Zenith National Insurance Corp. and Subsidiaries

Consolidated Financial Statements
as of September 30, 2017 and December 31, 2016 and for the three and nine months ended September 30, 2017 and 2016
(unaudited)

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

(In thousands, except par value)	September 30, 2017	December 31, 2016
Assets:		
Investments:		
Fixed maturity securities, at fair value (amortized cost $439,080 in 2017 and $565,099 in 2016)	$ 462,790	$ 591,581
Equity securities, at fair value (cost $413,702 in 2017 and $413,035 in 2016)	299,492	271,119
Short-term investments, at fair value which approximates cost	695,156	644,377
Other investments	234,746	142,102
Derivative assets, at fair value (cost $43,018 in 2017 and $41,058 in 2016)	12,352	7,518
Assets pledged for derivative obligations, at fair value which approximates cost	9,603	19,892
Total investments	1,714,139	1,676,589
Cash	46,021	21,409
Accrued investment income	5,982	7,495
Premiums receivable	39,792	36,161
Reinsurance recoverables	63,343	69,657
Deferred policy acquisition costs	14,207	10,928
Deferred tax asset	97,302	105,175
Income tax receivable	1,156	
Goodwill	20,985	20,985
Other assets	63,539	57,141
Total assets	$ 2,066,466	$ 2,005,540
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 1,189,437	$ 1,208,572
Unearned premiums	105,548	80,400
Policyholders' dividends accrued	42,593	36,401
Long-term debt	38,189	38,167
Income tax payable		1,526
Derivative liabilities		3,089
Other liabilities	68,171	69,534
Total liabilities	1,443,938	1,437,689
Commitments and contingencies (see Note 9)		
Stockholders' equity:		
Common stock, $1 par value, 40 authorized shares; 39 shares issued and outstanding	39	39
Additional paid-in capital	397,654	401,249
Retained earnings	229,421	173,430
Accumulated other comprehensive loss	(4,586)	(6,867)
Total stockholders' equity	622,528	567,851
Total liabilities and stockholders' equity	$ 2,066,466	$ 2,005,540

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2017	2016	2017	2016
Revenues:				
Net premiums earned	$ 211,497	$ 211,739	$ 599,111	$ 596,131
Net investment income	12,770	7,182	26,076	18,920
Net realized gains (losses) on investments	(917)	(12,988)	6,504	(27,249)
Change in net unrealized gains/losses on fair value option investments	5,188	27,039	22,882	15,772
Net gains (losses) on derivatives	641	(52,914)	(10,083)	(87,967)
Service fee income	2,272	2,224	7,086	6,702
Total revenues	231,451	182,282	651,576	522,309
Expenses:				
Losses and loss adjustment expenses incurred	102,839	86,160	288,451	271,961
Underwriting and other operating expenses:				
Policyholder acquisition costs	36,941	36,013	106,890	97,977
Underwriting and other costs	34,659	32,709	101,271	97,495
Policyholders' dividends	5,798	7,621	18,090	21,344
Interest expense	830	830	2,490	2,490
Total expenses	181,067	163,333	517,192	491,267
Income before tax	50,384	18,949	134,384	31,042
Income tax expense	16,474	5,641	43,393	6,940
Net income	$ 33,910	$ 13,308	$ 90,991	$ 24,102
Net change in unrealized gains/losses on available-for-sale and other investments, net of tax and reclassification adjustment	1,147	(524)	268	(2,125)
Change in unrealized foreign currency translation adjustment, net of tax	1,660	(503)	2,013	132
Other comprehensive income (loss)	2,807	(1,027)	2,281	(1,993)
Total comprehensive income	$ 36,717	$ 12,281	$ 93,272	$ 22,109

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)	2017	2016
Cash flows from operating activities:		
Premiums collected	$ 626,294	$ 613,547
Investment income received	14,310	18,348
Losses and loss adjustment expenses paid	(301,457)	(291,374)
Underwriting and other operating expenses paid	(220,958)	(206,385)
Interest paid	(3,292)	(3,292)
Income taxes paid	(39,432)	(45,077)
Net cash provided by operating activities	75,465	85,767
Cash flows from investing activities:		
Purchases of investments:		
Fixed maturity securities – fair value option	(6,446)	(324,855)
Equity securities – fair value option	(24,102)	
Other investments	(77,174)	(61,344)
Derivatives	(1,960)	
Proceeds from maturities and redemptions of investments:		
Fixed maturity securities – fair value option	41,215	36,000
Other investments	3,329	3,157
Proceeds from sales of investments:		
Fixed maturity securities – fair value option	79,813	57,802
Fixed maturity – available-for-sale		1,000
Equity securities – fair value option	9,985	92,400
Other investments		11
Net (increase) decrease in short-term investments	(32,247)	213,982
Net derivative cash settlements	(17,403)	(53,573)
Capital expenditures and other	(4,728)	(3,626)
Net used in investing activities	(29,718)	(39,046)
Cash flows from financing activities:		
Dividends paid to common stockholders	(14,561)	(55,000)
Purchase of Fairfax shares for restricted stock awards	(6,574)	(100)
Net cash used in financing activities	(21,135)	(55,100)
Net increase (decrease) in cash	24,612	(8,379)
Cash at beginning of period	21,409	22,739
Cash at end of period	$ 46,021	$ 14,360

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

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

	Nine Months Ended September 30,	
(In thousands)	2017	2016
Reconciliation of net income to net cash provided by operating activities:		
Net income	$ 90,991	$ 24,102
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	2,563	2,802
Net accretion	(3,739)	(555)
Net realized (gains) losses on investments	(6,504)	27,249
Change in net unrealized gains/losses on fair value option investments	(22,882)	(15,772)
Net losses on derivatives	10,083	87,967
Equity in losses/earnings of investee	(8,761)	2,616
Stock-based compensation expense	2,979	2,235
Decrease (increase) in:		
Accrued investment income	1,513	(2,500)
Premiums receivable	(6,430)	(10,015)
Reinsurance recoverables	6,314	6,108
Deferred policy acquisition costs	(3,279)	(2,299)
Net income taxes	3,963	(38,138)
Increase (decrease) in:		
Unpaid losses and loss adjustment expenses	(19,135)	(27,293)
Unearned premiums	25,148	18,458
Policyholders’ dividends accrued	6,192	10,987
Accrued expenses	2,520	2,080
Interest payable	(823)	(823)
Other	(5,248)	(1,442)
Net cash provided by operating activities	$ 75,465	$ 85,767

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

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

(In thousands)	Nine Months Ended September 30, 2017	2016
Common stock:	$ 39	$ 39
Additional paid-in capital:		
Beginning of period	401,249	402,593
Stock-based compensation expense	2,979	2,235
Purchases of Fairfax shares for restricted stock awards	(6,574)	(100)
End of period	397,654	404,728
Retained earnings:		
Beginning of period	173,430	298,842
Net income	90,991	24,102
Dividends declared to common stockholders	(35,000)	(55,000)
End of period	229,421	267,944
Accumulated other comprehensive loss:		
Beginning of period	(6,867)	(3,433)
Net change in unrealized gains/losses on available-for-sale and other investments, net of tax and reclassification adjustment	268	(2,125)
Change in unrealized foreign currency translation adjustment, net of tax	2,013	132
End of period	(4,586)	(5,426)
Total stockholders' equity	$ 622,528	$ 667,285

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

Note 1. Basis of Presentation

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

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

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

Subsequent Events

The Company evaluated subsequent events through the date and time that the Consolidated Financial Statements were issued on November 7, 2017.

Note 2. Investments

At both September 30, 2017 and December 31, 2016, $1.5 billion of investments in fixed maturities and equity securities and short-term investments were recorded under the fair value option and changes in fair value for these investments are recorded in the change in net unrealized gains/losses on fair value option investments in the Consolidated Statements of Comprehensive Income. As of September 30, 2017 and December 31, 2016, $16.1 million and $14.5 million, respectively, of investments in equity securities were classified as available-for-sale and reported at fair value with changes in unrealized gains/losses excluded from earnings and reported in a separate component of stockholders' equity, net of tax.

The cost or amortized cost and fair value of fixed maturity and equity securities and short-term investments at September 30, 2017 and December 31, 2016 were as follows:

(In thousands)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
September 30, 2017				
Fair value option investments:				
Fixed maturity securities:				
State and local government debt	$ 408,974	$ 24,709		$ 433,683
Corporate debt	21,942	1,379	$ (3,451)	19,870
U.S. Government debt	8,164	1,108	(35)	9,237
Total fixed maturity securities	439,080	27,196	(3,486)	462,790
Equity securities	393,338	9,880	(119,833)	283,385
Short-term investments (a)	704,759			704,759
Total fair value option investments	1,537,177	37,076	(123,319)	1,450,934
Available-for-sale investments:				
Equity securities	20,364	9	(4,266)	16,107
Total available-for-sale investments	20,364	9	(4,266)	16,107
Total fixed maturity, equity securities and short-term investments	**$ 1,557,541**	**$ 37,085**	**$ (127,585)**	**$ 1,467,041**
December 31, 2016				
Fair value option investments:				
Fixed maturity securities:				
State and local government debt	$ 521,977	$ 32,082	$ (2,716)	$ 551,343
Corporate debt	30,091	226	(3,514)	26,803
U.S. Government debt	13,031	890	(486)	13,435
Total fixed maturity securities	565,099	33,198	(6,716)	591,581
Equity securities	392,241	3,368	(138,975)	256,634
Short-term investments (a)	664,269			664,269
Total fair value option investments	1,621,609	36,566	(145,691)	1,512,484
Available-for-sale investments:				
Equity securities	20,794	9	(6,318)	14,485
Total available-for-sale investments	20,794	9	(6,318)	14,485
Total fixed maturity, equity securities and short-term investments	**$ 1,642,403**	**$ 36,575**	**$ (152,009)**	**$ 1,526,969**

(a) Includes investments of $9.6 million and $19.9 million pledged for derivative obligations at September 30, 2017 and December 31, 2016, respectively.

Fixed maturity securities, including short-term investments, by contractual maturity at September 30, 2017 were as follows:

(In thousands)		Amortized Cost		Fair Value
Due in one year or less	$	704,759	$	704,759
Due after one year through five years		13,546		10,206
Due after five years through ten years		21,597		22,526
Due after ten years		403,937		430,058
Total	$	1,143,839	$	1,167,549

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

Other investments consist of the following:

(In thousands)		September 30, 2017		December 31, 2016
Equity-method common stocks (a)	$	184,593	$	83,679
Equity-method partnerships (a)		26,472		36,626
Cost-method partnerships, at fair value (cost $22,812 in 2017 and $20,286 in 2016) (b)		23,681		21,797
Total other investments	$	234,746	$	142,102

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

(b) Cost-method 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 estimated at NAV.

At September 30, 2017, the Company had commitments to invest an additional $12.6 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,	
(In thousands)	2017	2016	2017	2016
Sales of fixed maturity securities, including short-term investments and other (a)	$ 10	$ 1,598	$ 11,783	$ 2,782
Sale of equity securities (b)		(14,255)	(10,553)	(29,072)
Gains (losses) from other investments	(927)	(331)	5,274	(959)
Net realized gains (losses) on investments	$ (917)	$ (12,988)	$ 6,504	$ (27,249)

(a) Net realized gains on sales of fixed maturity securities, including short-term investments in the nine months ended September 30, 2017 included $12.8 million of gross realized gains and $1.1 million of gross realized losses, respectively, on sales of fair value option securities. Gross realized gains included $4.5 million of realized gains for a fixed maturity security transferred to an affiliate of Fairfax as part of a dividend payment (see Note 5).

(b) Net realized losses on sales of equity securities in the nine months ended September 30, 2017 included $4.9 million of gross realized gains and $15.5 million of gross realized losses on sales of fair value option securities. Gross realized losses included $15.3 million of losses on Exco Resources, Inc. (“Exco”) that were reclassified from unrealized losses when the Company commenced applying the equity method of accounting upon increase in ownership interest in Exco during the second quarter of 2017. This reclassification had no impact on the net income or total comprehensive income.

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 $37.5 million of gross realized losses, respectively, on sales of fair value option securities.

The changes in net unrealized gains/losses on available-for-sale investments, investments in equity-method common stocks and partnerships 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,	
(In thousands)	2017	2016	2017	2016
Equity securities	$ 1,336	$ (422)	$ 2,052	$ (1,983)
Investments in equity-method partnerships			396	
Investments in equity-method common stocks	(64)		(1,394)	
Investments in cost-method partnerships	492	(385)	(642)	(1,286)
Total before tax	$ 1,764	$ (807)	$ 412	$ (3,269)
After tax	$ 1,147	$ (524)	$ 268	$ (2,125)

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,	
(In thousands)	2017	2016	2017	2016
Change in net unrealized gains/losses recognized on fair value option investments	$ 5,188	$ 27,039	$ 22,882	$ 15,772
Less: Net losses (gains) recognized on fair value option investments sold	(67)	16,069	4,343	6,451
Change in net unrealized gains/losses recognized on fair value option investments still held at the reporting date	$ 5,255	$ 10,970	$ 18,539	$ 9,321

Net investment income was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2017	2016	2017	2016
Fixed maturity securities (a)	$ 5,046	$ 10,625	$ 15,919	$ 31,068
Income (loss) from equity-method investments (b)	7,134	2,756	8,761	(2,616)
Short-term and other investments	1,436	248	3,720	921
Equity securities	950	710	2,832	3,097
Derivatives	46	(5,481)	193	(7,987)
Subtotal	14,612	8,858	31,425	24,483
Investment expenses	1,842	1,676	5,349	5,563
Net investment income	$ 12,770	$ 7,182	$ 26,076	$ 18,920

(a) Net investment income from fixed maturity securities in 2017 decreased compared to previous periods as a result of sales and redemptions of long-dated taxable and tax-exempt municipal bonds in the first quarter of 2017.

(b) Income from equity-method investments in the third quarter ended September 30, 2017 primarily includes the Company's share of the net earnings from Fairfax India Holdings Corp. ("FIH") of $2.6 million, Apple Bidco Ltd ("Apple Bidco") of $1.6 million, Boat Rocker Media Inc. ("Boat Rocker") of $1.6 million and Astarta Holdings NV ("Astarta") of $1.5 million, partially offset by the Company's share of net losses from Farmers Edge Inc. of $0.9 million. Income from equity-method investments in the nine months ended September 30, 2017 includes our share of net earnings from Apple Bidco of $4.2 million, FIH of $4.0 million, Astarta $1.7 million, Boat Rocker Media Inc. of $1.4 million and FFHL LP ("KEG") of $0.6 million, partially offset by the Company's share of net losses from Farmers Edge Inc. of $1.2 million, Davos Brands LLC of $1.3 million and Agrigroupe LP of $1.2 million.

Loss from equity-method investments in the nine months ended September 30, 2016 includes the Company's share of the net loss from Apple Bidco of $4.2 million.

At both September 30, 2017 and December 31, 2016, investments with a fair value of approximately $1.1 billion were on deposit with regulatory authorities in compliance with insurance company regulations. At September 30, 2017, the Company had additional qualifying securities with a fair value of $81.0 million available for deposit.

Note 3. Derivative Contracts

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

The following table summarizes the notional amount, cost and fair value of derivative contracts as of September 30, 2017 and December 31, 2016:

(In thousands)	Notional Amount	Cost	Fair Value of Derivative Assets	Fair Value of Derivative Liabilities
September 30, 2017				
CPI-linked derivatives	$ 8,002,622	$ 41,058	$ 5,156	
Foreign exchange forwards	59,701		986	
U.S. government bond forwards	88,000		812	
Common stock long total return swaps	30,459		3,974 (a)	
Equity rights/warrants	16,774	1,960	1,424	
Total		$ 43,018	$ 12,352	
December 31, 2016				
CPI-linked derivatives	$ 7,734,980	$ 41,058	$ 7,141	
Foreign exchange forwards	47,464		346	
U.S. government bond forwards	175,000			$ 3,089
Equity rights/warrants	921		31	
Total		$ 41,058	$ 7,518	$ 3,089

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

The 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 as follows:

(In thousands)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Losses on settlements				
Equity derivatives:				
Equity index total return swaps – short positions		$ (49,356)		$ (49,971)
Common stock total return swaps – long positions	$ (1,754)		$ (1,855)	
Equity call options			1,357	
U.S. government bond forward contracts	119		(9,508)	
Foreign exchange forward contracts	(4,024)	735	(6,040)	(3,602)
Total	(5,659)	(48,621)	(16,046)	(53,573)
Change in fair value				
Equity derivatives:				
Equity index total return swaps – short positions		3,595		(24,922)
Common stock total return swaps – long positions	5,602		3,974	
Equity warrants	(266)	(42)	(567)	(193)
CPI-linked derivative contracts	(880)	(6,366)	(1,985)	(9,888)
U.S. government bond forward contracts	(112)		3,901	
Foreign exchange forward contracts	1,956	(1,480)	640	609
Total	6,300	(4,293)	5,963	(34,394)
Net gains (losses) on derivatives				
Equity derivatives:				
Equity index total return swaps – short positions		(45,761)		(74,893)
Common stock total return swaps – long positions	3,848		2,119	
Equity call options and warrants	(266)	(42)	790	(193)
CPI-linked derivative contracts	(880)	(6,366)	(1,985)	(9,888)
U.S. government bond forward contracts	7		(5,607)	
Foreign exchange forward contracts	(2,068)	(745)	(5,400)	(2,993)
Total net gains (losses) on derivatives	$ 641	$ (52,914)	$ (10,083)	$ (87,967)

Equity Derivative Contracts

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

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

The Company's long common stock total return swap and short equity index total return swap contracts entitle the Company to receive or require the Company to pay the total return on a notional amount of the underlying common stock or equity index, including dividends declared and income on the notional amount at a stated interest rate. Interest and dividends were recorded in investment income in the Consolidated Statements of Comprehensive Income. These swaps require no initial net cash investment and at inception the fair value was zero. The Company's long common stock and short equity index total return swaps contain contractual reset provisions requiring counterparties to cash-settle on a quarterly basis any fair value movements arising subsequent to the prior settlement date. To the extent that a contractual reset date did not correspond to the balance sheet date, the Company adjusted the carrying value of the corresponding derivative asset or liability associated with each long common stock total return swap or short equity index total return swap contracts to reflect its fair value at the balance sheet date with the offset to net gains/losses on derivatives in the Consolidated Statements of Comprehensive Income.

During the three and nine months ended September 30, 2017, the Company received $143,000 and $428,000, respectively, of dividend income on its common stock long total return swaps, which was recorded as investment income.

In May 2017, the Company exercised a call option to acquire additional shares of Astarta Holding N.V. ("Astarta") for $7.5 million cash and recorded realized gains of $1.4 million on the call option exercised. This call option was acquired at no cost in January 2017 for investing purposes in connection with the initial acquisition of Astarta common stock (see Note 5).

CPI-linked Derivative Contracts

The Company has purchased derivative contracts referenced to consumer price indexes (''CPI'') in the United States and Europe to serve as an economic hedge against the potential adverse financial impact on the Company of decreasing consumer price levels. In the event of a sale, expiration or early settlement of any of these contracts, the Company would receive the fair value of that contract on the date of the transaction. The Company's maximum potential loss on any contract is limited to the original cost of that contract. Net unrealized gains (losses) on CPI-linked derivative contracts typically reflect the market's expectation of decreases (increases) in the values of the CPI indexes underlying these contracts at their respective maturities during the periods presented (these contracts are structured to benefit the Company during periods of decreasing CPI index values). At September 30, 2017, these contracts had a remaining weighted average life of 4 years.

The following table summarizes the notional amounts and underlying CPI Index price ("strike price") for the Company's CPI-linked derivative contracts at initiation and the index value at September 30, 2017 and December 31, 2016:

	Notional Amount		Weighted Average Strike Price	
(Notional amount in thousands)	Original Currency	US Dollars	In Original Currency	Index Value
Underlying CPI Index:				
September 30, 2017				
United States	5,520,000	$ 5,520,000	232.81	246.82
European Union	2,100,000	2,482,622	97.66	101.60
		$ 8,002,622		
December 31, 2016				
United States	5,520,000	$ 5,520,000	232.81	241.43
European Union	2,100,000	2,214,980	97.66	101.26
		$ 7,734,980		

U.S. Government Bond Forward Contracts

To reduce its exposure to interest rate risk (specifically exposure to U.S. state and municipal bonds and long dated U.S. government bonds held in its fixed income portfolio), the Company entered into forward contracts to sell long dated U.S. treasury bonds with a notional amount of $88.0 million and $175.0 million at September 30, 2017 and December 31, 2016, respectively. These contracts require no initial net cash investment and at inception the fair value is zero. These contracts have an average term to maturity of less than one year and may be renewed at market rates.

Foreign Exchange Forward Contracts

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

Counterparty Risk

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

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

(In thousands)	September 30, 2017	December 31, 2016
Total derivative assets (a)	$ 10,928	$ 7,487
Impact of net settlement arrangements		(3,089)
Fair value of collateral deposited for the benefit of the Company (b)	(8,244)	(3,884)
Net derivative counterparty exposure after net settlement and collateral arrangements	$ 2,684	$ 514

(a) Excludes equity warrants with a fair value of $1.4 million and $31,000 at September 30, 2017 and December 31, 2016, respectively, which are not subject to counterparty risk.

(b) As of September 30, 2017, the counterparties pledged for the Company's benefit $0.8 million of cash and $7.5 million of securities (U.S. Treasury notes and bonds), at fair value, compared to $5.5 million of securities pledged at December 31, 2016.

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

At September 30, 2017 and December 31, 2016, the Company pledged to its counterparties securities with a fair value of $9.6 million and $19.9 million, respectively, as independent collateral for CPI-linked, U.S. government bond forward and long common stock total return swap derivative contracts and recorded this amount as assets pledged for derivative obligations in the Company's Consolidated Balance Sheets.

Offsetting of Derivative Assets/Liabilities

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

		Gross amounts not offset in the Consolidated Balance Sheets		
(In thousands)	Gross and net amounts reflected in the Consolidated Balance Sheets	Derivative asset (liability)	Collateral provided (held) - financial instruments (a)	Net amount of exposure
September 30, 2017				
Derivative assets:				
Citibank, N.A.	$ 5,034		$ (3,504)	$ 1,530
Bank of America	3,974		(3,974)	
Bank of New York Mellon (b)	986			986
Deutsche Bank AG London	934		(766)	168
Total derivative assets (c)	$ 10,928		$ (8,244)	$ 2,684

(In thousands)	Gross and net amounts reflected in the Consolidated Balance Sheets	Gross amounts not offset in the Consolidated Balance Sheets: Derivative asset (liability)	Gross amounts not offset in the Consolidated Balance Sheets: Collateral provided (held) - financial instruments (a)	Net amount of exposure
December 31, 2016				
Derivative assets:				
Citibank, N.A.	$ 6,168	$ (3,089)	$ (3,079)	
Bank of New York Mellon (b)	346			$ 346
Deutsche Bank AG London	973		(805)	168
Total derivative assets (c)	$ 7,487	$ (3,089)	$ (3,884)	$ 514
Derivative liabilities:				
Citibank, N.A.	$ (3,089)	$ 3,089		
Total derivative liabilities	$ (3,089)	$ 3,089		

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

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

(c) Excludes equity warrants with a fair value of $1.4 million and $31,000 at September 30, 2017 and December 31, 2016, respectively, which are not subject to counterparty risk.

Note 4. Fair Value Measurements

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

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

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

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

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

The following table presents the Company's investments measured at fair value on a recurring basis as of September 30, 2017 and December 31, 2016 classified by the valuation hierarchy discussed previously:

		Fair Value Measurement Using		
(In thousands)	Total	Level 1	Level 2	Level 3
September 30, 2017				
Fair value option securities:				
Fixed maturity securities:				
State and local government debt	$ 433,683		$ 433,683	
Corporate debt	19,870			$ 19,870
U.S. government debt	9,237		9,237	
Total fixed maturity securities	462,790		442,920	19,870
Equity securities (a)	283,385	$ 222,991		12,380
Short-term investments	704,759	704,759		
Total fair value option investments	$ 1,450,934	$ 927,750	$ 442,920	$ 32,250
Available-for-sale investments:				
Equity securities	$ 16,107		$ 41	$ 16,066
Total available-for-sale investments	$ 16,107		$ 41	$ 16,066
Derivatives:				
CPI-linked derivative contracts	$ 5,156			$ 5,156
U.S. government bond forward contracts	812		$ 812	
Equity warrants	1,424		178	1,246
Common stock return swaps – long positions	3,974		3,974	
Foreign exchange forward contracts	986		986	
Total derivative assets	$ 12,352		$ 5,950	$ 6,402

		Fair Value Measurement Using		
(In thousands)	Total	Level 1	Level 2	Level 3
December 31, 2016				
Fair value option securities:				
Fixed maturity securities:				
State and local government debt	$ 551,343		$ 551,343	
Corporate debt	26,803		7,200	$ 19,603
U.S. government debt	13,435		13,435	
Total fixed maturity securities	591,581		571,978	19,603
Equity securities (a)	256,634	$ 211,621		
Short-term investments	664,269	664,269		
Total fair value option investments	$ 1,512,484	$ 875,890	$ 571,978	$ 19,603
Available-for-sale investments:				
Equity securities	$ 14,485		$ 41	$ 14,444
Total available-for-sale investments	$ 14,485		$ 41	$ 14,444
Derivatives:				
CPI-linked derivative contracts	$ 7,141			$ 7,141
Foreign exchange forward contracts	346		$ 346	
Equity warrants	31		31	
Total derivative assets	7,518		377	7,141
U.S. government bond forward contracts	(3,089)		(3,089)	
Total derivative liabilities	(3,089)		(3,089)	
Net derivatives	$ 4,429		$ (2,712)	$ 7,141

(a) In accordance with recent accounting guidance, certain common stock investments with a fair value of $48.0 million and $45.0 million that are measured using the NAV practical expedient have not been classified in the fair value hierarchy at September 30, 2017 and December 31, 2016, respectively. The fair value amounts presented in the “Total” column are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Consolidated Balance Sheets.

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

(In thousands)	Corporate Debt	Equity Securities	Derivatives
Balance at June 30, 2017	$ 20,735	$ 19,501	$ 6,882
Purchases	432	7,400	577
Realized and unrealized gains/losses included in:			
Other comprehensive income (a)		1,335	
Change in net unrealized gains/losses on fair value option investments	(1,297)	390	
Net realized losses on investments		(180)	
Net losses on derivatives			(1,057)
Balance at September 30, 2017	$ 19,870	$ 28,446	$ 6,402
Balance at December 31, 2016	$ 19,603	$ 14,444	$ 7,141
Purchases	6,819	11,812	1,960
Sales	(19,484)	(250)	
Realized and unrealized gains/losses included in:			
Other comprehensive income (a)		2,052	
Change in net unrealized gains/losses on fair value option investments	1,080	568	
Net realized gains (losses) on investments	4,484	(180)	
Net losses on derivatives			(2,477)
Transfers from Level 3 to Level 2 (b)			(222)
Transfers from Level 2 to Level 3 (c)	7,368		
Balance at September 30, 2017	$ 19,870	$ 28,446	$ 6,402

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

(b) In 2017, investments in equity warrants were transferred from Level 3 to Level 2 due to a change in a key valuation input.

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

The following table provides information on the valuation techniques, significant unobservable inputs and ranges for each major category of Level 3 assets measured at fair value on a recurring basis at September 30, 2017:

(In thousands)		Balance at September 30, 2017	Valuation Techniques	Significant Unobservable Inputs
Corporate debt (a)	$	19,870	Market approach	Credit spread of issuer
Equity securities, available-for-sale (b)	$	16,066	Market approach	Estimated NAV multiple
Equity securities, fair value option (c)	$	12,380	Market approach	Credit spread of issuer
Derivatives (d)	$	6,402	Market approach	Broker quotes

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

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

(c) The Level 3 equity securities, fair value option consists primarily of two preferred stocks purchased in 2017, with the fair value 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.

(d) The Level 3 derivatives consist primarily of CPI-linked derivatives that were 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, 2017 were $1.3 million and $3.7 million, respectively, and $1.2 million and $3.8 million, respectively, for the comparable periods of 2016.

The Company owns common shares in various mutual fund classes of HWIC Asia which is a wholly-owned subsidiary of Fairfax. At September 30, 2017 and December 31, 2016, the aggregate fair value of these investments was $48.0 million and $45.0 million, respectively. Changes in fair value for these investments are recorded in the change in net unrealized gains/losses on fair value option investments in the Consolidated Statements of Comprehensive Income. During the nine months ended September 30, 2017, the Company recorded a net increase in unrealized gains/losses of $3.0 million on these investments. 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.

The Company owns common stock in publicly-traded and private companies and invests in limited partnerships which are affiliates of Fairfax (including the investments described in the following paragraphs). These investments are recorded under the equity-method of accounting. At September 30, 2017 and December 31, 2016, the aggregate value of these investments recorded in the Consolidated Balance Sheets was $211.1 million and $105.3 million, respectively (see Note 2).

In June 2017, the Company and Fairfax increased its ownership interest and potential voting interest in Exco Resources, Inc. (“Exco”) and commenced applying the equity method of accounting for Exco common stock. As a result, accumulated unrealized losses of $15.3 million on Exco common stock previously accounted at fair value option were reclassified to realized losses (see Note 2). In addition to the Exco common stock, Fairfax and the Company own two debt instruments issued by Exco in March 2017 as part of the debt refinancing transaction, as well as warrants to purchase additional Exco common stock. The carrying value of the Exco equity method common stock was $0.4 million as of September 30, 2017 and represents the Company’s cost estimated at fair value on the day equity accounting commenced, reduced by the other-than-temporary impairment of $0.9 million recorded in the third quarter of 2017.

In March 2017, the Company invested $21.0 million in Farmers Edge, Inc. (“Farmers Edge”), a private Canadian company that became an affiliate of Fairfax and the Company simultaneously with the Company’s investment. The carrying value of this investment of $20.4 million as of September 30, 2017 represents the Company’s cost plus the Company’s share of Farmers Edge’s net losses, other changes in equity and cumulative translation adjustment, as well as net realized gain on dilution resulted from additional shares issued.

In March 2017, Fairfax and the Company began to classify their investment in Davos Brands LLC (“Davos”) as an affiliated equity-method partnership due to the change in circumstances. In June 2016, the Company invested $15.0 million in Davos, a U.S. limited liability company involved in manufacturing and distributing luxury alcohol brands including sake, vodka and other spirits. Fairfax and the Company own approximately 35% and 11% of Davos, respectively. The Company’s investment in Davos was previously classified as a non-affiliated equity-method partnership investment based on the uncertainty of obtaining regulatory approval from liquor licensing boards in Canada and the U.S. During first quarter of 2017, Fairfax received regulatory approval from most jurisdictions, and Davos became an affiliate of Fairfax and the Company in March 2017. The carrying value of this investment of $14.1 million as of September 30, 2017 represents the Company’s cost plus its share of Davos’s net losses and other changes in equity.

In February 2017, the Company invested $35.0 million in the newly issued common stock of Fairfax Africa Holdings Corp. (“FAH”), as part of the initial public offering (“Offering”). FAH became an affiliate of the Company simultaneously with the Company’s investment. Concurrent with the closing of the Offering, the Company’s investment in Agrigroupe LP (“Agrigroupe”), an affiliate of Fairfax and the Company, carried at $8.8 million was acquired by FAH at its estimated fair value of $11.2 million. The Company recorded its share of Agrigroupe’s net losses through the disposition date of $1.2 million in investment income, and recognized realized gain of $2.4 million on the disposition of Agrigroupe. The carrying value of the Company’s investment in FAH of $45.4 million as of September 30, 2017 represents the Company’s cost plus its share of FAH’s earnings and cumulative translation adjustment.

In January 2017, the Company invested $4.8 million in Astarta Holding NV (“Astarta”), a Netherland company whose common stock is publicly traded on the Polish stock exchange. Astarta became an affiliate of Fairfax and the Company in March 2017 when Fairfax obtained significant influence as a result of additional investment. Fairfax and the Company commenced equity accounting for Astarta in March 2017; and the Company recorded $0.6 million realized gain to step up its cost basis to the fair market value of this investment on the day significant influence was obtained. In May 2017, the Company exercised a call option to acquire additional shares of Astarta for $7.5 million cash and recorded realized gain of $1.4 million on the call option exercise. The carrying value of this investment of $16.9 million as of September 30, 2017 represents the Company’s cost plus its share of Astarta’s earnings and cumulative translation adjustment.

In January 2017, the Company invested $3.2 million in, 2018296 Alberta ULC ("Alberta"), a private Canadian company wholly owned by Fairfax. Alberta was established for the purposes of investing in Mosaic Capital Corporation, a Canadian investment company. Alberta became an affiliate of Fairfax and the Company simultaneously with the Company's investment.

In January 2017, the Company invested an additional $2.5 million in Fairfax India Holdings Corp. ("FIH"), an affiliate of Fairfax, as part of the additional share offering. The carrying value of this investment of $20.2 million as of September 30, 2017 represents the Company's cost plus its share of FIH's earnings, cumulative translation adjustment and other changes in equity, as well as net realized gain on dilution resulted from additional shares issued.

In December 2016, the Company invested $10.0 million in 99388983 Canada Inc., a private Canadian company that became an affiliate of Fairfax simultaneous with the Company's investment ("Canada Inc."). Canada Inc. provided a debtor-in-possession ("DIP") loan to Performance Sporting Goods ("PSG"), a Canadian company in the process of bankruptcy restructuring. In February 2017, the bankruptcy restructuring was resolved and the DIP loan was repaid, partially in cash and in assets of PSG, and Canada Inc. purchased the remaining assets and liabilities of PSG. The Company's original investment then converted into Class A common stock of Canada Inc.; and this entity was renamed Peak Achievements Athletics ("PAA"). In connection with this transaction, the Company recorded $0.3 million of dividend income of which $0.1 million was received in cash and the remaining $0.2 million was "paid in kind" in the form of additional Class A common stock of PAA. The carrying value of this investment of $9.5 million as of September 30, 2017 represents the Company's cost plus its share of PAA's net losses and other changes in equity.

Other

The Company continues to be a party to various reinsurance treaties with affiliates of Fairfax that were entered into in the ordinary course of business, primarily excess of loss reinsurance agreements with Odyssey Re for 2010 through 2017. At September 30, 2017 and December 31, 2016, the Company recorded net reinsurance recoverables of $3,000 and $76,000, respectively, related to the reinsurance transactions with the affiliates of Fairfax.

Zenith National paid Fairfax $6.6 million and $0.1 million in each of the nine months ended September 30, 2017 and 2016, 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 $22,000 and $67,000 in the three and nine months ended September 30, 2017, respectively, compared to $50,000 and $200,000 in the comparable periods of 2016.

In November 2014, the Company entered into a Master Administrative Services Agreement with various affiliates of Fairfax. Under the agreement, the affiliated parties provide and receive administration services such as accounting, underwriting, claims, reinsurance, preparation of regulatory reports, and actuarial services. The Company began providing claims processing services for Seneca Insurance Company, Inc. ("Seneca") under this agreement in March 2016. The Company recorded service fee income of $0.1 million and $0.4 million and $0.1 million and $0.3 million in the three and nine months ended September 30, 2017 and 2016, respectively, in the Consolidated Statements of Comprehensive Income which is substantially offset by costs of dedicated staff and allocated shared services. Other liabilities at both September 30, 2017 and December 31, 2016, include a loss fund of $0.6 million maintained by the Company to process future workers' compensation claim payments on behalf of Seneca.

In March 2013, the Company entered into an agreement with TIG Insurance Company ("TIG") to become their primary workers' compensation claims service provider. The Company recorded service fee income of $2.2 million and $6.7 million and $2.1 million and $6.4 million, in the three and nine months ended September 30, 2017 and 2016, respectively, in the Consolidated Statements of Comprehensive Income which is substantially offset by costs of dedicated staff and allocated shared services. Other liabilities at September 30, 2017 include a net liability of $2.7 million which includes net loss fund liability of $3.4 million reduced by a service fee income receivable of $0.7 million. Other liabilities at December 31, 2016 include a net liability of $2.5 million which includes a net loss fund liability of $3.4 million reduced by a service fee income receivable of $0.9 million.

The insurance subsidiaries are subject to insurance regulations, which restrict their ability to distribute dividends. The maximum dividend which can be paid to Zenith National by Zenith Insurance Company without prior approval from the California DOI during 2017 is $115.2 million. In June 2017, Zenith National paid a $35.0 million ordinary dividend to affiliates of Fairfax in the form of: $0.9 million investment in an equity security, at fair value; $19.5 million investment in a fixed maturity security, at fair value including accrued interest; and $14.6 million in cash. In January 2016, Zenith National paid a $55.0 million ordinary dividend to affiliates of Fairfax with the proceeds from the sale of its investment in common shares of a mutual fund which is a wholly-owned subsidiary of Fairfax.

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

Note 6. Reinsurance Recoverable

Amounts recoverable for paid and unpaid losses from reinsurers at September 30, 2017 and December 31, 2016 and their respective A.M. Best ratings were as follows:

(In thousands)		September 30, 2017(a)		December 31, 2016 (a)	A.M. Best Rating (b)	A.M. Best Rating Date
General Reinsurance Corp.	$	50,947	$	55,955	A++	12/2016
Inter-Ocean Re Ins Co. Ltd. (c)		3,707		3,902	NR	
National Union Fire Ins. Co. of Pittsburgh		1,697		1,294	A	5/2017
Lloyds Underwriters				1,085	A	7/2017
All others (d)		6,992		7,421		
Total	$	63,343	$	69,657		

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

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

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

(d) No individual reinsurer in excess of $1.0 million at September 30, 2017 and December 31, 2016, respectively.

Note 7. Other Comprehensive Income (Loss)

Other comprehensive income (loss) is comprised of changes in unrealized gains/losses on investments classified as available-for-sale, other investments in equity-method common stocks and partnerships, 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, 2017			
Net unrealized gains arising during the period	$ 1,764	$ 617	$ 1,147
Change in unrealized foreign currency translation adjustment	2,555	895	1,660
Total other comprehensive income	$ 4,319	$ 1,512	$ 2,807
Nine months ended September 30, 2017			
Net unrealized gains arising during the period	$ 3,154	$ 1,104	$ 2,050
Less: reclassification adjustment for net realized gains included in net income	(2,742)	(960)	(1,782)
Change in unrealized foreign currency translation adjustment	3,097	1,084	2,013
Total other comprehensive income	$ 3,509	$ 1,228	$ 2,281
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)

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

(In thousands)	September 30, 2017	December 31, 2016
Equity securities	$ (4,257)	$ (6,309)
Other investments in equity-method common stocks	(1,394)	
Other investments in equity-method partnerships	396	
Other investments in cost-method partnerships	869	1,511
Net unrealized loss on investments, before tax	(4,386)	(4,798)
Deferred tax benefit	(1,535)	(1,679)
Net unrealized loss on investments, after tax	(2,851)	(3,119)
Net unrealized loss on foreign currency translation adjustment, before tax	(2,669)	(5,766)
Deferred tax benefit	(934)	(2,018)
Net unrealized loss on foreign currency translation adjustment, after tax	(1,735)	(3,748)
Total accumulated other comprehensive loss	$ (4,586)	$ (6,867)

Note 8. Stock-Based Compensation

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

	Number of Shares
Authorized for purchases and grants at plan inception in 2010	200,000
Purchased and restricted	(50,287)
Vested	(34,085)
Purchased and available for future grants	(11,138)
Available for future purchases at September 30, 2017	104,490

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

(Dollars in thousands, except share data)	Number of Shares		Weighted Average Purchase Price Per Share		Total Purchase Price
Purchased through December 31, 2011	29,970	$	388.11	$	11,632
Purchased in 2012	10,554		381.59		4,027
Purchased in 2013	6,145		390.86		2,402
Purchased in 2014	5,898		501.47		2,958
Purchased in 2015	19,844		486.34		9,651
Purchased in 2016	10,191		443.31		4,518
Purchased in 2017	12,908		509.28		6,574
Total purchased since plan inception	95,510		437.24	$	41,762

Changes in the restricted shares outstanding were as follows:

(Dollars in thousands, except share data)	Number of Shares		Weighted Average Grant Date Fair Value Per Share		Grant Date Fair Value
Restricted Shares at December 31, 2013	29,426	$	385.67	$	11,348
Granted during 2014	7,600		390.92		2,971
Forfeited during 2014	(1,281)		382.53		(490)
Vested during 2014	(3,908)		385.40		(1,506)
Restricted Shares at December 31, 2014	31,837		387.08		12,323
Granted during 2015	15,423		518.20		7,993
Forfeited during 2015	(50)		514.49		(26)
Vested during 2015	(11,411)		388.29		(4,431)
Restricted Shares at December 31, 2015	35,799		443.01		15,859
Granted during 2016	10,183		449.52		4,577
Forfeited during 2016	(240)		479.30		(115)
Vested during 2016	(4,296)		394.01		(1,692)
Restricted Shares at December 31, 2016	41,446		449.48		18,629
Granted during 2017	14,335		447.71		6,418
Forfeited during 2017	(2,267)		421.59		(956)
Vested during 2017	(3,227)		384.96		(1,242)
Restricted Shares at September 30, 2017	50,287		454.37	$	22,849

Stock-based compensation expense before tax was $1.2 million and $3.0 million for the three and nine months ended September 30, 2017, respectively, compared to $0.8 million and $2.2 million in the corresponding periods of 2016, respectively.

Unrecognized compensation expense before tax under the Restricted Stock Plan was $14.7 million and $12.2 million at September 30, 2017 and December 31, 2016, respectively.

Note 9. Commitments and Contingencies

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

Note 10. Recent Accounting Guidance Not Yet Adopted

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

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

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

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

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

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

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

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

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

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

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

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

In May 2017, the FASB issued guidance to provide clarity when changes to the terms or conditions of a share-based payment award must be accounted for as a modification. The new guidance requires that modification accounting will be applied only if there is a change in fair value, vesting conditions or classification. The guidance will be effective for annual periods beginning after December 15, 2017, and interim periods thereafter. Early adoption is permitted. This guidance is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.