Zenith National Insurance Corp. and Subsidiaries

Consolidated Financial Statements
as of March 31, 2020 and December 31, 2019 and for the three months ended March 31, 2020 and 2019
(unaudited)

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

(In thousands, except par value)		March 31, 2020		December 31, 2019
Assets:				
Investments:				
Fixed maturity securities, at fair value (amortized cost $1,110,484 in 2020 and $1,030,806 in 2019)	$	1,142,528	$	1,072,560
Equity securities, at fair value (cost $243,806 in 2020 and $238,063 in 2019)		120,656		193,753
Short-term investments, at fair value which approximates cost		40,075		158,717
Other investments		163,549		191,363
Derivative assets, at fair value (cost $35,948 in 2020 and $46,837 in 2019)		10,584		4,537
Assets pledged for derivative obligations, at fair value (amortized cost $36,191 in 2020 and $10,580 in 2019)		36,503		10,594
Total investments		1,513,895		1,631,524
Cash		66,527		17,918
Accrued investment income		6,090		7,568
Premiums receivable		42,541		41,877
Reinsurance recoverables		38,289		40,156
Deferred policy acquisition costs		14,456		12,788
Deferred tax asset		47,581		47,607
Income tax receivable				2,431
Operating lease right-of-use assets		22,104		23,164
Goodwill		20,985		20,985
Other assets		60,999		57,794
Total assets	$	1,833,467	$	1,903,812
Liabilities:				
Unpaid losses and loss adjustment expenses	$	1,071,013	$	1,085,865
Unearned premiums		103,311		89,861
Policyholders’ dividends accrued		37,025		37,857
Long-term debt		38,260		38,253
Income tax payable		5,470		
Operating lease liabilities		23,914		25,044
Derivative liabilities		32,267		1,819
Other liabilities		60,695		67,743
Total liabilities		1,371,955		1,346,442
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		396,730		399,097
Retained earnings		69,234		162,336
Accumulated other comprehensive loss		(4,491)		(4,102)
Total stockholders’ equity		461,512		557,370
Total liabilities and stockholders’ equity	$	1,833,467	$	1,903,812

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

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

	Three Months Ended March 31,	
(In thousands)	2020	2019
Revenues:		
Net premiums earned	$ 163,748	$ 180,561
Net investment income	2,619	3,475
Net realized gains on investments	15,931	1,736
Change in net unrealized gains/losses on fair value option investments	(90,010)	18,299
Net losses on derivatives	(32,246)	(11,888)
Service fee income	2,074	2,105
Total revenues	62,116	194,288
Expenses:		
Losses and loss adjustment expenses incurred	77,798	70,300
Underwriting and other operating expenses:		
Policyholder acquisition costs	32,722	34,437
Underwriting and other costs	31,286	33,638
Policyholders’ dividends	4,490	5,400
Interest expense	830	830
Total expenses	147,126	144,605
Income (loss) before tax	(85,010)	49,683
Income tax expense (benefit)	(17,808)	10,529
Increase in valuation allowance	25,900	
Net income (loss)	(93,102)	39,154
Net change in unrealized gains/losses on investments, net of tax	(347)	(85)
Change in unrealized foreign currency translation adjustment, net of tax	(42)	(641)
Other comprehensive loss	(389)	(726)
Total comprehensive income (loss)	$ (93,491)	$ 38,428

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, 2020	2019
Cash flows from operating activities:		
Premiums collected	$ 178,700	$ 185,486
Investment income received	5,848	3,834
Losses and loss adjustment expenses paid	(90,268)	(93,926)
Underwriting and other operating expenses paid	(78,420)	(79,098)
Interest paid	(1,646)	(1,646)
Income taxes paid	(63)	(335)
Net cash provided by operating activities	14,151	14,315
Cash flows from investing activities:		
Purchases of investments:		
Fixed maturity securities – fair value option	(477,046)	(17,036)
Equity securities – fair value option	(89)	(3,344)
Corporate loan – affiliate		(2,980)
Other investments	(43)	(2,610)
Proceeds from maturities and redemptions of investments:		
Fixed maturity securities – fair value option	320,930	
Proceeds from sales of investments:		
Fixed maturity securities – fair value option	63,549	15,855
Equity securities – fair value option	19,542	6,371
Other investments	1,573	1,438
Net decrease in short-term investments	118,677	10,875
Net derivative cash settlements	(7,581)	(18,434)
Capital expenditures and other	(661)	(924)
Net cash provided by (used in) investing activities	38,851	(10,789)
Cash flows from financing activities:		
Purchase of Fairfax shares for restricted stock awards	(4,393)	(111)
Net cash used in financing activities	(4,393)	(111)
Net increase in cash	48,609	3,415
Cash at beginning of period	17,918	29,667
Cash at end of period	$ 66,527	$ 33,082

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)	2020	2019
Reconciliation of net income (loss) to net cash provided by operating activities:		
Net income (loss)	$ (93,102)	$ 39,154
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation expense	679	942
Net accretion	(668)	(4,040)
Net realized gains on investments	(15,931)	(1,736)
Change in net unrealized gains/losses on fair value option investments	90,010	(18,299)
Net losses on derivatives	32,246	11,888
Equity in losses/earnings of investee	3,545	6,435
Stock-based compensation expense	2,026	1,287
Decrease (increase) in:		
Accrued investment income	1,478	(978)
Premiums receivable	(3,334)	(11,979)
Reinsurance recoverables	1,867	2,716
Deferred policy acquisition costs	(1,668)	(1,682)
Net income taxes	8,030	10,192
Increase (decrease) in:		
Unpaid losses and loss adjustment expenses	(14,852)	(26,906)
Unearned premiums	13,450	13,066
Policyholders’ dividends accrued	(832)	(661)
Accrued expenses	(4,805)	(2,122)
Interest payable	(823)	(823)
Other	(3,165)	(2,139)
Net cash provided by operating activities	$ 14,151	$ 14,315

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)	2020	2019
Common stock:	$ 39	$ 39
Additional paid-in capital:		
Beginning of period	399,097	398,340
Stock-based compensation expense	2,026	1,287
Purchases of Fairfax shares for restricted stock awards	(4,393)	(111)
End of period	396,730	399,516
Retained earnings:		
Beginning of period	162,336	145,515
Net income (loss)	(93,102)	39,154
Reclassification of net unrealized losses on available-for-sale investments and cost-method partnerships from other comprehensive loss at January 1, 2019		(3,126)
End of period	69,234	181,543
Accumulated other comprehensive loss:		
Beginning of period	(4,102)	(6,724)
Reclassification of net unrealized losses on available-for-sale investments and cost-method partnerships to retained earnings at January 1, 2019		3,126
Net change in unrealized gains/losses on investments, net of tax	(347)	(85)
Change in unrealized foreign currency translation adjustment, net of tax	(42)	(641)
End of period	(4,491)	(4,324)
Total stockholders' equity	$ 461,512	$ 576,774

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, 2019.

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 period for which the Financial Statements have been presented.

Callable Debt Securities – Accounting for Premium Amortization

Effective January 1, 2020, the Company adopted the updated guidance 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 adoption of this guidance did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Changes to the Disclosure Requirements for Fair Value Measurements

Effective January 1, 2020, the Company adopted the updated guidance which changes the fair value measurement disclosure requirements. The updated guidance removes certain disclosure requirements regarding the amounts and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy and the policy for timing of transfers between the levels. The updated guidance also adds disclosure requirements regarding unrealized gains and losses included in Other comprehensive income (loss) for recurring Level 3 fair value measurements and the range and weighted average of unobservable inputs used in Level 3 fair value measurements. The adoption of this guidance did not have a material impact on the Company's financial statements.

Accounting for Cloud Computing Implementation Costs

Effective January 1, 2020, the Company early adopted the 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 adoption of this guidance did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Accounting for Variable Interest Entities

Effective January 1, 2020, the Company early adopted the updated 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 adoption of this guidance did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Recent Accounting Standards Not Yet Adopted

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.

COVID-19 pandemic

The rapid spread of the COVID-19 virus, which was declared by the World Health Organization to be a pandemic on March 11, 2020, and actions taken globally in response to COVID-19, have significantly disrupted business activities throughout the world.

Given the ongoing and dynamic nature of the circumstances surrounding COVID-19, it is difficult to predict how significant the impact of COVID-19, including any responses to it, will be on the global economy and the Company's businesses in particular, or for how long any disruptions are likely to continue. The extent of such impact will depend on future developments, which are highly uncertain, rapidly evolving and difficult to predict, including new information which may emerge concerning the severity of COVID-19 and additional actions which may be taken to contain COVID-19, as well as the timing of the re-opening of the economy in various parts of the world. Such further developments could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

The Company’s workers’ compensation business is highly correlated to economic cycles given that premium is based on insureds’ payrolls. Also, various government officials, including U.S. state insurance commissioners, have taken actions to protect small businesses from hardship caused by COVID-19 which in the aggregate may adversely impact the Company's results of operations in the near term. It is too early to estimate the impact of COVID-19 on the Company’s loss activity. COVID-19 has increased uncertainty and may adversely impact our underwriting results in the near term.

The Company maintains adequate liquidity to support its operations. At both March 31, 2020 and December 31, 2019, investments with a fair value of approximately $1.1 billion were on deposit with regulatory authorities for the protection of policyholder obligations in compliance with insurance company regulations. At March 31, 2020, the Company had additional qualifying securities with a fair value of $41.0 million available for deposit. An additional $69 million of fixed maturity securities in excess of deposit requirements were released in April 2020 by the California Department of Insurance.

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 8, 2020.

Note 2. Investments

The cost or amortized cost and fair value of investments recorded at fair value at March 31, 2020 and December 31, 2019 were as follows:

(In thousands)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
March 31, 2020				
Fair value option investments:				
Fixed maturity securities:				
State and local government debt	$ 44,146	$ 21,577		$ 65,723
U.S. Government debt (a)	1,064,208	14,275		1,078,483
Corporate debt	37,344	391	$ (3,892)	33,843
Total fixed maturity securities	1,145,698	36,243	(3,892)	1,178,049
Short-term investments (b)	41,020	54	(17)	41,057
Equity securities (c)	243,806	3,817	(126,967)	120,656
Other investments – affiliate corporate loans	16,697		(993)	15,704
Other investments – cost-method partnerships	28,921	2,855	(2,489)	29,287
Total fair value option investments	**$ 1,476,142**	**$ 42,969**	**$ (134,358)**	**$ 1,384,753**
December 31, 2019				
Fair value option investments:				
Fixed maturity securities:				
State and local government debt	$ 55,655	$ 38,741		$ 94,396
U.S. Government debt (a)	962,622	2,071	$ (20)	964,673
Corporate debt	22,167	1,394	(420)	23,141
Total fixed maturity securities	1,040,444	42,206	(440)	1,082,210
Short-term investments (b)	159,531	133	(3)	159,661
Equity securities	238,063	26,055	(70,365)	193,753
Other investments – affiliate corporate loans	15,712	811		16,523
Other investments – cost-method partnerships	29,649	2,794	(2,570)	29,873
Total fair value option investments	**1,483,399**	**71,999**	**(73,378)**	**1,482,020**

(a) Includes investments of $35.5 million and $9.6 million pledged for derivative obligations at March 31, 2020 and December 31, 2019, respectively.

(b) Includes investments of $1.0 million and $0.9 million pledged for derivative obligations at March 31, 2020 and December 31, 2019, respectively.

(c) The increase in gross unrealized losses on equity securities from December 31, 2019 to March 31, 2020 were primarily driven by the impact of changes in fair value attributable to the recent disruption in global financial markets associated with the COVID-19 global pandemic beginning in March 2020, as discussed in Note 1.

Fixed maturity securities, including short-term investments, by contractual maturity at March 31, 2020 were as follows:

(In thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 722,042	$ 730,935
Due after one year through five years	413,128	416,962
Due after five years through ten years	15,081	14,429
Due after ten years	36,467	56,780
Total	$ 1,186,718	$ 1,219,106

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, 2020 also include other investments detailed below and derivative contracts described in Note 3.

Other investments consist of the following:

(In thousands)	March 31, 2020	December 31, 2019
Equity-method common stock (a)	$ 106,818	$ 132,860
Equity-method partnerships (a)	11,740	12,107
Cost-method partnerships, at fair value (cost $28,921 in 2020 and $29,649 in 2019) (b)	29,287	29,873
Affiliate corporate loans (cost $16,697 in 2020 and $15,712 in 2019)	15,704	16,523
Total other investments	$ 163,549	$ 191,363

(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, 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, 2020, the Company had commitments to invest an additional $16.1 million in partnerships and limited liability companies.

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

	Three Months Ended March 31,	
(In thousands)	2020	2019
Sales of fixed maturity securities, including short-term investments and other (a)	$ 12,306	$ 62
Sale of equity securities (b)	2,808	1,345
Gains from other investments (c)	817	329
Net realized gains on investments	$ 15,931	$ 1,736

(a) Net realized gains on sales of fixed maturity securities, including short-term investments and other for the three months ended March 31, 2020 include $12.3 million of gross realized gains on sales of fair value option fixed maturity securities to affiliates of Fairfax and the Company – see Note 5.

(b) Net realized gains on sales of equity securities for the year ended March 31, 2020 include realized gains of $2.8 million on sale of Eurobank Ergasias S.A. common stock to an affiliate of Fairfax and the Company - see Note 5. Net 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.

(c) Net realized gains from other investments for the three months ended March 31, 2020 include $0.8 million of gains on cost-method partnership distributions.

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)	2020	2019
Equity-method common stock	(491)	$ (226)
Equity-method partnerships	52	119
Total before tax	$ (439)	$ (107)
After tax	$ (347)	$ (85)

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

	Three Months Ended March 31,	
(In thousands)	2020	2019
Change in net unrealized gains/losses recognized on fair value option investments	$ (90,010)	$ 18,299
Less: Net gains recognized on fair value option investments sold	(12,686)	(948)
Change in net unrealized gains/losses recognized on fair value option investments still held at the reporting date (a)	$ (77,324)	$ 19,247

The change in net unrealized gains/losses recognized on fair value option investments still held at March 31, 2020 in the three months ended March 31, 2020 was driven by the impact of changes in fair value attributable to the recent disruption in global financial markets associated with the COVID-19 global pandemic beginning in March 2020 as discussed in Note 2.

Net investment income was as follows:

(In thousands)	Three Months Ended March 31, 2020	2019
Fixed maturity securities (a)	$ 5,989	$ 7,771
Equity securities (b)	377	2,654
Short-term and other investments	996	995
Derivatives	659	440
Net loss from equity-method investments (c)	(3,545)	(6,435)
Subtotal	4,476	5,425
Investment expenses	1,857	1,950
Net investment income	$ 2,619	$ 3,475

(a) Investment income from fixed maturity securities decreased in 2020 primarily due to sales and maturities of municipal bonds and higher yielding short-dated U.S. Treasury bonds and notes, and the reinvestment of the proceeds into lower yielding U.S. Treasury bonds.

(b) Dividend income from equity securities in 2019 included a $1.4 million special dividend received from a common stock investment.

(c) Net loss from equity-method investments for each period presented is detailed below:

(In thousands)	Three Months Ended March 31, 2020	2019
Toys R Us Canada	$ (3,704)	$ 6,083
Boat Rocker Media Inc.	(1,626)	425
Farmers Edge Inc.	(1,414)	(1,828)
Apple Bidco	(1,232)	(5,349)
AGT Food and Ingredients Inc.	(684)	
Davos Brands LLC	(418)	(813)
Fairfax India Holdings Corp.	4,954	395
Fairfax Africa Holdings Corp.	679	(3,488)
Astarta Holdings NV		(1,190)
Other	(100)	(670)
Net loss from equity-method investments	$ (3,545)	$ (6,435)

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:

(In thousands)	Notional Amount	Cost	Fair Value of Derivative Assets	Fair Value of Derivative Liabilities
March 31, 2020				
CPI-linked derivatives	$ 5,475,599	$ 28,429	$ 5,000	
Foreign currency options	437,500	7,519	667	
U.S. government bond forwards	97,000			$ 21,445
Long equity total return swaps	48,543			10,822
Foreign exchange forwards	55,643		4,917	
Total		$ 35,948	$ 10,584	$ 32,267
December 31, 2019				
CPI-linked derivatives	$ 7,477,246	$ 39,318	$ 671	
Foreign currency options	437,500	7,519	820	
U.S. government bond forwards	97,000			$ 659
Long equity total return swaps	52,591		3,046	121
Foreign exchange forwards	60,613			1,039
Total		$ 46,837	$ 4,537	$ 1,819

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:

(In thousands)	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Gains (losses) on settlements		
Equity derivatives:		
Equity total return swaps – long positions	$ (4,049)	$ (11,382)
CPI-linked derivatives (a)	(10,889)	
U.S. government bond forwards	(3,269)	(8,398)
Foreign exchange forwards	(527)	1,353
Total	(18,734)	(18,427)
Change in fair value		
Equity derivatives:		
Equity total return swaps – long positions	(13,747)	2,753
Equity warrants		(20)
CPI-linked derivatives (a)	15,218	(950)
U.S. government bond forwards	(20,786)	4,310
Foreign exchange forwards	5,956	37
Foreign currency options	(153)	409
Total	(13,512)	6,539
Net losses on derivatives		
Equity derivatives:		
Equity total return swaps – long positions	(17,796)	(8,629)
Equity warrants		(20)
CPI-linked derivatives (a)	4,329	(950)
U.S. government bond forwards	(24,055)	(4,088)
Foreign exchange forwards	5,429	1,390
Foreign currency options	(153)	409
Total net losses on derivatives	$ (32,246)	$ (11,888)

(a) Five CPI-linked derivative contracts with the notional amount of $1.9 billion matured in the three months ended March 31, 2020 with the fair value of zero at maturity, and $10.9 million of losses previously recognized in the change in fair value component of net gains (losses) on derivatives were reclassified to gains (losses) on settlements.

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, maturity 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, 2020, these contracts had a remaining weighted average life of approximately 3 years. During the three months ended March 31, 2020 certain CPI-linked derivative contracts with a notional amount of $1.4 billion and $0.5 billion referenced to CPI in the United States and European Union, respectively, matured.

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, 2020 and December 31, 2019:

	Notional Amount		Weighted Average Strike Price	
(Notional amount in thousands)	Original Currency	US Dollars	In Original Currency	Index Value
Underlying CPI Index:				
March 31, 2020				
United States	3,720,000	$ 3,720,000	234.25	258.12
European Union	1,600,000	1,755,599	99.26	104.77
		$ 5,475,599		
December 31, 2019				
United States	5,120,000	$ 5,120,000	233.02	256.97
European Union	2,100,000	2,357,246	97.66	105.13
		$ 7,477,246		

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 $97.0 million at March 31, 2020 and December 31, 2019, 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, 2020		December 31, 2019
Total derivative assets	$	10,584	$	4,537
Impact of net settlement arrangements		(5,440)		(779)
Fair value of collateral deposited for the benefit of the Company		(228)		(3,126)
Excess of collateral pledged by the Company in favor of counterparties		116		
Net derivative counterparty exposure after net settlement and collateral arrangements	$	5,032	$	632

The net derivative counterparty exposure after net settlement and collateral arrangements relates principally to the timing of collateral placement and no contractual collateral required for the foreign exchange forward contracts.

At March 31, 2020 and December 31, 2019, the Company pledged to its counterparties securities with a fair value of $36.5 million and $10.6 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, 2020, the counterparties pledged for the Company’s benefit $0.3 million of cash compared to $0.3 million of cash and $3.1 million of U.S. Treasury notes at December 31, 2019. 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, 2020				
Derivative assets:				
Citibank, N.A.	$ 5,440	$ (5,440)		
Deutsche Bank AG London	227		$ (227)	
Bank of New York Mellon (b)	4,917			$ 4,917
Total derivative assets	$ 10,584	$ (5,440)	$ (227)	$ 4,917
Derivative liabilities:				
Citibank, N.A.	$ (28,283)	$ 5,440	$ 22,843	
Bank of America	(3,984)		3,644	$ (340)
Total derivative liabilities	$ (32,267)	$ 5,440	$ 26,487	$ (340)
December 31, 2019				
Derivative assets:				
Citibank, N.A.	$ 3,973	$ (762)	$ (2,579)	$ 632
Deutsche Bank AG London	80		(80)	
Bank of America	484	(17)	(467)	
Total derivative assets	$ 4,537	$ (779)	$ (3,126)	632
Derivative liabilities:				
Citibank, N.A.	$ (762)	$ 762		
Bank of New York Mellon (b)	(1,040)			$ (1,040)
Bank of America	(17)	17		
Total derivative liabilities	$ (1,819)	$ 779		$ (1,040)

(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.

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.

Considerable judgment may be required particularly in developing estimates of fair value for financial instruments classified as Level 3 in the fair value hierarchy as such estimates incorporate market unobservable inputs that require management to use its own assumptions. While the Company's valuation techniques for Level 3 financial instruments remained unchanged during the first quarter of 2020, the development of market unobservable inputs included added estimation uncertainty due to the global economic and social disruption caused by the ongoing and developing COVID-19 pandemic. Estimates of the amount and timing of future cash flows, discount rates, growth rates and other inputs incorporated into fair value measurements of Level 3 financial instruments are inherently more difficult to determine due to the unpredictable duration and impacts of the COVID-19 pandemic, including further actions that may be taken by governments to contain it and the timing of the re-opening of the economy in various parts of the world. The Company has assumed that the economic impacts of COVID-19 will remain for the duration of government mandated restrictions by jurisdiction as currently known, with gradual lifting of those restrictions. The uncertainty in those assumptions have been incorporated into the company's valuations of Level 3 financial instruments primarily through wider credit spreads and higher discount rates, as applicable. Additional volatility in the fair values of Level 3 financial instruments may arise in future periods if actual results differ materially from the Company's estimates.

There were no other significant changes to the valuation techniques and processes used at March 31, 2020 compared to those described in the Company’s Consolidated Financial Statements at December 31, 2019.

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, 2020 and December 31, 2019 classified by the valuation hierarchy discussed previously:

		Fair Value Measurement Using		
(In thousands)	Total	Level 1	Level 2	Level 3
March 31, 2020				
Fair value option securities:				
Fixed maturity securities:				
State and local government debt	$ 65,723		$ 65,723	
U.S. government debt	1,078,483		1,078,483	
Corporate debt	33,843		29,351	$ 4,492
Total fixed maturity securities	1,178,049		1,173,557	4,492
Equity securities (a)	120,656	$ 74,808	3,594	14,572
Short-term investments	41,057	40,079	978	
Other investments - affiliate corporate loans	15,704			15,704
Other investments - cost-method partnerships (a)	29,287			
Total fair value option investments	$ 1,384,753	$ 114,887	$ 1,178,129	$ 34,768
Derivatives:				
Foreign currency options	$ 667		$ 667	
CPI-linked derivative contracts	5,000			$ 5,000
Foreign exchange forward contracts	4,917		4,917	
Total derivative assets	10,584		5,584	5,000
Equity total return swaps – long positions	(10,822)		(10,822)	
U.S. Government bond forward contracts	(21,445)		(21,445)	
Total derivative liabilities	(32,267)		(32,267)	
Net derivatives	$ (21,683)		$ (26,683)	$ 5,000

			Fair Value Measurement Using		
(In thousands)		Total	Level 1	Level 2	Level 3
December 31, 2019					
Fair value option securities:					
Fixed maturity securities:					
State and local government debt	$	94,396		$ 94,396	
U.S. government debt		964,673		964,673	
Corporate debt		23,141		15,299	$ 7,842
Total fixed maturity securities		1,082,210		1,074,368	7,842
Equity securities (a)		193,753	$ 143,467		17,038
Short-term investments		159,661	153,650	6,011	
Other investments – affiliate corporate loans		16,523			16,523
Other investments – cost-method partnerships (a)		29,873			
Total fair value option investments	$	1,482,020	$ 297,117	$ 1,080,379	$ 41,403
Derivatives:					
Equity total return swaps – long positions	$	3,046		$ 3,046	
Foreign currency options		820		820	
CPI-linked derivative contracts		671			$ 671
Total derivative assets		4,537		3,866	671
Equity total return swaps – long positions		(121)		(121)	
U.S. Government bond forward contracts		(659)		(659)	
Foreign exchange forward contracts		(1,039)		(1,039)	
Total derivative liabilities		(1,819)		(1,819)	
Net derivatives	$	2,718		$ 2,047	$ 671

(a) Certain common stock investments with a fair value of $27.7 million and $33.2 million at March 31, 2020 and December 31, 2019, respectively and Cost-method partnership investments are measured using the NAV practical expedient have not been classified in the fair value hierarchy. 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, 2019	$ 7,842	$ 17,038	$ 671	$ 16,523
Purchases				985
Realized and unrealized gains/losses included in:				
Change in net unrealized gains/losses on fair value option investments	(3,350)	(2,466)		(1,804)
Net gains on derivatives			4,329	
Balance at March 31, 2020	$ 4,492	$ 14,572	$ 5,000	$ 15,704
Balance at December 31, 2018	$ 17,862	$ 24,815	$ 2,303	6,365
Purchases				$ 2,980
Net investment income - accretion of discounts	21			
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

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

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 were $1.2 million for each of the three months ended March 31, 2020 and 2019.

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 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 $118.6 million and $145.0 million at March 31, 2020 and December 31, 2019, 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 aggregate value of the Company's affiliated investments at March 31, 2020 and December 31, 2019 was as follows:

(In thousands)		March 31 2020		December 31, 2019
Fixed maturity securities, at fair value option	$	14,442	$	5,080
Equity securities, at fair value option		54,342		53,484
Other invested assets:				
Equity-method common stock		106,818		132,860
Equity-method partnerships		11,740		12,107
Affiliate corporate loans		15,704		16,523

The following table summarizes the impact from the Company's affiliated investments on various components of Total comprehensive Income (Loss):

	Three Months Ended March 31,			
(In thousands)		2020		2019
Included in Net income (loss):				
Net investment loss	$	(2,928)	$	(6,269)
Net realized gains on investments		15		303
Change in net unrealized gains/losses on fair value option investments		(23,990)		(2,787)
Included in Other comprehensive loss:				
Net change in unrealized gains/losses on investments, before tax		(439)		(107)
Change in unrealized foreign currency translation adjustment, before tax		(54)		(811)

The Company owns common shares in various mutual fund classes of HWIC Asia which is a wholly-owned subsidiary of Fairfax. At March 31, 2020 and December 31, 2019, the aggregate fair value of these investments was $27.7 million and $33.2 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, 2020, and 2019, the Company recorded a net decrease in unrealized gains/losses of $5.6 million and $37,000, respectively, on these investments.

On February 27, 2020 Seaspan completed a reorganization pursuant to which Atlas Corp. ("Atlas"), a newly created holding company, became its parent. Shareholders of Seaspan, including the Company, exchanged their Seaspan shares for Atlas shares with no change in ownership percentage. On February 28, 2020, Atlas acquired all issued and outstanding shares of Apple Bidco Limited (“AB”), an affiliate of Fairfax and the Company, from the Company and AB shareholders in an all-stock transaction at a deemed value of $22.4 million. Accordingly, the Company derecognized its investment in equity-accounting AB common stock, recorded a pre-tax gain of $1.2 million and increased its carrying value of Atlas by the fair value of the newly issued Atlas common shares received of $22.4 million. At March 31, 2020 and December 31, 2019, the carrying value of this investment was $23.1 million and $11.3 million, respectively.

On February 28, 2020 the Company invested $10.0 million in Atlas 5.50% unsecured debentures due March 1, 2027. At March 31, 2020 and December 31, 2019, the carrying value of this investment was $14.4 million and $5.1 million, respectively.

On March 30, 2020, the Company exchanged its investment in subordinate voting shares of Recipe Unlimited Corp. (“Recipe”) for the same number of multiple voting shares of Recipe at the same price with RiverStone Insurance (UK) Limited and TIG Insurance (Barbados) Limited, both affiliates of Fairfax and the Company. Tthe Company did not recognize any realized gain or loss on this exchange transaction. At March 31, 2020 and December 31, 2019, the carrying value of this investment was $3.6 million and $8.9 million, respectively.

At December 31, 2019, the Company owned an investment in the common stock of Eurobank Ergasias S.A. (‘‘Eurobank’’) that we received in May 2019 in exchange for our investment in Grivalia Properties REIC (“Grivalia”), a majority-owned subsidiary of Fairfax upon closing of the merger between Grivalia and Eurobank. In May 2019, the Company derecognized its investment in Grivalia common stock and recognized a net realized gain of $2.7 million on this transaction ($5.2 million realized gain on sale, partially offset by a $2.5 million realized loss as a result of the reclassification of the cumulative translation adjustment to net income). In January 2020, the Company sold its investment in Eurobank to Odyssey Group Holdings, Inc., an affiliate of Fairfax and the Company, and recognized realized gain of $2.8 million on this transaction.

The Company owns an investment in common stock of Astarta Holding NV (“Astarta”), a Netherlands company that is an affiliate of both Fairfax and the Company. Astarta common stock is publicly traded on the Polish stock exchange. The fair value of this investment has been significantly below its carrying value for an extended period of time. Therefore, the Company recorded an other-than-temporary impairment realized loss of $11.6 million in the fourth quarter of 2019 due to the extent and duration of the impairment. As the fair value of Astarta continued to decline during the first quarter of 2020, the Company recorded additional other-than-temporary impairment realized loss of $1.2 million on this investment in the three months ended March 31, 2020. The carrying value of Astarta was $2.2 million and $3.4 million at March 31, 2020 and December 31, 2019, 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 $9.3 million and $10.9 million at March 31, 2020 and December 31, 2019, respectively.

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 $4.0 million and $5.6 million at March 31, 2020 and December 31, 2019, respectively. At March 31, 2020 and December 31, 2019, the total carrying value of the Farmers Edge Loans was $7.0 million and $6.9 million, respectively.

In March 2020, the Company sold a portion of its investment in New Jersey municipal bonds, at fair value, to various subsidiaries of Allied World Assurance Holdings, Ltd., affiliates of Fairfax and the Company, and received $21.6 million in treasury notes and $13.2 million in cash, and recognized realized gains of $12.1 million on these transactions.

Other

The Company continues to be a party to various reinsurance treaties with affiliates of Fairfax that were entered into in the ordinary course of business, primarily excess of loss reinsurance agreements with Odyssey Re for 2010 through 2018. At March 31, 2020 and December 31, 2019, the Company recorded net reinsurance recoverables of $0.5 million and $0.4 million, respectively, related to the reinsurance transactions with the affiliates of Fairfax.

Zenith National paid Fairfax $4.4 million and $0.1 million in each of the three months ended March 31, 2020 and 2019, respectively, for the cost of the open market purchase made by Fairfax on Zenith National's behalf of Fairfax Subordinate Voting Shares granted to certain officers under the Restricted Stock Plan.

In 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, 2020 and 2019 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, 2020 and December 31, 2019 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 $1.9 million and $2.0 million in the three months ended March 31, 2020 and 2019, 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, 2020 include a net liability of $2.8 million which includes a net loss fund liability of $3.4 million reduced by a service fee income receivable of $0.6 million. Other liabilities at December 31, 2019 include a net liability of $1.2 million which included a net loss fund liability of $2.7 million reduced by a service fee income receivable of $1.5 million.

Note 6. Reinsurance Recoverable

Amounts recoverable for paid and unpaid losses from reinsurers at March 31, 2020 and December 31, 2019 and their respective A.M. Best ratings were as follows:

(In thousands)		March 31, 2020(a)		December 31, 2019 (a)	A.M. Best Rating (b)	A.M. Best Rating Date
General Reinsurance Corp.	$	31,940	$	33,718	A++	03/2020
Factory Mutual Insurance Company		1,051		853	A+	01/2020
All others (c)		5,298		5,585		
Total	$	38,289	$	40,156		

(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 $0.8 million at March 31, 2020 and December 31, 2019.

For January 1, 2020 through April 14, 2020 loss occurrences, the Company has excess of loss and catastrophe reinsurance which provides protection for losses without a pandemic exclusion up to $150 million. For the agriculture business, the Company retains the first $10 million and the layer from $20 million to $50 million of each loss. For all other business classes, the Company retains the first $50 million of each loss.

For April 15, 2020 through December 31, 2020 loss occurrences, the Company has excess of loss catastrophe reinsurance which provides protection for losses without a pandemic exclusion up to $150 million. For the agriculture business, the Company retains the first $10 million of each loss. For all other business classes, the Company retains the first $20 million of each loss.

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, 2020		March 31, 2019
Beginning of period, net of reinsurance	$	1,046,248	$	1,100,917
Incurred claims:				
Current accident year		105,364		107,297
Prior accident years		(27,566)		(36,997)
Total incurred claims		77,798		70,300
Payments:				
Current accident year		(12,192)		(12,581)
Prior accident years		(78,492)		(80,096)
Total payments		(90,684)		(92,677)
End of period, net of reinsurance		1,033,362		1,078,540
Receivable from reinsurers for unpaid losses		37,651		42,420
End of period, gross of reinsurance	$	1,071,013	$	1,120,960

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, 2020			
Net changes in unrealized gains/losses on investments	$ (439)	$ (92)	$ (347)
Change in unrealized foreign currency translation adjustment	(53)	(11)	(42)
Total other comprehensive loss	$ (492)	$ (103)	$ (389)
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)

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, 2020	December 31, 2019
Equity-method common stocks	$ (5,636)	$ (5,145)
Equity-method partnerships	1,722	1,670
Net unrealized loss on investments, before tax	(3,914)	(3,475)
Deferred tax benefit	(822)	(730)
Net unrealized loss on investments, after tax	(3,092)	(2,745)
Net unrealized loss on foreign currency translation adjustment, before tax	(1,771)	(1,718)
Deferred tax benefit	(372)	(361)
Net unrealized loss on foreign currency translation adjustment, after tax	(1,399)	(1,357)
Total accumulated other comprehensive loss	$ (4,491)	$ (4,102)

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	(58,005)
Vested	(61,864)
Purchased and available for future grants	(10,001)
Available for future purchases at March 31, 2020	70,130

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, 2017	95,510	$	437.24	$	41,762
Purchased in 2018	11,315		474.36		5,367
Purchased in 2019	11,527		443.41		5,111
Purchased in 2020	11,518		381.37		4,393
Total purchased since plan inception	129,870		436.07	$	56,633

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, 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	12,426		473.36		5,882
Forfeited during 2019	(1,080)		469.56		(507)
Vested during 2019	(6,156)		412.44		(2,539)
Restricted Shares at December 31, 2019	61,433		478.40		29,390
Granted during 2020	12,848		440.82		5,664
Vested during 2020	(16,276)		503.43		(8,194)
Restricted Shares at March 31, 2020	58,005		463.05	$	26,860

Stock-based compensation expense before tax was $2.0 million and $1.3 million for the three months ended March 31, 2020 and 2019, respectively.

Unrecognized compensation expense before tax under the Restricted Stock Plan was $17.5 million and $13.9 million at March 31, 2020 and December 31, 2019, 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 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 was $2.3 million for each of the three months ended March 31, 2020 and 2019.

Additional information related to the operating leases is provided below:

	As of and for the three months ended March 31, 2020	
(In thousands)	Offices	Automobile
Cash payments included in the measurement of lease liabilities reported in operating cash flows	$ 1,775	$ 265
Weighted average discount rate	2.12%	1.99%
Weighted average remaining lease term (in years)	4.7	2.0

The following table presents the contractual maturities of the Company's lease liabilities as of March 31, 2020:

(In thousands)	Offices	Auto Fleet	Total
Remainder of 2020	$ 5,205	$ 698	$ 5,903
2021	5,985	648	6,633
2022	4,073	275	4,348
2023	2,696	18	2,714
2024	2,087		2,087
Thereafter	3,406		3,406
Total undiscounted lease payments	$ 23,452	$ 1,639	$ 25,091
Less: present value adjustment	1,113	64	1,177
Operating lease liability	$ 22,339	$ 1,575	$ 23,914