Zenith National Insurance Corp. and Subsidiaries

Consolidated Financial Statements
as of March 31, 2018 and December 31, 2017 and for the three months ended March 31, 2018 and 2017
(unaudited)

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

(In thousands, except par value)	March 31, 2018	December 31, 2017
Assets:		
Investments:		
Fixed maturity securities, at fair value (amortized cost $446,342 in 2018 and $433,191 in 2017)	$ 463,306	$ 460,349
Equity securities, at fair value (cost $376,920 in 2018 and 2017)	307,636	326,841
Short-term investments, at fair value which approximates cost	737,161	726,952
Other investments	219,728	220,377
Derivative assets, at fair value (cost $43,580 in 2018 and $43,017 in 2017)	4,444	6,804
Assets pledged for derivative obligations, at fair value (amortized cost $16,080 in 2018 and $11,858 in 2017)	16,079	11,858
Total investments	1,748,354	1,753,181
Cash	18,970	13,105
Accrued investment income	4,666	5,533
Premiums receivable	46,032	41,686
Reinsurance recoverables	53,437	54,431
Deferred policy acquisition costs	14,008	12,164
Deferred tax asset	57,740	46,140
Income tax receivable		3,711
Goodwill	20,985	20,985
Other assets	61,100	65,145
Total assets	$ 2,025,292	$ 2,016,081
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 1,186,469	$ 1,191,531
Unearned premiums	102,093	88,701
Policyholders' dividends accrued	43,619	41,995
Long-term debt	38,203	38,196
Income tax payable	7,109	
Derivative liabilities	3,911	4,280
Other liabilities	68,652	76,294
Total liabilities	1,450,056	1,440,997
Commitments and contingencies (see Note 10)		
Stockholders' equity:		
Common stock, $1 par value, 40 authorized shares; 39 shares issued and outstanding	39	39
Additional paid-in capital	399,895	398,821
Retained earnings	178,457	180,072
Accumulated other comprehensive loss	(3,155)	(3,848)
Total stockholders' equity	575,236	575,084
Total liabilities and stockholders' equity	$ 2,025,292	$ 2,016,081

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

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

(In thousands)	Three Months Ended March 31, 2018	2017
Revenues:		
Net premiums earned	$ 196,101	$ 188,177
Net investment income	4,264	9,130
Net realized gains (losses) on investments	(2,393)	9,110
Change in net unrealized gains/losses on fair value option investments	(30,159)	(1,200)
Net losses on derivatives	(1,403)	(3,611)
Service fee income	2,339	2,448
Total revenues	168,749	204,054
Expenses:		
Losses and loss adjustment expenses incurred	95,308	78,767
Underwriting and other operating expenses:		
Policyholder acquisition costs	36,510	34,370
Underwriting and other costs	33,571	33,841
Policyholders' dividends	5,921	6,480
Interest expense	830	830
Total expenses	172,140	154,288
Income (loss) before tax	(3,391)	49,766
Income tax expense (benefit)	(947)	16,149
Net income (loss)	(2,444)	33,617
Net change in unrealized gains/losses on available-for-sale and other investments, net of tax and reclassification adjustment (see Note 8)	(209)	1,252
Change in unrealized foreign currency translation adjustment, net of tax and reclassification adjustment (see Note 8)	902	(663)
Other comprehensive income	693	589
Total comprehensive income (loss)	$ (1,751)	$ 34,206

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

(In thousands)	Three Months Ended March 31, 2018	2017
Cash flows from operating activities:		
Premiums collected	$ 205,970	$ 205,112
Investment income received	4,908	6,011
Losses and loss adjustment expenses paid	(99,142)	(98,636)
Underwriting and other operating expenses paid	(75,313)	(74,051)
Interest paid	(1,646)	(1,646)
Income taxes paid	(237)	(13,361)
Net cash provided by operating activities	34,540	23,429
Cash flows from investing activities:		
Purchases of investments:		
Fixed maturity securities – fair value option	(84,265)	(3,526)
Equity securities – fair value option		(2,496)
Corporate loan – affiliate	(6,101)	
Other investments	(23)	(67,643)
Derivatives	(1,226)	(474)
Proceeds from maturities and redemptions of investments:		
Fixed maturity securities – fair value option	68,500	25,190
Other investments	366	159
Proceeds from sales of investments:		
Fixed maturity securities – fair value option	8,497	85,042
Other investments	1,215	
Net increase in short-term investments	(16,094)	(56,262)
Net derivative cash settlements	1,150	(2,565)
Capital expenditures and other	(536)	(1,317)
Net cash used in investing activities	(28,517)	(23,892)
Cash flows from financing activities:		
Purchase of Fairfax shares for restricted stock awards	(158)	(103)
Net cash used in financing activities	(158)	(103)
Net increase (decrease) in cash	5,865	(566)
Cash at beginning of period	13,105	21,409
Cash at end of period	$ 18,970	$ 20,843

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

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

	Three Months Ended March 31,	
(In thousands)	2018	2017
Reconciliation of net income (loss) to net cash provided by operating activities:		
Net income (loss)	$ (2,444)	$ 33,617
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation expense	1,019	844
Net accretion	(2,776)	(1,142)
Net realized losses (gains) on investments	2,393	(9,110)
Change in net unrealized gains/losses on fair value option investments	30,159	1,200
Net losses on derivatives	1,403	3,611
Equity in losses/earnings of investee	3,688	(3,220)
Stock-based compensation expense	1,232	803
Decrease (increase) in:		
Accrued investment income	867	1,386
Premiums receivable	(7,635)	(6,519)
Reinsurance recoverables	994	2,143
Deferred policy acquisition costs	(1,844)	(2,390)
Net income taxes	(1,184)	2,790
Increase (decrease) in:		
Unpaid losses and loss adjustment expenses	(5,062)	(21,767)
Unearned premiums	13,392	18,180
Policyholders’ dividends accrued	1,624	2,247
Accrued expenses	(3,326)	(4,072)
Interest payable	(823)	(823)
Other	2,863	5,651
Net cash provided by operating activities	$ 34,540	$ 23,429

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

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

	Three Months Ended March 31,	
(In thousands)	2018	2017
Common stock:	$ 39	$ 39
Additional paid-in capital:		
Beginning of period	398,821	401,249
Stock-based compensation expense	1,232	803
Purchases of Fairfax shares for restricted stock awards	(158)	(103)
End of period	399,895	401,949
Retained earnings:		
Beginning of period	180,072	173,430
Net income (loss)	(2,444)	33,617
Reclassification of certain tax effects from accumulated other comprehensive loss at January 1, 2018 (see Note 8)	829	
End of period	178,457	207,047
Accumulated other comprehensive loss:		
Beginning of period	(3,848)	(6,867)
Reclassification of certain tax effects to retained earnings at January 1, 2018 (see Note 8)	(829)	
Net change in unrealized gains/losses on available-for-sale and other investments, net of tax and reclassification adjustment	340	1,252
Change in unrealized foreign currency translation adjustment, net of tax and reclassification adjustment	1,182	(663)
End of period	(3,155)	(6,278)
Total stockholders' equity	$ 575,236	$ 602,757

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, 2017.

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

Subsequent Events

The Company evaluated subsequent events through the date and time that the Consolidated Financial Statements were issued on May 9, 2018.

Note 2. Investments

As of March 31, 2018 and December 31, 2017, $1.5 billion of investments in fixed maturities and equity securities and short-term investments were recorded under the fair value option and changes in fair value for these investments are recorded in the change in net unrealized gains/losses on fair value option investments in the Consolidated Statements of Comprehensive Income (Loss). As of March 31, 2018 and December 31, 2017, $16.8 million and $16.2 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, short-term investments and other investments at March 31, 2018 and December 31, 2017 were as follows:

(In thousands)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
March 31, 2018				
Fair value option investments:				
Fixed maturity securities:				
State and local government debt	$ 319,766	$ 18,355	$ (379)	$ 337,742
U.S. Government debt (a)	100,554	99	(300)	100,353
Corporate debt	26,462	2,901	(3,713)	25,650
Total fixed maturity securities	446,782	21,355	(4,392)	463,745
Equity securities	356,556	14,961	(80,726)	290,791
Short-term investments (b)	752,801			752,801
Other investments - affiliate corporate loans	6,111		(161)	5,950
Total fair value option investments	1,562,250	36,316	(85,279)	1,513,287
Available-for-sale investments:				
Equity securities	20,364	15	(3,534)	16,845
Total available-for-sale investments	20,364	15	(3,534)	16,845
Total fixed maturity, equity securities and short-term investments	**$ 1,582,614**	**$ 36,331**	**$ (88,813)**	**$ 1,530,132**
December 31, 2017				
Fair value option investments:				
Fixed maturity securities:				
State and local government debt	$ 388,034	$ 27,084	$ (46)	$ 415,072
U.S. Government debt	23,159	520	(91)	23,588
Corporate debt	21,998	2,869	(3,178)	21,689
Total fixed maturity securities	433,191	30,473	(3,315)	460,349
Equity securities	356,556	32,175	(78,137)	310,594
Short-term investments (b)	738,810			738,810
Total fair value option investments	1,528,557	62,648	(81,452)	1,509,753
Available-for-sale investments:				
Equity securities	20,364	16	(4,133)	16,247
Total available-for-sale investments	20,364	16	(4,133)	16,247
Total fixed maturity, equity securities and short-term investments	**$ 1,548,921**	**$ 62,664**	**$ (85,585)**	**$ 1,526,000**

(a) Includes investments with an amortized cost and fair value of $0.4 million pledged for derivative obligations as of March 31, 2018.

(b) Includes investments of $15.6 million and $11.9 million pledged for derivative obligations at March 31, 2018 and December 31, 2017, respectively.

Fixed maturity securities, including short-term investments, by contractual maturity at March 31, 2018 were as follows:

(In thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 752,801	$ 752,801
Due after one year through five years	113,524	110,060
Due after five years through ten years	10,043	12,183
Due after ten years	323,215	341,502
Total	$ 1,199,583	$ 1,216,546

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Total investments at March 31, 2018 also include other investments detailed below and derivative contracts described in Note 3.

Other investments consist of the following:

(In thousands)	March 31, 2018	December 31, 2017
Equity-method common stock (a)	$ 177,771	$ 169,788
Cost-method partnerships, at fair value (cost $21,509 in 2018 and $22,985 in 2017) (b)	21,551	24,220
Equity-method partnerships (a)	14,456	26,369
Affiliate corporate loans, at fair value (cost $6,111)	5,950	
Total other investments	$ 219,728	$ 220,377

(a) Investments in common stock, partnerships and limited liability companies accounted under the equity method are recorded at cost, adjusted for subsequent purchases, distributions, other-than-temporary impairments, if any, and the Company's share of the changes in the investee's net asset value 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 March 31, 2018, the Company had commitments to invest an additional $11.8 million in partnerships and limited liability companies.

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

	Three Months Ended March 31,	
(In thousands)	2018	2017
Sales of fixed maturity securities, including short-term investments and other	$ 221	$ 7,288
Gains (losses) from other investments (a)	(2,614)	1,822
Net realized gains (losses) on investments	$ (2,393)	$ 9,110

(a) Includes realized gains/losses on sales and redemptions of cost-method and equity-method partnerships and equity-method common stocks classified in other invested assets. The realized losses in the three months ended March 31, 2018 include $1.2 million of impairment losses on two cost method partnership investments and $1.2 million of foreign exchange losses reclassified out of unrealized foreign currency translation adjustment on the final distribution from FFHL LP equity-method partnership as a result of the sale of Keg Restaurants Ltd. to Cara Operations Limited, both Fairfax affiliates, (see Note 5). The net gains in the three months ended March 31, 2017 include $2.4 million realized gain on the sale of Agrigroupe LP to Fairfax Africa Holdings Corp., both Fairfax affiliates.

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

	Three Months Ended March 31,	
(In thousands)	2018	2017
Equity securities	$ 598	$ 168
Investments in equity-method partnerships	1,119	
Investments in equity-method common stocks	(94)	134
Investments in cost-method partnerships	(1,193)	1,624
Total before tax	$ 430	$ 1,926
After tax (see Note 8)	$ (209)	$ 1,252

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

	Three Months Ended March 31,	
(In thousands)	2018	2017
Change in net unrealized gains/losses recognized on fair value option investments	$ (30,159)	$ (1,200)
Less: Net gains recognized on fair value option investments sold	(421)	(9,177)
Change in net unrealized gains/losses recognized on fair value option investments still held at the reporting date	$ (29,738)	$ 7,977

Net investment income was as follows:

	Three Months Ended March 31,	
(In thousands)	2018	2017
Fixed maturity securities	$ 4,513	$ 5,669
Short-term and other investments	2,696	1,156
Derivatives	1,487	103
Equity securities	1,194	729
Income (loss) from equity-method investments (a)	(3,688)	3,220
Subtotal	6,202	10,877
Investment expenses	1,938	1,747
Net investment income	$ 4,264	$ 9,130

(a) Loss from equity-method investments in the three months ended March 31, 2018 primarily includes losses of $1.6 million, $1.3 million and $1.2 million related to the Company's share of the net losses from Farmers Edge, Inc., Fairfax Africa Holdings Corp. and Astarta Holdings NV, all affiliates of Fairfax, respectively. Income from equity-method investments in the three months ended March 31, 2017 includes $3.7 million income related to the Company's share of the net income from Apple Bidco Ltd, and $1.2 million loss related to the Company's share of the net loss from Agrigroupe LP, both affiliates of Fairfax.

At both March 31, 2018 and December 31, 2017, investments with a fair value of approximately $1.1 billion were on deposit with regulatory authorities in compliance with insurance company regulations. At March 31, 2018, the Company had additional qualifying securities with a fair value of $103.9 million available for deposit.

Note 3. Derivative Contracts

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

The following table summarizes the notional amount, cost and fair value of derivative contracts:

	Notional		Fair Value of Derivative	
(In thousands)	Amount	Cost	Assets	Liabilities
March 31, 2018				
CPI-linked derivatives	$ 8,102,676	$ 41,058	$ 2,213	
Foreign exchange forwards	63,337		547	
U.S. Government bond forwards	98,000			$ 1,476
Equity total return swaps – long positions	68,042			2,435 (a)
Equity warrants	16,774	2,522	1,684	
Total		$ 43,580	$ 4,444	$ 3,911
December 31, 2017				
CPI-linked derivatives	$ 8,041,674	$ 41,058	$ 3,445	
Foreign exchange forwards	57,638			$ 677
U.S. Government bond forwards	98,000			1,686
Equity total return swaps – long positions	58,265		2,077 (a)	1,917 (a)
Equity warrants	16,774	1,959	1,282	
Total		$ 43,017	$ 6,804	$ 4,280

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

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

	Three Months Ended March 31,	
(In thousands)	2018	2017
Gains (losses) on settlements		
Equity derivatives:		
Equity total return swaps – long positions (a)	$ (273)	
U.S. government bond forward contracts	3,597	$ (2,720)
Foreign exchange forward contracts	(2,173)	155
Total	1,151	(2,565)
Change in fair value (b)		
Equity derivatives:		
Equity total return swaps – long positions (a)	(2,595)	(185)
Equity warrants	(161)	(23)
CPI-linked derivative contracts	(1,232)	(1,368)
U.S. government bond forward contracts	210	1,119
Foreign exchange forward contracts	1,224	(589)
Total	(2,554)	(1,046)
Net losses on derivatives		
Equity derivatives:		
Equity total return swaps – long positions (a)	(2,868)	(185)
Equity warrants	(161)	(23)
CPI-linked derivative contracts	(1,232)	(1,368)
U.S. government bond forward contracts	3,807	(1,601)
Foreign exchange forward contracts	(949)	(434)
Total net losses on derivatives	$ (1,403)	$ (3,611)

(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 was measured from the contract inception or most recent cash settlement date prior to the reporting date. Change in fair value of equity warrants and U.S. Government bond forwards is measured from the contract inception date. Change in fair value of CPI-linked derivatives and foreign exchange forwards include unrealized foreign exchange gains.

Equity Derivative Contracts

The Company’s long equity total return swaps allow the company to receive the total return on a notional amount of an individual equity (including dividends and capital gains or losses) in exchange for the payment of a floating rate of interest on the notional amount. Interest and dividends were recorded in investment income in the Consolidated Statements of Comprehensive Income (Loss). These swaps require no initial net cash investment and at inception the fair value was zero. The Company’s long equity total return swaps contain contractual reset provisions requiring counterparties to cash-settle on a quarterly basis any fair value movements arising subsequent to the prior settlement date. To the extent that a contractual reset date did not correspond to the balance sheet date, the Company adjusted the carrying value of the corresponding derivative asset or liability associated with each long equity total return swap contracts to reflect its fair value at the balance sheet date with the offset to net gains/losses on derivatives in the Consolidated Statements of Comprehensive Income (Loss).

CPI-linked Derivative Contracts

The Company has purchased derivative contracts referenced to consumer price indexes (‘‘CPI’’) in the United States and Europe to serve as an economic hedge against the potential adverse financial impact on the Company of decreasing price levels. In the event of a sale, expiration or early settlement of any of these contracts, the Company would receive the fair value of that contract on the date of the transaction. The Company’s maximum potential loss on any contract is limited to the original cost of that contract. Net unrealized gains (losses) on CPI-linked derivative contracts typically reflect the market's expectation of decreases (increases) in the values of the CPI indexes underlying these contracts at their respective maturities during the periods presented (these contracts are structured to benefit the Company during periods of decreasing CPI index values). At March 31, 2018, 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 March 31, 2018 and December 31, 2017:

(Notional amount in thousands)	Notional Amount Original Currency	Notional Amount US Dollars	Weighted Average Strike Price In Original Currency	Index Value
Underlying CPI Index:				
March 31, 2018				
United States	5,520,000	$ 5,520,000	232.81	249.55
European Union	2,100,000	2,582,676	97.66	102.83
		$ 8,102,676		
December 31, 2017				
United States	5,520,000	$ 5,520,000	232.81	246.52
European Union	2,100,000	2,521,674	97.66	102.57
		$ 8,041,674		

U.S. Government Bond Forward Contracts

To reduce its exposure to interest rate risk (specifically exposure to state and local government bonds and long dated U.S. treasury bonds held in its fixed income portfolio), the Company entered into forward contracts to sell long dated U.S. treasury bonds with a notional amount of $98.0 million at both March 31, 2018 and December 31, 2017. These contracts have an average term to maturity of less than one year and may be renewed at market rates.

Foreign Exchange Forward Contracts

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

Counterparty Risk

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

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

(In thousands)		March 31, 2018		December 31, 2017
Total derivative assets (a)	$	2,760	$	5,522
Impact of net settlement arrangements		(1,709)		(3,603)
Fair value of collateral deposited for the benefit of the Company		(504)		(1,919)
Excess of collateral pledged by the Company in favor of counterparties		622		
Net derivative counterparty exposure after net settlement and collateral arrangements	$	1,169	$	

(a) Excludes equity warrants with a fair value of $1.7 million and $1.3 million at March 31, 2018 and December 31, 2017, respectively, which are not subject to counterparty risk.

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

At March 31, 2018 and December 31, 2017, the Company pledged to its counterparties securities with a fair value of $16.1 million and $11.9 million, respectively, as independent and mark-to-market collateral for CPI-linked, U.S. Government bond forward and equity long total return swap derivative contracts and recorded these amounts as assets pledged for derivative obligations in the Company's Consolidated Balance Sheets.

At March 31, 2018, the counterparties pledged $0.8 million of cash for the Company's benefit, compared to $0.8 million of cash and $2.9 million of securities, at fair value, at December 31, 2017. The Company recorded the cash collateral as other assets and recognized a corresponding liability in its Consolidated Balance Sheets. The Company does not record in its Consolidated Balance Sheets securities pledged by counterparties as collateral for derivatives in a gain position.

Offsetting of Derivative Assets/Liabilities

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

		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
March 31, 2018				
Derivative assets:				
Citibank, N.A.	$ 1,709	$ (1,709)		
Deutsche Bank AG London	504		$ (504)	
Bank of New York Mellon (b)	547			$ 547
Total derivative assets (c)	$ 2,760	$ (1,709)	$ (504)	$ 547
Derivative liabilities:				
Citibank, N.A.	$ (3,244)	$ 1,709		$ (1,535)
Bank of America	(667)		$ 667	
Total derivative liabilities	$ (3,911)	$ 1,709	$ 667	$ (1,535)
December 31, 2017				
Derivative assets:				
Citibank, N.A.	$ 2,814	$ (2,303)	$ (511)	
Deutsche Bank AG London	631		(631)	
Bank of America	2,077	(1,300)	(777)	
Total derivative assets (c)	$ 5,522	$ (3,603)	$ (1,919)	
Derivative liabilities:				
Citibank, N.A.	$ (2,303)	$ 2,303		
Bank of America	(1,300)	1,300		
Bank of New York Mellon (b)	(677)			$ (677)
Total derivative liabilities	$ (4,280)	$ 3,603		$ (677)

(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 $1.7 million and $1.3 million at March 31, 2018 and December 31, 2017, 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 equity 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 at least 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 in accordance with recent accounting guidance.

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

The following table presents the Company's investments measured at fair value on a recurring basis as of March 31, 2018 and December 31, 2017 classified by the valuation hierarchy discussed previously:

		Fair Value Measurement Using		
(In thousands)	Total	Level 1	Level 2	Level 3
March 31, 2018				
Fair value option securities:				
Fixed maturity securities:				
State and local government debt	$ 337,742		$ 337,742	
U.S. government debt	100,353		100,353	
Corporate debt	25,650		4,316	$ 21,334
Total fixed maturity securities	463,745		442,411	21,334
Equity securities (a)	290,791	$ 229,488		11,571
Short-term investments	752,801	752,801		
Other investments - affiliate corporate loans	5,950			5,950
Total fair value option investments	$ 1,513,287	$ 982,289	$ 442,411	$ 38,855
Available-for-sale investments:				
Equity securities	$ 16,845		$ 48	$ 16,797
Total available-for-sale investments	$ 16,845		$ 48	$ 16,797
Derivatives:				
CPI-linked derivative contracts	$ 2,213			$ 2,213
Foreign exchange forward contracts	547		$ 547	
Equity warrants	1,684		45	1,639
Total derivative assets	4,444		592	3,852
Equity total return swaps – long positions	(2,435)		(2,435)	
U.S. Government bond forward contracts	(1,476)		(1,476)	
Total derivative liabilities	(3,911)		(3,911)	
Net derivatives	$ 533		$ (3,319)	$ 3,852

		Fair Value Measurement Using		
(In thousands)	Total	Level 1	Level 2	Level 3
December 31, 2017				
Fair value option securities:				
Fixed maturity securities:				
State and local government debt	$ 415,072		$ 415,072	
U.S. government debt	23,588		23,588	
Corporate debt	21,689			$ 21,689
Total fixed maturity securities	460,349		438,660	21,689
Equity securities (a)	310,594	$ 250,317		12,106
Short-term investments	738,810	738,810		
Total fair value option investments	$ 1,509,753	$ 989,127	$ 438,660	$ 33,795
Available-for-sale investments:				
Equity securities	$ 16,247		$ 48	$ 16,199
Total available-for-sale investments	$ 16,247		$ 48	$ 16,199
Derivatives:				
Equity total return swaps – long positions	$ 2,077		$ 2,077	
CPI-linked derivative contracts	3,445			$ 3,445
Equity warrants	1,282		18	1,264
Total derivative assets	6,804		2,095	4,709
Equity total return swaps – long positions	(1,917)		(1,917)	
U.S. Government bond forward contracts	(1,686)		(1,686)	
Foreign exchange forward contracts	(677)		(677)	
Total derivative liabilities	(4,280)		(4,280)	
Net derivatives	$ 2,524		$ (2,185)	$ 4,709

(a) In accordance with recent accounting guidance, certain common stock investments with a fair value of $49.7 million and $48.2 million that are measured using the NAV practical expedient have not been classified in the fair value hierarchy at March 31, 2018 and December 31, 2017, 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	Affiliate Corporate Loans
Balance at December 31, 2017	$ 21,689	$ 28,305	$ 4,709	
Purchases			563	$ 6,111
Realized and unrealized gains/losses included in:				
Other comprehensive income (a)		598		
Change in net unrealized gains/losses on fair value option investments	(373)	(535)		(161)
Accretion of discounts	18			
Net losses on derivatives			(1,420)	
Balance at March 31, 2018	$ 21,334	$ 28,368	$ 3,852	$ 5,950
Balance at December 31, 2016	$ 19,603	$ 14,444	$ 7,141	
Purchases	3,589		474	
Realized and unrealized gains/losses included in:				
Other comprehensive income (a)		167		
Change in net unrealized gains/losses on fair value option investments	2,445			
Net losses on derivatives			(1,395)	
Transfers from Level 2 to Level 3 (b)	7,368			
Balance at March 31, 2017	$ 33,005	$ 14,611	$ 6,220	

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

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

There were no significant changes to the valuation techniques and processes used at March 31, 2018 compared to those described in the Company's Consolidated Financial Statements at December 31, 2017.

Note 5. Related Party Transactions

Investments

Management of all of the Company's investments is centralized at Fairfax through investment management agreements entered into in 2010. The parties to these agreements are Zenith National's insurance subsidiaries, Fairfax and Hamblin Watsa Investment Counsel, Ltd. ("HWIC"), a Fairfax affiliate. Investment management expenses incurred under these agreements for the three months ended March 31, 2018 and 2017 were $1.3 million and $1.2 million, respectively.

The Company owns common shares in various mutual fund classes of HWIC Asia which is a wholly-owned subsidiary of Fairfax. At March 31, 2018 and December 31, 2017, the aggregate fair value of these investments was $49.7 million and $48.2 million, respectively. Changes in fair value for these investments are recorded in the change in net unrealized gains/losses on fair value option investments in the Consolidated Statements of Comprehensive Income (Loss). During the three months ended March 31, 2018, and 2017 The Company recorded a net increase in unrealized gains/losses of $1.6 million and $1.5 million, respectively, 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 but not limited to investments described in the following paragraphs). These investments are recorded under the equity method of accounting. At March 31, 2018 and December 31, 2017, the aggregate value of its equity-method investments in Fairfax affiliates recorded in the Consolidated Balance Sheets was $192.2 million and $196.2 million, respectively. The Company's share of equity-method investees' net income/loss for the three months ended March 31, 2018 and 2017 were $3.7 million of loss and $3.2 million of income, respectively, and were recorded in net investment income in the Consolidated Statements of Comprehensive Income. Net realized gains on equity-method investments on sales and on dilution resulting from additional shares issued or bought back by equity-method investees in the three months ended March 31, 2018 and 2017 were $1.5 million and $1.9 million, respectively, and were recorded in net gains (losses) on investments in the Consolidated Statements of Comprehensive Income. The Company's share of other changes in investees' equity in the three months ended March 31, 2018 and 2017 were $1.0 million and $134,000, respectively, and were recorded in the net change in net unrealized gains/losses in the Consolidated Statements of Comprehensive Income. Net unrealized gains/losses on foreign currency translation adjustment related to its equity-method investments in the three months ended March 31, 2018 and 2017 were $1.5 million gain and $1.0 million loss, respectively, and were recorded in the change in unrealized foreign currency translation adjustment in the Consolidated Statements of Comprehensive Income.

In January 2018, Fairfax and the Company entered into an agreement with Exco Resources, Inc. ("Exco"), an affiliate of Fairfax and the Company, to extend a private debtor-in-possession loan to Exco ("Exco DIP Loan") who is in the process of bankruptcy restructuring. The Company's share of this investment was $2.7 million at March 31, 2018, and was included in other investments – affiliate corporate loans in the Consolidated Balance Sheets.

In February 2018, Fairfax and the Company entered into a private loan agreement with Farmers Edge, Inc. ("Farmers Edge"), an affiliate of Fairfax and the Company ("Farmers Edge Loan"). Fairfax and the Company also received warrants to purchase Farmers Edge common stock ("Farmers Edge Warrants") in connection with this loan. The Company's share of this investment was $4.1 million, allocated between $3.4 million in Canadian $5.0 million par value Farmers Edge Loan and $0.7 million Farmers Edge Warrants, as estimated by HWIC. The Company sold the Farmers Edge Warrants to Wentworth Insurance Company Ltd. ("Wentworth"), an affiliate of Fairfax, on the same day and recorded a receivable from Wentworth of $0.7 million. The Company's investment in Farmers Edge loan is included in other investments – affiliate corporate loans in the Consolidated Balance Sheets.

In February 2018, Fairfax and the Company invested in private placement non-rated debt securities issued by Seaspan Corporation ("Seaspan"), a publicly traded company domiciled in the Marshal Islands. Fairfax and The Company received warrants to purchase Seaspan common stock in connection with this investment ("Seaspan Warrants"). Seaspan became an affiliate of Fairfax and the Company simultaneously with this investment. The Company's share of this investment was $5.0 million, allocated between $4.4 million in $5.0 million par value Seaspan corporate bonds and $0.6 million in 769,231 of Seaspan Warrants, as estimated by HWIC.

In February 2018, Fairfax completed the sale of its 51.0% ownership interest in the Keg Restaurants Ltd. ("Keg") to Cara Operations Limited ("Cara"), a subsidiary of Fairfax domiciled in Canada, for consideration that comprised of cash and Cara common stock. In 2014, the Company invested in FFHL LP, a wholly-owned limited partnership subsidiary of Fairfax formed to hold the Keg common stock. As a result of the sale of Keg to Cara, the Company received $0.6 million cash dividend distribution from FFHL LP, and the Company's remaining equity interest in the FFHL LP was redeemed in full in the form of $11.7 million of Cara common stock. Under US GAAP, the Company recorded its share of the FFHL LP realized loss on the sale of Keg to Cara of $0.3 million as part of equity in losses of FFHL LP in investment income. The Company recognized realized losses on foreign exchange of $1.2 million on distribution from FFHL LP that were reclassified from unrealized foreign currency translation adjustment previously recorded in Accumulated Other Comprehensive Income.

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 March 31, 2018 and December 31, 2017, the Company recorded net reinsurance recoverables of $1.1 million and $0.7 million, respectively, related to the reinsurance transactions with the affiliates of Fairfax.

Zenith National paid Fairfax $0.1 million in each of the three months ended March 31, 2018 and 2017, 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 23,000 in the three months ended March 31, 2018 and 2017, respectively.

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 2017 and recorded service fee income of $0.1 million in each of the three months ended March 31, 2018 and 2017, respectively, in the Consolidated Statements of Comprehensive Income (Loss) which was substantially offset by costs of dedicated staff and allocated shared services. Other liabilities at March 31, 2018 and December 31, 2017, respectively, include a loss fund of $0.6 million maintained by the Company to process future workers' compensation claim payments on behalf of Seneca.

In March 2013, the Company entered into an agreement with TIG Insurance Company ("TIG") to become their primary workers' compensation claims service provider. The Company recorded service fee income of $2.2 million and $2.3 million in the three months ended March 31, 2018 and 2017, respectively, in the Consolidated Statements of Comprehensive Income (Loss) which is substantially offset by costs of dedicated staff and allocated shared services. Other liabilities at March 31, 2018 include a net liability of $1.5 million which includes net loss fund liability of $3.2 million reduced by a service fee income receivable of $1.7 million. Other liabilities at December 31, 2017 include a net liability of $2.3 million which includes net loss fund liability of $3.3 million reduced by a service fee income receivable of $1.0 million.

Note 6. Reinsurance Recoverable

Amounts recoverable for paid and unpaid losses from reinsurers at March 31, 2018 and December 31, 2017 and their respective A.M. Best ratings were as follows:

(In thousands)		March 31, 2018(a)		December 31, 2017 (a)	A.M. Best Rating (b)	A.M. Best Rating Date
General Reinsurance Corp.	$	41,218	$	43,567	A++	1/2018
Inter-Ocean Re Ins Co. Ltd. (c)		2,799		2,799	NR	
Lloyds Underwriters		1,423		1,025	A	7/2017
All others (d)		7,997		7,040		
Total	$	53,437	$	54,431		

(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 March 31, 2018 and December 31, 2017.

Note 7. Unpaid Losses and Loss Adjustment Expenses

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

(In thousands)		March 31, 2018		March 31, 2017
Beginning of year, net of reinsurance	$	1,139,373	$	1,144,409
Incurred claims:				
Current accident year		117,813		112,611
Prior accident years		(22,505)		(33,844)
Total incurred claims		95,308		78,767
Payments:				
Current accident year		(12,822)		(13,309)
Prior accident years		(86,340)		(85,987)
Total payments		(99,162)		(99,296)
End of year, net of reinsurance		1,135,519		1,123,880
Receivable from reinsurers for unpaid losses		50,950		62,925
End of year, gross of reinsurance	$	1,186,469	$	1,186,805

Note 8. Other Comprehensive Income (Loss)

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

(In thousands)	Pre-Tax	Income Tax Effect	After-Tax
Three months ended March 31, 2018			
Net unrealized gains arising during the period	$ 482	$ 101	$ 381
Less: reclassification adjustment for net realized gains included in net loss	(52)	(11)	(41)
Reclassification of certain tax effects to retained earnings at January 1, 2018 (a)		549	(549)
Net changes in unrealized gains/losses on available-for-sale and other investments	430	639	(209)
Unrealized foreign currency translation adjustment arising during the period	341	72	269
Less: reclassification adjustment for net realized foreign exchange losses included in net loss	1,155	242	913
Reclassification of certain tax effects of retained earnings at January 1, 2018 (a)		280	(280)
Change in unrealized foreign currency translation adjustment	1,496	594	902
Total other comprehensive income	$ 1,926	$ 1,233	$ 693
Three months ended March 31, 2017			
Net unrealized gains arising during the period	$ 1,926	$ 674	$ 1,252
Change in unrealized foreign currency translation adjustment	(1,020)	(357)	(663)
Total other comprehensive income	$ 906	$ 317	$ 589

(a) In February 2018, the Financial Accounting Standards Board ("FASB") issued updated guidance that allows a reclassification from accumulated other comprehensive loss to retained earnings for the stranded tax effects resulting from the enactment of the Tax Cuts and Jobs Act of 2017, which was signed into law on December 22, 2017. The Company early adopted this amended guidance on January 1, 2018, and as a result, elected to reclassify total $0.8 million of stranded tax effects from accumulated other comprehensive loss to retained earnings as of January 1, 2018.

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

(In thousands)	March 31, 2018	December 31, 2017
Equity securities	$ (3,519)	$ (4,117)
Other investments in equity-method common stocks	(1,528)	(1,434)
Other investments in equity-method partnerships	1,515	396
Other investments in cost-method partnerships	42	1,235
Net unrealized loss on investments, before tax	(3,490)	(3,920)
Deferred tax benefit	(733)	(1,372)
Net unrealized loss on investments, after tax	(2,757)	(2,548)
Net unrealized loss on foreign currency translation adjustment, before tax	(504)	(2,000)
Deferred tax benefit	(106)	(700)
Net unrealized loss on foreign currency translation adjustment, after tax	(398)	(1,300)
Total accumulated other comprehensive loss	$ (3,155)	$ (3,848)

Note 9. 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	(56,443)
Vested	(39,232)
Purchased and available for future grants	(150)
Available for future purchases at March 31, 2018	104,175

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
Purchased in 2018	315	502.69	158
Total purchased since plan inception	95,825	437.46	$ 41,920

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, 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 December 31, 2017	50,287	454.37	22,849
Granted during 2018	11,608	508.90	5,907
Forfeited during 2018	(305)	474.43	(145)
Vested during 2018	(5,147)	385.14	(1,982)
Restricted Shares at March 31, 2018	56,443	471.79	$ 26,629

Stock-based compensation expense before tax was $1.2 million and $0.8 million for the three months ended March 31, 2018 and 2017, respectively.

Unrecognized compensation expense before tax under the Restricted Stock Plan was $18.0 million and $13.5 million at March 31, 2018 and December 31, 2017, respectively.

Note 10. 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 11. Recent Accounting Guidance Not Yet Adopted

In May 2014, the Financial Accounting Standards Board 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 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. In February 2018, the FASB issued technical corrections and improvements intended to clarify certain aspects of the guidance on recognizing and measuring financial assets and liabilities. 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 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.