Zenith National Insurance Corp. and Subsidiaries

Consolidated Financial Statements
as of September 30, 2019 and December 31, 2018 and for the three and nine months ended September 30, 2019 and 2018
(unaudited)

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

(In thousands, except par value)	September 30, 2019	December 31, 2018
Assets:		
Investments:		
Fixed maturity securities, at fair value (amortized cost $1,048,208 in 2019 and $1,120,817 in 2018)	$ 1,097,101	$ 1,135,560
Equity securities, at fair value (cost $238,063 in 2019 and $240,098 in 2018)	189,844	208,698
Short-term investments, at fair value which approximates cost	149,138	106,409
Other investments	201,670	203,944
Derivative assets, at fair value (cost $49,295 in 2019 and $48,577 in 2018)	6,498	9,754
Assets pledged for derivative obligations, at fair value which approximates cost	11,657	24,567
Total investments	1,655,908	1,688,932
Cash	31,786	29,667
Accrued investment income	5,259	3,852
Premiums receivable	44,470	40,453
Reinsurance recoverables	41,440	47,885
Deferred policy acquisition costs	14,384	12,147
Deferred tax asset	45,830	47,393
Income tax receivable	5,370	
Operating lease right-of-use assets	21,264	
Goodwill	20,985	20,985
Other assets	54,556	57,875
Total assets	$ 1,941,252	$ 1,949,189
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 1,093,972	$ 1,147,866
Unearned premiums	103,509	86,710
Policyholders' dividends accrued	42,677	43,237
Long-term debt	38,246	38,225
Operating lease liabilities	23,028	1,508
Income tax payable		3,300
Derivative liabilities	936	16,504
Other liabilities	70,620	74,669
Total liabilities	1,372,988	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	397,784	398,340
Retained earnings	174,692	145,515
Accumulated other comprehensive loss	(4,251)	(6,724)
Total stockholders' equity	568,264	537,170
Total liabilities and stockholders' equity	$ 1,941,252	$ 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)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2019	2018	2019	2018
Revenues:				
Net premiums earned	$ 186,132	$ 206,362	$ 549,406	$ 602,067
Net investment income	3,543	4,776	10,351	16,261
Net realized gains (losses) on investments	431	(11,808)	(6,630)	(12,415)
Change in net unrealized gains/losses on fair value option investments	(25,687)	20,257	18,253	(4,789)
Net gains (losses) on derivatives	(7,077)	8,983	(30,763)	18,379
Service fee income	2,061	2,180	6,182	6,786
Total revenues	159,403	230,750	546,799	626,289
Expenses:				
Losses and loss adjustment expenses incurred	89,581	94,361	243,885	292,226
Underwriting and other operating expenses:				
Policyholder acquisition costs	34,876	37,204	102,996	109,505
Underwriting and other costs	34,663	32,201	101,588	98,867
Policyholders’ dividends	5,507	4,369	16,559	17,710
Interest expense	830	830	2,490	2,490
Total expenses	165,457	168,965	467,518	520,798
Income (loss) before tax	(6,054)	61,785	79,281	105,491
Income tax expense (benefit)	(788)	10,428	16,328	19,050
Net income (loss)	$ (5,266)	$ 51,357	$ 62,953	$ 86,441
Net change in unrealized gains/losses on investments, net of tax and reclassification adjustment	(1,910)	(388)	(2,648)	(1,063)
Change in unrealized foreign currency translation adjustment, net of tax and reclassification adjustment	377	(875)	1,995	(456)
Other comprehensive loss	(1,533)	(1,263)	(653)	(1,519)
Total comprehensive income (loss)	$ (6,799)	$ 50,094	$ 62,300	$ 84,922

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)	Nine Months Ended September 30, 2019	2018
Cash flows from operating activities:		
Premiums collected	$ 565,682	$ 617,468
Investment income received	13,924	13,185
Losses and loss adjustment expenses paid	(290,512)	(304,975)
Underwriting and other operating expenses paid	(214,703)	(206,726)
Interest paid	(3,292)	(3,292)
Income taxes paid	(23,262)	(25,932)
Net cash provided by operating activities	47,837	89,728
Cash flows from investing activities:		
Purchases of investments:		
Fixed maturity securities – fair value option	(68,116)	(743,418)
Equity securities – fair value option	(3,344)	(1,082)
Corporate loan – affiliate	(12,302)	(6,101)
Derivatives	(1,151)	(3,383)
Other investments	(8,006)	(9,744)
Proceeds from maturities and redemptions of investments:		
Fixed maturity securities – fair value option	81,280	68,500
Corporate loan – affiliate	2,702	
Other investments		432
Proceeds from sales of investments:		
Fixed maturity securities – fair value option	76,267	166,495
Equity securities – fair value option	13,129	43,167
Other investments	2,844	2,894
Net decrease (increase) in short-term investments	(48,864)	384,308
Net derivative cash settlements	(41,925)	21,484
Capital expenditures and other	(2,471)	(1,803)
Net cash used in investing activities	(9,957)	(78,251)
Cash flows from financing activities:		
Dividends paid to common stockholders	(30,650)	
Purchase of Fairfax shares for restricted stock awards	(5,111)	(158)
Net cash used in financing activities	(35,761)	(158)
Net increase in cash	2,119	11,319
Cash at beginning of period	29,667	13,105
Cash at end of period	$ 31,786	$ 24,424

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

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

	Nine Months Ended September 30,	
(In thousands)	2019	2018
Reconciliation of net income to net cash provided by operating activities:		
Net income	$ 62,953	$ 86,441
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	2,555	2,909
Net accretion	(11,735)	(9,656)
Net realized losses on investments	6,630	12,415
Change in net unrealized gains/losses on fair value option investments	(18,253)	4,789
Net losses (gains) on derivatives	30,763	(18,379)
Equity in losses/earnings of investee	15,853	7,465
Stock-based compensation expense	4,555	3,674
Decrease (increase) in:		
Accrued investment income	(1,407)	211
Premiums receivable	(7,979)	(8,767)
Reinsurance recoverables	6,445	6,047
Deferred policy acquisition costs	(2,237)	(2,131)
Net income taxes	(6,935)	(6,882)
Increase (decrease) in:		
Unpaid losses and loss adjustment expenses	(53,894)	(16,909)
Unearned premiums	16,799	15,516
Policyholders’ dividends accrued	(560)	3,624
Accrued expenses	4,793	3,795
Interest payable	(823)	(823)
Other	314	6,389
Net cash provided by operating activities	$ 47,837	$ 89,728

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

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

	Nine Months Ended September 30,	
(In thousands)	2019	2018
Common stock:	$ 39	$ 39
Additional paid-in capital:		
Beginning of period	398,340	398,821
Stock-based compensation expense	4,555	3,674
Purchases of Fairfax shares for restricted stock awards	(5,111)	(158)
End of period	397,784	402,337
Retained earnings:		
Beginning of period	145,515	180,072
Net income	62,953	86,441
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)	
Dividends to common stockholders	(30,650)	
End of period	174,692	267,342
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 o retained earnings at January 1, 2019 (see Note 1)	3,126	
Net change in unrealized gains/losses on investments, net of tax	(2,648)	(1,063)
Change in unrealized foreign currency translation adjustment, net of tax	1,995	(456)
End of period	(4,251)	(6,196)
Total stockholders' equity	$ 568,264	$ 663,522

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, differences in accounting by Fairfax for certain investments owned by the Company 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 Company elected the available practical expedients upon adoption. The adoption of the updated guidance resulted in the Company recognizing a right-of-use asset of $25.5 million and a lease liability of $27.0 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 as of January 1, 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 shall be classified in operating or investing activities in the statement of cash flows using either a cumulative earnings or the nature of distribution approach. The Company elected to apply the nature of distribution approach, under which distributions received are classified on the basis of the nature of the activity or activities of the investee that generated the distribution as either a return on investment (classified as a cash inflow from operating activities) or a return of investment (classified as a cash inflow from investing activities) when such information is available. The adoption of this guidance 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 shall 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 changes accounting for available-for-sale debt securities that were previously recorded at fair value with changes in fair value recorded in other comprehensive income/loss. The new guidance requires available-for-sale securities to be recorded at amortized cost, with an estimate of credit losses 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. In May 2019, the FASB issued updated guidance that provides transition relief by providing entities with an alternative to irrevocably elect the fair value option for eligible financial assets measured at amortized cost upon the adoption of the credit losses standard. To be eligible for the transition election, the existing financial asset must otherwise be both within the scope of the new credit losses standards and eligible for applying the fair value option standard (effectively can be elected for available-for-sale debt securities carried at amortized cost under the new guidance). The election must be applied on an instrument-by-instrument basis and is not available for held-to-maturity debt securities. 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.

Changes to the Disclosure Requirements for Fair Value Measurements

In August 2018, the FASB issued 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 for recurring Level 3 fair value measurements and the range and weighted average of unobservable inputs used in Level 3 fair value measurements. The updated guidance will be effective for all entities for periods beginning after December 15, 2019, including interim periods therein. The guidance is not expected to have a material impact on the Company's financial statements.

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. In addition, 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 November 8, 2019.

Note 2. Investments

The cost or amortized cost and fair value of investments recorded at fair value at September 30, 2019 and December 31, 2018 were as follows:

(In thousands)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
September 30, 2019				
Fair value option investments:				
Fixed maturity securities:				
State and local government debt	$ 72,743	$ 44,759		$ 117,502
U.S. Government debt	953,588	3,027	$ (1)	956,614
Corporate debt	21,877	1,520	(412)	22,985
Total fixed maturity securities	1,048,208	49,306	(413)	1,097,101
Short-term investments (a)	160,594	201		160,795
Equity securities	238,063	18,450	(66,669)	189,844
Other investments – affiliate corporate loans	15,712	471		16,183
Other investments – cost-method partnerships	28,188	2,843	(2,030)	29,001
Total fair value option investments	**$ 1,490,765**	**$ 71,271**	**$ (69,112)**	**$ 1,492,924**
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 (b)	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 (a)	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 $11.7 million and $21.9 million pledged for derivative obligations at September 30, 2019 and December 31, 2018, respectively.

(b) Includes investments of $2.6 million pledged for derivative obligations at December 31, 2018.

Fixed maturity securities, including short-term investments, by contractual maturity at September 30, 2019 were as follows:

(In thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 898,883	$ 900,299
Due after one year through five years	228,964	230,580
Due after five years through ten years	5,414	6,151
Due after ten years	75,541	120,866
Total	$ 1,208,802	$ 1,257,896

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

Total investments at September 30, 2019 include other investments detailed below and derivative contracts described in Note 3.

Other investments consist of the following:

(In thousands)	September 30, 2019	December 31, 2018
Equity-method common stock (a)	$ 144,196	$ 162,028
Cost-method partnerships, at fair value (cost $28,188 in 2019 and $21,756 in 2018) (b)	29,001	22,049
Equity-method partnerships (a)	12,290	13,502
Affiliate corporate loans, at fair value (cost $15,712 in 2019 and $6,110 in 2018)	16,183	6,365
Total other investments	$ 201,670	$ 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 September 30, 2019, the Company had commitments to invest an additional $18.0 million in partnerships and limited liability companies.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2019	2018	2019	2018
Gains (losses) from other investments (a)	$ 152	$ 1,024	$ 3,998	$ (977)
Sales of fixed maturity securities, including short-term investments and other (b)	498	172	(7,372)	382
Sale of equity securities (c)	(219)	(13,004)	(3,256)	(11,820)
Net realized gains (losses) on investments	$ 431	$ (11,808)	$ (6,630)	$ (12,415)

(a) In the nine months ended September 30, 2019, the Company derecognized its investment in Grivalia Properties REIC equity-method common stock upon its merger into Eurobank Ergasias S. A. and recognized a non-cash gain of $2.7 million. See Note 5.

(b) In June 2019, Exco Resources, Inc. (“Exco”), an affiliate of Fairfax and the Company, emerged from bankruptcy protection and settled the Company's Exco bonds with common shares, resulting in the Company recording a net loss on investment of $4.6 million in the nine months ended September 30, 2019 (realized losses of $7.8 million, of which $3.2 million was previously recorded as unrealized losses at December 31, 2018). See Note 5.

(c) Net realized losses on sales of equity securities in the nine months ended September 30, 2019 included realized foreign exchange losses of $2.7 million on the return of capital distribution from a privately held common stock investment and realized losses of $1.7 million on the conversion of AGT Food and Ingredients Inc. (“AGT”) preferred stock to common stock as a result of the AGT privatization transaction. AGT is a majority owned subsidiary of Fairfax. See Note 5. Realized losses on equity securities in the nine months ended September 30, 2019 were partially offset by realized gains of $1.3 million on the sale of two fair value option common stock investments. Net realized losses on sales of equity securities in the three and nine months ended September 30, 2018 include $13.0 million of gross realized losses on sale of one fair option security in the third quarter 2018 and $1.2 million of gross realized gains on sale of one fair value option security in the second quarter 2018.

The changes in net unrealized gains/losses on investments recognized as a separate component of stockholders’ equity were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2019	2018	2019	2018
Equity-method partnerships	$ 51	$ (230)	$ 216	$ 916
Equity-method common stock	(2,469)	30	(3,567)	(73)
Cost-method partnerships (a)		(103)		(1,619)
Available-for-sale equity securities (a)		(188)		(570)
Total before tax	$ (2,418)	$ (491)	$ (3,351)	$ (1,346)
After tax	$ (1,910)	$ (388)	$ (2,648)	$ (1,063)

(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 September 30,		Nine Months Ended September 30,	
(In thousands)	2019	2018	2019	2018
Change in net unrealized gains/losses recognized on fair value option investments	$ (25,687)	$ 20,257	$ 18,253	$ (4,789)
Less: Net losses recognized on fair value option investments sold	425	14,198	4,857	9,689
Change in net unrealized gains/losses recognized on fair value option investments still held at the reporting date	$ (26,112)	$ 6,059	$ 13,396	$ (14,478)

Net investment income was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2019	2018	2019	2018
Fixed maturity securities (a)	$ 7,638	$ 6,049	$ 22,890	$ 15,118
Short-term and other investments (a)	1,374	2,068	3,604	7,344
Derivatives (see Note 3)	575	1,321	1,538	4,193
Equity securities	479	880	3,796	2,799
Loss from equity-method investments (b)	(4,647)	(3,636)	(15,853)	(7,465)
Subtotal	5,419	6,682	15,975	21,989
Investment expenses	1,876	1,906	5,624	5,728
Net investment income	$ 3,543	$ 4,776	$ 10,351	$ 16,261

(a) Income from fixed maturity securities in the nine months ended September 30, 2019 increased compared to the corresponding period of 2018, primarily as a result of the reinvestment of the short-term investments into short-dated U.S. treasury bonds and corporate bonds in the later part of 2018 and first quarter of 2019.

(b) Loss from equity-method investments for each period presented is detailed below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2019	2018	2019	2018
Fairfax Africa Holdings Corp.	$ (1,226)	$ (3,068)	$ (6,292)	$ (607)
Apple Bidco	(314)	831	(6,054)	(528)
Farmers Edge Inc.	(1,035)	(1,182)	(3,814)	(4,004)
Davos Brands LLC	(349)	(200)	(1,429)	(882)
Astarta Holdings NV		(105)	(1,190)	(1,217)
Toys R Us Canada	(1,250)		3,920	
Peak Achievement Athletics	1,007	481	123	(1,648)
Other	(1,480)	(393)	(1,117)	1,421
Loss from equity-method investments	$ (4,647)	$ (3,636)	$ (15,853)	$ (7,465)

At both September 30, 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 September 30, 2019, the Company had additional qualifying securities with a fair value of $78.6 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:

(In thousands)	Notional Amount	Cost	Fair Value of Derivative Assets	Fair Value of Derivative Liabilities	
September 30, 2019					
CPI-linked derivatives	$ 7,809,427	$ 41,058	$ 1,550		
Foreign currency options	437,500	7,519	1,199		
U.S. government bond forwards	97,000		2,129		
Foreign exchange forwards	91,541		321		
Long equity total return swaps	53,763		710	$ 936	(a)
Equity index put options	45,000	718	589		
Total		$ 49,295	$ 6,498	$ 936	
December 31, 2018					
CPI-linked derivatives	$ 7,920,604	$ 41,058	$ 2,303		
Foreign currency options	437,500	7,519	7,431		
U.S. government bond forwards	94,000			$ 5,530	
Foreign exchange forwards	13,146			16	
Long equity total return swaps	71,431			10,958	(a)
Equity warrants	921		20		
Total		$ 48,577	$ 9,754	$ 16,504	

(a) Represents the change in fair value since inception or the most recent cash settlement date through the reporting date.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2019	2018	2019	2018
Gains (losses) on settlements				
Equity derivatives:				
Equity total return swaps – long positions (a)	$ 2,230	$ 7,562	$ (17,668)	$ 12,008
Equity warrants		(359)		(762)
U.S. government bond forward contracts	(11,555)	230	(25,221)	5,202
Foreign exchange forward contracts	(560)	1,695	532	2,629
Total	(9,885)	9,128	(42,357)	19,077
Change in fair value (b)				
Equity derivatives:				
Equity total return swaps – long positions (a)	(346)	(1,612)	10,732	(788)
Equity warrants		(8)	(20)	204
Equity index put options	(129)		(129)	
CPI-linked derivative contracts	465	(447)	(753)	(2,454)
U.S. government bond forward contracts	3,281	2,854	7,659	1,364
Foreign currency options	(2,397)		(6,232)	
Foreign exchange forward contracts	1,934	(932)	337	976
Total	2,808	(145)	11,594	(698)
Net gains (losses) on derivatives				
Equity derivatives:				
Equity total return swaps – long positions (a)	1,884	5,950	(6,936)	11,220
Equity warrants		(367)	(20)	(558)
Equity index put options	(129)		(129)	
CPI-linked derivative contracts	465	(447)	(753)	(2,454)
U.S. government bond forward contracts	(8,274)	3,084	(17,562)	6,566
Foreign currency options	(2,397)		(6,232)	
Foreign exchange forward contracts	1,374	763	869	3,605
Total net gains (losses) on derivatives	$ (7,077)	$ 8,983	$ (30,763)	$ 18,379

(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 later of the contract inception or most recent cash settlement date prior to the reporting date. Change in fair value of all other derivative contracts is measured from the later of the contract inception date or beginning of the reporting period. 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 September 30, 2019, these contracts had a remaining weighted average life of 2.5 years.

The following table summarizes the notional amounts and underlying CPI Index price (“strike price”) for the Company’s CPI-linked derivative contracts at initiation and the index value at September 30, 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:					
September 30, 2019					
United States	5,520,000	$	5,520,000	232.81	256.76
European Union	2,100,000		2,289,427	97.66	105.02
		$	7,809,427		
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. These U.S. government bond forward contracts require no initial net cash investment and at inception the fair value is zero. These contracts have an average term to maturity of less than one year and may be renewed at market rates.

Foreign Exchange Forward Contracts

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

Counterparty Risk

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

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

(In thousands)		September 30, 2019		December 31, 2018
Total derivative assets (a)	$	6,498	$	9,734
Impact of net settlement arrangements		(285)		(9,469)
Fair value of collateral deposited for the benefit of the Company		(5,892)		(265)
Excess of collateral pledged by the Company in favor of counterparties		57		3,118
Net derivative counterparty exposure after net settlement and collateral arrangements	$	378	$	3,118

(a) Excludes equity warrants with a fair value of $20,000 at December 31, 2018, which are not subject to counterparty risk.

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

At September 30, 2019 and December 31, 2018, the Company pledged to its counterparties securities with a fair value of $11.7 million and $24.6 million, respectively, as independent and mark-to-market collateral for CPI-linked, U.S. Government bond forward and equity long total return swap derivative contracts and recorded these amounts as assets pledged for derivative obligations in the Company's Consolidated Balance Sheets.

At September 30, 2019, the counterparties pledged $0.3 million of cash and $6.5 million of securities, at fair value for the Company's benefit, compared to $0.3 million of cash at December 31, 2018. The Company recorded the cash collateral as other assets and recognized a corresponding liability in its Consolidated Balance Sheets. The Company does not record in its Consolidated Balance Sheets securities pledged by counterparties as collateral for derivatives in a gain position.

Offsetting of Derivative Assets/Liabilities

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

		Gross amounts not offset in the Consolidated Balance Sheets		
(In thousands)	Gross and net amounts reflected in the Consolidated Balance Sheets	Derivative asset (liability)	Collateral provided (held) - financial instruments (a)	Net amount of exposure
September 30, 2019				
Derivative assets:				
Citibank, N.A.	$ 6,071	$ (285)	$ (5,786)	
Deutsche Bank AG London	106		(106)	
Bank of New York Mellon (b)	321			$ 321
Total derivative assets	$ 6,498	$ (285)	$ (5,892)	$ 321
Derivative liabilities:				
Citibank, N.A.	$ (285)	$ 285		
Bank of America	(651)		$ 651	
Total derivative liabilities	$ (936)	$ 285	$ 651	
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 $20,000 at December 31, 2018, 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 September 30, 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
September 30, 2019				
Fair value option securities:				
Fixed maturity securities:				
State and local government debt	$ 117,502		$ 117,502	
U.S. government debt	956,614		956,614	
Corporate debt	22,985		15,219	$ 7,766
Total fixed maturity securities	1,097,101		1,089,335	7,766
Equity securities (a)	189,844	$ 140,756		14,977
Short-term investments	160,795	160,795		
Other investments - affiliate corporate loans	16,183			16,183
Other investments – cost-method partnerships (a)	29,001			
Total fair value option investments	$ 1,492,924	$ 301,551	$ 1,089,335	$ 38,926
Derivatives:				
Equity total return swaps – long positions	$ 710		$ 710	
U.S. Government bond forward contracts	2,129		2,129	
Foreign currency options	1,199		1,199	
CPI-linked derivative contracts	1,550			$ 1,550
Equity index put options	589		589	
Foreign exchange forward contracts	321		321	
Total derivative assets	6,498		4,948	1,550
Equity total return swaps – long positions	(936)		(936)	
Total derivative liabilities	(936)		(936)	
Net derivatives	$ 5,562		$ 4,012	$ 1,550
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 $34.1 million and $40.2 million at September 30, 2019 and December 31, 2018, respectively, and cost-method partnership investments are measured using the NAV practical expedient and 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 June 30, 2019	$ 7,757	$ 21,293	$ 1,085	$ 16,475
Realized and unrealized gains/losses included in:				
Change in net unrealized gains/losses on fair value option investments	9	(589)		(292)
Net gains on derivatives			465	
Transfers out of Level 3 (b)		(5,727)		
Balance at September 30, 2019	$ 7,766	$ 14,977	$ 1,550	$ 16,183
Balance at December 31, 2018	$ 17,862	$ 24,815	$ 2,303	$ 6,365
Purchases		5,727		12,302
Sales and maturities	(5,914)	(11,484)		(2,702)
Realized and unrealized gains/losses included in:				
Change in net unrealized gains/losses on fair value option investments	3,588	6,028		218
Net investment income – accretion of discounts	41			
Net realized loss on investments	(7,811)	(4,382)		
Net losses on derivatives			(753)	
Transfers out of Level 3 (b)		(5,727)		
Balance at September 30, 2019	$ 7,766	$ 14,977	$ 1,550	$ 16,183

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

(b) Transfer out of Level 3 represents AGT common stock for which equity-method accounting commenced in the third quarter of 2019 (see Note 5).

There were no significant changes to the valuation techniques and processes used at September 30, 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 and nine months ended September 30, 2019 were $1.3 million and $3.7 million, respectively, and $1.3 million and $3.9 million, respectively, for the comparable periods of 2018.

The Company owns common stock, fixed maturity securities and corporate loans issued by 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). Affiliated common stock investments are recorded using the equity-method of accounting, unless a fair value option is elected for such securities. The Company's share of net income/loss of the equity-method investees is 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 is 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 in Other Comprehensive Income (Loss).

The aggregate value of the Company's affiliated investments at September 30, 2019 and December 31, 2018 was as follows:

(In thousands)	September 30, 2019	December 31, 2018
Fixed maturity securities, at fair value option	$ 5,265	$ 15,314
Equity securities, at fair value option	54,308	57,617
Other invested assets:		
Equity-method common stock	144,196	162,028
Equity-method partnerships	12,290	13,502
Affiliate corporate loans	16,183	6,365

The following table summarizes impact from the Company's affiliated investments on various components of Total Comprehensive Income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2019	2018	2019	2018
Included in net income:				
Net investment loss	$ (3,947)	$ (2,950)	$ (14,005)	$ (6,078)
Net realized gains (losses) on investments		573	(5,690)	(933)
Change in net unrealized gains/losses on fair value option investments	(4,137)	156	2,785	(5,393)
Included in other comprehensive income (loss):				
Net change in unrealized gains/losses on investments, before tax	(2,418)	(200)	(3,351)	843
Change in unrealized foreign currency translation adjustment, before tax	477	(1,107)	2,525	(577)

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 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 September 30, 2019 and December 31, 2018, the carrying value of the Company's investment in Seaspan affiliated common stock was $8.5 million and $6.2 million, respectively. At September 30, 2019 and December 31, 2018, the carrying value of the Company's investment in Seaspan affiliated fixed maturity securities was $5.3 million and $4.9 million, 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 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 a 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 September 30, 2019 and December 31, 2018, the carrying value of the Company's investment in Recipe affiliated common stock was $11.7 million and $11.2 million, respectively.

At December 31, 2018, the Company owned an investment in the common stock of Grivalia Properties REIC ("Grivalia"), a majority-owned publicly traded subsidiary of Fairfax. The Company recorded this affiliated common stock investment using the equity-method of accounting. In May 2019, Grivalia merged into Eurobank Ergasias S.A. (''Eurobank''), as a result of which shareholders of Grivalia, including the Company, received 20.9 million newly issued shares of Eurobank common stock in exchange for each share of Grivalia, with a fair value of $16.7 million. Accordingly, 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 earnings). In connection with the merger, in February 2019 Grivalia paid a pre-merger capital dividend. The Company recorded cash received of $0.6 million as a reduction of the carrying value of its investment in Grivalia common stock prior to the merger. The Company elected the fair value option of accounting for its investment in Eurobank common stock.

As of December 31, 2018, the Company owned an investment in the preferred stock of AGT Foods and Ingredients Inc. ("AGT"). In April 2019, AGT completed its previously announced management led privatization, resulting in the conversion of the outstanding preferred stock into new AGT Class A common stock ("AGT Stock"). In connection with the privatization, Fairfax, including the Company, as a member of the buying group, extended loans to AGT ("AGT Loans") in order to, among other things, acquire all of the outstanding AGT old common stock shares not already owned by the buying group. Upon closing, Fairfax's total holdings in AGT Stock represented a controlling equity interest in AGT. In connection with the AGT Loans, Fairfax, including the Company, received warrants ("AGT Warrants"). The Company immediately sold the AGT Warrants to Wentworth Insurance Company Ltd. ("Wentworth"), an affiliate of the Company and Fairfax, at cost. The Company classifies its investment in AGT Loans as Affiliated Corporate Loans in Other Invested Assets. The Company derecognized its investment in AGT preferred stock and recognized a realized loss of $1.7 million in the second quarter of 2019. The Company commenced equity-method accounting for the affiliated AGT Stock in the third quarter of 2019. As of September 30, 2019, the carrying value of the Company's investment in the AGT Loans and AGT Stock was $9.4 million and $5.3 million, respectively.

At December 31, 2018, the Company owned the following investments in Exco Resources, Inc. ("Exco"), an affiliate of Fairfax and the Company: Exco equity-method common stock ("Old Exco Stock"), carried at zero value as of December 31, 2018, 1.75 and 1.5 Exco Lien Bonds ("Exco Bonds") and private debtor-in-possession loans to Exco ("Exco DIP Loans") classified as Other Investments – Affiliate Corporate Loans in the Consolidated Balance Sheets. Exco filed for bankruptcy restructuring in January 2018. In June 2019, Exco emerged from bankruptcy protection and settled the Company's investments in Exco DIP Loans and Exco bonds with $2.8 million in cash and newly issued Exco common stock ("Exco Stock") with a fair value of $5.9 million. The impact for the derecognition of the Exco Bonds on the Company's investment results in the nine months ended September 30, 2019 was a net loss of $4.9 million comprised of realized losses of $7.8 million, reduction in investment income of $0.3 million, partially offset by change in unrealized gains of $3.2 million. The derecognition of the previously owned Old Exco Stock did not have an impact on the current year investment results as this investment was valued at zero as of December 31, 2018. The Company records its investment in the affiliated Exco Stock using the equity-method of accounting. The carrying value of this affiliated Exco Stock was $5.9 million as of September 30, 2019.

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 received warrants to purchase Farmers Edge common stock in connection with the loan (“Farmers Edge Warrants”). The Company’s investment in Farmers Edge 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. The Company sold the Farmers Edge Warrants at cost to Wentworth on the day of acquisition. 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. At September 30, 2019 and December 31, 2018, the total carrying value of the Farmers Edge Loans was $6.8 million and $3.7 million, respectively. The Company also owns 5.3 million shares of Farmers Edge equity-method common stock, with a carrying value of $6.6 million and $9.6 million at September 30, 2019 and December 31, 2018, respectively.

The Company owns an investment in the common stock of Boat Rocker Media Inc. (“Boat Rocker”), a majority-owned subsidiary of Fairfax. In March 2019, the Company sold a portion of its 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 the Company’s investment in Boat Rocker equity-method common stock was $11.6 million and $14.9 million at September 30, 2019 and December 31, 2018, respectively.

In September 2018, the Company paid $4.3 million to purchase 5.6 million common stock shares of Toys “R” Us (Canada) Ltd. (“Toys R Us”), a wholly-owned subsidiary of Fairfax, from Allied World Assurance Company, Ltd. (“AWAC”), a wholly-owned subsidiary of Fairfax. The Company records this investment in affiliated common stock of Toys R Us using the equity method of accounting, on a one quarter lag. The carrying value of the Company’s investment in Toys R Us equity-method common stock was $8.2 million and $4.3 million at September 30, 2019 and December 31, 2018, respectively.

In September 2019, the Company sold six corporate bond securities, at fair value including accrued interest, to U.S. Fire Insurance Company, an affiliate of Fairfax, for $12.9 million in cash. The Company recognized realized gains of $0.2 million on the sale.

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 2019. At September 30, 2019 and December 31, 2018, the Company recorded net reinsurance recoverables of $0.9 million and $1.0 million, respectively, related to the reinsurance transactions with the affiliates of Fairfax.

Zenith National paid Fairfax $5.1 million and $0.1 million in the nine months ended September 30, 2019 and 2018, 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 and

$0.3 million in the three and nine months ended September 30, 2019 and 2018, respectively, in the Consolidated Statements of Comprehensive Income (Loss) which was substantially offset by costs of dedicated staff and allocated shared services. Other liabilities at both September 30, 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 $5.9 million and $2.1 million and $6.4 million in the three and nine months ended September 30, 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 September 30, 2019 include a net liability of $3.4 million which includes a net loss fund liability of $4.0 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 includes a net loss fund liability of $4.0 million reduced by a service fee income receivable of $0.8 million.

The insurance subsidiaries are subject to insurance regulations, which restrict their ability to distribute dividends. The maximum dividend which can be paid to Zenith National Insurance Corp. ("Zenith National") by Zenith Insurance without prior approval from the California Department of Insurance ("California DOI") during 2019 is $133.7 million. The maximum dividend which can be paid to Zenith Insurance by Zenith Insurance Company ("ZNAT") without prior approval of the California DOI during 2019 is $2.9 million. In September 2019, upon receiving $30.7 million from Zenith Insurance, Zenith National paid $30.7 million in ordinary dividends to affiliates of Fairfax.

Note 6. Reinsurance Recoverable

Amounts recoverable for paid and unpaid losses from reinsurers at September 30, 2019 and December 31, 2018 and their respective A.M. Best ratings were as follows:

(In thousands)		September 30, 2019 (a)		December 31, 2018 (a)	A.M. Best Rating (b)	A.M. Best Rating Date
General Reinsurance Corp.	$	33,343	$	38,535	A++	3/2019
Lloyds Underwriters		1,278		1,528	A	7/2018
Factory Mutual Insurance Company		1,063		1,051	A+	2/2019
All others (c)		5,756		6,771		
Total	$	41,440	$	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 September 30, 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 for the nine months ended September 30, 2019 and 2018:

(In thousands)	September 30, 2019	September 30, 2018
Beginning of period, net of reinsurance	$ 1,100,917	$ 1,139,373
Incurred claims:		
Current accident year	319,301	351,537
Prior accident years	(75,416)	(59,311)
Total incurred claims	243,885	292,226
Payments:		
Current accident year	(85,054)	(85,768)
Prior accident years	(206,627)	(219,071)
Total payments	(291,681)	(304,839)
End of period, net of reinsurance	1,053,121	1,126,760
End of period, receivable from reinsurers for unpaid losses	40,851	47,862
End of period, gross of reinsurance	$ 1,093,972	$ 1,174,622

Note 8. Other Comprehensive Income (Loss)

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

(In thousands)	Pre-Tax	Income Tax Effect	After-Tax
Three months ended September 30, 2019			
Net changes in unrealized gains/losses on investments	$ (2,418)	$ (508)	$ (1,910)
Change in unrealized foreign currency translation adjustment	477	100	377
Total other comprehensive loss	$ (1,941)	$ (408)	$ (1,533)
Nine months ended September 30, 2019			
Net unrealized losses arising during the period	$ (3,280)	$ (688)	$ (2,592)
Less: reclassification adjustment for net realized gains included in net income	(71)	(15)	(56)
Net changes in unrealized gains/losses on investments	(3,351)	(703)	(2,648)
Unrealized foreign currency translation adjustment arising during the period	414	87	327
Less: reclassification adjustment for net realized foreign exchange losses included in net income	2,111	443	1,668
Change in unrealized foreign currency translation adjustment	2,525	530	1,995
Total other comprehensive loss	$ (826)	$ (173)	$ (653)
Three months ended September 30, 2018			
Net unrealized losses arising during the period	$ (491)	$ (103)	$ (388)
Change in unrealized foreign currency translation adjustment	(1,107)	(232)	(875)
Total other comprehensive loss	$ (1,598)	$ (335)	$ (1,263)
Nine months ended September 30, 2018			
Net unrealized losses arising during the period	$ (713)	$ (150)	$ (563)
Less: reclassification adjustment for net realized gains included in net income	(633)	(133)	(500)
Net changes in unrealized gains/losses on investments	(1,346)	(283)	(1,063)
Unrealized foreign currency translation adjustment arising during the period	(1,732)	(364)	(1,368)
Less: reclassification adjustment for net realized foreign exchange losses included in net income	1,155	243	912
Change in unrealized foreign currency translation adjustment	(577)	(121)	(456)
Total other comprehensive loss	$ (1,923)	$ (404)	$ (1,519)

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

(In thousands)		September 30, 2019		December 31, 2018
Equity-method common stocks	$	(5,086)	$	(1,519)
Equity-method partnerships		1,618		1,402
Cost-method partnerships (a)				293
Available-for-sale equity securities (a)				(4,249)
Net unrealized loss on investments, before tax		(3,468)		(4,073)
Deferred tax benefit		(728)		(855)
Net unrealized loss on investments, after tax		(2,740)		(3,218)
Net unrealized loss on foreign currency translation adjustment, before tax		(1,913)		(4,438)
Deferred tax benefit		(402)		(932)
Net unrealized loss on foreign currency translation adjustment, after tax		(1,511)		(3,506)
Total accumulated other comprehensive loss	$	(4,251)	$	(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	(61,433)
Vested	(45,588)
Purchased and available for future grants	(11,331)
Available for future purchases at September 30, 2019	81,648

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	11,527		443.41		5,111
Total purchased since plan inception	118,352		441.40	$	52,240

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	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 September 30, 2019	61,433	478.41	$ 29,390

Stock-based compensation expense before tax was $1.4 million and $4.6 million for the three and nine months ended September 30, 2019, respectively, compared to $1.2 million and $3.7 million in the corresponding periods of 2018, respectively. Unrecognized compensation expense before tax under the Restricted Stock Plan was $15.2 million and $14.4 million at September 30, 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 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 and nine months ended September 30, 2019 was $2.3 million and $6.9 million, respectively, and $2.1 million and $6.4 million, respectively, for the comparable periods of 2018.

Additional information related to the operating leases is provided below:

	As of and for the nine months ended September 30, 2019	
(In thousands)	Offices	Automobile
Cash payments included in the measurement of lease liabilities reported in operating cash flows	$ 4,777	$ 771
Weighted average discount rate	2.21%	2.19%
Weighted average remaining lease term (in years)	4.3	2.1

The following table presents the contractual maturities of the Company's lease liabilities as of September 30, 2019:

(In thousands)	Offices	Auto Fleet	Total
Remainder of 2019	$ 1,514	$ 203	$ 1,717
2020	6,744	847	7,591
2021	5,492	504	5,996
2022	3,565	138	3,703
2023	2,077		2,077
Thereafter	3,144		3,144
Total undiscounted lease payments	$ 22,536	$ 1,692	$ 24,228
Less: present value adjustment	1,124	76	1,200
Operating lease liability	$ 21,412	$ 1,616	$ 23,028