Zenith National Insurance Corp. and Subsidiaries

Consolidated Financial Statements
as of March 31, 2019 and December 31, 2018 and for the three months ended March 31, 2019 and 2018
(unaudited)

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

(In thousands, except par value)	March 31, 2019	December 31, 2018
Assets:		
Investments:		
Fixed maturity securities, at fair value (amortized cost $1,127,161 in 2019 and $1,120,817 in 2018)	$ 1,149,505	$ 1,135,560
Equity securities, at fair value (cost $238,417 in 2019 and $240,098 in 2018)	216,626	208,698
Short-term investments, at fair value which approximates cost	103,193	106,409
Other investments	202,174	203,944
Derivative assets, at fair value (cost $48,577 in 2019 and 2018)	9,384	9,754
Assets pledged for derivative obligations, at fair value (amortized cost $16,891 in 2019 and $24,552 in 2018)	16,897	24,567
Total investments	1,697,779	1,688,932
Cash	33,082	29,667
Accrued investment income	4,830	3,852
Premiums receivable	48,561	40,453
Reinsurance recoverables	45,169	47,885
Deferred policy acquisition costs	13,829	12,147
Deferred tax asset	45,991	47,393
Operating lease right-of-use assets	24,343	
Goodwill	20,985	20,985
Other assets	57,208	57,875
Total assets	$ 1,991,777	$ 1,949,189
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 1,120,960	$ 1,147,866
Unearned premiums	99,776	86,710
Policyholders’ dividends accrued	42,576	43,237
Long-term debt	38,232	38,225
Operating lease liabilities	25,888	1,508
Income tax payable	11,898	3,300
Derivative liabilities	9,595	16,504
Other liabilities	66,078	74,669
Total liabilities	1,415,003	1,412,019
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	399,516	398,340
Retained earnings	181,543	145,515
Accumulated other comprehensive loss	(4,324)	(6,724)
Total stockholders’ equity	576,774	537,170
Total liabilities and stockholders’ equity	$ 1,991,777	$ 1,949,189

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, 2019	2018
Revenues:		
Net premiums earned	$ 180,561	$ 196,101
Net investment income	3,475	4,264
Net realized gains (losses) on investments	1,736	(2,393)
Change in net unrealized gains/losses on fair value option investments	18,299	(30,159)
Net losses on derivatives	(11,888)	(1,403)
Service fee income	2,105	2,339
Total revenues	194,288	168,749
Expenses:		
Losses and loss adjustment expenses incurred	70,300	95,308
Underwriting and other operating expenses:		
Policyholder acquisition costs	34,437	36,510
Underwriting and other costs	33,638	33,571
Policyholders' dividends	5,400	5,921
Interest expense	830	830
Total expenses	144,605	172,140
Income (loss) before tax	49,683	(3,391)
Income tax expense (benefit)	10,529	(947)
Net income (loss)	39,154	(2,444)
Net change in unrealized gains/losses on investments, net of tax	(85)	340
Change in unrealized foreign currency translation adjustment, net of tax	(641)	1,182
Other comprehensive income (loss)	(726)	1,522
Total comprehensive income (loss)	$ 38,428	$ (922)

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

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

(In thousands)	Three Months Ended March 31, 2019	2018
Cash flows from operating activities:		
Premiums collected	$ 185,486	$ 205,970
Investment income received	3,834	4,908
Losses and loss adjustment expenses paid	(93,926)	(99,142)
Underwriting and other operating expenses paid	(79,098)	(75,313)
Interest paid	(1,646)	(1,646)
Income taxes paid	(335)	(237)
Net cash provided by operating activities	14,315	34,540
Cash flows from investing activities:		
Purchases of investments:		
Fixed maturity securities – fair value option	(17,036)	(84,265)
Equity securities – fair value option	(3,344)	
Corporate loan – affiliate	(2,980)	(6,101)
Other investments	(2,610)	(23)
Derivatives		(1,226)
Proceeds from maturities and redemptions of investments:		
Fixed maturity securities – fair value option		68,500
Other investments		366
Proceeds from sales of investments:		
Fixed maturity securities – fair value option	15,855	8,497
Equity securities – fair value option	6,371	
Other investments	1,438	1,215
Net (increase) decrease in short-term investments	10,875	(16,094)
Net derivative cash settlements	(18,434)	1,150
Capital expenditures and other	(924)	(536)
Net cash used in investing activities	(10,789)	(28,517)
Cash flows from financing activities:		
Purchase of Fairfax shares for restricted stock awards	(111)	(158)
Net cash used in financing activities	(111)	(158)
Net increase in cash	3,415	5,865
Cash at beginning of period	29,667	13,105
Cash at end of period	$ 33,082	$ 18,970

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)	2019	2018
Reconciliation of net income (loss) to net cash provided by operating activities:		
Net income (loss)	$ 39,154	$ (2,444)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation expense	942	1,019
Net accretion	(4,040)	(2,776)
Net realized losses (gains) on investments	(1,736)	2,393
Change in net unrealized gains/losses on fair value option investments	(18,299)	30,159
Net losses on derivatives	11,888	1,403
Equity in losses/earnings of investee	6,435	3,688
Stock-based compensation expense	1,287	1,232
Decrease (increase) in:		
Accrued investment income	(978)	867
Premiums receivable	(11,979)	(7,635)
Reinsurance recoverables	2,716	994
Deferred policy acquisition costs	(1,682)	(1,844)
Net income taxes	10,192	(1,184)
Increase (decrease) in:		
Unpaid losses and loss adjustment expenses	(26,906)	(5,062)
Unearned premiums	13,066	13,392
Policyholders’ dividends accrued	(661)	1,624
Accrued expenses	(2,122)	(3,326)
Interest payable	(823)	(823)
Other	(2,139)	2,863
Net cash provided by operating activities	$ 14,315	$ 34,540

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)	2019	2018
Common stock:	$ 39	$ 39
Additional paid-in capital:		
Beginning of period	398,340	398,821
Stock-based compensation expense	1,287	1,232
Purchases of Fairfax shares for restricted stock awards	(111)	(158)
End of period	399,516	399,895
Retained earnings:		
Beginning of period	145,515	180,072
Net income (loss)	39,154	(2,444)
Reclassification of certain tax effects from accumulated other comprehensive loss at January 1, 2018 (see Note 1)		829
Reclassification of net unrealized losses on available-for-sale investments and cost-method partnerships from other comprehensive loss at January 1, 2019 (See Note 1)	(3,126)	
End of period	181,543	178,457
Accumulated other comprehensive loss:		
Beginning of period	(6,724)	(3,848)
Reclassification of certain tax effects to retained earnings at January 1, 2018 (see Note 1)		(829)
Reclassification of net unrealized losses on available-for-sale investments and cost-method partnerships to retained earnings at January 1, 2019 (see Note 1)	3,126	
Net change in unrealized gains/losses on investments, net of tax	(85)	340
Change in unrealized foreign currency translation adjustment, net of tax	(641)	1,182
End of period	(4,324)	(3,155)
Total stockholders' equity	$ 576,774	$ 575,236

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

Note 1. Basis of Presentation and Accounting Policies

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, 2018.

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.

Adopted Accounting Standards

Below is information regarding accounting standards that the Company adopted during the periods for which the Financial Statements have been presented.

Leases

Effective January 1, 2019, the Company adopted the updated guidance for leases and elected to utilize an option to record a cumulative-effect adjustment to the opening balance of retained earnings for the year of adoption. Accordingly, the Company's reporting for the comparative period prior to adoption continue to be presented in the financial statements in accordance with previous lease accounting guidance. The adoption of the updated guidance resulted in the Company recognizing a right-of-use asset of $24.3 million and a lease liability of $25.9 million in the Consolidated Balance Sheet, as well as de-recognizing the liability for deferred rent that was required under the previous guidance, for its office lease agreements at March 31, 2019. The cumulative effect adjustment to the opening balance of retained earnings was zero. The adoption of the updated guidance did not have a material effect on the Company's results of operations or cash flows (see Note 11).

Recognition and Measurement of Financial Assets and Financial Liabilities

Effective January 1, 2019, the Company adopted the updated guidance for 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 any changes in fair value recognized in net income.

Equity securities that do not have readily determinable fair values may be measured at estimated fair value or cost less impairment, if any, adjusted for subsequent observable price changes, with changes in the carrying value recognized in net income. 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. Upon adoption of this guidance on January 1, 2019, $4.2 million of pre-tax net unrealized losses on equity investments previously classified as available-for-sale and $0.3 million of pre-tax net unrealized gains on cost-method partnership investments were reclassified from accumulated other comprehensive loss (“AOCL”) to retained earnings. The change in accounting for equity securities and cost-method partnership investments did not affect the Company’s total shareholders’ equity and the after-tax net unrealized losses of $3.1 million reclassified to retained earnings will never be recognized in net income.

Cash flows classifications

Effective January 1, 2019, the Company adopted the updated guidance on the classification of cash flows related to certain activities in the statement of cash flows to reduce diversity in practice. Under the new guidance, distributions received on equity method investments that are considered to be a return on investment are reported as cash flows from operating activities. These distributions were previously reported as cash flows from investing activities. The adoption of this guidance on did not have a material impact on the Company’s Statement of Cash Flows.

Reclassification of the stranded tax effects related to The Tax Cuts and Jobs Act of 2017 (“Act”)

In February 2018, the Financial Accounting Standards Board (“FASB”) issued updated guidance that allows a reclassification from AOCL to retained earnings for the stranded tax effects resulting from the enactment of the Act. The Company early adopted this amended guidance on January 1, 2018, and as a result, elected to reclassify a total of $0.8 million in stranded tax effects from AOCL to retained earnings as of January 1, 2018.

Recent Accounting Standards Not Yet Adopted

Revenue Recognition

In May 2014, the 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.

Measurement of Credit Losses on Financial Instruments

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.

Goodwill Impairment

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.

Callable Debt Securities – Accounting for Premium Amortization

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.

Accounting for Cloud Computing Implementation Costs

In August 2018, the FASB issued updated guidance to reduce complexity for the accounting for costs of implementing a cloud computing service arrangement. The new guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The updated guidance is effective for reporting periods beginning after December 15, 2020. 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.

Accounting for Variable Interest Entities

In October 2018, the FASB issued new guidance that expands the application of a specific private company accounting alternative related to variable interest entities and changes how entities evaluate decision-making fees under the variable interest guidance. Entities will consider indirect interests held through related parties under common control on a proportionate basis rather than in their entirety. Entities are required to apply the amendments retrospectively. The guidance will be effective for reporting periods beginning after December 15, 2020 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.

Reclassifications

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

Subsequent Events

The Company evaluated subsequent events through the date and time that the Consolidated Financial Statements were issued on May 15, 2019.

Note 2. Investments

The cost or amortized cost and fair value of investments recorded at fair value at March 31, 2019 and December 31, 2018 were as follows:

(In thousands)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
March 31, 2019				
Fair value option investments:				
Fixed maturity securities:				
State and local government debt	$ 88,586	$ 26,267		$ 114,853
U.S. Government debt (a)	986,512	2,027	$ (135)	988,404
Corporate debt	53,048	1,594	(7,403)	47,239
Total fixed maturity securities	1,128,146	29,888	(7,538)	1,150,496
Short-term investments (b)	119,103		(4)	119,099
Equity securities	238,417	9,036	(30,827)	216,626
Other investments – affiliate corporate loans	9,090	350		9,440
Other investments – cost-method partnerships	24,018	2,946	(1,646)	25,318
Total fair value option investments	**$ 1,518,774**	**$ 42,220**	**$ (40,015)**	**$ 1,520,979**
December 31, 2018				
Fair value option investments:				
Fixed maturity securities:				
State and local government debt	$ 87,607	$ 17,363		$ 104,970
U.S. Government debt (a)	983,019	1,245	$ (785)	983,479
Corporate debt	52,817	825	(3,890)	49,752
Total fixed maturity securities	1,123,443	19,433	(4,675)	1,138,201
Short-term investments (b)	128,335			128,335
Equity securities	219,734	3,469	(30,620)	192,583
Other investments – affiliate corporate loans	6,110	255		6,365
Total fair value option investments	1,477,622	23,157	(35,295)	1,465,484
Available-for-sale investments:				
Equity securities	20,364	22	(4,271)	16,115
Total available-for-sale investments	20,364	22	(4,271)	16,115
Other investments – cost-method partnerships	21,756	2,197	(1,904)	22,049
Total investments recorded at fair value	**$ 1,519,742**	**$ 25,376**	**$ (41,470)**	**$ 1,503,648**

(a) Includes investments of $1.0 million and $2.6 million pledged for derivative obligations at March 31, 2019 and December 31, 2018, respectively.

(b) Includes investments of $15.9 million and $21.9 million pledged for derivative obligations at March 31, 2019 and December 31, 2018, respectively.

Fixed maturity securities, including short-term investments, by contractual maturity at March 31, 2019 were as follows:

(In thousands)		Amortized Cost		Fair Value
Due in one year or less	$	925,426	$	925,955
Due after one year through five years		224,334		218,976
Due after five years through ten years		6,104		6,612
Due after ten years		91,385		118,052
Total	$	1,247,249	$	1,269,595

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, 2019 also include other investments detailed below and derivative contracts described in Note 3.

Other investments consist of the following:

(In thousands)		March 31, 2019		December 31, 2018
Equity-method common stock (a)	$	154,607	$	162,028
Cost-method partnerships, at fair value (cost $24,018 in 2019 and $21,756 in 2018) (b)		25,318		22,049
Equity-method partnerships (a)		12,809		13,502
Affiliate corporate loans, at fair value (cost $9,090 in 2019 and $6,110 in 2018)		9,440		6,365
Total other investments	$	202,174	$	203,944

(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. Effective January 1, 2019, upon adoption of the updated guidance for financial instruments (see Note 1) changes in fair value of cost-method partnerships are recorded in change in net unrealized gains/losses on fair value option investments. Prior to the adoption of this updated accounting guidance, changes in fair value of cost-method partnerships were recorded in other comprehensive income/loss.

At March 31, 2019, the Company had commitments to invest an additional $12.3 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)		2019		2018
Sale of equity securities (a)	$	1,345		
Gains (losses) from other investments (b)		329	$	(2,614)
Sales of fixed maturity securities, including short-term investments and other		62		221
Net realized gains (losses) on investments	$	1,736	$	(2,393)

(a) Realized gains in the three months ended March 31, 2019 include $1.3 million of realized gains on the sale of two common stock investments.

(b) Realized losses in the three months ended March 31, 2018 included $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 changes in net unrealized gains/losses on investments recognized as a separate component of stockholders' equity and were as follows:

	Three Months Ended March 31,	
(In thousands)	2019	2018
Available-for-sale equity securities (a)		$ 598
Cost-method partnerships (a)		(1,193)
Equity-method partnerships	$ 119	1,119
Equity-method common stocks	(226)	(94)
Total before tax	$ (107)	$ 430
After tax	$ (85)	$ 340

(a) Effective January 1, 2019, upon adoption of the updated guidance for financial instruments (see Note 1) changes in fair value of available-for-sale equity securities and cost-method partnerships are recorded in change in unrealized gains/losses on fair value option investments.

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

	Three Months Ended March 31,	
(In thousands)	2019	2018
Change in net unrealized gains/losses recognized on fair value option investments	$ 18,299	$ (30,159)
Less: Net gains recognized on fair value option investments sold	(948)	(421)
Change in net unrealized gains/losses recognized on fair value option investments still held at the reporting date	$ 19,247	$ (29,738)

Net investment income was as follows:

	Three Months Ended March 31,	
(In thousands)	2019	2018
Fixed maturity securities (a)	$ 7,771	$ 4,513
Short-term and other investments (a)	995	2,696
Equity securities	2,654	1,194
Derivatives	440	1,487
Loss from equity-method investments (b)	(6,435)	(3,688)
Subtotal	5,425	6,202
Investment expenses	1,950	1,938
Net investment income	$ 3,475	$ 4,264

(a) In 2018, the proceeds from sales and redemptions of tax-exempt municipal bonds and short-term investments were reinvested primarily in short-dated U.S. treasury bonds and high quality corporate bonds.

(b) Loss from equity-method investments in the three months ended March 31, 2019 includes primarily the Company's share of the net losses from Apple Bidco of $5.3 million, Fairfax Africa Holdings Corp. ("FAH") of $3.5 million, Farmers Edge of $1.8 million and Astarta Holdings NV ("Astarta") of $1.2 million; partially offset by the Company's share of the net income from Toys R Us of $6.1 million. Loss from equity-method investments in the three months ended March 31, 2018 includes primarily the Company's share of the net losses from Farmers Edge of $1.6 million, FAH of $1.3 million and Astarta of $1.2 million.

At both March 31, 2019 and December 31, 2018, 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, 2019, the Company had additional qualifying securities with a fair value of $83.7 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, 2019					
CPI-linked derivatives	$ 7,877,987	$ 41,058	$ 1,353		
Foreign currency options	437,500	7,519	7,840		
Long equity total return swaps	60,049		69	$ 8,274	(a)
U.S. government bond forwards	97,000			1,220	(a)
Foreign exchange forwards	72,084		122	101	(a)
Equity warrants	921				
Total		$ 48,577	$ 9,384	$ 9,595	
December 31, 2018					
CPI-linked derivatives	$ 7,920,604	$ 41,058	$ 2,303		
Foreign currency options	437,500	7,519	7,431		
Long equity total return swaps	71,431			$ 10,958	(a)
U.S. government bond forwards	94,000			5,530	(a)
Foreign exchange forwards	13,146			16	(a)
Equity warrants	921		20		
Total		$ 48,577	$ 9,754	$ 16,504	

(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)	2019	2018
Gains (losses) on settlements		
Equity derivatives:		
Equity total return swaps – long positions (a)	$ (11,382)	$ (273)
U.S. government bond forward contracts	(8,398)	3,597
Foreign exchange forward contracts	1,353	(2,173)
Total	(18,427)	1,151
Change in fair value (b)		
Equity derivatives:		
Equity total return swaps – long positions (a)	2,753	(2,595)
Equity warrants	(20)	(161)
CPI-linked derivative contracts	(950)	(1,232)
U.S. government bond forward contracts	4,310	210
Foreign exchange forward contracts	37	1,224
Foreign currency options	409	
Total	6,539	(2,554)
Net losses on derivatives		
Equity derivatives:		
Equity total return swaps – long positions (a)	(8,629)	(2,868)
Equity warrants	(20)	(161)
CPI-linked derivative contracts	(950)	(1,232)
U.S. government bond forward contracts	(4,088)	3,807
Foreign exchange forward contracts	1,390	(949)
Foreign currency options	409	
Total net losses on derivatives	$ (11,888)	$ (1,403)

(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, 2019, these contracts had a remaining weighted average life of 3 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, 2019 and December 31, 2018:

	Notional Amount		Weighted Average Strike Price	
(Notional amount in thousands)	Original Currency	US Dollars	In Original Currency	Index Value
Underlying CPI Index:				
March 31, 2019				
United States	5,520,000	$ 5,520,000	232.81	254.20
European Union	2,100,000	2,357,987	97.66	104.09
		$ 7,877,987		
December 31, 2018				
United States	5,520,000	$ 5,520,000	232.81	251.23
European Union	2,100,000	2,400,604	97.66	104.10
		$ 7,920,604		

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 $97 million and $94 million at March 31, 2019 and December 31, 2018, respectively. These contracts have an average term to maturity of less than one year and may be renewed at market rates.

Foreign Exchange Forward Contracts

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

Counterparty Risk

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

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

(In thousands)		March 31, 2019		December 31, 2018
Total derivative assets (a)	$	9,384	$	9,734
Impact of net settlement arrangements		(8,631)		(9,469)
Fair value of collateral deposited for the benefit of the Company		(632)		(265)
Excess of collateral pledged by the Company in favor of counterparties		1,466		3,118
Net derivative counterparty exposure after net settlement and collateral arrangements	$	1,587	$	3,118

(a) Excludes equity warrants with a fair value of zero and $20,000 at March 31, 2019 and December 31, 2018, 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, 2019 and December 31, 2018, the Company pledged to its counterparties securities with a fair value of $16.9 million and $24.6 million, respectively, as independent and mark-to-market collateral for CPI-linked, U.S. government bond forwards and long equity total return swaps derivatives and recorded this amount as assets pledged for derivative obligations in the Consolidated Balance Sheets.

At March 31, 2019, the counterparties pledged for the Company's benefit $0.3 million of cash and $1.5 million of U.S. Treasury notes, compared to and $0.3 million of cash at December 31, 2018. The Company recorded the cash collateral as other assets in our Consolidated Balance Sheets and recognized a corresponding liability. The Company does not record in the 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, 2019				
Derivative assets:				
Citibank, N.A.	$ 9,027	$ (8,631)	$ (396)	
Deutsche Bank AG London	236		(236)	
Bank of New York Mellon (b)	121			$ 121
Total derivative assets (c)	$ 9,384	$ (8,631)	$ (632)	$ 121
Derivative liabilities:				
Citibank, N.A.	$ (8,631)	$ 8,631		
Bank of America	(863)		$ 843	$ (20)
Bank of New York Mellon (b)	(101)			(101)
Total derivative liabilities	$ (9,595)	$ 8,631	$ 843	$ (121)
December 31, 2018				
Derivative assets:				
Citibank, N.A.	$ 9,469	$ (9,469)		
Deutsche Bank AG London	265		$ (265)	
Total derivative assets (c)	$ 9,734	$ (9,469)	$ (265)	
Derivative liabilities:				
Citibank, N.A.	$ (14,974)	$ 9,469	$ 5,505	
Bank of New York Mellon (b)	(16)			$ (16)
Bank of America	(1,514)		1,333	(181)
Total derivative liabilities	$ (16,504)	$ 9,469	$ 6,838	$ (197)

(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 zero and $20,000 at March 31, 2019 and December 31, 2018, 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.

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. Cost-method partnership investments which are measured at fair value using the NAV practical expedient have been excluded. 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, 2019 and December 31, 2018 classified by the valuation hierarchy discussed previously:

		Fair Value Measurement Using		
(In thousands)	Total	Level 1	Level 2	Level 3
March 31, 2019				
Fair value option securities:				
Fixed maturity securities:				
State and local government debt	$ 114,853		$ 114,853	
U.S. government debt	988,404		988,404	
Corporate debt	47,239		32,606	$ 14,633
Total fixed maturity securities	1,150,496		1,135,863	14,633
Equity securities (a)	216,626	$ 149,886		26,605
Short-term investments	119,099	114,124	4,975	
Other investments - affiliate corporate loans	9,440			9,440
Other investments - cost-method partnerships (a)	25,318			
Total fair value option investments	$ 1,520,979	$ 264,010	$ 1,140,838	$ 50,678
Derivatives:				
Foreign currency options	$ 7,840		$ 7,840	
CPI-linked derivative contracts	1,353			$ 1,353
Foreign exchange forward contracts	122		122	
Equity total return swaps – long positions	69		69	
Total derivative assets	9,384		8,031	1,353
Equity total return swaps – long positions	(8,274)		(8,274)	
U.S. Government bond forward contracts	(1,220)		(1,220)	
Foreign exchange forward contracts	(101)		(101)	
Total derivative liabilities	(9,595)		(9,595)	
Net derivatives	$ (211)		$ (1,564)	$ 1,353
December 31, 2018				
Fair value option securities:				
Fixed maturity securities:				
State and local government debt	$ 104,970		$ 104,970	
U.S. government debt	983,479		983,479	
Corporate debt	49,752		31,890	$ 17,862
Total fixed maturity securities	1,138,201		1,120,339	17,862
Equity securities (a)	192,583	$ 143,657		8,754
Short-term investments	128,335	123,397	4,938	
Other investments - affiliate corporate loans	6,365			6,365
Total fair value option investments	$ 1,465,484	$ 267,054	$ 1,125,277	$ 32,981
Available-for-sale investments:				
Equity securities	$ 16,115		$ 54	$ 16,061
Total available-for-sale investments	$ 16,115		$ 54	$ 16,061
Other investments - cost-method partnerships (a)	$ 22,049			
Derivatives:				
Foreign currency options	$ 7,431		$ 7,431	
CPI-linked derivative contracts	2,303			$ 2,303
Equity warrants	20		20	
Total derivative assets	9,754		7,451	2,303
Equity total return swaps – long positions	(10,958)		(10,958)	
U.S. Government bond forward contracts	(5,530)		(5,530)	
Foreign exchange forward contracts	(16)		(16)	
Total derivative liabilities	(16,504)		(16,504)	
Net derivatives	$ (6,750)		$ (9,053)	$ 2,303

(a) Certain common stock investments with a fair value of $40.1 million and $40.2 million that are measured using the NAV practical expedient have not been classified in the fair value hierarchy at March 31, 2019 and December 31, 2018, respectively. Cost-method partnership investments which are measured at fair value using the NAV practical expedient have not been classified in the fair value hierarchy at March 31, 2019 and December 31, 2018. 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 (a)	Derivatives	Affiliate Corporate Loans
Balance at December 31, 2018	$ 17,862	$ 24,815	$ 2,303	$ 6,365
Purchases				2,980
Net investment income - accretion of discounts	21			
Realized and unrealized gains/losses included in:				
Change in net unrealized gains/losses on fair value option investments	(3,250)	1,790		95
Net losses on derivatives			(950)	
Balance at March 31, 2019	$ 14,633	$ 26,605	$ 1,353	$ 9,440
Balance at December 31, 2017	$ 21,689	$ 28,305	$ 4,709	
Purchases			563	$ 6,111
Net investment income - accretion of discounts	18			
Realized and unrealized gains/losses included in:				
Change in net unrealized gains/losses on fair value option investments	(373)	(535)		(161)
Net losses on derivatives			(1,420)	
Other comprehensive income (b)		598		
Balance at March 31, 2018	$ 21,334	$ 28,368	$ 3,852	$ 5,950

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

(b) Effective January 1, 2019, upon adoption of the updated guidance for financial instruments (see Note 1) changes in fair value of available-for-sale equity securities that were previously recorded in other comprehensive income (loss) are now recorded in change in unrealized gain/losses on fair value option investments.

There were no significant changes to the valuation techniques and processes used at March 31, 2019 compared to those described in the Company's Consolidated Financial Statements at December 31, 2018.

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, 2019 and 2018 were $1.2 million and $1.3 million, respectively.

The Company owns common shares in various mutual fund classes of HWIC Asia which is a wholly-owned subsidiary of Fairfax. At March 31, 2019 and December 31, 2018, the aggregate fair value of these investments was $40.1 million and $40.2 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, 2019, and 2018, the Company recorded a net decrease in unrealized gains/losses of $37,000 and a net increase in unrealized gains/losses of $1.6 million, respectively, on these investments.

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 Marshall Islands. Fairfax and the Company received warrants ("Seaspan Warrants") to purchase Seaspan common stock in connection with this investment. 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 ($5.0 million par value) in Seaspan corporate bonds and $0.6 million in Seaspan Warrants. The Company sold its Seaspan Warrants, at fair value, to Wentworth Insurance Company Ltd. ("Wentworth"), a Fairfax affiliate, in April 2018 for $0.6 million. In July 2018, the Company purchased 0.8 million shares of Seaspan Warrants from Wentworth for $2.8 million and subsequently converted these warrants to purchase an equivalent number of Seaspan common stock shares for $5.2 million in cash paid to Seaspan. The Company recorded the acquisition of Seaspan affiliated common stock at a cost of $7.6 million and recognized a loss of $0.4 million on the conversion of Seaspan Warrants. The Company elected the fair value option of accounting for its investment in Seaspan affiliated common stock. At March 31, 2019 and December 31, 2018, the carrying value of this investment was $6.9 million and $6.2 million, respectively. The carrying value of the Company's affiliated investment in Seaspan fixed maturity securities was $5.0 million and $4.9 million at March 31, 2019 and December 31, 2018, respectively.

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 publicly traded majority-owned 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 a $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. 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 loss on foreign exchange of $1.2 million upon final redemption of its investment in FFHL LP that was reclassified from unrealized foreign currency translation adjustment previously recorded in equity. Cara was subsequently renamed Recipe Unlimited Corp. ("Recipe"). The Company elected the fair value option of accounting for its investment in Recipe affiliated common stock. At March 31, 2019 and December 31, 2018, the carrying value of this investment was $11.1 million and $11.2 million, respectively.

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 using the equity method of accounting, unless a fair value option is elected for such securities; see Note 2 and Note 3 for additional information related to equity-method investments. The aggregate value of the Company's equity-method investments in Fairfax affiliates recorded in the Consolidated Balance Sheets was $167.4 million and $175.5 million at March 31, 2019 and December 31, 2018, respectively. The Company's share of net income/loss of the equity-method investees was recorded in net investment income. Net realized gains/losses on sales and on dilution resulting from additional shares issued or bought back by equity-method investees are recorded in net realized gains/losses on investments. The Company's share of other changes in investees' equity was recorded in net change in net unrealized gain/losses in Other Comprehensive Income (Loss). Net unrealized gains/losses on foreign currency translation adjustment related to the Company's equity-method investments are recorded in the change in unrealized foreign currency translation adjustment Other Comprehensive Income (Loss).

The following table summarizes impact from the Company's investments in equity-method common stocks and partnerships on various components of Comprehensive Income (Loss):

(In thousands)	Three Months Ended March 31, 2019	2018
Equity-method common stocks and partnerships:		
Net investment loss	$ (6,435)	$ (3,688)
Net realized gains (losses) on investments	303	(1,548)
Net change in unrealized gains/losses on other investments, before tax	(107)	1,025
Net change in unrealized foreign currency translation adjustment, before tax	(811)	1,496

The Company owns the following investments in Exco Resources, Inc. ("Exco"), an affiliate of Fairfax and the Company, who is in the process of bankruptcy restructuring: Exco equity-accounted common stock, 1.75 and 1.5 Exco Bonds and a private debtor-in-possession loan to Exco ("Exco DIP Loan"). The Exco DIP Loan is included in other investments – affiliate corporate loans in the Consolidated Balance Sheets. As a result of bankruptcy restructuring, the 1.75 Exco Bonds were valued at 60% of par and related investment income was first written down to 60% of coupon in the fourth quarter 2017, and subsequently stopped accruing completely as of March 20, 2018. In the first quarter 2019, the 1.75 Exco Bonds were re-valued at 24% of par and the investment income receivable balance was reduced proportionately, resulting in a $0.2 million reduction of investment income recorded in the three months ended March 31, 2019. At March 31, 2019 and December 31, 2018, the carrying value of affiliated Exco Bonds was $6.7 million and $10.5 million, respectively. The carrying values of the Exco DIP Loan and equity-accounted Exco common stock were $2.7 million and zero, respectively, at both at March 31, 2019 and December 31, 2018.

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 in connection with this loan ("Farmers Edge Warrants"). The Company's share of this investment was $4.1 million, allocated between $3.4 million (Canadian $5.0 million par value) in Farmers Edge Loan and $0.7 million in 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 they were acquired, substantially at cost. In February 2019, the Company invested an additional CAD $4.0 million in Farmers Edge Loans. Farmers Edge Loans are included in other investments – affiliate corporate loans in the Consolidated Balance Sheets. The Company also owns 5.3 million shares of Farmers Edge affiliated equity-method common stock, with a carrying value of $8.0 million and $9.6 million at March 31, 2019 and December 31, 2018, respectively. At March 31, 2019 and December 31, 2018, the total carrying value of the Farmers Edge Loan was $6.7 million and $3.7 million, respectively.

The Company owns an investment in common stock of Boat Rocker Media Inc. ("Boat Rocker"), a majority-owned subsidiary of Fairfax. In March 2019, the Company sold a portion of the investment to a third party for $0.4 million and recognized a realized gain on the sale of $0.3 million. The carrying value of this equity-method common stock investment was $14.6 million at March 31, 2019.

The Company owns an investment in the common stock of Grivalia Properties REIC ("Grivalia"), a majority-owned publicly traded subsidiary of Fairfax. The Company records this affiliated common stock investment using the equity method of accounting. On November 26, 2018 Grivalia and Eurobank Ergasias S.A. (''Eurobank'') announced a planned merger of Grivalia into Eurobank. In February 2019, the Company received a pre-merger dividend of $0.6 million, and recorded it as a return of capital. Upon closing of the merger, the Company expects to receive approximately 15.8 newly issued shares of Eurobank common stock in exchange for each common stock share of Grivalia. Closing of the transaction is subject to shareholder and regulatory approvals and is expected to occur in the second quarter of 2019.

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 2018. At March 31, 2019 and December 31, 2018, the Company recorded net reinsurance recoverables of $0.7 million and $1.0 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, 2019 and 2018, 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 in each of the three months ended March 31, 2019 and 2018.

In November 2014, the Company entered into a Master Administrative Services Agreement with various affiliates of Fairfax. Under the agreement, the affiliated parties provide and receive administration services such as accounting, underwriting, claims, reinsurance, preparation of regulatory reports, and actuarial services. The Company began providing claims processing services for Seneca Insurance Company, Inc. ("Seneca") under this agreement in March 2016 and recorded service fee income of $0.1 million in each of the three months ended March 31, 2019 and 2018 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, 2019 and December 31, 2018 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 $2.0 million and $2.2 million in the three months ended March 31, 2019 and 2018, 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, 2019 include a net liability of $3.1 million which includes net loss fund liability of $3.7 million reduced by a service fee income receivable of $0.6 million. Other liabilities at December 31, 2018 include a net liability of $3.2 million which included a net loss fund liability of $4.0 million reduced by a service fee income receivable of $0.8 million.

Note 6. Reinsurance Recoverable

Amounts recoverable for paid and unpaid losses from reinsurers at March 31, 2019 and December 31, 2018 and their respective A.M. Best ratings were as follows:

(In thousands)		March 31, 2019(a)		December 31, 2018 (a)	A.M. Best Rating (b)	A.M. Best Rating Date
General Reinsurance Corp.	$	36,469	$	38,535	A++	3/2019
Lloyds Underwriters		1,334		1,528	A	7/2018
Factory Mutual Insurance Company		1,319		1,051	A+	2/2019
All others (c)		6,047		6,771		
Total	$	45,169	$	47,885		

(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) No individual reinsurer in excess of $1.0 million at March 31, 2019 and December 31, 2018.

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, 2019		March 31, 2018
Beginning of year, net of reinsurance	$	1,100,917	$	1,139,373
Incurred claims:				
Current accident year		107,297		117,813
Prior accident years		(36,997)		(22,505)
Total incurred claims		70,300		95,308
Payments:				
Current accident year		(12,581)		(12,822)
Prior accident years		(80,096)		(86,340)
Total payments		(92,677)		(99,162)
End of year, net of reinsurance		1,078,540		1,135,519
Receivable from reinsurers for unpaid losses		42,420		50,950
End of year, gross of reinsurance	$	1,120,960	$	1,186,469

Note 8. Other Comprehensive Income (Loss)

Other comprehensive income (loss) is comprised of changes in unrealized gains/losses on investments 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 March 31, 2019			
Net changes in unrealized gains/losses on investments	$ (107)	$ (22)	$ (85)
Change in unrealized foreign currency translation adjustment	(811)	(170)	(641)
Total other comprehensive loss	$ (918)	$ (192)	$ (726)
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)
Net changes in unrealized gains/losses on investments	430	90	340
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
Change in unrealized foreign currency translation adjustment	1,496	314	1,182
Total other comprehensive income	$ 1,926	$ 404	$ 1,522

The following table summarizes the net unrealized gains (losses) on investments and foreign currency translation adjustment recognized in accumulated other comprehensive loss:

(In thousands)	March 31, 2019	December 31, 2018
Equity-method common stocks	$ (1,745)	$ (1,519)
Equity-method partnerships	1,521	1,402
Cost-method partnerships (a)		293
Available-for-sale equity securities (a)		(4,249)
Net unrealized loss on investments, before tax	(224)	(4,073)
Deferred tax benefit	(47)	(855)
Net unrealized loss on investments, after tax	(177)	(3,218)
Net unrealized loss on foreign currency translation adjustment, before tax	(5,249)	(4,438)
Deferred tax benefit	(1,102)	(932)
Net unrealized loss on foreign currency translation adjustment, after tax	(4,147)	(3,506)
Total accumulated other comprehensive loss	$ (4,324)	$ (6,724)

(a) Effective January 1, 2019, upon adoption of the updated guidance for financial instruments (see Note 1) changes in fair value of cost-method partnerships are recorded in change in net unrealized gains/losses on fair value option investments.

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	(63,906)
Vested	(43,115)
Purchased and available for future grants	(32)
Available for future purchases at March 31, 2019	92,947

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	11,315		474.36		5,367
Purchased in 2019	228		487.84		111
Total purchased since plan inception	107,053		441.27	$	47,240

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, 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		(144)
Vested during 2018	(5,347)		384.87		(2,058)
Restricted Shares at December 31, 2018	56,243		472.13		26,554
Granted during 2019	11,796		473.36		5,584
Forfeited during 2019	(450)		464.24		(209)
Vested during 2019	(3,683)		378.78		(1,395)
Restricted Shares at March 31, 2019	63,906		477.79	$	30,534

Stock-based compensation expense before tax was $1.3 million and $1.2 million for the three months ended March 31, 2019 and 2018, respectively. Unrecognized compensation expense before tax under the Restricted Stock Plan was $18.5 million and $14.4 million at March 31, 2019 and December 31, 2018, 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. Leases

The Company adopted of the updated accounting guidance for leases as of January 1, 2019 (see Note 1). The majority of the Company's property or office leases include an option to extend or renew the lease term. The exercise of the renewal option is at the Company's discretion. The operating lease liability includes lease payments related to options to extend or renew the lease term if the Company is reasonably certain of exercising those options. The Company utilizes a risk-free interest rate for periods comparable to the term of the underlying lease to determine the present value of lease payments.

Lease expense for the three months ended March 31, 2019 and 2018 was $2.3 million and $2.1 million, respectively.

Additional information related to the operating leases is provided below:

	As of and for the three months ended March 31, 2019	
(In thousands)	Offices	Automobile
Cash payments included in the measurement of lease liabilities reported in operating cash flows	$ 1,645	$ 250
Weighted average discount rate	2.18%	2.21%
Weighted average remaining lease term (in years)	4.5	1.7

The following table presents the contractual maturities of the Company's lease liabilities as of March 31, 2019:

(In thousands)	Offices	Auto Fleet	Total
Remainder of 2019	$ 4,714	$ 638	$ 5,352
2020	6,702	650	7,352
2021	5,492	307	5,799
2022	3,565	38	3,603
2023	2,077		2,077
Thereafter	3,144		3,144
Total undiscounted lease payments	$ 25,694	$ 1,633	$ 27,327
Less: present value adjustment	1,377	62	1,439
Operating lease liability	$ 24,317	$ 1,571	$ 25,888