 22,109	$ 53,561

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

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

	Nine Months Ended September 30,	
(In thousands)	2016	2015
Cash flows from operating activities:		
Premiums collected	$ 613,547	$ 585,467
Investment income received	18,348	15,270
Losses and loss adjustment expenses paid	(291,374)	(242,174)
Underwriting and other operating expenses paid	(206,385)	(193,599)
Interest paid	(3,292)	(3,292)
Income taxes paid	(45,077)	(47,066)
Net cash provided by operating activities	85,767	114,606
Cash flows from investing activities:		
Purchases of investments:		
Fixed maturity securities – fair value option	(324,855)	(5,597)
Equity securities – fair value option		(48,198)
Other investments	(61,344)	(26,882)
Derivatives		(1,668)
Proceeds from maturities and redemptions of investments:		
Fixed maturity securities – fair value option	36,000	8,000
Equity securities – available-for-sale		4,810
Mortgage Loan		29,675
Other investments	3,157	6,179
Proceeds from sales of investments:		
Fixed maturity securities – fair value option	57,802	
Fixed maturity securities – available-for-sale	1,000	
Equity securities – fair value option	92,400	49,506
Other investments	11	38,045
Net decrease (increase) in short-term investments	213,982	(140,740)
Net derivative cash settlements	(53,573)	29,609
Capital expenditures and other	(3,626)	(2,472)
Net cash used in investing activities	(39,046)	(59,733)
Cash flows from financing activities:		
Dividends paid to common stockholders	(55,000)	(50,000)
Purchase of Fairfax shares for restricted stock awards	(100)	(9,651)
Net cash used in financing activities	(55,100)	(59,651)
Net decrease in cash	(8,379)	(4,778)
Cash at beginning of period	22,739	33,926
Cash at end of period	$ 14,360	$ 29,148

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

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

(In thousands)	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Reconciliation of net income to net cash provided by operating activities:		
Net income	$ 24,102	$ 54,230
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	2,802	3,323
Net accretion	(555)	(1,033)
Net realized losses (gains) on investments	27,249	(37,766)
Change in net unrealized gains/losses on fair value option investments	(15,772)	153,088
Net losses (gains) on derivatives	87,967	(60,299)
Equity in losses/earnings of investee	2,616	(24,249)
Stock-based compensation expense	2,235	2,167
Decrease (increase) in:		
Accrued investment income	(2,500)	(763)
Premiums receivable	(10,015)	(6,143)
Reinsurance recoverables	6,108	62,984
Deferred policy acquisition costs	(2,299)	(2,621)
Net income taxes	(38,138)	(21,282)
Increase (decrease) in:		
Unpaid losses and loss adjustment expenses	(27,293)	(45,109)
Unearned premiums	18,458	20,061
Policyholders' dividends accrued	10,987	14,220
Accrued expenses	2,080	1,901
Interest payable	(823)	(823)
Other	(1,442)	2,720
Net cash provided by operating activities	$ 85,767	$ 114,606

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

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

	Nine Months Ended September 30,	
(In thousands)	2016	2015
Common stock:	$ 39	$ 39
Additional paid-in capital:		
Beginning of period	402,593	409,384
Stock-based compensation expense	2,235	2,167
Purchases of Fairfax shares for restricted stock awards	(100)	(9,651)
End of period	404,728	401,900
Retained earnings:		
Beginning of period	298,842	270,677
Net income	24,102	54,230
Dividends paid to common stockholders	(55,000)	(50,000)
End of period	267,944	274,907
Accumulated other comprehensive loss:		
Beginning of period	(3,433)	(1,012)
Net change in unrealized gains/losses on available-for-sale and other investments, net of tax and reclassification adjustment	(2,125)	(307)
Change in unrealized foreign currency translation adjustment, net of tax	132	(362)
End of period	(5,426)	(1,681)
Total stockholders' equity	$ 667,285	$ 675,165

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

Note 1. Basis of Presentation

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

The accompanying unaudited Consolidated Financial Statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (including normal, recurring adjustments) necessary for a fair presentation of the Company's financial position and results of operations for the periods presented have been included. The results of operations for an interim period are not necessarily indicative of the results for an entire year. For further information, refer to the Audited Consolidated Financial Statements and Notes thereto of the Company for the year ended December 31, 2015.

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.

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 November 7, 2016.

Note 2. Investments

As of September 30, 2016 and December 31, 2015, $1.6 billion and $1.7 billion, respectively, 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 September 30, 2016 and December 31, 2015, $15.2 million and $17.2 million, respectively, of investments in equity securities were classified as available-for-sale and reported at fair value with unrealized gains and losses excluded from earnings and reported in a separate component of stockholders' equity, net of tax.

The cost or amortized cost and fair value of fixed maturity and equity securities and short-term investments at September 30, 2016 and December 31, 2015 were as follows:

(In thousands)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
September 30, 2016				
Fair value option investments:				
Fixed maturity securities:				
State and local government debt	$ 491,486	$ 54,069		$ 545,555
U.S. Government debt (a)	441,777	44,819		486,596
Foreign government debt	54,279	6,072		60,351
Corporate debt	30,076	472	$ (3,060)	27,488
Total fixed maturity securities (b)	1,017,618	105,432	(3,060)	1,119,990
Equity securities	411,310	39,235	(161,503)	289,042
Short-term investments (a), (c)	233,063			233,063
Total fair value option investments	1,661,991	144,667	(164,563)	1,642,095
Available-for-sale investments:				
Equity securities	20,793	9	(5,601)	15,201
Total available-for-sale investments	20,793	9	(5,601)	15,201
Total fixed maturity, equity securities and short-term investments	**$ 1,682,784**	**$ 144,676**	**$ (170,164)**	**$ 1,657,296**
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 (b)	785,046	43,346	(9,736)	818,656
Equity securities	532,885	81,257	(150,535)	463,607
Short-term investments (c)	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**

(a) In November 2016, the Company sold $407.2 million of its U.S. Government debt and reinvested the proceeds in short-term investments.

(b) Includes investments with an amortized cost of $23.8 million and a fair value of $30.2 million pledged for derivative obligations at September 30, 2016 and $19.3 million and $22.3 million at December 31, 2015, respectively.

(c) Includes investments of $13.8 million and $3.6 million pledged for derivative obligations at September 30, 2016 and December 31, 2015, respectively.

Fixed maturity securities, including short-term investments, by contractual maturity at September 30, 2016 were as follows:

(In thousands)	Amortized Cost	Fair Value
Due in one year or less (a)	$ 233,063	$ 233,063
Due after one year through five years	24,479	21,600
Due after five years through ten years	5,597	5,888
Due after ten years (a)	987,542	1,092,502
Total	$ 1,250,681	$ 1,353,053

(a) In November 2016, the Company sold $407.2 million of its U.S. Government debt and reinvested the proceeds in short-term investments.

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 September 30, 2016 also include other investments in partnerships and limited liability companies, equity-method common stock and derivative assets. Derivative contracts are described in Note 3.

Other investments consist of the following:

(In thousands)	September 30, 2016	December 31, 2015
Equity-method common stock (a)	$ 74,081	$ 33,408
Equity-method partnerships (a)	35,889	21,803
Cost-method partnerships, at fair value (cost $19,748 in 2016 and $17,403 in 2015) (b)	21,903	20,844
Total other investments	$ 131,873	$ 76,055

(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 net asset value (“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 September 30, 2016, the Company had commitments to invest an additional $8.5 million in partnerships and limited liability companies.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Sales of fixed maturity securities, including short-term investments and other	$ 1,598	$ 65	$ 2,782	$ 901
Sales of equity securities (a)	(14,255)		(29,072)	38,609
Losses from other investments	(331)	(218)	(959)	(1,744)
Net realized gains (losses) on investments	$ (12,988)	$ (153)	$ (27,249)	$ 37,766

(a) Net realized losses on sales of equity securities in the three and nine months ended September 30, 2016 included $8.4 million of gross realized gains and $22.7 million and $37.5 million of gross realized losses, respectively, on sales of fair value option securities. Net realized gains on sales of equity securities in the nine months ended September 30, 2015 included $41.6 million of gross realized gains and $1.7 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.

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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Equity securities	$ (422)	$ (656)	$ (1,983)	$ 642
Investments in cost-method partnerships	(385)	896	(1,286)	(608)
Fixed maturity securities, including short-term investments		(170)		(507)
Total before tax	$ (807)	$ 70	$ (3,269)	$ (473)
After tax	$ (524)	$ 45	$ (2,125)	$ (307)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Change in net unrealized gains/losses recognized on fair value option investments	$ 27,039	$ (55,338)	$ 15,772	$ (153,088)
Less: Net losses (gains) recognized on fair value option investments sold	16,069		6,451	(36,703)
Change in net unrealized gains/losses recognized on fair value option investments still held at the reporting date	$ 10,970	$ (55,338)	$ 9,321	$ (116,385)

Net investment income was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2016	2015	2016	2015
Income (loss) from equity-method investments (a)	$ 2,756	$ (52)	$ (2,616)	$ 24,249
Fixed maturity securities (b)	10,625	7,748	31,068	23,357
Equity securities	710	2,534	3,097	4,667
Mortgage loan		69		663
Short-term and other	248	329	921	653
Derivatives (see Note 3)	(5,481)	(3,586)	(7,987)	(6,427)
Subtotal	8,858	7,042	24,483	47,162
Investment expenses	1,676	1,769	5,563	5,477
Net investment income	$ 7,182	$ 5,273	$ 18,920	$ 41,685

(a) Income from equity-method investments in the nine months ended September 30, 2016 is net of a $4.2 million loss related to our share of the net loss from a common stock investment.

Income from equity-method investments in the nine months ended September 30, 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 nine months ended September 30, 2015 and recognized its share of profit of the investee as income (including amounts previously recorded in accumulated other comprehensive income).

(b) In November 2016, the Company sold $407.2 million of its U.S. Government debt and reinvested the proceeds in short-term investments.

At September 30, 2016 and December 31, 2015, investments with a fair value of $1.1 billion and $1.0 billion, respectively, were on deposit with regulatory authorities in compliance with insurance company regulations. At September 30, 2016, the Company had additional qualifying securities with a fair value of $0.1 billion available for deposit.

Note 3. Derivative Contracts

Derivative contracts entered into by the Company are considered economic hedges and are not designated as accounting hedges. The Company invests in total return swap derivative contracts (“total return swaps”) to protect the value of its equity and equity-linked investments against a major market downturn. The Company also invests in foreign exchange forward contracts (“foreign exchange forwards”) and derivative contracts referenced to the consumer price index in the United States and Europe (“CPI-linked derivatives”) to protect the value of its investment portfolio against foreign currency fluctuations as well as the risk of deflation. 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.

Derivative contracts in a gain position are presented as derivative assets in the Consolidated Balance Sheets. Derivative contracts in a loss position are 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.

The following table summarizes the notional amount, cost and fair value of derivative contracts as of September 30, 2016 and December 31, 2015:

(In thousands)	Notional Amount	Cost	Fair Value of Derivative Assets	Fair Value of Derivative Liabilities
September 30, 2016				
CPI-linked derivatives	$ 7,879,975	$ 40,829	$ 12,913	
Total return swaps	605,753		613 (a)	$ 10,007 (a)
Foreign exchange forwards	69,675		78	
Equity rights/warrants	921		68	
Total		$ 40,829	$ 13,672	$ 10,007
December 31, 2015				
CPI-linked derivatives	$ 7,801,220	$ 40,829	$ 22,801	
Total return swaps	446,959		15,528 (a)	
Foreign exchange forwards	148,822		905	$ 1,436
Equity rights/warrants	921		261	
Total		$ 40,829	$ 39,495	$ 1,436

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2016	2015	2016	2015
Gains (losses) on settlements				
Total return swaps (a)	$ (49,356)	$ 24,293	$ (49,971)	$ 1,221
Foreign exchange forwards	735	(706)	(3,602)	26,952
Total	(48,621)	23,587	(53,573)	28,173
Change in fair value (b)				
Total return swaps	3,595	28,934	(24,922)	34,366
Foreign exchange forwards	(1,480)	569	609	(12,762)
CPI-linked derivatives	(6,366)	9,735	(9,888)	10,512
Equity rights/warrants	(42)	(108)	(193)	10
Total	(4,293)	39,130	(34,394)	32,126
Net gains (losses) on derivatives				
Total return swaps	(45,761)	53,227	(74,893)	35,587
Foreign exchange forwards	(745)	(137)	(2,993)	14,190
CPI-linked derivatives	(6,366)	9,735	(9,888)	10,512
Equity rights/warrants	(42)	(108)	(193)	10
Total net gains (losses) on derivatives	$ (52,914)	$ 62,717	$ (87,967)	$ 60,299

(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.

Total Return Swaps

The Company has protected its equity and equity-related holdings against a potential decline in equity markets by way of short positions effected through total return swaps in the Russell 2000 Index. The Company's economic equity hedges are structured to provide a return which is inverse to changes in the fair values of the Russell 2000 Index.

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 from or is required to pay to the counterparty 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 contract 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).

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 September 30, 2016 and December 31, 2015:

(Units and original notional amounts in thousands)	Units		Original Notional Amount		Weighted Average Index Value		Index Value
September 30, 2016	4,952	$	540,630	$	109.53	$	124.21
December 31, 2015	3,835	$	473,448	$	123.53	$	112.62

During the three and nine months ended September 30, 2016, the Company incurred $5.5 million and $8.0 million, respectively, and $3.6 million and $6.4 million, respectively, for the comparable periods of 2015 of dividend and interest expense on its total return swaps, which was recorded as a reduction to investment income.

CPI-linked Derivatives

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). At September 30, 2016, these contracts had a remaining weighted average life of 5 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 Company's 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.

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 September 30, 2016 and December 31, 2015:

	Notional Amount			Weighted Average Strike Price			
(Notional amount in thousands)	Original Currency		US Dollars	In Original Currency		Index Value	
Underlying CPI Index:							
September 30, 2016							
United States	5,520,000	$	5,520,000	232.81		241.43	
European Union	2,100,000		2,359,975	97.29		100.54	
		$	7,879,975				
December 31, 2015							
United States	5,520,000	$	5,520,000	232.81		236.53	
European Union	2,100,000		2,281,220	97.29	(a)	100.16	(a)
		$	7,801,220				

(a) During the first quarter of 2016, the CPI index value for the European Union was rebased with 2015 as the new reference year. The weighted average strike price at December 31, 2015 was rebased accordingly.

Foreign Exchange Forwards

The Company is currently exposed to currency rate fluctuations through its holding of foreign investments. 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.

Counterparty Risk

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

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

(In thousands)	September 30, 2016	December 31, 2015
Total derivative assets (a)	$ 13,604	$ 39,234
Impact of net settlement arrangements	(4,465)	
Fair value of collateral deposited for the benefit of the Company not recorded as assets of the Company (U.S. Treasury notes and bonds)	(8,314)	(25,978)
Excess of collateral pledged by the Company in favor of counterparties	7,710	2,120
Net derivative counterparty exposure after net settlement and collateral arrangements	$ 8,535	$ 15,376

(a) Excludes equity rights and warrants with a fair value of $68,000 and $261,000 at September 30, 2016 and December 31, 2015 respectively, which are not subject to counterparty risk.

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

At September 30, 2016 and December 31, 2015, the Company pledged to its counterparties securities with a fair value of $43.9 million and $25.9 million, respectively, as collateral for derivatives and recorded this amount as assets pledged for derivative obligations in the Company's Consolidated Balance Sheets as follows:

(In thousands)	September 30, 2016	December 31, 2015
Independent collateral for CPI-linked derivatives and equity index total return swaps	$ 30,683	$ 22,321
Mark-to-market collateral for total return swaps and foreign exchange forwards	13,253	3,555
Total assets pledged for derivatives	$ 43,936	$ 25,876

As of September 30, 2016, the counterparties pledged $1.5 million of cash and $6.9 million of securities at fair value for the Company's benefit, compared to $26.0 million of securities pledged at fair value at December 31, 2015. The Company recorded the cash collateral as Other Assets in its Consolidated Balance Sheet and recognized a corresponding liability. The Company does not record in its Consolidated Balance Sheets securities pledged by counterparties as collateral for derivatives in a gain position.

Offsetting of Derivative Assets/Liabilities

The Company entered into master netting agreements with certain of its derivative counterparties whereby the collateral provided (held) is calculated on a net basis. In accordance with GAAP, the Company elected not to offset derivative assets and liabilities in the Consolidated Balance Sheets for the counterparties with the master netting agreement. The following table summarizes by counterparty (1) the gross and net amounts reflected as derivative assets (excluding equity 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).

(In thousands)	Gross and net amounts reflected in the Consolidated Balance Sheets	Gross amounts not offset in the Consolidated Balance Sheets: Derivative asset (liability)	Gross amounts not offset in the Consolidated Balance Sheets: Collateral provided (held) - financial instruments (b)	Net amount of exposure
September 30, 2016				
Derivative assets:				
Citibank, N.A.	$ 11,224	$ (4,405)	$ (6,072)	$ 747
Deutsche Bank AG London	2,302	(60)	(2,242)	
Bank of New York Mellon (c)	78			78
Total derivative assets (a)	$ 13,604	$ (4,465)	$ (8,314)	$ 825
Derivative liabilities:				
Citibank, N.A.	$ (4,405)	$ 4,405		
Wells Fargo	(5,041)		$ 5,041	
Deutsche Bank AG London	(60)	60		
Bank of America, N.A.	(501)		501	
Total derivative liabilities	$ (10,007)	$ 4,465	$ 5,542	
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 (c)	905			905
Bank of America, N.A.	992			992
Total derivative assets (a)	$ 39,234		$ (25,978)	$ 13,256
Derivative liabilities:				
Wells Fargo	$ (1,436)		$ 1,436	
Total derivative liabilities	$ (1,436)		$ 1,436	

(a) Excludes equity rights and warrants with a fair value of $68,000 and $261,000 at September 30, 2016 and December 31, 2015, respectively, which are not subject to counterparty risk.

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

Note 4. 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 September 30, 2016 and December 31, 2015 classified by the valuation hierarchy discussed previously:

			Fair Value Measurement Using					
(In thousands)		Total		Level 1		Level 2		Level 3
September 30, 2016								
Fair value option securities:								
Fixed maturity securities:								
State and local government debt	$	545,555			$	545,555		
U.S. Government debt (a)		486,596				486,596		
Foreign Government debt		60,351				60,351		
Corporate debt		27,488				6,600	$	20,888
Total fixed maturity securities		1,119,990				1,099,102		20,888
Equity securities		289,042	$	219,524		69,518		
Short-term investments (a)		233,063		233,063				
Total fair value option investments	$	1,642,095	$	452,587	$	1,168,620	$	20,888
Available-for-sale investments:								
Equity securities	$	15,201			$	40	$	15,161
Total available-for-sale investments	$	15,201			$	40	$	15,161
Other investments:								
Cost-method partnerships	$	21,903					$	21,903
Total other investments	$	21,903					$	21,903
Derivatives:								
CPI-linked derivatives	$	12,913					$	12,913
Total return swaps		613			$	613		
Foreign exchange forwards		78				78		
Equity rights/warrants		68				68		
Total derivative assets		13,672				759		12,913
Total return swaps		(10,007)				(10,007)		
Total derivative liabilities		(10,007)				(10,007)		
Net derivatives	$	3,665			$	(9,248)	$	12,913
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

(a) In November 2016, the Company sold $407.2 million of its U.S. Government debt and reinvested the proceeds in short-term investments.

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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 June 30, 2016	$	20,426	$	15,589	$	22,166	$	19,279
Purchases		15,000				455		
Sales		(15,776)				(2)		
Realized and unrealized gains/losses included in:								
Other comprehensive loss (a)				(428)		(385)		
Change in net unrealized gains/losses on fair value option investments		462						
Net realized gains (losses) on investments		776				(331)		
Net losses on derivatives								(6,366)
Balance at September 30, 2016	$	20,888	$	15,161	$	21,903	$	12,913
Balance at December 31, 2015	$	22,195	$	17,142	$	20,844	$	22,801
Purchases		15,000				3,451		
Sales		(15,776)				(147)		
Realized and unrealized gains/losses included in:								
Other comprehensive loss (a)				(1,981)		(1,286)		
Change in net unrealized losses on fair value option investments		(1,307)						
Net realized gains (losses) on investments		776				(959)		
Net losses on derivatives								(9,888)
Balance at September 30, 2016	$	20,888	$	15,161	$	21,903	$	12,913

(In thousands)		Corporate Debt		Equity Securities		Cost-Method Partnerships		CPI-linked Derivatives
Balance at June 30, 2015	$	18,095	$	46,459	$	24,569	$	22,389
Purchases						2,578		
Sales						(4,252)		
Realized and unrealized gains/losses included in:								
Other comprehensive income (loss) (a)				(656)		896		
Change in net unrealized gains/losses on fair value option investments		(3,158)		(22,068)				
Net realized losses on investments						(218)		
Net gains on derivatives								9,735
Transfer to Level 1 from Level 3 (b)				(6,131)				
Balance at September 30, 2015	$	14,937	$	17,604	$	23,573	$	32,124
Balance at December 31, 2014	$	19,998	$	23,059	$	27,506	$	19,944
Purchases						3,281		1,668
Sales				(4,810)		(4,862)		
Realized and unrealized gains/losses included in:								
Other comprehensive income (loss) (a)				638		(608)		
Change in net unrealized gains/losses on fair value option investments		(5,061)		(22,068)				
Net realized losses on investments				(1,283)		(1,744)		
Net gains on derivatives								10,512
Transfer from Level 1 to Level 3 (b)				28,199				
Transfer to Level 1 from Level 3 (b)				(6,131)				
Balance at September 30, 2015	$	14,937	$	17,604	$	23,573	$	32,124

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

(b) In September 2015, investments in Greek common stocks were transferred from Level 3 to Level 1 to reflect the quoted prices readily available after the temporary closure of the Athens Stock Exchange. The Greek common stocks were transferred from Level 1 to Level 3 in the three months ended June 30, 2015.

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 September 30, 2016:

(In thousands)		Balance at September 30, 2016	Valuation Techniques	Significant Unobservable Inputs
Corporate debt (a)	$	20,888	Market approach	Credit spread of issuer
Equity securities, available-for-sale (b)	$	15,161	Market approach	Estimated NAV multiple which incorporates estimated market value of underlying real estate holdings supported by appraisals
Cost-method partnerships (c)	$	21,903	NAV or Market approach	Investees' Financial Statements or fair value based on recent real estate appraisals
CPI-linked derivatives (d)	$	12,913	Market approach	Broker quotes

(a) The Level 3 corporate debt securities consist of two convertible bonds purchased in September 2015 and September 2016. 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 5. Related Party Transactions

Investments

Management of all of the Company's investments is centralized at Fairfax through investment management agreements entered into in 2010. The parties to these agreements are Zenith National's insurance subsidiaries, Fairfax and Hamblin Watsa Investment Counsel, Ltd. ("HWIC"), a Fairfax affiliate. Investment management expenses incurred under these agreements for the three and nine months ended September 30, 2016 were $1.2 million and $3.8 million, respectively, and $1.2 million and $3.8 million, respectively, for the comparable periods of 2015.

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 $0.2 million and $0.6 million for the three and nine months ended September 30, 2015, respectively. 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 mutual fund classes of HWIC Asia which is a wholly-owned subsidiary of Fairfax. At September 30, 2016 and December 31, 2015, the aggregate fair value of these investments was $46.2 million and $97.5 million, respectively. Changes in fair value for these investments are recorded in the change in net unrealized losses on fair value option investments in the Consolidated Statements of Comprehensive Income (Loss). During the nine months ended September 30, 2016, the Company recorded a net increase in unrealized losses of $1.3 million, realized losses of $0.4 million and dividend income of $0.3 million on these investments. During the nine months ended September 30, 2015, the Company recorded a net increase in unrealized losses of $4.4 million and dividend income of $1.7 million on these investments.

As of December 31, 2015, Zenith Insurance owned a common stock investment in APR Energy Plc. that was privatized through a consortium of investors including Fairfax during the first quarter of 2016. In connection with the terms of the privatization deal, Zenith Insurance, along with other Fairfax affiliates, invested $35.0 million in the common stock shares of the newly formed entity. Existing shares with a fair value of $7.9 million were subsequently converted into shares of the newly formed entity in February 2016. The newly formed entity became an affiliate of Fairfax simultaneous with the privatization transaction. The carrying value of this investment of $38.7 million as of September 30, 2016 was recorded under the equity-method of accounting, with the Company's share of net losses of this investee subsequent to the privatization of $4.2 million for the nine months ended September 30, 2016 recorded in net investment income (see Note 2).

The Company owns common stock in publicly-traded and private companies and invests in limited partnerships which are affiliates of Fairfax. These investments are recorded under the equity-method of accounting; see Note 2 for additional information related to equity-method investments. At September 30, 2016 and December 31, 2015, the aggregate value of these investments recorded in the Consolidated Balance Sheets was $110.0 million and $55.2 million, respectively.

In December 2015, Zenith Insurance Company purchased, at fair value, three municipal bonds with a total par value of $49.9 million for $53.5 million, including accrued interest, from U.S. Fire Insurance Company, a Fairfax affiliate (U.S. Fire) and 7.5 million common stock shares of Resolute Forest Products, Inc. at a fair value of $50.3 million from Odyssey Reinsurance Company, a Fairfax affiliate ("Odyssey Re"). These transactions were settled in cash; and approval from the California Department of Insurance ("California DOI") was not required as the amounts were below the applicable regulatory threshold.

In May 2016, Zenith Insurance purchased $52.0 million par value of a municipal bond at a fair value of $19.1 million from Northbridge General Insurance Corporation, a Fairfax affiliate. This transaction was settled in cash; and approval from the California DOI was not required as the amount was below the applicable regulatory threshold.

In August 2016, Zenith Insurance sold $5.0 million and $10.0 million of common stock investments in Blackberry Limited and Bank of Ireland, respectively, at fair value, to Brit Syndicates Limited, a Fairfax affiliate. Zenith Insurance recognized a net loss of $7.3 million and a net gain of $4.3 million, respectively, on these sales. These transactions were settled in cash; and approval from the California DOI was not required as the amount was below the applicable regulatory threshold.

In September 2016, Zenith Insurance sold $10.0 million of common stock investments in both Blackberry Limited and Bank of Ireland, at fair value, to U.S. Fire and Odyssey Re, respectively. Zenith Insurance recognized a net loss of $15.4 million and a net gain of $4.2 million, respectively, on these sales. Zenith Insurance received approval from the California DOI prior to executing these transactions.

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 Reinsurance Company (“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 2016. At September 30, 2016 and December 31, 2015, the Company recorded net reinsurance recoverables of $3.1 million and $5.3 million, respectively, related to these transactions.

Zenith National paid Fairfax approximately $0.1 million and $9.7 million, in the nine months ended September 30, 2016 and 2015, 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 $0.1 million in the nine months ended both September 30, 2016 and 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 transactions under this agreement in the nine months ended September 30, 2016 and 2015.

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 $2.2 million and $6.7 million, in the three and nine months ended September 30, 2016, respectively, compared to $2.0 million and $6.2 million, respectively in the comparable periods of 2015, in the Consolidated Statements of Comprehensive Income (Loss) which is substantially offset by costs of dedicated staff and allocated shared services. Other liabilities at September 30, 2016 and December 31, 2015, include loss funds of $4.2 million and $1.4 million, respectively, maintained by the Company to process future workers' compensation claim payments on behalf of Fairfax affiliates.

The insurance subsidiaries are subject to insurance regulations, which restrict their ability to distribute dividends. The maximum dividend which can be paid to Zenith National by Zenith Insurance without prior approval from the California DOI during 2016 is $121.0 million. In March 2015, Zenith Insurance paid ordinary dividends of $10.0 million to Zenith National. In January 2016, Zenith National paid a $55.0 million ordinary dividend to affiliates of Fairfax with the proceeds from the sale of its investment in common shares of a mutual fund which is a wholly-owned subsidiary of Fairfax.

The maximum dividend which can be paid to Zenith Insurance by ZNAT Insurance Company (“ZNAT”), a wholly owned subsidiary of Zenith Insurance, without prior approval of the California DOI during 2016 is $2.6 million. In May 2016 and April 2015, ZNAT paid dividends of $2.6 million and $2.7 million, respectively, to Zenith Insurance to reduce ZNAT's excess capital.

Note 6. Reinsurance Recoverable

Amounts recoverable for paid and unpaid losses from reinsurers at September 30, 2016 and December 31, 2015 and their respective A.M. Best ratings were as follows:

(In thousands)		September 30, 2016 (a)		December 31, 2015 (a)	A.M. Best Rating (b)	A.M. Best Rating Date
General Reinsurance Corp.	$	57,230	$	59,114	A++	10/2015
Inter-Ocean Re Ins Co. Ltd. (c)		4,050		4,245	NR	
Odyssey Reinsurance Co. (d)		3,015		3,981	A	10/2016
National Union Fire Ins. Co. of Pittsburgh		1,286		1,281	A	6/2016
Lloyds Underwriters		1,074		978	A	7/2016
All others (e)		7,392		10,556		
Total	$	74,047	$	80,155		

(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 5.

(e) No individual reinsurer was in excess of $0.9 million at September 30, 2016.

Note 7. Other Comprehensive Income (Loss)

Other comprehensive income (loss) is comprised of changes in unrealized gains (losses) on investments classified as available-for-sale, other investments in cost-method partnerships, 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
Three months ended September 30, 2016			
Net unrealized losses arising during the period	$ (805)	$ (282)	$ (523)
Less: reclassification adjustment for net realized gains included in net income	(2)	(1)	(1)
Change in unrealized foreign currency translation adjustment	(774)	(271)	(503)
Total other comprehensive loss	$ (1,581)	$ (554)	$ (1,027)
Nine months ended September 30, 2016			
Net unrealized losses arising during the period	$ (3,256)	$ (1,139)	$ (2,117)
Less: reclassification adjustment for net realized gains included in net income	(13)	(5)	(8)
Change in unrealized foreign currency translation adjustment	203	71	132
Total other comprehensive loss	$ (3,066)	$ (1,073)	$ (1,993)
Three months ended September 30, 2015			
Net unrealized gains arising during the period	$ 70	$ 25	$ 45
Change in unrealized foreign currency translation adjustment	7	2	5
Total other comprehensive income	$ 77	$ 27	$ 50
Nine months ended September 30, 2015			
Net unrealized losses arising during the period	$ (966)	$ (338)	$ (628)
Less: reclassification adjustment for net realized losses included in net income	493	172	321
Change in unrealized foreign currency translation adjustment	(557)	(195)	(362)
Total other comprehensive loss	$ (1,030)	$ (361)	$ (669)

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

(In thousands)	September 30, 2016	December 31, 2015
Equity securities	$ (5,592)	$ (3,609)
Other investments in cost-method partnerships	2,155	3,441
Net unrealized loss on investments, before tax	(3,437)	(168)
Deferred tax benefit	(1,203)	(59)
Net unrealized loss on investments, after tax	(2,234)	(109)
Net unrealized loss on foreign currency translation adjustment, before tax	(4,911)	(5,114)
Deferred tax benefit	(1,719)	(1,790)
Net unrealized loss on foreign currency translation adjustment, after tax	(3,192)	(3,324)
Total accumulated other comprehensive loss	$ (5,426)	$ (3,433)

Note 8. Stock-Based Compensation

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

	Number of Shares
Authorized for purchases and grants at plan inception in 2010	200,000
Purchased and restricted	(42,249)
Vested	(30,195)
Purchased and available for future grants	(158)
Available for future purchases at September 30, 2016	127,398

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

(Dollars in thousands, except share data)	Number of Shares	Weighted Average Purchase Price Per Share	Total Purchase Price
Purchased through December 31, 2011	29,970	$ 388.11	$ 11,632
Purchased in 2012	10,554	381.59	4,027
Purchased in 2013	6,145	390.86	2,402
Purchased in 2014	5,898	501.47	2,958
Purchased in 2015	19,844	486.34	9,651
Purchased in 2016	191	525.22	100
Total purchased since plan inception	72,602	423.81	$ 30,770

Changes in the restricted shares outstanding were as follows:

(Dollars in thousands, except share data)	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Grant Date Fair Value
Restricted Shares at December 31, 2013	29,426	$ 385.67	$ 11,348
Granted during 2014	7,600	390.92	2,971
Forfeited during 2014	(1,281)	382.53	(490)
Vested during 2014	(3,908)	385.40	(1,506)
Restricted Shares at December 31, 2014	31,837	387.08	12,323
Granted during 2015	15,423	518.20	7,993
Forfeited during 2015	(50)	514.49	(26)
Vested during 2015	(11,411)	388.29	(4,431)
Restricted Shares at December 31, 2015	35,799	443.01	15,859
Granted during 2016	10,183	449.52	4,577
Forfeited during 2016	(100)	482.01	(48)
Vested during 2016	(3,633)	396.61	(1,441)
Restricted Shares at September 30, 2016	42,249	448.48	$ 18,947

Stock-based compensation expense before tax was $0.8 million and $2.2 million for the three and nine months ended September 30, 2016, respectively, compared to $0.5 million and $2.2 million in the corresponding periods of 2015.

Unrecognized compensation expense before tax under the Restricted Stock Plan was $13.3 million and $11.0 million at September 30, 2016 and December 31, 2015, respectively.

Note 9. Commitments and Contingencies

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

Note 10. Recent Accounting Guidance Not Yet Adopted

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

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

In May 2015, the FASB issued 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. Early adoption is permitted. This guidance is not expected to have a material impact on the Company's financial statements.

In January 2016, the FASB issued updated guidance to address the recognition, measurement, presentation, and disclosure of certain financial instruments. The updated guidance requires equity investments, except those accounted for under the equity method of accounting, that have readily determinable fair value to be measured at fair value with changes in fair value recognized in net income. Equity investments that do not have readily determinable fair values may be remeasured at fair value either upon the occurrence of an observable price change or upon identification of impairment. A qualitative assessment for impairment is required for equity investments without readily determinable fair values. The updated guidance also eliminates the requirement to disclose the method and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost on the balance sheet. The updated guidance is effective for 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 cash flows.

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

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

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

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

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