Zenith National Insurance Corp. and Subsidiaries

Consolidated Financial Statements and Supplementary Consolidating Information December 31, 2023 and 2022 and for the Years Ended December 31, 2023, 2022 and 2021

Zenith National Insurance Corp. and Subsidiaries
Consolidated Financial Statements

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Report of Independent Auditors

To the Management of Zenith National Insurance Corp.

Opinion

We have audited the accompanying consolidated financial statements of Zenith National Insurance Corp. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of comprehensive income, of cash flows and of stockholders' equity for each of the three years ended December 31, 2023, 2022 and 2021 including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the three years ended December 31, 2023, 2022 and 2021 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

PricewaterhouseCoopers LLP, 601 South Figueroa Street, Los Angeles, California 90017
T: (213) 356 6000, www.pwc.com/us

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplemental Information

Accounting principles generally accepted in the United States of America require that information about incurred and paid claims development that precedes the most recent reporting period and the historical claims payout percentages included in Note 8 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board (FASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers LLP

Los Angeles, California
March 14, 2024

ZENITH NATIONAL INSURANCE CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
(In thousands, except par value)	2023	2022
Assets:		
Investments:		
Fixed maturity securities, at fair value (amortized cost $1,030,941 in 2023 and $954,638 in 2022)	$ 1,052,865	$ 931,231
Equity securities, at fair value (cost $273,401 in 2023 and $334,727 in 2022)	312,725	458,775
Short-term investments, at fair value which approximates cost	7,550	53,376
Mortgage loans, at fair value (amortized cost $218,523 in 2023 and $162,019 in 2022)	210,758	162,019
Other investments	213,447	153,081
Derivative assets, at fair value (cost $17,835 in 2023 and $12,957 in 2022)	2,551	2,034
Total investments	1,799,896	1,760,516
Cash and cash equivalents	39,060	37,736
Accrued investment income	11,958	5,603
Premiums receivable	64,982	56,420
Earned but unbilled premium receivable	5,218	3,997
Reinsurance recoverables	49,541	52,070
Deferred policy acquisition costs	23,087	21,739
Deferred tax asset	65,887	42,795
Operating lease right-of-use assets	23,799	28,102
Goodwill	20,985	20,985
Other assets	59,025	53,074
Total assets	$ 2,163,438	$ 2,083,037
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 1,045,700	$ 1,059,744
Unearned premiums	129,080	121,205
Policyholders' dividends accrued	31,848	31,514
Long-term debt	38,368	38,340
Income tax payable	704	693
Operating lease liabilities	25,329	29,671
Derivative liabilities	2,276	
Other liabilities	100,214	97,264
Total liabilities	1,373,519	1,378,431
Commitments and contingencies (see Note 15)		
Stockholders' equity:		
Common stock, $1 par value, 40 authorized shares; 39 shares issued and outstanding	39	39
Additional paid-in capital	401,199	397,682
Retained earnings	406,673	318,733
Accumulated other comprehensive loss	(17,992)	(11,848)
Total stockholders' equity	789,919	704,606
Total liabilities and stockholders' equity	$ 2,163,438	$ 2,083,037

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

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

(In thousands)	Year Ended December 31, 2023	2022	2021
Revenues:			
Net premiums earned	$ 741,764	$ 727,936	$ 711,141
Net investment income	75,711	31,180	17,428
Net realized gains on investments and other	88,328	7,419	22,850
Change in net unrealized gains/losses on fair value option investments	(45,510)	11,684	116,610
Net gains (losses) on derivatives	(6,439)	3,837	15,718
Service fee revenue	8,143	7,574	5,660
Total revenues	861,997	789,630	889,407
Expenses:			
Losses and loss adjustment expenses incurred, net of reinsurance	397,417	398,059	357,187
Underwriting and other operating expenses:			
Policy acquisition costs	157,779	150,039	137,914
Underwriting and other costs	132,796	132,597	121,570
Policyholders' dividends	19,288	19,536	19,518
Interest expense	3,321	3,321	3,321
Total expenses	710,601	703,552	639,510
Income before tax	151,396	86,078	249,897
Current tax expense	44,915	16,153	22,855
Deferred tax expense (benefit)	(12,259)	2,140	28,553
Decrease in valuation allowance	(9,200)		(32,800)
Total income tax expense	23,456	18,293	18,608
Net income	$ 127,940	$ 67,785	$ 231,289
Change in unrealized gains/losses on investments, net of tax	(3,045)	(269)	303
Change in unrealized foreign currency translation adjustments, net of tax and reclassification adjustments	(3,099)	(2,529)	(2,666)
Other comprehensive loss	(6,144)	(2,798)	(2,363)
Total comprehensive income	$ 121,796	$ 64,987	$ 228,926

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

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

	Year Ended December 31,		
(In thousands)	2023	2022	2021
Cash flows from operating activities:			
Premiums collected, net of reinsurance	$ 737,366	$ 732,215	$ 692,552
Investment income received	43,543	28,517	29,802
Losses and loss adjustment expenses paid, net of reinsurance	(406,696)	(391,545)	(372,657)
Underwriting and other operating expenses paid	(295,794)	(285,076)	(271,745)
Interest paid	(3,292)	(3,292)	(3,292)
Income taxes paid	(44,904)	(16,112)	(20,276)
Net cash provided by operating activities	30,223	64,707	54,384
Cash flows from investing activities:			
Purchases of investments:			
Fixed maturity securities, at fair value	(977,446)	(1,082,773)	(936,009)
Equity securities, at fair value	(49,977)	(75,585)	(5,000)
Mortgage loans	(116,909)	(93,650)	(70,119)
Other investments	(60,599)	(15,456)	(8,126)
Derivatives	(8,800)	(4,958)	(134)
Proceeds from maturities and redemptions of investments:			
Fixed maturities securities, at fair value	33,397	279,502	963,425
Other investments		5,000	
Proceeds from sales of investments:			
Fixed maturity securities, at fair value	864,421	736,741	68,690
Equity securities, at fair value	195,367	16,573	79
Mortgage loans	63,898	11,514	10,000
Other investments	10,427	7,649	10,759
Derivatives		64	
Net decrease (increase) in short-term investments	46,613	135,643	(11,773)
Net derivative cash settlements	2,620	6,062	10,143
Proceeds from sale of office building		23,407	
Capital expenditures and other	(4,795)	(7,959)	(3,180)
Net cash provided by (used in) investing activities	(1,783)	(58,226)	28,755
Cash flows from financing activities:			
Dividends paid to common stockholders	(25,000)	(64,000)	(35,000)
Purchase of Fairfax shares for restricted stock awards	(2,116)	(9,313)	(6,409)
Net cash used in financing activities	(27,116)	(73,313)	(41,409)
Net increase (decrease) in cash and cash equivalents	1,324	(66,832)	41,730
Cash and cash equivalents at beginning of year	37,736	104,568	62,838
Cash and cash equivalents at end of year	$ 39,060	$ 37,736	$ 104,568

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

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

	Year Ended December 31,		
(In thousands)	2023	2022	2021
Reconciliation of net income to net cash provided by operating activities			
Net income	$ 127,940	$ 67,785	$ 231,289
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	1,617	2,324	2,560
Net amortization (accretion)	(12,447)	(617)	10,406
Net realized gains on investments and other	(88,328)	(7,419)	(22,850)
Change in net unrealized gains/losses on fair value option investments	45,510	(11,684)	(116,610)
Net (gains) losses on derivatives	6,439	(3,837)	(15,718)
Equity in (earnings) losses of investee	(11,739)	(590)	195
Stock-based compensation expense	5,633	7,836	5,304
Decrease (increase) in:			
Accrued investment income	(6,355)	(1,137)	2,639
Premiums receivable	(9,916)	(11,397)	(34,887)
Reinsurance recoverables	2,529	(4,216)	(8,202)
Deferred policy acquisition costs	(1,348)	(4,196)	(4,787)
Net income taxes	(21,447)	2,183	(1,668)
Increase (decrease) in:			
Unpaid losses and loss adjustment expenses	(14,044)	10,668	(10,074)
Unearned premiums	7,875	15,969	16,770
Policyholders’ dividends accrued	334	734	(2,027)
Accrued expenses	(771)	4,901	568
Prepaid policy and guarantee fund assessments	(2,693)	(420)	665
Other	1,434	(2,180)	811
Net cash provided by operating activities	$ 30,223	$ 64,707	$ 54,384

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

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

(In thousands)	Year Ended December 31, 2023	2022	2021
Common stock:			
Beginning of year	$ 39	$ 39	$ 39
End of year	39	39	39
Additional paid-in capital:			
Beginning of year	397,682	399,159	400,264
Stock-based compensation expense	5,633	7,836	5,304
Purchases of Fairfax shares for restricted stock awards	(2,116)	(9,313)	(6,409)
End of year	401,199	397,682	399,159
Retained earnings:			
Beginning of year	318,733	314,948	118,659
Net income	127,940	67,785	231,289
Dividends to common stockholders	(40,000)	(64,000)	(35,000)
End of year	406,673	318,733	314,948
Accumulated other comprehensive loss:			
Beginning of year	(11,848)	(9,050)	(6,687)
Change in unrealized gains/losses on investments, net of tax	(3,045)	(269)	303
Change in unrealized foreign currency translation adjustments, net of tax and reclassification adjustments	(3,099)	(2,529)	(2,666)
End of year	(17,992)	(11,848)	(9,050)
Total stockholders' equity	$ 789,919	$ 704,606	$ 705,096

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

Note 1. Basis of Presentation and Summary of Operations

Basis of Presentation

The accompanying Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include Zenith National Insurance Corp. ("Zenith National") and its subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Organization and Operations

Zenith National is a Delaware holding company, which is an indirect wholly-owned 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 ("TSX") 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 ("Agribusiness P&C"). Unless otherwise indicated, all references to the "Company" refer to Zenith National together with its subsidiaries.

Use of Estimates

GAAP requires the use of assumptions and estimates in reporting certain assets, liabilities, revenues and expenses and related disclosures. Actual results could differ from those estimates.

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 that the Consolidated Financial Statements were issued on March 14, 2024.

Note 2. Summary of Accounting Policies

Cash and Cash Equivalents

Cash includes amounts held in operating accounts and demand deposits with financial institutions. Cash equivalents are carried at fair value on the Consolidated Balance Sheets and consist of money market funds which are highly liquid investments with original maturities of less than three months. The money market funds are measured using net asset value ("NAV") as a practical expedient, which approximates fair value.

Investments

As of December 31, 2023 and 2022, $1.7 billion of investments in fixed maturity securities, equity securities, short-term investments, mortgage loans and certain other investments were recorded under the fair value option method of accounting. These investments are carried at fair value with changes in fair value recorded in the change in net unrealized gains/losses on fair value option investments in the Consolidated Statements of Comprehensive Income.

As of December 31, 2023 and 2022, other investments are comprised of investments in partnerships and limited liability companies, investments in equity-method common stock, corporate loans to affiliates and contingent considerations. Investments in partnerships and limited liability companies where the Company's ownership is minor and does not have significant operating or financial influence ("cost-method partnerships"), affiliate corporate loans and contingent consideration receivables are carried at fair value, with changes in fair value recorded in the change in net unrealized gain/losses on fair value option investments in the Company's Consolidated Statements of Comprehensive Income. Investments in the common stock of an entity where the Company's ownership share is more than minor, as well as investments in the common stock of an affiliate are recorded under the equity-method of accounting, unless the fair value option is elected. An affiliate is defined as a related party entity, generally when Fairfax is deemed to have control or when Fairfax or the Company have the ability to exercise significant influence over an entity. The carrying value of the Company's investments in equity-method common stock represents the initial cost, adjusted for any additional purchases/ distributions, other-than-temporary impairments, if any (as discussed below), the Company's proportionate share of the investee's income or loss, including realized gains or losses (recorded in net investment income) and other changes in the investee's equity since the initial acquisition (recorded in other comprehensive loss). Due to the timing of when financial information is reported by equity investees and received by the Company, results attributable to these investments are generally reported by the Company on a quarter lag.

Investments could be subject to default by the issuer or declines in fair value that become other-than-temporary. The Company continually assesses the prospects for its investments, other than fair value option investments, as part of its ongoing portfolio management, including the identification of other-than-temporary declines in fair value. The Company's other-than-temporary assessment includes reviewing the extent and duration of declines in fair value of such investments below the cost or amortized cost basis or carrying value, the seniority and duration of the securities, historical and projected company financial performance, company-specific news and other developments, the outlook for industry sectors, credit ratings and macro-economic changes, including government policy initiatives. An other-than-temporary impairment is recorded in net realized gains on investments and other in the Company's Consolidated Statements of Comprehensive Income and reflected as a reduction in the cost basis or carrying value of the security based on the extent and duration that its fair value is below cost or carrying value, in addition to issuer specific events. In the years ended December 31, 2023, 2022 and 2021, the Company recorded other-than-temporary impairments of $10.9 million, $1.0 million and $14.5 million, respectively, on equity-method common stock investments.

Realized capital gains and losses are determined under the "average cost" method. Investment income is recorded when earned, and investment income accrued is recorded separately from related investments on the Consolidated Balance Sheets. Balance of accrued investment income is assessed for credit risk quarterly, and an allowance for credit losses is established as of balance sheet date. As of December 31, 2023, the allowance for expected credit losses was estimated in accordance with the new accounting guidance effective January 1, 2023 on Financial Instruments – Credit Losses, as discussed under Adopted Accounting Standards section below. No allowance was recorded as of December 31, 2023 and 2022.

Derivative Contracts

Derivative contracts may include consumer price index linked ("CPI-linked") derivatives, foreign currency forwards, options and warrant contracts, all of which derive their value mainly from changes in underlying inflation indexes, foreign exchange rates, or equity instruments. A derivative contract may be traded on an exchange or over-the-counter ("OTC"). OTC derivative contracts are individually negotiated between contracting parties and may include the Company's CPI-linked derivatives and forwards.

The Company uses derivatives principally to mitigate financial risks arising from its investment holdings and monitors its derivatives for effectiveness in achieving their risk management objectives. Derivative contracts entered into by the Company are considered investments or economic hedges and are not designated for hedge accounting treatment for financial reporting.

Derivatives are carried at fair value. The fair value of derivatives in a gain position and fair value of derivatives in a loss position are presented as derivative assets and derivative liabilities, respectively, in the Consolidated Balance Sheets. Initial premiums paid for derivative contracts, if any, are recorded as derivative assets and subsequently adjusted for changes in fair value at each balance sheet date with a corresponding offset to net gains (losses) on derivatives in the Consolidated Statements of Comprehensive Income. Cash settlements related to fair value changes on derivatives are also recorded in the Consolidated Statements of Comprehensive Income as net gains (losses) on derivatives and are recorded as an investing activity in the Consolidated Statements of Cash Flows.

Cash received from counterparties as collateral for derivative contracts is recorded in other assets with a corresponding liability recorded in other liabilities in the Consolidated Balance Sheets. Securities pledged by counterparties to the Company as collateral for derivatives in a gain position are not recorded as assets. Securities pledged by the Company as collateral to counterparties for derivative contracts in a loss position, as well as contractually required independent collateral, if any, are recorded in assets pledged for derivative obligations in the Consolidated Balance Sheets.

See Note 4 for additional information related to derivative contracts.

Recognition of Property-Casualty Revenue and Expense

Revenue Recognition - Premiums

The consideration paid for an insurance policy is generally known as a "premium." Premiums billed to the Company's policyholders are recorded as revenues in the Consolidated Statements of Comprehensive Income. Premiums are billed and collected according to policy terms, predominantly in the form of installments during the policy period. Premiums are earned pro-rata over the terms of the policies. Billed premiums applicable to the unexpired terms of policies in-force are recorded in the accompanying Consolidated Balance Sheets as a liability for unearned premiums.

Certain states in which the Company conducts business require that the Company bills additional amounts, or assessments, to policyholders in accordance with state statutes. In some cases, the Company is required to pay in advance estimated amounts of these assessments to the relevant regulatory agency. Premiums do not include these assessments and their collection does not have any impact on the Company's results of operations.

Workers' compensation premiums are determined based upon the payroll of the insured, the applicable premium rates and, where applicable, an experience-based modification factor and a debit or credit applied by the Company's underwriters based upon individual risk characteristics. Audits of policyholders' records are conducted after policy expiration to make a final determination of applicable premiums. Included in premiums earned is an estimate of the impact of final audit premiums. The Company can estimate this adjustment because it monitors, by policy, how much additional premium will be billed or refunded in final audit invoices as a percentage of the original estimated amount that was billed. The Company uses the historical percentage and current trends to estimate the probable amount to be billed or refunded as of the balance sheet date. When payrolls increase during policy periods, the Company may bill less premium than is actually owed and will establish a receivable for the estimated amount due from its policyholders. When payrolls decline during policy periods (such as during a recession), the Company may bill more premium than is actually owed and will establish a liability for the estimated amount to be refunded to its policyholders. As of December 31, 2023 and 2022, premiums receivable included $5.2 million and $4.0 million, respectively, of estimated premiums due from policyholders.

The Company's premiums receivable due from the insured, are generally within one year or less. Any amounts receivable for billed premiums are charged-off upon initiating the legal collection process. Premiums receivable balances are assessed for credit risk quarterly, and an allowance for credit losses is established as of the balance sheet date. As of December 31, 2023, the allowance for expected credit losses was estimated in accordance with the new accounting guidance effective January 1, 2023 on Financial Instruments – Credit Losses, as discussed under Adopted Accounting Standards section below. As of December 31, 2022, an allowance for doubtful accounts was established as an estimate of amounts that were likely to be charged-off, generally based on any specific accounts that were past due and were considered probable to be charged off and a provision against remaining accounts receivable based on historical bad debt expense. As of December 31, 2023 and 2022, premiums receivable were reported net of a credit loss allowance of $0.3 million.

The Company has written a relatively small number of workers' compensation policies that are retrospectively rated. Under this type of policy, subsequent to policy expiration, the policyholder may be entitled to a refund or owe additional premium based on the amount of losses sustained under the policy. These retrospective premium adjustments are limited in the amount by which they increase or decrease the standard amount of premium applicable to the policy. The Company can estimate these retrospective premium adjustments because it knows the underlying loss experience of the policies involved. As of December 31, 2023 and 2022, the net premiums payable under retrospectively rated workers' compensation policies reflected in unearned premiums was $3.9 million and $3.6 million, respectively.

Losses and Loss Adjustment Expenses Incurred

Losses and loss adjustment expenses incurred in the accompanying Consolidated Statements of Comprehensive Income include provisions for the amount the Company expects to ultimately pay for all reported and unreported claims for the applicable periods. Loss adjustment expenses are the expenses applicable to the process of administering, settling and investigating claims, including related legal expenses. Estimates of losses from environmental and asbestos related claims are included in overall loss reserves and to date have not been material.

Unpaid Losses and Loss Adjustment Expenses

The liabilities for unpaid losses and loss adjustment expenses ("loss reserves") in the accompanying Consolidated Balance Sheets are estimates of the unpaid amounts that the Company expects to pay for the ultimate cost of reported and unreported claims as of the balance sheet date. Loss reserves are estimates and are inherently uncertain; they do not and cannot represent an exact measure of ultimate liability. The Company's actuaries perform a comprehensive review of loss reserves at the end of every quarter, from which a point estimate of loss reserves is determined. The loss reserve estimates recorded in the financial statements reflect management's best estimate of loss reserves based on the actuarial point estimate as well as judgment regarding the inherent uncertainties of ultimate loss costs. As of December 31, 2023 and 2022, there was no material difference between the actuarial point estimate and the loss reserve estimate recorded in the financial statements. As of December 31, 2023, workers' compensation, the Company's principal line of insurance, accounts for 80% of the net earned premium in 2023 and 84% of the outstanding liabilities for unpaid losses and loss adjustment expenses, net of reinsurance recoverable. Given the long-tail nature of workers' compensation liabilities, the ultimate losses will not be known for many years and estimating loss reserves is a complex process which involves a combination of actuarial techniques and management judgment including the consideration of all relevant data.

The Company's actuaries produce a point estimate for workers' compensation loss reserves using the results of various methods of estimation. The actuaries prepare reserve estimates for all accident years using the Company's historical claims data and many of the common actuarial methodologies for estimating loss reserves, such as paid loss development methods, incurred loss development methods, the Bornhuetter-Ferguson method and methods that utilize claim counts and average severity. The actuarial point estimate is based on a selection of the results of these various methods depending upon both the age of the accident year and the geographic state of the injury. For mature accident years, all of the methods produce very similar loss estimates; the actuarial point selections are primarily based upon the paid loss development methods for California workers' compensation and incurred loss development methods for all other lines of business and jurisdictions. For recent accident years, the Bornhuetter-Ferguson method and methods that utilize claim counts and average severity are weighted with paid and incurred loss development methods.

When losses are reported to the Company, it establishes individual estimates of the ultimate cost of the claims, known as "case reserves." These case reserves are continually monitored and revised in response to new information and for amounts paid. The Company's actuaries use this information about reported claims in some of their estimation techniques. In estimating the Company's total loss reserves, the Company makes provision for two types of loss development. At the end of any calendar period, there are a number of claims that have not yet been reported but will arise out of accidents that have already occurred. These are referred to in the insurance industry as incurred but not reported ("IBNR") claims and the Company's loss reserves contain an estimate for IBNR claims. In addition to this provision for late reported claims, the Company also has to estimate and make provision for, the extent to which the case reserves on known claims may also develop. These types of reserves are referred to in the insurance industry as “bulk” reserves. The Company’s loss reserves make provision for both IBNR and bulk reserves in total, but not separately. The large majority of claims are reported promptly and therefore, as of the balance sheet date, the number of IBNR claims is relatively insignificant.

The principal uncertainty in the Company’s workers’ compensation loss reserve estimates is the risk of increasing claim costs, particularly medical. In estimating loss reserves, the Company’s actuaries consider medical costs by evaluating long-term trends. The additional uncertainties considered in estimating ultimate loss costs include the ultimate number of expensive cases and the length of time required to settle long-term expensive cases. Expensive claims are those involving permanent disability of an injured worker and are paid over many years. The ultimate costs of expensive claims are difficult to estimate because of such factors as the on-going and possibly increasing need for medical care, complications from comorbidity, the duration of disability, life expectancy and benefits for dependents, as well as increased costs associated with obtaining settlement approval from Medicare.

The greater part of the challenge in estimating the loss reserves is associated with estimating the year-over-year increase (or decrease) in average claim severity for each accident year. Year-over-year rates of change of workers’ compensation average claim severity (severity trends/inflation) vary considerably. The Company’s initial workers’ compensation loss reserve estimates for recent accident years provide for claim severity trends that contemplate the long-term trend observed in the Company’s business. As loss experience emerges, actuarial estimates of ultimate losses and severity trends converge with those of the traditional dollar-based loss development methods, resulting in net favorable or unfavorable development of the total loss reserve estimate.

Different assumptions about the claim severity inflation rates would change the workers' compensation loss reserve estimates; a material change is reasonably possible although management cannot predict if, when and to what extent such a change will occur. If the average annual inflation rate for each of the accident years 2021 through 2023 were increased or decreased by one percentage point in each year, the loss reserve estimates as of December 31, 2023 would change accordingly by approximately $16.4 million.

The Company believes its loss reserve estimates are adequate. However, the ultimate losses will not be known with any certainty for several years. The Company evaluates its loss reserve estimates every quarter to reflect the most current data and judgments. Any resulting adjustments to loss reserves are reflected in the Company’s Consolidated Statements of Comprehensive Income in the period in which the change is made.

Deferred Policy Acquisition Costs

Agent commissions and premium taxes that are included in Policy acquisition costs in the Company’s Consolidated Statements of Comprehensive Income vary with and are primarily related to the production of new or renewal business, and thus are deferred and amortized as the related premiums are earned.

A premium deficiency is recorded if the sum of expected losses and loss adjustment expenses, expected dividends to policyholders, unamortized acquisition costs and policy maintenance costs exceeds the remaining unearned premiums. A premium deficiency would first be recorded by charging any unamortized acquisition costs to expense to the extent required to eliminate the deficiency. If the premium deficiency were greater than unamortized acquisition costs, a liability would be accrued for the excess deficiency. The Company does not consider anticipated investment income when determining if a premium deficiency exists. As of December 31, 2023 and 2022, no premium deficiency existed.

Policyholders’ Dividends

The Company issues certain policies in which the policyholder may qualify to receive a dividend. An estimated provision for workers’ compensation policyholders’ dividends is accrued as the related premiums are earned. Such dividends do not become a fixed liability unless and until declared by the respective Board of Directors of Zenith National’s insurance subsidiaries. The dividend to which a policyholder may be entitled is set forth in the policy. Dividends are calculated after policy expiration. The Company is able to estimate any liability it may have because it knows the underlying loss experience of the policies it has written with dividend provisions and can estimate the future liability from the policy terms. Approximately 44% of the Company’s workers’ compensation net premiums were earned from participating policies with dividend provisions.

State Guaranty Fund Assessments

Guaranty funds ("Guaranty Funds") exist in several states to ensure that policyholders (holders of direct insurance policies but not of reinsurance policies) receive payment of their claims if insurance companies become insolvent. A Guaranty Fund is funded primarily by statutorily required assessments on insurance companies doing business in the state. Various mechanisms exist in some of these states for assessed insurance companies to recover these assessments. Upon the insolvency of an insurance company, the Guaranty Funds become primarily liable for the payment of the insolvent company's liabilities to policyholders. The declaration of an insolvency establishes the presumption that assessments by the Guaranty Funds are probable. The Company writes workers' compensation insurance in many states in which unpaid workers' compensation liabilities are the responsibility of the Guaranty Funds and has received, and expects to continue to receive, Guaranty Fund assessments, some of which may be based on a certain amount of the premiums it has already earned as of December 31, 2023.

As of December 31, 2023 and 2022, the Company recorded an estimate of $1.7 million and $2.2 million, respectively, for the expected net liability for Guaranty Fund assessments. The ultimate impact of such assessments will depend upon the amount and timing of actual assessments and of any recoveries to which the Company may be entitled.

Assumed Reinsurance

Reinsurance assumed premiums written and unearned premium reserves are based on reports received from ceding companies which are established on a basis that is consistent with the terms of the corresponding reinsurance agreements and reflect the coverage periods under the terms of the underlying insurance contracts. See Note 10 for additional information on the Company's assumed reinsurance operations.

Reinsurance Ceded

In the ordinary course of business and in accordance with general insurance industry practices, the Company purchases excess of loss reinsurance to protect it against the impact of large, irregularly occurring losses in the workers' compensation and Agribusiness P&C business. The Company has also entered into quota share reinsurance agreements to cede a portion of certain coverages within the Agribusiness P&C business. Such reinsurance reduces the magnitude of such losses on net income and the capital of the Company. Reinsurance makes the assuming reinsurer liable to the ceding company to the extent of the reinsurance. It does not, however, discharge the ceding company from its primary liability to its policyholders in the event the reinsurer is unable to meet its obligations under such reinsurance agreement.

Premiums earned and losses and loss adjustment expenses incurred are stated in the accompanying Consolidated Statements of Comprehensive Income after deduction of amounts ceded to reinsurers. The cost of reinsurance purchased by the Company (reinsurance premiums ceded) for quota share contracts is earned based on a percentage of both the underlying premiums written and unearned premiums for the coverage provided. For excess of loss protection, the cost is based on a percentage of the earned premium of the underlying policies for the coverage provided.

Reinsurance recoverables are recorded as assets on the Consolidated Balance Sheets, and include balances due from reinsurers for paid and unpaid losses. Balances due from reinsurers on unpaid losses, including an estimate of such recoverables related to reserves for IBNR losses are included in reinsurance recoverables even though amounts due on unpaid losses and loss adjustment expenses are not recoverable from the reinsurer until such losses are paid. The Company monitors the financial condition of its reinsurers and estimates credit loss allowance for its reinsurance recoverables on paid losses on a quarterly basis. As of December 31, 2023, the allowance for expected credit losses was estimated in accordance with the new accounting guidance effective January 1, 2023 on Financial Instruments – Credit Losses, as discussed under the Adopted Accounting Standards section below. Generally, in estimating an allowance for credit losses the Company considers several factors including, but not limited to historical information, financial strength of reinsurers, collateralization amounts and ratings to determine the appropriateness of the allowance. Historically, the Company has not experienced a significant indication of credit loss from reinsurance transactions; write-offs have been infrequent and insignificant; and most of its reinsurance balances are recoverable from large, well-capitalized reinsurers. As of December 31, 2023 and 2022, reinsurance recoverable on paid losses were reported net of a credit loss allowance of zero.

Properties and Equipment

Properties and equipment used in operations, including certain costs incurred to develop and obtain computer software, are capitalized and carried at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis using the following useful lives: buildings — up to 40 years; and other property and equipment — 3 to 10 years. Expenditures for maintenance and repairs are charged to operations as incurred. Additions and improvements to buildings and other fixed assets are capitalized and depreciated over the useful lives of the properties and equipment. Upon disposition, the asset cost and related depreciation are removed from the accounts and the resulting gain or loss is included in the Company's Consolidated Statements of Comprehensive Income.

Intangible Assets

As of December 31, 2023 and 2022, goodwill from acquisitions was $21.0 million, of which $19.0 million is included in the assets of Zenith Insurance with the remaining $2.0 million included in Zenith National's assets. As of December 31, 2023 and 2022, the Company had no intangible assets other than goodwill. Effective January 1, 2021, the Company adopted the new guidance to simplify how an entity is required to test goodwill for impairment. The Company assesses goodwill for impairment using the qualitative approach by evaluating the facts and circumstances at the end of the reporting period to determine whether a triggering event indicating potential impairment exists and, if so, whether it is more likely than not that goodwill is impaired. Only when the Company concludes, through the qualitative assessment, that goodwill is impaired, it performs a quantitative assessment to compare the carrying amount of goodwill to its fair value, estimated based on the present value of future cash flows of the corresponding reporting unit. A reporting unit is an operating segment or a unit one level below the operating segment. There were no indicators of goodwill impairment as of December 31, 2023 and 2022.

Restricted Stock

Under a restricted stock plan adopted by Fairfax in September 2010 ("Restricted Stock Plan"), certain Company officers are awarded shares of Fairfax Subordinate Voting Shares, no par value, with restricted ownership rights ("Restricted Stock"). Under the terms of the original Restricted Stock Plan agreement, 200,000 Fairfax Subordinate Voting Shares were authorized for purchase. In April 2020, the Restricted Stock Plan was amended and restated to provide for an additional 300,000 Fairfax Subordinate Voting Shares. The Restricted Stock awarded after 2014 vests on the fifth anniversary of the award date and contains no performance conditions. The Restricted Stock vests in full upon the death or disability of the recipient of Restricted Stock. Restricted Stock is generally forfeited by employees who terminate employment prior to vesting. During the vesting period, the Restricted Stock Plan participants are entitled to voting rights and ordinary cash dividends paid by Fairfax from the date of the award. Restricted Stock awards under the Restricted Stock Plan are accounted for as equity awards based on the amount paid by the Company for the open market purchase of Fairfax Subordinate Voting Shares prior to each award. Stock-based compensation expense is recorded over the vesting period based on the grant date fair value with an offsetting entry to the initial charge to the Company's stockholders' equity.

Adopted Accounting Standards

Measurement of Credit Losses on Financial Instruments

Effective January 1, 2023, the Company adopted the new guidance on Financial Instruments – Credit Losses, which provides for the recognition and measurement of all expected credit losses ("CECL") for financial assets that are not recorded under the fair value option method of accounting. The adoption involved reassessing credit losses on the Company's financial assets that are not accounted for at fair value, following the prescribed methodology for recognizing credit losses that reflects expected credit losses. The Company's investment portfolio, excluding accrued investment income, was not affected by CECL as it applies the fair value option to the majority of its investments. Therefore, the Company's financial assets within the scope of this guidance primarily included accrued investment income, premiums receivable and reinsurance recoverable. Following the adoption of CECL, the Company reassesses credit losses on its financial assets within the scope of the guidance quarterly. The adoption of this guidance did not result in any additional credit losses recorded on the Company's significant financial assets in scope.

Recent Accounting Standards Not Yet Adopted

Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions

In June 2022, the FASB issued new guidance which clarifies the existing fair value measurement guidance, when measuring the fair value of an equity security subject to contractual restrictions that prohibit the sale of an equity security and introduces new disclosure requirements for equity securities subject to contractual sale restrictions that are measured at fair value. The new standard clarifies that a contractual restriction on the sale of an equity security that are characteristics of the equity security should be considered in measuring the fair value of the security, while characteristics of the holder of the equity security should not be considered in measuring the fair value of the security. The standard also requires an entity holding equity securities with contractual sale restrictions to disclose the fair value of equity securities subject to contractual sale restrictions, the nature and remaining duration of the restrictions and the circumstances that could cause a lapse in the restrictions. For non-public entities, the guidance is effective for annual periods beginning after December 15, 2024 and interim periods within those annual periods. 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.

Improvements to Income Tax Disclosures

In December 2023, the FASB issued new guidance requiring expanded income tax disclosures, including the disaggregation of existing disclosures related to the effective tax rate reconciliation and income taxes paid. For non-public entities, the guidance is effective for annual periods beginning after December 15, 2025. Prospective application is required, with retrospective application permitted. The guidance is not expected to have a material impact on the Company’s consolidated financial position, results of operations, or cash flows.

Note 3. Investments

In April 2023, the Company started investing substantially all of its operating cash balances in a highly liquid overnight money market fund, administered by Bank of America through a daily sweep mechanism. Previously, the Company held all of its operating cash in cash accounts at Bank of America. The invested balance as of December 31, 2023 was $43.7 million and was included as part of net cash and cash equivalents on the Consolidated Balance Sheets.

The cost or amortized cost and fair value of investments recorded at fair value under the fair value option as of December 31, 2023 and 2022 were as follows:

(In thousands)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
December 31, 2023				
Fair value option investments:				
Fixed maturity securities:				
U.S. Government debt	$ 968,488	$ 18,203	$ (2,633)	$ 984,058
Foreign government debt	15,915	566		16,481
Corporate debt	46,538	5,941	(153)	52,326
Total fixed maturity securities	1,030,941	24,710	(2,786)	1,052,865
Equity securities	273,401	80,648	(41,324)	312,725
Short-term investments	7,550			7,550
Mortgage loans (a)	218,523		(7,765)	210,758
Cost-method partnerships	38,283	10,900	(2,313)	46,870
Affiliate corporate loans	7,091	119		7,210
Contingent consideration receivables	23,525	29		23,554
Total fair value option investments	**$ 1,599,314**	**$ 116,406**	**$ (54,188)**	**$ 1,661,532**
December 31, 2022				
Fair value option investments:				
Fixed maturity securities:				
U.S. Government debt	$ 915,301	$ 751	$ (22,115)	$ 893,937
State and local government debt	5,043	12		5,055
Foreign government debt	15,838		(1,001)	14,837
Corporate debt	18,456	19	(1,073)	17,402
Total fixed maturity securities	954,638	782	(24,189)	931,231
Equity securities	334,727	160,674	(36,626)	458,775
Short-term investments	53,377		(1)	53,376
Mortgage loans	162,019			162,019
Cost-method partnerships	36,233	8,833	(2,540)	42,526
Affiliate corporate loans	9,322		(409)	8,913
Contingent consideration receivables	14,519	1,204		15,723
Total fair value option investments	**$ 1,564,835**	**$ 171,493**	**$ (63,765)**	**$ 1,672,563**

(a) The increase in mortgage loans in 2023 is primarily due to additional investments, partially offset by sales during the year. During 2023, the Company invested in short-dated residential and commercial mortgage loans sourced through Fairfax's relationship with Kennedy Wilson Inc. ("KW"), including $80.3 million invested in June 2023 in real estate construction loans that KW purchased from Pacific Western Bank.

Fixed maturity securities, including short-term investment, by contractual maturity as of December 31, 2023 were as follows:

(In thousands)		Fair Value
Due in one year or less	$	19,790
Due after one year through five years		624,937
Due after five years through ten years		415,688
Total	$	1,060,415

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.

As of December 31, 2023 and 2022, total investments also include other investments detailed below and derivative contracts described in Note 4.

Other investments consisted of the following:

	December 31,			
(In thousands)		2023		2022
Equity-method common stock (a)	$	135,813	$	85,919
Cost-method partnerships, at fair value (cost $38,283 in 2023 and $36,233 in 2022) (b)		46,870		42,526
Affiliate corporate loans, at fair value (amortized cost $7,091 in 2023 and $9,322 in 2022)		7,210		8,913
Contingent consideration receivables, at fair value (cost $23,525 in 2023 and $14,519 in 2022) (c)		23,554		15,723
Total other investments	$	213,447	$	153,081

(a) Investments in equity-method common stock 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 equity since the initial acquisition.

(b) Investments in partnerships and limited liability companies where the Company’s ownership is minor and the Company does not have significant operating or financial influence are recorded at fair value.

(c) The balance as of December 31, 2023 includes $11.8 million of contingent value rights (“CVR”), at fair value, recorded as a result of a sale of a common stock investment in the first quarter of 2023. The fair value of the CVR was estimated as the difference between cash consideration received and the market price of the common stock immediately prior to the close of the transaction and was included as part of total sales proceeds.

As of December 31, 2023, the Company had commitments to invest an additional $3.7 million in partnerships and limited liability companies.

The following table sets forth additional information for the Company's investment in equity-method common stock as of December 31, 2023 and 2022:

	Carrying Value		Carrying Value less Underlying Net Asset Value		Quoted Market Value		Relative Economic Ownership
(In thousands)	2023	2022	2023	2022	2023	2022	2023
FF Meadow Holdings Limited	$ 50,428						20.3 %
Fairfax India Holdings Corp.	28,928	$ 26,121	$ (579) (a)	$ (371) (a)	$ 21,474	$ 17,250	1.0 %
Grivalia Hospitality S.A.	12,349	7,137	5,988 (a)	3,478 (a)			1.8 %
Helios Fairfax Partners Corp.	10,466	9,238	(13,130) (b)	(13,124) (a)	11,074	13,196	4.3 %
Exco Resources Inc.	10,175	6,880	(578) (a)	(578) (a)			1.2 %
Peak Achievement Athletics	8,614	8,283	(1,204) (c)	(1,409) (c)			2.8 %
Astarta Holdings NV	6,421	7,948	(7,299) (b)	(7,302) (b)	5,900	3,797	3.3 %
Boat Rocker Media Inc.	4,774	16,653	(8,035) (b)	2,873 (a)	4,774	8,399	8.9 %
Alberta ULC	3,658	3,363					5.0 %
Farmers Edge		296		(1,186) (b)	266	296	3.5 %
Total equity-method common stock	$ 135,813	$ 85,919					

(a) Represents positive/(negative) goodwill.

(b) Represents primarily other-than-temporary impairment write-down previously recorded.

(c) Represents dividend distribution received from investee not yet reflected in the underlying NAV based on the most recent investee financial statements received.

Net investment income was as follows:

	Year Ended December 31,		
(In thousands)	2023	2022	2021
Fixed maturity securities (a)	$ 36,160	$ 17,458	$ 7,944
Equity securities	12,639	9,791	13,227
Mortgage loans (a)	20,814	9,401	2,087
Short-term and other investments (a)	3,903	1,548	1,019
Derivatives			1,474
Net income (loss) from equity-method investment (b)	11,739	590	(195)
Subtotal	85,255	38,788	25,556
Investment expenses	9,544	7,608	8,128
Net investment income	$ 75,711	$ 31,180	$ 17,428

(a) During the year ended December 31, 2023, the Company continued to reinvest proceeds from sales and maturities of short-dated fixed maturity securities in higher yielding U.S. treasury bonds, high quality corporate bonds and first mortgage loans, resulting in an increase in interest income in 2023.

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

	Year Ended December 31,		
(In thousands)	2023	2022	2021
Fairfax India Holdings Corp.	$ 3,408	$ (170)	$ 6,625
Exco Resources Inc.	3,293	2,123	(1,115)
Astarta Holdings NV	2,692	4,829	571
AGT Food and Ingredients Inc. (1)	2,234	639	(1,102)
Peak Achievement Athletics	1,548	510	882
Helios Fairfax Partners Corp.	1,141	(2,967)	(2,386)
Alberta ULC	240	(1,011)	1,868
Farmers Edge Inc. (2)	(255)	(2,265)	(2,029)
Grivalia Hospitality	(1,109)		
Boat Rocker Media Inc	(1,453)	(1,098)	(3,509)
Income (loss) from equity-method investments	$ 11,739	$ 590	$ (195)

(1) As of December 31, 2023, the Company owned common stock and affiliated loans issued by AGT Food and Ingredients inc. ("AGT"), an affiliate of Fairfax and the Company. Based on the latest AGT IFRS financial statements as of September 30, 2023 (unaudited), the Company's share of AGT's net equity for the year was a net loss of $2.3 million, that consisted of $2.2 million income recorded in AGT's net income (and reflected in the table above, with the corresponding increase to the carrying value of AGT equity-accounted common stock), offset by $4.5 million loss recorded in AGT's (and the Company's) other comprehensive loss (with the corresponding decrease to the carrying value of AGT equity-accounted common stock of $2.2 million that reduced it to zero as of December 31, 2023 and remaining $2.3 million recorded as a reduction to the Company's investment in AGT affiliated loans recorded in other invested assets).

(2) As of December 31, 2023, based on the latest Farmers Edge Inc. ("FE") GAAP financial statements as of December 31, 2022 (audited) and IFRS financial statements as of September 30, 2023 (unaudited), the Company's remaining share of the FE's reduction in equity not yet recognized in the Company's results was approximately $1.6 million.

Net realized gains on investments (excluding derivatives) and other were as follows:

	Year Ended December 31,		
(In thousands)	2023	2022	2021
Sales of equity securities (a)	$ 108,382	$ (1,578)	$ (22)
Sales of fixed maturity securities, including short-term investments and other (b)	(13,018)	(7,750)	(14,325)
Gains (losses) from other investments (c)	(7,036)	2,209	37,197
Gain on sale of company building (d)		14,538	
Net realized gains on investments and other	$ 88,328	$ 7,419	$ 22,850

(a) Net realized gains on sales of equity securities in the year ended December 31, 2023 primarily consisted of $113.2 million of a realized gain on sale of a common stock investment in the first quarter of 2023, $110.5 million of which was previously recorded in change in net unrealized gains/losses on fair value option investments, partially offset by realized losses of $4.4 million on sales of fair value option common stocks and $1.0 million "day one" loss recorded as a result of the purchase of fair value option preferred stock and related warrants where cash paid exceeded the fair value of investment acquired.

Net realized losses on sales of equity securities in the year ended December 31, 2022 included realized losses of $3.0 million on the sale of three fair value option common stocks, partially offset by a realized gain of $1.4 million related to the redemption of a preferred stock investment in exchange for common stock.

(b) Net realized losses on sales of fixed maturity securities, including short-term investments and other in the year ended December 31, 2023 were primarily from sales of U.S. government securities.

Net realized losses on fixed maturity securities, including short-term investments and other in the year ended December 31, 2022, included $7.6 million of indemnity-related losses recorded in connection with the acquisition by Atlas Corp.'s (“Atlas”) of Apple Bidco Limited (“AB”), both affiliates of Fairfax and the Company. See Note 12.

Net realized losses on sales of fixed maturity securities, including short-term investments and other in the year ended December 31, 2021 included $14.8 million of losses related to AB indemnity and $1.8 million realized losses on the sale of fair value option fixed maturity securities, partially offset by realized gains of $1.5 million for post-sale consideration received in connection with the Company's former equity-method partnership investment in Davos Brands LLC.

(c) Net realized losses from other investments in the year ended December 31, 2023, included $10.9 million of other-than-temporary impairment on the Company's equity-method common stock investment in Boat Rocker Media Inc. ("Boat Rocker"), partially offset by realized gains of $3.5 million from cost-method partnership distributions. See Note 12.

Net realized gains from other investments in the year ended December 31, 2022, included realized gains of $3.2 million from cost-method partnership distributions, partially offset by an other-than-temporary impairment of $1.0 million for the Company's equity-method investment in FE. See Note 12.

Net realized gains from other investments in the year ended December 31, 2021 included a realized gain of $20.1 million on the sale of the Company's equity-method investment in Toys "R" Us Canada ("Toys"); dilution gains on equity-method investments in connection with their respective initial public offerings (“IPOs”) of $16.4 million for Boat Rocker and $10.6 million for FE; gain on the conversion of FE loans into common stock of $0.8 million; and realized gains on cost-method partnership distributions of $1.8 million; partially offset by an other-than-temporary impairment on FE of $14.5 million. See Note 12.

(d) The Company owned a building in Sarasota, Florida that operated as its Florida Branch. The building had a net book value of $8.9 million and was recorded in properties and equipment included in other assets on the Consolidated Balance Sheets. In December 2022, the Company sold the building and recorded a gain on sale of $14.5 million. See Note 6.

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

	Year Ended December 31,		
(In thousands)	2023	2022	2021
Equity-method common stock	$ (3,855)	$ (339)	$ 382
Total before tax	$ (3,855)	$ (339)	$ 382
After tax (see Note 13)	$ (3,045)	$ (269)	$ 303

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

	Year Ended December 31,		
(In thousands)	2023	2022	2021
Change in net unrealized gains/losses recorded on fair value option investments	$ (45,510)	$ 11,684	$ 116,610
Less: Net gains recognized on fair value option investments sold (a)	(84,736)	(4,412)	(2,520)
Change in net unrealized gains/losses recorded on fair value option investments still held at the reporting date	$ 39,226	$ 16,096	$ 119,130

(a) Net gain recognized on fair value option investments sold primarily consisted of $110.5 million cumulative unrealized gains previously recognized through December 31, 2022 on a common stock investment sold in the first quarter of 2023 (see (a) in the Net realized gains table above).

As of December 31, 2023 and 2022, investments with a fair value of approximately $770 million and $800 million, respectively, were on deposit with regulatory authorities in compliance with insurance company regulations. As of December 31, 2023 and 2022, the Company had additional qualifying securities with a fair value of approximately $236 million and $146 million, respectively, available for deposit.

Note 4. Derivative Contracts

See Note 2 for a description of the Company's accounting policies related to derivative contracts.

The following table summarizes the notional amounts, cost and fair values for derivative contracts:

(In thousands)	Notional Amount	Cost	Fair Value of Derivative Assets	Fair Value of Derivative Liabilities
December 31, 2023				
CPI-linked derivatives	$ 3,082,328	$ 11,191		
Equity index put options	124,358	4,821	$ 2,121	
Foreign exchange forwards	100,951			$ 2,276
Equity warrants (a)	10,000	1,823	430	
Total		$ 17,835	$ 2,551	$ 2,276
December 31, 2022				
CPI-linked derivatives	$ 3,263,624	$ 11,991	$ 1	
Foreign exchange forwards	82,660		155	
Equity warrants (a)	13,527	966	1,878	
Total		$ 12,957	$ 2,034	

(a) At December 31, 2023 and 2022, equity warrants included 0.5 million and 0.2 million shares of common stock warrants, respectively, received in connection with the Company's investment in the preferred stock of the same issuer in June 2023 and March 2022, respectively. See Note 12.

As of December 31, 2022, equity warrants also included 0.7 million shares of Atlas common stock warrants that were exercised in January 2023 for a payment of $8.5 million. See Note 12.

The net gains 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 and were as follows:

	Year Ended December 31,		
(In thousands)	2023	2022	2021
Net gains on settlements			
Equity derivatives:			
Equity warrants	$ 1,366	$ 240	
Equity index put options	(857)		
Equity total return swaps – long positions			$ 11,219
Foreign exchange forwards	488	5,229	(1,210)
CPI-linked derivatives (a)	(799)	(1,100)	(9,419)
Total	198	4,369	590
Change in fair value			
Equity derivatives:			
Equity warrants	(2,305)	(2,143)	3,055
Equity index put options	(2,700)		
Equity total return swaps – long positions			1,607
Foreign exchange forwards	(2,431)	535	1,256
CPI-linked derivatives (a)	799	1,076	9,210
Total	(6,637)	(532)	15,128
Net gains (losses) on derivatives			
Equity derivatives:			
Equity warrants	(939)	(1,903)	3,055
Equity index put options	(3,557)		
Equity total return swaps – long positions			12,826
Foreign exchange forwards	(1,943)	5,764	46
CPI-linked derivatives (a)		(24)	(209)
Total net gains (losses) on derivatives	$ (6,439)	$ 3,837	$ 15,718

(a) In the years ended December 31, 2023, 2022 and 2021, CPI-linked derivative contracts with the notional amounts of $0.2 billion, $0.3 billion and $0.9 billion, respectively, matured and losses previously recognized in the change in fair value component of net gains (losses) on derivatives of $0.8 million, $1.1 million and $9.4 million, respectively, were reclassified to net gains (losses) on settlements.

Equity derivative contracts

The Company holds equity index put options that grant the Company the right (but not the obligation) to sell a financial instrument at a specified price within a specified time period. The Company also holds equity warrants on certain investments that grant the Company the right to purchase an underlying financial instrument at a given price and time. The Company closed all of its total return swaps long positions in 2021.

CPI-linked derivative contracts

The Company's derivative contracts referenced to the consumer price index in the United States and Europe ("CPI-linked derivatives") 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 a cash settlement equal to 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. The Company's CPI-linked derivatives have a remaining weighted average life of 1 year as of December 31, 2023. As of December 31, 2023 and 2022, the Company had no pledged amounts recorded as contractually required collateral to a counterparty on any CPI-linked derivatives.

The following table summarizes the notional amounts and underlying CPI Index price ("strike price") for the Company's CPI-linked derivatives at initiation and the index values as of December 31, 2023 and 2022:

(Notional amount in thousands)	Notional Amount: Original Currency	Notional Amount: US Dollars	Weighted Average Strike Price In Original Currency	Index Value
Underlying CPI Index:				
December 31, 2023				
United States	2,530,000	$ 2,530,000	236.19	306.75
European Union	500,000	552,328	100.63	123.66
		$ 3,082,328		
December 31, 2022				
United States	2,730,000	$ 2,730,000	235.84	296.80
European Union	500,000	533,624	100.63	120.24
		$ 3,263,624		

Foreign exchange forward contracts

The Company has exposure to foreign currency fluctuations for foreign investments held. Foreign exchange forward contracts ("foreign exchange forwards"), primarily denominated in Canadian dollars and Euros are used to manage certain foreign currency exposures arising from foreign currency denominated investments. These foreign exchange forwards 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 collateral and exposure

The Company limits counterparty risk through the terms of master netting agreements negotiated with counterparties to its derivative contracts. These agreements 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"). Pursuant to these agreements, the counterparties to the derivative contracts are also 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. The Company had not exercised its right to sell or repledge collateral as of December 31, 2023.

As of December 31, 2023, counterparties pledged $2.1 million of cash for the Company's benefit. The Company recorded the cash collateral in other assets and recorded a corresponding liability in its Consolidated Balance Sheets. As of December 31, 2022, no amounts were pledged by the counterparties for the Company's benefit. As of December 31, 2023 and 2022, the Company had no amounts pledged as contractually required collateral to its counterparties for derivative contracts.

Note 5. 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 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.

Level 3— Inputs include significant unobservable inputs used in the measurement of financial instruments. Management is required to use its own assumptions regarding unobservable inputs as there is little, if any, market activity in these instruments or related observable inputs that can be corroborated at the measurement date. Certain common stock and 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 December 31, 2023 and 2022, classified by the valuation hierarchy discussed previously:

(In thousands)	Total (a)	Fair Value Measurement Using Level 1	Level 2	Level 3
December 31, 2023				
Fair value option securities:				
Fixed maturity securities:				
U.S. Government debt	$ 984,058		$ 984,058	
Foreign Government debt	16,481		16,481	
Corporate debt	52,326		42,191	$ 10,135
Total fixed maturity securities	1,052,865		1,042,730	10,135
Equity securities (b)	312,725	$ 162,034	9,555	112,787
Short-term investments	7,550	7,550		
Mortgage loans	210,758			210,758
Other investments – cost-method partnerships (a) (b)	46,870			
Other investments – affiliate corporate loans (a)	7,210			7,210
Other investments – contingent consideration receivables (a)	23,554			23,554
Total fair value option investments	$ 1,661,532	$ 169,584	$ 1,052,285	$ 364,444
Derivatives:				
Equity warrants	$ 430			$ 430
Equity index put options	2,121		$ 2,121	
Total derivative assets	2,551		2,121	430
Foreign exchange forwards	(2,276)		(2,276)	
Total derivative liabilities	(2,276)		(2,276)	
Net derivatives	$ 275		$ (155)	$ 430

(In thousands)	Total (a)	Fair Value Measurement Using Level 1	Level 2	Level 3
December 31, 2022				
Fair value option securities:				
Fixed maturity securities:				
U.S. Government debt	$ 893,937		$ 893,937	
State and local government debt	5,055		5,055	
Foreign Government debt	14,837		14,837	
Corporate debt	17,402		15,278	$ 2,124
Total fixed maturity securities	931,231		929,107	2,124
Equity securities (b)	458,775	$ 380,923	8,972	38,921
Short-term investments	53,376	53,376		
Mortgage loans	162,019			162,019
Other investments – cost-method partnerships (a) (b)	42,526			
Other investments – affiliate corporate loans (a)	8,913			8,913
Other investments – contingent consideration receivables (a)	15,723			15,723
Total fair value option investments	$ 1,672,563	$ 434,299	$ 938,079	$ 227,700
Derivatives:				
Equity warrants	$ 1,878			$ 1,878
CPI-linked derivatives	1			1
Foreign exchange forwards	155		$ 155	
Total derivative assets	$ 2,034		$ 155	$ 1,879

(a) The fair value amounts presented in the "Total" column are intended to permit reconciliation of the fair value hierarchy footnote to the amounts presented in the Consolidated Balance Sheets. Cost-method partnerships, affiliate corporate loans and contingent consideration receivable are included in other investments in the Consolidated Balance Sheets. See Note 2 for additional information regarding other investments.

(b) As of December 31, 2023 and 2022, certain common stock investments with a fair value of $28.3 million and $30.0 million, respectively, and cost-method partnerships with a fair value of $46.9 million and $42.5 million, respectively, are measured using NAV as a practical expedient and not required to be classified in the fair value hierarchy.

The following table presents changes in the Company's Level 3 fixed maturity securities, equity securities, mortgage loans, affiliate corporate loans, contingent consideration receivables and derivatives measured at fair value on a recurring basis:

(In thousands)	Corporate Debt	Equity Securities (a)	Mortgage Loans	Affiliate Corporate Loans	Contingent Consideration Receivables (b)	Derivatives
Balance as of December 31, 2021	$ 8,083	$ 23,642	$ 79,337	$ 10,209	$ 18,683	$ 3,214
Purchases		5,627	93,952	5,000		4,124
Sales	(10,335)	(5,548)	(11,514)	(5,000)	(2,489)	(3,532)
Realized and unrealized gains/losses included in:						
Net investments income – accretion of discounts			239			
Net realized gains (losses) on investments	5,523	1,386	5		(30)	
Change in net unrealized gains/losses on fair value option investments	(1,147)	(3,404)		(1,296)	(441)	
Net losses on derivatives						(1,927)
Transfer in from Level 2 (c)		17,218				
Balance as of December 31, 2022	$ 2,124	$ 38,921	$ 162,019	$ 8,913	$ 15,723	$ 1,879
Purchases	5,339	6,987	124,605		11,759	990
Sales	(3,798)		(70,348)	(2,231)	(2,614)	(1,500)
Realized and unrealized gains/losses included in:						
Net investments income – accretion of discounts			1,516			
Net realized gains (losses) on investments	999		730		(139)	
Change in net unrealized gains/losses on fair value option investments	5,471	12,480	(7,764)	528	(1,175)	
Net losses on derivatives						(939)
Transfers in from Level 1 (d)		55,859				
Transfer out of Level 3		(1,460)				
Balance as of December 31, 2023	$ 10,135	$ 112,787	$ 210,758	$ 7,210	$ 23,554	$ 430

(a) Change in unrealized gain/losses from equity securities includes changes in fair value and foreign currency fluctuations.

(b) Purchase of Contingent Consideration Receivables in 2023 of $11.8 million represents the fair value of CVR recorded as a result of a sale of a common stock investment. The fair value of the CVR was estimated as the difference between cash consideration received and the market price of the common stock immediately prior to the close of the transaction, and was included as part of total sales proceeds.

In August 2021, the Company sold its equity-method common stock investment in Toys and recorded a contingent consideration receivable comprised primarily of the estimated fair value of future monthly royalty revenue from Toys. See Note 12.

(c) Transfers in from Level 2 is related to the Company's investment in Recipe Unlimited Corp. ("Recipe") common stock. Recipe was privatized and delisted from the Toronto Stock Exchange in October 2022. See Note 12.

(d) Transfers in from Level 1 relate to the Company's investment in Poseidon Corp. (formerly Atlas) common stock as a result of Atlas' privatization. Atlas stock was publicly traded, while Poseidon Corp. common stock is priced internally using both observable and unobservable inputs. See Note 12.

The following table provides information on the valuation techniques, significant unobservable inputs and range for each major category of Level 3 assets measured at fair value on a recurring basis as of December 31, 2023:

(In thousands)	Balance at December 31, 2023		Valuation Techniques	Significant Unobservable Inputs	Range
Corporate debt (a)	$	10,135	Market approach	Credit spread of issuer	1.85%
			Estimated NAV multiple	Estimated NAV multiple	N/A
			Discounted cash flow	Discount rate	11.15%
				Perpetual growth rate	3.00%
			Market approach	Recent transaction price	N/A
Equity securities (b)	$	112,787		Credit spread of issuer	5.48% - 6.12%
			Market approach	Recent transaction price	N/A
Mortgage loans (c)	$	210,758	Discounted cash flow	Credit spread of issuer	3.36% - 10.35%
Affiliate corporate loans (a)	$	7,210	Market approach	Credit spread of issuer	5.24%
			Market approach	Recent transaction price	N/A
Contingent consideration receivables (d)	$	23,554	Discounted cash flow	Discount rate	25.20%
Derivatives (e)	$	430	Market approach	Volatility	32.81% - 35.38%

(a) Level 3 corporate debt and affiliate corporate loans consisted of one private placement fixed maturity security, recorded at fair value and one affiliate corporate loan, carried at fair value, with fair value determined using a Black-Scholes Model. Prices for identical instruments are not available and significant subjectivity may be involved when fair value is determined using pricing data available for comparable instruments.

(b) Level 3 equity securities were primarily comprised of investments in common and preferred stock, recorded at fair value, detailed below: Fair value of two common stock investments was estimated as a multiple of NAV. Fair value of a common stock and a preferred stock investment was estimated using recent transaction price. Fair value of a common stock and two preferred stock investments were determined internally using a Black-Scholes Model.

Prices for identical instruments are not available and significant subjectivity may be involved when fair value is determined using pricing data available for comparable instruments.

(c) Level 3 mortgage loans consisted of nineteen loans recorded at fair value, determined using a Discounted Cash Flow Model; and eight loans recently purchased in 2023, recorded at fair value, determined using recent transaction prices.

(d) Level 3 contingent consideration receivables are recorded at fair value determined using a Discounted Cash Flow Model.

(e) Level 3 derivatives consisted primarily of equity warrants, recorded at fair value, using broker-dealer quotes which management has determined use market observable inputs except for the inflation volatility input which is not market observable.

Note 6. Properties and Equipment

Properties and equipment, included in other assets, consist of the following:

(In thousands)	December 31, 2023		2022	
Land (a)	$	13,508	$	13,508
Buildings (a)		29,660		29,209
Other property and equipment		89,474		89,244
Subtotal		132,642		131,961
Accumulated depreciation (a)		(109,545)		(107,926)
Total	$	23,097	$	24,035

(a) In December 2022, the Company sold its Sarasota, Florida property that had a net book value of $8.9 million and recognized a realized gain on sale of $14.5 million recorded in Net realized gains on investments and other for the year ended December 31, 2022. See Note 3.

In the years ended December 31, 2023, 2022 and 2021, depreciation expense was $1.6 million, $2.3 million and $2.6 million, respectively.

Note 7. Income Tax

The Company is included in the consolidated federal income tax return of Fairfax (US) Inc. and its eligible subsidiaries and in various state combined or consolidated income tax returns. Zenith National and Fairfax (US) Inc. are parties to a tax allocation agreement whereby, in general, federal income taxes are allocated by Fairfax (US) Inc. to Zenith National equal to the taxes that would have been payable/refunded between the Company and the Internal Revenue Service ("IRS") if it had filed a stand-alone consolidated federal income tax return. The insurance subsidiaries pay premium taxes on direct premiums written in lieu of most state income or franchise taxes.

The differences between the statutory income tax rate and the Company's effective tax rate on income, as reflected in the Consolidated Statements of Comprehensive Income, were as follows:

	Year Ended December 31,		
(In thousands)	2023	2022	2021
Statutory income tax expense at 21%	$ 31,793	$ 18,076	$ 52,478
Increase (reduction) in taxes:			
Tax-exempt interest and other investments	(2,088)	(2,068)	(1,903)
Foreign and state tax expenses	2,296	1,174	543
Non-deductible expenses and other	655	1,111	290
Income tax expense before valuation allowance	32,656	18,293	51,408
Decrease in valuation allowance	(9,200)		(32,800)
Income tax expense	$ 23,456	$ 18,293	$ 18,608

Deferred tax is provided based upon temporary differences between the tax and book basis of assets and liabilities. The components of the deferred tax assets and liabilities were as follows:

	December 31,			
	2023		2022	
	Deferred Tax		Deferred Tax	
(In thousands)	Assets	Liabilities	Assets	Liabilities
Unpaid losses and loss adjustment expenses discount	$ 19,598		$ 18,251	
Limitation on deduction for unearned premiums	7,531		7,180	
Investments	28,311		17,801	
Policyholders' dividends accrued	6,688		6,618	
Compensation and benefits	5,878		5,317	
Properties, equipment and leases	7,372	$ 4,998	5,393	$ 4,379
Deferred policy acquisition costs		4,980		4,550
Other	487		364	
Total before valuation allowance	$ 75,865	$ 9,978	$ 60,924	$ 8,929
Valuation allowance			(9,200)	
Net deferred tax asset	$ 65,887		$ 42,795	

The Company paid federal, state and foreign income taxes of $44.9 million and $16.2 million for the years ended December 31, 2023 and 2022, respectively. At both December 31, 2023, and 2022, the Company had a net current tax payable of $0.7 million, which were all payable to Fairfax (US) Inc. The Company files income tax returns with various federal, state, and foreign jurisdictions.

GAAP requires the Company to evaluate the recoverability of its deferred tax assets ("DTAs") and establish a valuation allowance, if necessary, to reduce the DTA to an amount that is more likely than not to be realized (a likelihood of more than 50%). The establishment of a valuation allowance does not adversely affect the Company's ability to use the related tax deductions to reduce taxable income in the future.

In making this evaluation, the Company is required to consider all available evidence, both positive and negative, including objectively verifiable evidence of taxable income in the immediate ensuing years. With respect to recent performance, the Company is in a cumulative income position for the 2023-2021 period, which management has considered indicative of the ability to realize the existing DTAs.

In assessing the recoverability of the Company's DTAs, management evaluates whether it is more likely than not that some portion or all of the DTAs will not be realized by generating sufficient future taxable income of the appropriate character. Management considers the reversal of deferred tax liabilities, carryback potential of an appropriate nature, forecasted taxable income and tax-planning strategies in making this assessment, as well as, the Company's cumulative income position for the most recent 3-year period.

As of December 31, 2022, the Company held a valuation allowance of $9.2 million recorded as a reduction of its investment-related DTAs. As of December 31, 2023, the Company determined that continued profitability, improvements in investment valuations, and carryback capacity supported a conclusion that the DTAs are more likely than not to be realized as stated; accordingly, the Company reduced the DTA valuation allowance to zero.

As of December 31, 2023 and 2022, there were no material unrecognized tax benefits.

The Company recognizes any interest and penalties related to uncertain tax positions in income tax expense; however, there were none in the years ended December 31, 2023, 2022 and 2021.

There are no taxable years currently under IRS audit. Taxable years after 2020 are subject to examination by the IRS. Taxable years after 2018 are subject to examination by state taxing authorities. On August 16, 2022, the Inflation Reduction Act was enacted which created a new corporate alternative minimum tax (CAMT) effective for calendar year taxpayers as of January 1, 2023. Based upon adjusted financial statement income for 2023, the Company (or the controlled group of corporations of which the Company is a member) has determined that there is no CAMT liability for 2023 taxable year. The impact of the alternative minimum tax, if any, will vary from year to year based on the relationship of the Company's financial statement income to the Company's taxable income.

Note 8. Unpaid Losses and Loss Adjustment Expenses

The following tables present estimated ultimate incurred loss and allocated loss adjustment expenses (net of reinsurance), and cumulative paid loss and allocated loss adjustment expenses (net of reinsurance) for the Company's two main insurance operations, Workers' Compensation and Agribusiness P&C for the year ended December 31, 2023.

Workers' Compensation

(In thousands)	Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance — Years Ended December 31,										As of December 31, 2023	
Accident Year	2014[1]	2015[1]	2016[1]	2017[1]	2018[1]	2019[1]	2020[1]	2021[1]	2022[1]	2023	Net IBNR Reserves	Cumulative Number of Reported Claims [2]
2014	$ 358,819	$ 331,551	$ 307,190	$ 294,755	$ 286,855	$ 282,139	$ 278,267	$ 276,228	$ 274,436	$ 275,842	$ 9,988	$ 30,444
2015		354,155	329,034	315,023	299,935	290,627	284,453	282,822	280,172	278,002	12,053	30,898
2016			360,638	340,182	323,750	311,498	305,082	303,110	301,442	300,610	11,016	31,571
2017				354,148	328,410	312,606	306,378	304,405	298,961	298,433	12,204	31,452
2018					337,529	312,395	302,111	294,941	288,790	284,482	10,954	31,595
2019						310,160	293,573	284,806	283,237	281,320	9,866	30,501
2020							285,156	257,577	252,165	253,795	7,948	23,639
2021								290,066	275,424	270,826	16,305	26,647
2022									283,302	266,697	23,854	25,559
2023										269,152	60,805	24,342
									Total	$ 2,779,159		

(In thousands)	Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance — Years Ended December 31,									
Accident Year	2014[1]	2015[1]	2016[1]	2017[1]	2018[1]	2019[1]	2020[1]	2021[1]	2022[1]	2023
2014	$ 73,323	$ 160,065	$ 203,881	$ 229,189	$ 240,337	$ 246,592	$ 250,333	$ 253,097	$ 254,718	$ 258,929
2015		74,561	166,502	214,635	236,628	247,394	252,161	255,918	258,405	260,348
2016			81,103	177,908	225,456	247,851	259,036	266,018	270,406	274,047
2017				85,204	183,532	230,039	248,840	260,113	269,894	274,625
2018					85,461	178,957	219,585	241,758	251,972	258,416
2019						81,641	166,594	210,793	233,751	245,531
2020							63,482	147,295	184,882	206,305
2021								68,804	156,627	199,172
2022									67,914	153,287
2023										67,531
									Total	$ 2,198,191
	All outstanding liabilities for unpaid losses and allocated loss adjustment expenses beginning 2014, net of reinsurance									580,968
	All outstanding liabilities for unpaid losses and allocated loss adjustment expenses prior to 2014, net of reinsurance									171,896
	Total outstanding liabilities for unpaid losses and allocated loss adjustment expenses, net of reinsurance									$ 752,864

(1) Data presented for these calendar years is required supplementary information, which is unaudited.
(2) The amounts reported for the cumulative number of reported claims include direct and assumed open and closed claims by accident year at the claimant level. The amounts do not include claim counts for business assumed through pools and associations. Claims reported are counted even if they eventually close with no loss or loss adjustment payment or if they are within a policy deductible where the insured is responsible for payment of losses in the deductible layer.

Agribusiness P&C

(In thousands)	Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance										As of December 31, 2023	
	Years Ended December 31,											
Accident Year	2014[1]	2015[1]	2016[1]	2017[1]	2018[1]	2019[1]	2020[1]	2021[1]	2022[1]	2023	Net IBNR Reserves	Cumulative Number of Reported Claims (2)
2014	$ 19,335	$ 17,924	$ 18,249	$ 19,556	$ 19,953	$ 21,105	$ 20,937	$ 20,928	$ 21,053	$ 21,488	$ 183	$ 1,651
2015		26,067	24,412	23,073	22,776	23,299	23,699	23,700	23,551	23,533	161	1,988
2016			28,019	25,422	25,008	26,470	26,081	26,156	25,954	26,044	403	2,363
2017				48,047	49,455	50,200	45,408	45,907	48,149	48,447	648	2,966
2018					42,742	39,843	39,003	36,562	35,438	35,053	1,200	2,846
2019						41,218	39,842	42,488	44,738	45,537	2,954	2,951
2020							42,327	39,451	43,809	46,398	4,975	2,369
2021								56,304	53,781	59,979	8,324	2,931
2022									61,601	57,137	13,539	2,805
2023										71,267	26,840	2,703
									Total	$ 434,883		

(In thousands)	Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance									
	Years Ended December 31,									
Accident Year	2014[1]	2015[1]	2016[1]	2017[1]	2018[1]	2019[1]	2020[1]	2021[1]	2022[1]	2023
2014	$ 9,248	$ 11,460	$ 13,482	$ 16,511	$ 18,341	$ 19,381	$ 20,445	$ 20,528	$ 20,721	$ 20,863
2015		10,170	14,734	16,966	20,030	21,975	22,037	23,226	23,310	23,371
2016			13,540	15,951	17,354	20,919	23,830	24,501	24,710	25,589
2017				19,514	33,617	37,275	38,620	40,499	44,490	46,106
2018					16,651	22,150	26,671	31,697	32,768	33,012
2019						18,586	24,354	28,549	34,935	39,337
2020							17,375	23,319	29,938	36,056
2021								22,949	31,162	37,026
2022									27,499	35,990
2023										31,866
									Total	$ 329,216
	All outstanding liabilities for unpaid losses and allocated loss adjustment expenses beginning 2014, net of reinsurance									105,667
	All outstanding liabilities for unpaid losses and allocated loss adjustment expenses prior to 2014, net of reinsurance									156
	Total outstanding liabilities for unpaid losses and allocated loss adjustment expenses, net of reinsurance									$ 105,823

(1) Data presented for these calendar years is required supplementary information, which is unaudited.
(2) The amounts reported for the cumulative number of reported claims include direct and assumed open and closed claims by accident year at the claimant level. The amounts do not include claim counts for business assumed through pools and associations. Claims reported are counted even if they eventually close with no loss or loss adjustment payment or if they are within a policy deductible where the insured is responsible for payment of losses in the deductible layer.

Workers' Compensation

	Average Annual Percentage Payout of Incurred Losses and Loss Adjustment Expenses by Age, Net of Reinsurance (unaudited)									
Years	1	2	3	4	5	6	7	8	9	10
	32.4%	29.9%	14.2%	7.7%	4.1%	2.6%	1.4%	0.9%	0.7%	0.7%

Agribusiness P&C

	Average Annual Percentage Payout of Incurred Losses and Loss Adjustment Expenses by Age, Net of Reinsurance (unaudited)									
Years	1	2	3	4	5	6	7	8	9	10
	39.3%	21.8%	11.2%	10.0%	6.1%	4.1%	2.7%	1.1%	0.8%	0.6%

The reconciliation of the net incurred and paid loss development tables to the liabilities for unpaid losses and loss adjustment expenses is as follows:

(In thousands)	December 31, 2023
Workers' compensation	$ 752,864
Agribusiness P&C	105,823
Other insurance operations	45,065
Liabilities for unpaid losses and allocated loss adjustment expenses, net of reinsurance	903,752
Liabilities for unpaid unallocated loss adjustment expenses	96,029
Liabilities for unpaid losses and loss adjustment expenses, net of reinsurance	999,781
Receivable from reinsurers for unpaid losses	45,919
Total gross liabilities for unpaid losses and loss adjustment expenses	$ 1,045,700

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

	Year Ended December 31,		
(In thousands)	2023	2022	2021
Beginning of year, net of reinsurance	$ 1,010,651	$ 1,003,800	$ 1,021,329
Incurred claims:			
Current accident year	448,083	441,262	428,014
Prior accident years	(50,666)	(43,203)	(70,827)
Total incurred claims	397,417	398,059	357,187
Payments:			
Current accident year	(147,390)	(133,316)	(129,164)
Prior accident years	(260,897)	(257,892)	(245,552)
Total payments	(408,287)	(391,208)	(374,716)
End of year, net of reinsurance	999,781	1,010,651	1,003,800
Receivable from reinsurers for unpaid losses	45,919	49,093	45,276
End of year, gross of reinsurance	$ 1,045,700	$ 1,059,744	$ 1,049,076

The net favorable development of $50.7 million in 2023 was primarily attributable to workers' compensation favorable loss development trends for accident years prior to 2012 and accident years 2021 and 2022. The net favorable development of $43.2 million in 2022 was primarily attributable to workers' compensation favorable loss development trends for accident years 2015 through 2021. The net favorable development of $70.8 million in 2021 was primarily attributable to workers' compensation favorable loss development trends for accident years 2018 through 2020.

Note 9. Long-Term Debt

As of December 31, 2023 and 2022, the outstanding principal amount and fair value of the Company's Subordinated Deferrable Interest Debentures ("long-term debt") was $38.5 million. The long-term debt is due in 2028 and bears interest at the rate of 8.55% per annum.

The semi-annual interest payments on the long-term debt may be deferred by Zenith National for up to ten consecutive semi-annual periods. This debt is redeemable by Zenith National at 100% of the principal amount plus a "make-whole premium," if any, together with accrued and unpaid interest. The make-whole premium is the excess of the sum of the present value of the principal amount at maturity and the present value of the remaining scheduled payments of interest over 100% of the principal amount. The original issue costs and discount on the long-term debt of $1.7 million are being amortized over the term of the long-term debt. In each of the years ended December 31, 2023, 2022 and 2021, interest, issue costs and discount expense were $3.3 million.

Note 10. Reinsurance

Assumed Reinsurance

The Company entered into reinsurance agreements with various subsidiaries of Allied World Assurance Company Holdings, Ltd. (collectively "Allied"), an affiliate of Fairfax and the Company, effective May 1, 2021, under which Allied cedes a portion of its global professional and medical liability business under quota share and excess of loss reinsurance contracts on a risk-attaching basis. These reinsurance agreements were renewed effective May 1, 2022 and 2023. Effective July 1, 2022, the Company entered into a risk-attaching quota share agreement under which Allied cedes a portion of its cyber business written under a program with CFC Underwriting Limited to the Company. This reinsurance agreement was renewed effective July 1, 2023. Total estimated written premium assumed by the Company for these agreements is expected to be earned over a 24-month period following the effective dates of the agreements. See Note 12.

Reinsurance Ceded - Workers' Compensation Coverage

The Company maintains excess of loss catastrophe reinsurance that provides protection for losses up to $150.0 million for losses including catastrophe losses arising out of earthquakes and acts of terrorism including nuclear, biological, chemical and radiological attacks. The Company also maintains a multi-cedant reinsurance contract for the $50.0 million in excess of $100.0 million layer, shared with other Fairfax affiliates. For the agriculture business, the Company retains the first $10.0 million of each loss arising from industrial accidents and the first $20.0 million of each loss arising out of earthquakes and acts of terrorism. For all other business classes, the Company retains the first $20.0 million of each loss.

Reinsurance Ceded - Agribusiness P&C Coverage

From January 1, 2021 through March 31, 2022, the Company maintained excess of loss per risk and catastrophe reinsurance on its Agribusiness P&C property lines of business that provided protection for losses up to $25.0 million and $20.0 million, respectively. The Company retained the first $3.5 million for each per risk loss and $5.0 million for catastrophe loss. In April 2022, the Company increased the catastrophe reinsurance coverage to $25.0 million. In April 2023, the Company increased the catastrophe reinsurance coverage and retention to $30.0 million and $6.0 million, respectively.

From January 1, 2021 through June 30, 2022, the Company participated in a quota share reinsurance agreement for the umbrella line of business. Under this quota share agreement, the Company retained 50% of the first $1.0 million and 10% in excess of $1.0 million up to $10.0 million on any one policy, any one claim or any one occurrence. On July 1, 2022, the terms of the quota share reinsurance agreement for the umbrella line of business changed and the Company retained 17.5% of the first dollar up to $10.0 million on any one policy, any one claim or any one occurrence. On July 1, 2023, the terms of the quota share reinsurance agreement for the umbrella line of business changed and the Company now retains 10.0% of the first dollar up to $5.0 million on any one policy, any one claim or any one occurrence. The Company also participates in a quota share reinsurance agreement for the equipment breakdown lines of business. Under the equipment breakdown quota share agreement, the Company cedes 100% of losses up to $100 million.

Direct and assumed premiums earned and ceded reinsurance transactions reflected in the accompanying Consolidated Statements of Comprehensive Income were as follows:

	Year Ended December 31,		
(In thousands)	2023	2022	2021
Direct premiums earned	$ 720,966	$ 719,146	$ 722,464
Assumed premiums earned (a)	47,286	32,029	9,495
Ceded premiums earned	(26,488)	(23,239)	(20,818)
Net premiums earned	$ 741,764	$ 727,936	$ 711,141
Ceded losses and loss adjustment expenses incurred	$ (8,498)	$ 9,874	$ 14,224

(a) Assumed premium earned in the years ended December 31, 2023 and 2022 include $42.3 million and $27.6 million, respectively, earned from Allied reinsurance contracts. See Note 12.

As of December 31, 2023 and 2022, amounts recoverable for paid and unpaid losses from reinsurers and their respective A.M. Best ratings were as follows:

	December 31,		A.M. Best	A.M. Best
(In thousands)	2023 (a)	2022 (a)	Rating (b)	Rating Date
General Reinsurance Company	$ 20,137	$ 21,543	A++	04/2023
Transatlantic Reinsurance Company	5,934	10,980	A++	01/2023
Hannover Rueck SE	5,383	5,453	A+	12/2023
Partner Reinsurance Company	5,302	5,292	A+	04/2023
Zenith Insurance 2019 California AG IC 1 LLC	2,401	1,626	NR	
Factory Mutual Insurance Company	1,779	812	A+	01/2023
Axis Reinsurance Company	1,703	1,126	A	09/2023
Odyssey America Reinsurance Corp	1,340	470	A+	07/2023
Renaissance Reinsurance US Inc	1,263		A+	09/2023
All others (c)	4,299	4,768		
Total	$ 49,541	$ 52,070		

(a) Under insurance regulations in California, non-California domiciled 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 $1.2 million at both December 31, 2023 and 2022.

Note 11. Stockholders' Equity and Statutory Financial Information

Dividend Restrictions

The California Insurance Holding Company System Regulatory Act limits the ability of Zenith Insurance to pay dividends to Zenith National and for Zenith Insurance to receive dividends from its insurance subsidiary by providing that the appropriate insurance regulatory authorities in the state of California must approve any dividend that, together with all other such dividends paid during the preceding twelve months, exceeds the greater of: (a) 10% of the paying company's statutory surplus as regards policyholders at the preceding December 31; or (b) 100% of the net income for the preceding year. In addition, any such dividend must be paid from policyholders' surplus attributable to accumulated earnings. Such restrictions on dividends are not cumulative. Dividend payments from Zenith Insurance to Zenith National must also be in compliance with the California Corporations Code that permit dividends to be paid only out of retained earnings and only if specified ratios between assets and liabilities and between current assets and current liabilities exist after payment.

In 2023, Zenith National paid ordinary dividends of $40.0 million ($25.0 million in cash and $15.0 million in common stock) and in 2022 and 2021, ordinary cash dividends of $64.0 million and $35.0 million, respectively, to affiliates of Fairfax and the Company.

In 2023, Zenith Insurance paid ordinary dividends of $45.0 million ($30.0 million in cash and $15.0 million in common stock) and in 2022 and 2021, ordinary cash dividends of $70.0 million and $40.0 million, respectively, to Zenith National. Zenith Insurance has the ability to pay up to $205.3 million of dividends to Zenith National without prior approval of the California Department of Insurance ("California DOI") during 2024.

In 2023, 2022 and 2021, ZNAT Insurance Company ("ZNAT"), a wholly-owned insurance subsidiary of Zenith Insurance, paid cash dividends of $2.1 million, $2.3 million and $2.4 million, respectively, to Zenith Insurance to reduce ZNAT's excess capital. ZNAT Insurance has the ability to pay up to $2.0 million to Zenith Insurance without prior approval of the California DOI during 2024.

Statutory Financial Data

The capital stock and surplus and net income of the Company's insurance subsidiaries, prepared in accordance with the statutory accounting practices of the National Association of Insurance Commissioners, were as follows:

	As of and for the Year Ended December 31,		
(In thousands)	2023	2022	2021
Capital stock and surplus	$ 734,126	$ 708,802	$ 708,097
Net income	$ 204,720	$ 89,818	$ 49,559

Statutory accounting net income/loss differs from GAAP primarily due to the timing of the recognition of changes in fair value of investment securities.

The insurance business is subject to state-by-state regulation and legislation focused on solvency, pricing, market conduct, claims practices, underwriting, accounting, investment criteria and other areas. Such regulation and legislation changes frequently. Compliance is essential and is an inherent risk and cost of the business. The Company believes it is in compliance with all material regulations.

Note 12. 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"), an affiliate of Fairfax and the Company. Investment management expenses incurred under these agreements in the years ended December 31, 2023, 2022 and 2021, were $5.2 million, $5.1 million and $5.0 million, respectively.

In July 2023, the Company sold two of its mortgage loan investments, acquired in June 2023, as part of the KW/Pacific Western Bank transaction for $19.9 million in cash to HWIC Property Fund II, a wholly-owned subsidiary of Fairfax. The proceeds represented fair value at the time of sale, which also approximated amortized cost.

In March 2022, the Company acquired 0.5 million of certain common stock warrants from Wentworth Insurance Company, an affiliate of Fairfax and the Company, for $3.3 million. The warrants had an exercise price of Cdn$15 per share and an expiration date of April 26, 2022. The Company also owned shares of the preferred stock of the same issuer as these warrants. In April 2022, Fairfax through its subsidiaries, including the Company, exercised the warrants in exchange for the common stock, and surrendered all of its preferred stock, for cancellation, to the issuer as payment.

The Company owns common stock, preferred stock, and corporate loans issued by public and private companies and invests in limited partnerships which are affiliates of Fairfax and the Company (including but not limited to investments described in the following paragraphs). Affiliated common stock investments are recorded using the equity-method of accounting, unless the fair value option is elected. The Company's share of an equity-method investee's net income (loss) and net realized gains (losses) from sales and share dilutions are recorded in net investment income (loss) and net realized gains (losses) from investments, respectively, in the Consolidated Statements of Comprehensive Income. The Company's share of an equity-method investee's other comprehensive income (loss) and any other changes in investee's equity are recorded in the change in unrealized gains/losses on investments and change in unrealized foreign currency translation adjustments, as applicable, in other comprehensive income (loss).

As of December 31, 2023 and 2022, the carrying values of the Company's affiliated investments were as follows:

	December 31,	
(In thousands)	2023	2022
Equity securities, at fair value	$ 204,272	$ 156,716
Other investments:		
Equity-method common stock	135,813	85,919
Partnerships, at fair value	5,661	7,783
Affiliate corporate loans, at fair value	7,210	8,913
Equity warrants, at fair value		1,523
Total affiliated investment assets	$ 352,956	$ 260,854
Other liabilities – indemnity liability resulting from the sale of AB to Atlas	$ (12,541)	$ (14,167)

The following table summarizes the impact from the Company's affiliated investments on various components of total comprehensive income:

	Year Ended December 31,		
(In thousands)	2023	2022	2021
Included in net income, before tax:			
Net investment income	$ 23,408	$ 9,548	$ 4,465
Net realized gains (losses) on investments	(7,744)	(6,770)	23,322
Change in net unrealized gains/losses on fair value option investments	17,275	(2,968)	7,925
Net gains (losses) on derivatives	(23)	(1,665)	3,055
Included in other comprehensive loss, before tax:			
Change in unrealized gains/losses on investments	(3,855)	(339)	382
Change in unrealized foreign currency translation adjustments	(3,923)	(3,202)	(3,374)
Included in total comprehensive income, before tax:	$ 25,138	$ (5,396)	$ 35,775

In December 2023, the Company received a $1.2 million cash distribution from Peak Achievement Athletics ("PAA"), an affiliate of Fairfax and the Company, that was recorded as a reduction to the carrying value of its equity-method investment in PAA common stock. As of December 31, 2023 and 2022, the carrying value of the company's investment in PAA was $8.6 million and $8.3 million, respectively.

In November 2023, Fairfax, through its subsidiaries, including the Company, acquired a majority of the economic interest in FF Meadow Holdings Limited ("Meadow"). Meadow is a privately held UK-based ingredients company focusing on the dairy, confectionery, and plant-based industries. Meadow became an affiliate of Fairfax and the Company simultaneous with this investment. The Company's share of this acquisition was $50.4 million, and it accounts for this affiliated common stock investment using the equity-method of accounting. As of December 31, 2023, the carrying value of the Company's investment in Meadow was $50.4 million.

In September, 2023, Fairfax, through its subsidiaries acquired additional common stock of Ovostar Union Public Company ("Ovostar"), concluded to have significant influence over Ovostar and Ovostar became an affiliate of Fairfax and the Company simultaneously with the acquisition. The Company's share of this investment was $9.8 million, and elected the fair value option of accounting for this affiliated common stock investment. As of December 31, 2023, the carrying value of the Company's fair value option affiliated common stock investment in Ovostar was $10.8 million.

In September, 2023, HWIC Asia Fund J ("HWIC J"), a wholly-owned subsidiary of Fairfax and an affiliate of the Company, paid a cash distribution of $1.8 million to the Company that was recorded as dividend income. As of

December 31, 2023 and 2022, the carrying value of the investment in HWIC J was $11.7 million and $15.6 million, respectively.

On March 31, 2023, Fairfax finalized an agreement with ONX Inc. (“ONX”) to purchase debentures, warrants and additional preferred shares resulting in an increase to Fairfax’s ownership and board representation. Thus, Fairfax concluded that it had significant influence over ONX, and ONX became an affiliate of Fairfax and the Company. The Company's share of this investment was $9.0 million in preferred stock and $0.5 million in common stock of ONX, and the Company elected the fair value option of accounting for these investments. As of December 31, 2023, the carrying values of the Company's investments in ONX common and preferred stock were $0.5 million and $9.0 million, respectively.

In March 2023, the Company purchased an additional 3.1 million common stock shares in Grivalia Hospitality S.A. ("GH"), an affiliate of Fairfax and the Company for $5.4 million. In July 2022, Fairfax through its subsidiaries, including the Company, increased its interest in GH by acquiring additional common stock shares and commenced consolidating GH in the third quarter of 2022. The Company’s share of this additional investment was $7.1 million. The Company continues to account for its investment in GH affiliated common stock using the equity-method of accounting. As of December 31, 2023 and 2022, the carrying value of the Company’s investment in GH affiliated common stock was $12.3 million and $7.1 million, respectively.

On March 28, 2023, Atlas and Poseidon Acquisition Corp. ("Poseidon") announced the completion of Poseidon’s acquisition of all outstanding common shares of Atlas not already owned by Fairfax and other Poseidon investors (“Poseidon Merger”). Poseidon is a consortium formed by Fairfax and other investors to complete the Poseidon Merger.

In January 2023, the Company exercised its Atlas common stock warrants for a cash payment of $8.5 million, in exchange for 0.7 million of Atlas common stock shares, recorded at a cost of $10.0 million. Separately, on March 9, 2023, Fairfax, including the Company, received additional Atlas common stock shares that were previously held back at the time of the closing of the sale transaction of APR Energy (known as AB, an affiliated investment of both Fairfax and the Company) to Atlas on February 28, 2020. The Company recorded its portion of Atlas common stock shares received at cost of $0.9 million, with an offset recorded in realized gain – other (effectively recognizing additional realized gain on the sale of APR Energy to Atlas). As of December 31, 2023 and 2022, the carrying value of the Company's fair value option investment in Poseidon (formerly Atlas) common stock was $55.9 million and $44.3 million, respectively. The Company also owns preferred stock issued by Atlas, with the carrying value of $9.6 million and $9.0 million as of December 31, 2023 and 2022, respectively.

In April 2021, Fairfax signed an amendment agreement in relation to the original sale of APR Energy to Atlas to potentially compensate Atlas for certain amounts and balances acquired in the transaction (“AB Indemnity”). In the years ended December 31, 2023, 2022 and 2021, the Company paid $2.3 million, $5.2 million and $3.1 million, respectively, and recorded net realized losses of $0.7 million, $7.6 million, and $14.8 million respectively, related to the AB Indemnity and additional related foreign exchange realized losses. As of December 31, 2023 and 2022, the carrying value of the Company's outstanding AB Indemnity liability was $12.5 million and $14.2 million, respectively.

In October 2022, Fairfax, through its subsidiaries including the Company, acquired all the multiple voting and subordinate voting shares of Recipe, an affiliate of Fairfax and the Company, other than those shares already owned by Fairfax and its affiliates. The Company’s share of this acquisition was Cdn$11.0 million. The transaction increased Fairfax’s equity ownership in Recipe, and Recipe was subsequently delisted from the TSX. The Company continues to account for its investment in Recipe affiliated common stock using the fair value option of accounting. As of December 31, 2023 and 2022, the carrying value of the Company’s fair value option investment in Recipe common stock was $28.0 million and $17.2 million, respectively.

In the years ended December 31, 2023 and 2022, the Company received dividend distributions from its investment in the common stock of Stelco Holdings Inc.(“Stelco”), a Canadian publicly traded company, of $5.9 million and $5.6 million, respectively, including special dividends of $4.3 million and $4.4 million in 2023 and 2022, respectively. In August 2022, Stelco repurchased its common shares resulting in an increase to Fairfax’s ownership, and thus Stelco became an affiliate of Fairfax and the Company. The Company continues to account for its investment in Stelco affiliated common stock using the fair value option of accounting. As of December 31, 2023 and 2022, the carrying value of the Company's fair value option investment in Stelco affiliated common stock was $65.3 million and $56.3 million, respectively.

In February 2022, Fairfax through its subsidiaries, including the Company, invested in a short-term note issued by Access LNG Tema SCS ("Access LNG"), a Luxembourg limited partnership and an indirect investment of Helios Fairfax Partners ("HFP"), an affiliate of Fairfax and the Company. The Company's share of this investment was $5.0 million, recorded an Affiliate Corporate Loan in Other Investments. The note bore a 14% annual interest rate and had an initial term to maturity of six months, which was extended through December 2022. In December 2022, the note (both the $5.0 million principal and accrued interest of $0.6 million) was paid in full.

In August 2021, Fairfax including the Company, sold its investment in Toys, a wholly-owned subsidiary of Fairfax and an affiliate of the Company, for purchase consideration which consisted principally of a monthly royalty on future revenue from Toys (Contingent Consideration Receivable, or "CCR"). As a result, the Company recognized a gain on the sale of equity-accounted investment in Toys common stock of $20.1 million. The consideration received by the Company included $1.1 million in cash and an $18.9 million CCR recorded in Other Investments on the Consolidated Balance Sheets. In the years ended December 31, 2023, 2022 and 2021, the Company received $2.6 million, $2.5 million and $1.9 million, respectively, in cash related to the CCR from Toys. As of December 31, 2023 and 2022, the carrying value of the CCR was $11.8 million and $15.7 million, including unrealized gains on foreign exchange.

The Company owns a fair value option investment in Transportation Recovery Fund ("TRF"), a limited partnership. Fairfax, through its subsidiaries including the Company, has been a limited partner investor in TRF since 2013. In April 2021, Fairfax began providing certain investment and other management services to TRF and therefore Fairfax concluded to have significant influence over TRF, and TRF became an affiliate of Fairfax and the Company. The Company continues to account for its investment in TRF using the fair value option, with fair value equal to NAV and no impact to the carrying value of TRF. As of December 31, 2023 and 2022, the carrying value of the Company's investment in TRF was $5.7 million and $7.8 million, respectively.

The Company owns an equity-method investment in the common stock of FE, a majority-owned subsidiary of Fairfax and an affiliate of the Company. In March 2021, FE completed its IPO, issuing 7.4 million common shares at Cdn$17.00 per share. The common stock shares began trading on the TSX under the ticker symbol: FDGE. All outstanding FE convertible debentures held by Fairfax through its subsidiaries, including the Company ("FE affiliate loans") were exchanged for 114.6 million pre-IPO common shares. All FE common shares outstanding prior to the IPO were then consolidated into fewer shares through a 7 for 1 reverse stock split. In connection with the conversion of FE's affiliate loans, the Company recorded a realized gain of $0.8 million and increased the cost basis of its investment in FE common stock by $9.3 million, representing additional shares received, at fair value equal to the IPO price. In 2021, the Company recorded dilution gains of $10.6 million, primarily as a result of the IPO transactions. In the years ended December 31, 2022 and 2021, the Company recorded other-than-temporary impairments of $1.0 million and $14.5 million, respectively, as a result of the extent and duration that the fair value of FE's common stock had been below its carrying value. As of December 31, 2023 and 2022, the carrying value of the Company's equity-method investment in FE common stock was zero and $0.3 million, respectively.

The Company owns an equity-method investment in the common stock of Boat Rocker, a majority-owned subsidiary of Fairfax and an affiliate of the Company. In March 2021, Boat Rocker completed its IPO, issuing 18.9 million common stock shares at Cdn$9.00 per share. The common stock shares began trading on the TSX under the ticker symbol: BRMI. Prior to the IPO, Boat Rocker effected a 1.6016 for 1 stock split on its common shares outstanding, resulting in an increase in shares issued and outstanding. In 2021, the Company recorded dilution gains of $16.4 million, primarily as a result of the IPO transactions. In the year ended December 31, 2023, the Company recorded other-than-temporary impairment of $10.9 million as a result of the extent and duration that the fair value of Boat Rocker's common stock had been below its carrying value. As of December 31, 2023 and 2022, the carrying value of the Company's equity-method investment in Boat Rocker common stock was $4.8 million and $16.7 million, respectively.

Other

In 2023, Zenith National paid ordinary dividends of $40.0 million ($25.0 million in cash and $15.0 million in common stock) and in 2022 and 2021, ordinary cash dividends of $64.0 million and $35.0 million, respectively, to affiliates of Fairfax and the Company.

The Company entered into reinsurance agreements with various subsidiaries of Allied, effective May 1, 2021 and July 1, 2022 (both have been renewed annually), as described in Note 10. The following table summarizes the impact from these agreements on the Consolidated Balance Sheets:

	December 31,	
(In thousands)	2023	2022
Assets:		
Premiums receivable	$ 9,082	$ 9,550
Deferred policy acquisition costs	7,156	6,666
Liabilities:		
Unpaid losses and loss adjustment expenses	41,945	19,758
Unearned premiums	19,791	18,399

The following table summarizes the impact from these agreements on Consolidated Statements of Comprehensive Income:

	December 31,		
(In thousands)	2023	2022	2021
Revenues:			
Net premium earned	$ 42,252	$ 27,642	$ 5,867
Expenses:			
Loss and loss adjustment expenses incurred	26,024	16,878	3,638
Policy acquisition costs	15,565	9,597	1,977

The Company continues to be a party to various reinsurance treaties with affiliates of Fairfax and the Company that were entered into in the ordinary course of business, primarily excess of loss reinsurance agreements with Odyssey Re for 2010 through 2022. As of December 31, 2023 and 2022, the Company recorded net receivable of $0.4 million and net payable of $0.1 million, for reinsurance, respectively, related to the reinsurance transactions with affiliates of Fairfax. In the years ended December 31, 2023, 2022 and 2021, the Company recorded $4.0 million, $3.2 million and $3.7 million of ceded premium earned net of ceded commissions, respectively.

In the years ended December 31, 2023, 2022 and 2021, Zenith National paid Fairfax $2.1 million, $9.3 million and $6.4 million, 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.

The Company is party to Master Administrative Services Agreements with various affiliates of Fairfax and the Company. Under the agreements, the affiliated parties provide and receive administration services such as accounting, underwriting, claims, reinsurance, preparation of regulatory reports and actuarial services. The Company provides claims administration services to Seneca Insurance Company, Inc. ("Seneca") and to RiverStone Group LLC and affiliates ("RiverStone"), both affiliates of Fairfax and the Company. Claims administration for RiverStone started in 2013 for certain workers' compensation claims and starting in December 2021 for another book of workers' compensation claims assumed by RiverStone. In the years ended December 31, 2023, 2022 and 2021, service fee revenue recorded in the Consolidated Statements of Comprehensive Income for RiverStone was $6.5 million, $6.2 million and $4.6 million, respectively, and for Seneca was $0.1 million in each of the years. As of December 31, 2023 and 2022, the Company recorded a net liability of $4.2 million and $5.9 million, respectively, to RiverStone comprised of a loss fund held for RiverStone claims of $4.6 million and $6.4 million, respectively, offset by a service fee receivable from RiverStone of $0.4 million and $0.5 million, respectively. As of December 31, 2023 and 2022, the loss fund held for Seneca claims was $0.4 million.

Note 13. Other Comprehensive Loss

Other Comprehensive 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 loss:

(In thousands)	Pre-Tax	Tax Expense (Benefit)	After-Tax
Year ended December 31, 2023			
Change in unrealized gains/losses on investments	$ (3,855)	$ (810)	$ (3,045)
Change in unrealized foreign currency translation adjustments	(3,923)	(824)	(3,099)
Total other comprehensive loss	$ (7,778)	$ (1,634)	$ (6,144)
Year ended December 31, 2022			
Change in unrealized gains/losses on investments	$ (339)	$ (70)	$ (269)
Change in unrealized foreign currency translation adjustments	(3,202)	(673)	(2,529)
Total other comprehensive loss	$ (3,541)	$ (743)	$ (2,798)
Year ended December 31, 2021			
Change in unrealized gains/losses on investments	$ 382	$ 79	$ 303
Net unrealized foreign currency translation adjustments arising during the year	(3,277)	(688)	(2,589)
Less: reclassification adjustment for net realized foreign exchange gains included in net income	(97)	(20)	(77)
Change in unrealized foreign currency translation adjustments	(3,374)	(708)	(2,666)
Total other comprehensive loss	$ (2,992)	$ (629)	$ (2,363)

The following table summarizes the net unrealized losses on investments and foreign currency translation adjustments recorded in accumulated other comprehensive loss:

	December 31,	
(In thousands)	2023	2022
Net unrealized loss on investments, before tax	$ (11,877)	$ (8,022)
Deferred tax benefit	(2,494)	(1,684)
Net unrealized loss on investments, after tax	(9,383)	(6,338)
Net unrealized loss on foreign currency translation adjustments, before tax	(10,898)	(6,975)
Deferred tax benefit	(2,289)	(1,465)
Net unrealized loss on foreign currency translation adjustments, after tax	(8,609)	(5,510)
Total accumulated other comprehensive loss	$ (17,992)	$ (11,848)

Note 14. Employee Benefit and Retirement Plans

The Company offers a tax deferred savings plan created under Section 401(k) of the Internal Revenue Code for all eligible employees. In the years ended December 31, 2023, 2022 and 2021, the Company matched 75% of the first 6% of compensation (subject to certain limits) that employees contributed to the plan and was not liable for any future payments under the plan. In the years ended December 31, 2023, 2022 and 2021, the Company contributed $6.0 million, $5.7 million and $5.5 million, respectively, under the plan.

In June 2010, an employee stock purchase plan was approved by Zenith National's Board of Directors providing for the purchase of up to 100,000 Fairfax Subordinate Voting Shares. In April 2020, the plan was amended and restated to provide for an additional 200,000 Fairfax Subordinate Voting Shares. The plan limits employee contributions to 10% of base salary or wages before tax for each payroll period. Under this stock purchase plan, the Company matches 30% of employee contributions and purchases Fairfax Subordinate Voting Shares at market value. If the Company achieves certain annual profitability conditions, it will provide an additional 20% match on the total contributions made during the year to employees who are employed on the date the additional match is made. In the years ended December 31, 2023, 2022 and 2021, the Company contributed $2.5 million, $2.3 million and $2.3 million, respectively, in matching contributions under the plan. The Company is not liable for any future payments under the plan.

Note 15. Commitments and Contingencies

Litigation

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.

Leases

The Company has operating leases for offices and automobiles. The automobile and office leases have remaining lease terms of 4 and 5 years, respectively, some of which include options to extend the leases for up to 5 years and some of which include options to terminate the leases within 3 years. 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.

In the years ended December 31, 2023, 2022 and 2021, lease expenses were $8.9 million, $8.7 million and $8.9 million, respectively.

Additional information related to the operating leases is provided below:

	As of and for the year ended December 31, 2023	
(In thousands)	Offices	Automobile
Cash payments included in the measurement of lease liabilities reported in operating cash flows	$ 6,515	$ 882
Weighted average discount rate	2.05%	4.01%
Weighted average remaining lease term (in years)	3.95 years	2.75 years

The following table presents the contractual maturities of the Company's lease liabilities as of December 31, 2023:

(In thousands)	Offices	Auto Fleet	Total
2024	$ 6,134	$ 1,166	$ 7,300
2025	5,791	908	6,699
2026	5,386	590	5,976
2027	4,860	96	4,956
2028	1,416		1,416
Thereafter	302		302
Total undiscounted lease payments	$ 23,889	$ 2,760	$ 26,649
Less: present value adjustment	1,032	288	1,320
Operating lease liability	$ 22,857	$ 2,472	$ 25,329

Note 16. 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
Additional authorization in 2020	300,000
Total authorized for purchases and grants	500,000
Purchased and restricted	(62,582)
Vested	(95,585)
Purchased and available for future grants	(6,944)
Available for future purchases as of December 31, 2023	334,889

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, 2020	129,870	$ 436.07	$ 56,633
Purchased in 2021	14,526	441.18	6,409
Purchased in 2022	18,290	509.21	9,313
Purchased in 2023	2,425	872.64	2,116
Total purchased since plan inception	165,111	451.03	$ 74,471

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 as of December 31, 2020	57,601	$ 463.34	$ 26,690
Granted during 2021	22,496	405.50	9,122
Forfeited during 2021	(1,224)	466.47	(571)
Vested during 2021	(8,933)	449.52	(4,016)
Restricted Shares as of December 31, 2021	69,940	446.45	31,225
Granted during 2022	11,893	494.64	5,883
Forfeited during 2022	(1,905)	448.30	(854)
Vested during 2022	(14,211)	449.96	(6,394)
Restricted Shares as of December 31, 2022	65,717	454.36	29,860
Granted during 2023	8,420	514.35	4,331
Forfeited during 2023	(1,178)	452.36	(533)
Vested during 2023	(10,377)	506.66	(5,258)
Restricted Shares as of December 31, 2023	62,582	453.79	$ 28,400

In the years ended December 31, 2023, 2022 and 2021, stock-based compensation expense before tax was $5.6 million, $7.8 million and $5.3 million, respectively.

As of December 31, 2023 and 2022, unrecognized compensation expense before tax under the Restricted Stock Plan was $12.5 million and $14.3 million, respectively.

Supplementary Consolidating Information

Report of Independent Auditors

To the Management of Zenith National Insurance Corp.

We have audited the consolidated financial statements of Zenith National Insurance Corp. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of comprehensive income, of cash flows and of stockholders' equity for each of the three years ended December 31, 2023, 2022 and 2021 including the related notes, and have issued our report thereon dated March 14, 2024, which included an unmodified opinion on those consolidated financial statements. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary consolidating balance sheet and notes to supplementary consolidating balance sheet as of December 31, 2023 (the "supplemental information") is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The consolidating information is not intended to present, and we do not express an opinion on, the financial position, results of operations and cash flows of the individual companies. The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

PricewaterhouseCoopers LLP

Los Angeles, California
March 14, 2024

ZENITH NATIONAL INSURANCE CORP. AND SUBSIDIARIES
SUPPLEMENTARY CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2023

(In thousands)	Zenith Insurance Company	ZNAT Insurance Company	1390 Main Street, LLC	Zenith Insurance Management Services, Inc.	Zenith of Nevada, Inc.	Zenith Captive Insurance Company	Zenith Insurance Company Eliminations	Note	**Zenith Insurance Company & Subsidiaries**	Zenith National Insurance Corp.	Zenith National Insurance Corp. Eliminations	Note	**Zenith National Insurance Corp. & Subsidiaries**
Assets:													
Investments	$ 1,741,456	$ 43,901							$ 1,785,357	$ 14,539			$ 1,799,896
Cash	34,322	1,488			$ 1	$ 328			36,139	2,921			39,060
Accrued investment income	11,482	311							11,793	165			11,958
Premiums receivable	63,382	1,600							64,982				64,982
Earned but unbilled premium receivable	5,114	104							5,218				5,218
Reinsurance recoverables	71,438	152,230					$ (174,127)	(2a)	49,541				49,541
Deferred policy acquisition costs	21,341	1,746							23,087				23,087
Deferred tax asset	64,838	700							65,538	349			65,887
Investment in subsidiaries	21,196						(21,196)	(2b)		811,366	$ (811,366)	(2c)	
Operating lease right-of-use assets	23,799								23,799				23,799
Goodwill	18,976								18,976	2,009			20,985
Other assets	58,354	566				(1)			58,919	106			59,025
Intercompany	1,288	(2,426)				(2)			(1,140)	1,140			
Total assets	$ 2,136,986	$ 200,220			$ 1	$ 325	$ (195,323)		$ 2,142,209	$ 832,595	$ (811,366)		$ 2,163,438
Liabilities:													
Unpaid losses and loss adjustment expenses	$ 1,045,088	$ 159,801					$ (159,189)	(2a)	$ 1,045,700				$ 1,045,700
Unearned premiums	129,080	14,938					(14,938)	(2a)	129,080				129,080
Policyholders' dividends accrued	28,568	3,280							31,848				31,848
Long-term debt										$ 38,368			38,368
Income tax payable	722	34				$ (2)			754	(50)			704
Operating lease liabilities	25,329								25,329				25,329
Derivative liabilities	2,276								2,276				2,276
Other liabilities	94,557	1,291				8			95,856	4,358			100,214
Total liabilities	1,325,620	179,344				6	(174,127)		1,330,843	42,676			1,373,519
Total stockholders' equity	811,366	20,876			$ 1	319	(21,196)	(2b)	811,366	789,919	$ (811,366)	(2c)	789,919
Total liabilities and stockholders' equity	$ 2,136,986	$ 200,220			$ 1	$ 325	$ (195,323)		$ 2,142,209	$ 832,595	$ (811,366)		$ 2,163,438

This supplementary consolidating balance sheet should be read in connection with the accompanying notes to supplementary consolidating balance sheet, the Consolidated Financial Statements and notes to the Consolidated Financial Statements.

ZENITH NATIONAL INSURANCE CORP. AND SUBSIDIARIES
NOTES TO SUPPLEMENTARY CONSOLIDATING BALANCE SHEET

1. Basis of Presentation

The accompanying supplementary Consolidating Balance Sheet has been prepared in accordance with GAAP and includes the accounts of Zenith Insurance, ZNAT, 1390 Main Street LLC, Zenith Insurance Management Services, Inc., Zenith of Nevada, Inc., Zenith Captive Insurance Company and Zenith National.

2. Consolidating Eliminations

The following eliminations are reflected in the accompanying supplementary consolidating Balance Sheet as of December 31, 2023:

(a) To eliminate intercompany reinsurance balances;

(b) To eliminate Zenith Insurance's investment in ZNAT, Zenith of Nevada, Inc. and Zenith Captive Insurance Company; and

(c) To eliminate Zenith National's investment in Zenith Insurance.