Zenith National Insurance Corp. and Subsidiaries

Consolidated Financial Statements
as of September 30, 2021 and December 31, 2020 and for the three and nine months ended September 30, 2021 and 2020
(unaudited)

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Table of Contents

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

(In thousands, except par value)	September 30, 2021	December 31, 2020
Assets:		
Investments:		
Fixed maturity securities, at fair value (amortized cost $1,033,986 in 2021 and $1,011,444 in 2020)	$ 1,034,283	$ 1,015,071
Equity securities, at fair value (cost $261,216 in 2021 and $246,217 in 2020)	312,226	222,520
Short-term investments, at fair value which approximates cost	172,004	174,756
Mortgage loans, at fair value which approximates cost	37,325	18,824
Other investments	173,964	114,433
Derivative assets, at fair value (cost $13,225 in 2021 and $22,510 in 2020)	3,960	234
Assets pledged for derivative obligations, at fair value which approximates cost		6,418
Total investments	1,733,762	1,552,256
Cash	66,460	62,838
Accrued investment income	3,579	7,105
Premiums receivable	51,147	39,479
Reinsurance recoverables	47,634	39,652
Deferred policy acquisition costs	18,056	12,756
Deferred tax asset	46,405	39,315
Income tax receivable	635	1,930
Operating lease right-of-use assets	26,878	26,085
Goodwill	20,985	20,985
Other assets	56,159	61,004
Total assets	$ 2,071,700	$ 1,863,405
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 1,067,406	$ 1,059,150
Unearned premiums	115,014	88,466
Policyholders' dividends accrued	33,823	32,807
Long-term debt	38,303	38,282
Operating lease liabilities	28,201	27,608
Derivative liabilities		3,243
Other liabilities	90,597	101,574
Total liabilities	1,373,344	1,351,130
Commitments and contingencies (see Note 10)		
Stockholders' equity:		
Common stock, $1 par value, 40 authorized shares; 39 shares issued and outstanding	39	39
Additional paid-in capital	399,502	400,264
Retained earnings	306,442	118,659
Accumulated other comprehensive loss	(7,627)	(6,687)
Total stockholders' equity	698,356	512,275
Total liabilities and stockholders' equity	$ 2,071,700	$ 1,863,405

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

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

(In thousands)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Revenues:				
Net premiums earned	$ 184,844	$ 166,901	$ 527,323	$ 471,202
Net investment income (loss)	2,090	4,449	14,730	(10,259)
Net realized gains (losses) on investments	21,027	(9,452)	45,757	21,093
Change in net unrealized gains/losses on fair value option investments	(454)	31,144	78,325	(63,686)
Net gains (losses) on derivatives	(1,877)	1,663	16,552	(32,587)
Service fee income	1,543	1,329	4,357	5,367
Total revenues	207,173	196,034	687,044	391,130
Expenses:				
Losses and loss adjustment expenses incurred	101,294	88,080	277,104	237,665
Underwriting and other operating expenses:				
Policyholder acquisition costs	35,178	32,394	100,993	94,126
Underwriting and other costs	31,196	32,789	93,147	94,123
Policyholders' dividends	4,631	4,285	14,422	13,157
Interest expense	830	830	2,490	2,490
Total expenses	173,129	158,378	488,156	441,561
Income (loss) before tax	34,044	37,656	198,888	(50,431)
Income tax expense (benefit)	6,266	8,196	40,605	(10,303)
Increase (decrease) in valuation allowance			(29,500)	25,900
Net income (loss)	$ 27,778	$ 29,460	$ 187,783	$ (66,028)
Net change in unrealized gains/losses on investments, net of tax and reclassification adjustment	(412)	(1,275)	1,309	(3,176)
Net change in unrealized foreign currency translation adjustment, net of tax and reclassification adjustment	(200)	49	(2,249)	697
Other comprehensive loss	(612)	(1,226)	(940)	(2,479)
Total comprehensive income (loss)	$ 27,166	$ 28,234	$ 186,843	$ (68,507)

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

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

	Nine Months Ended September 30,	
(In thousands)	2021	2020
Cash flows from operating activities:		
Premiums collected	$ 531,569	$ 512,779
Investment income received	26,951	17,730
Losses and loss adjustment expenses paid	(276,508)	(264,821)
Underwriting and other operating expenses paid	(207,062)	(198,849)
Interest paid	(3,292)	(3,292)
Income taxes paid	(16,651)	(11,628)
Net cash provided by operating activities	55,007	51,919
Cash flows from investing activities:		
Purchases of investments:		
Fixed maturity securities – fair value option	(889,373)	(611,222)
Equity securities – fair value option	(5,000)	(90)
Mortgage loans	(28,005)	(18,636)
Derivatives	(134)	
Other investments	(5,850)	(3,335)
Proceeds from maturities and redemptions of investments:		
Fixed maturity securities – fair value option	842,126	452,990
Proceeds from sales of investments:		
Fixed maturity securities – fair value option	12,484	79,174
Equity securities – fair value option		19,542
Mortgage loans	10,000	
Other investments	5,140	19,620
Net decrease in short-term investments	3,289	115,409
Net derivative cash settlements	9,851	(29,974)
Capital expenditures and other	(1,163)	(2,236)
Net cash provided by (used in) investing activities	(46,635)	21,242
Cash flows from financing activities:		
Purchase of Fairfax shares for restricted stock awards	(4,750)	(4,393)
Net cash used in financing activities	(4,750)	(4,393)
Net increase in cash	3,622	68,768
Cash at beginning of period	62,838	17,918
Cash at end of period	$ 66,460	$ 86,686

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

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

(In thousands)	Nine Months Ended September 30, 2021	2020
Reconciliation of net income (loss) to net cash provided by operating activities:		
Net income (loss)	$ 187,783	$ (66,028)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation expense	1,947	2,064
Net amortization	7,659	1,521
Net realized gains on investments	(45,757)	(21,093)
Change in net unrealized gains/losses on fair value option investments	(78,325)	63,686
Net losses (gains) on derivatives	(16,552)	32,587
Equity in losses/earnings of investee	1,872	27,426
Stock-based compensation expense	3,988	4,387
Decrease (increase) in:		
Accrued investment income	3,526	191
Premiums receivable	(36,992)	19,177
Reinsurance recoverables	(7,982)	(1,668)
Deferred policy acquisition costs	(5,300)	(1,442)
Net income taxes	(5,546)	3,969
Increase (decrease) in:		
Unpaid losses and loss adjustment expenses	8,256	(26,746)
Unearned premiums	26,548	9,843
Policyholders’ dividends accrued	1,016	(1,043)
Accrued expenses	4,840	6,633
Interest payable	(823)	(823)
Prepaid policy and guarantee fund assessments	4,974	(1,215)
Other	(125)	493
Net cash provided by operating activities	$ 55,007	$ 51,919

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

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

	Nine Months Ended September 30,	
(In thousands)	2021	2020
Common stock:	$ 39	$ 39
Additional paid-in capital:		
Beginning of period	400,264	399,097
Stock-based compensation expense	3,988	4,387
Purchases of Fairfax shares for restricted stock awards	(4,750)	(4,393)
End of period	399,502	399,091
Retained earnings:		
Beginning of period	118,659	162,336
Net income (loss)	187,783	(66,028)
End of period	306,442	96,308
Accumulated other comprehensive loss:		
Beginning of period	(6,687)	(4,102)
Net change in unrealized gains/losses on investments, net of tax and reclassification adjustment	1,309	(3,176)
Change in unrealized foreign currency translation adjustment, net of tax and reclassification adjustment	(2,249)	697
End of period	(7,627)	(6,581)
Total stockholders' equity	$ 698,356	$ 488,857

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

Note 1. Basis of Presentation and Accounting Policies

Basis of Presentation

Zenith National Insurance Corp. ("Zenith National") is a Delaware holding company, which is a wholly-owned indirect subsidiary of Fairfax Financial Holdings Limited ("Fairfax"). Fairfax is a Canadian financial services holding company, whose common stock is publicly traded on the Toronto Stock Exchange, and is principally engaged in property and casualty insurance, reinsurance and associated investment management. Zenith National's wholly-owned subsidiaries (primarily Zenith Insurance Company ("Zenith Insurance")), specialize in the workers' compensation insurance business, nationally and, since 2010, in the property-casualty business for California agriculture. Unless otherwise indicated, all references to the "Company" refer to Zenith National together with its subsidiaries.

The accompanying unaudited Consolidated Financial Statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (including normal, recurring adjustments) necessary for a fair presentation of the Company's financial position and results of operations for the periods presented have been included. The results of operations for an interim period are not necessarily indicative of the results for an entire year. For further information, refer to the Audited Consolidated Financial Statements and Notes thereto of the Company for the year ended December 31, 2020.

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

Adopted Accounting Standards

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

Reference Rate Reform

Effective January 1, 2021, the Company adopted the updated guidance which refines and clarifies reference rate reform guidance as part of the FASB's monitoring of global reference rate reform activities. The update permits entities to elect certain optional expedients and exceptions when accounting for derivative contracts and certain hedging relationships affected by changes in the interest rates used for discounting cash flows, for computing variation margin settlements, and for calculating price alignment interest in connection with reference rate reform activities under way in global financial markets. The adoption of this guidance did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Recent Accounting Standards Not Yet Adopted

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued new guidance which requires a financial asset (or a group of financial assets) measured at amortized cost to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value of the amount expected to be collected on the financial asset. The guidance broadens the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually; measurement of expected credit losses will be based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. Furthermore, the new guidance requires credit losses relating to available-for-sale securities to be recorded through an allowance for credit losses, and an entity will be able to record reversals of credit losses in current period net income. The guidance is effective for annual periods beginning after December 15, 2020 and interim periods thereafter. All entities may adopt this guidance as early as periods beginning after December 15, 2018. The guidance is not expected to have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

Goodwill Impairment

In January 2017, the FASB issued new guidance to simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. Under the new guidance, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value. The guidance will be effective for annual periods or any interim goodwill impairment tests beginning after December 15, 2021. Early adoption is permitted. The guidance is not expected to have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

Reclassifications

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

Subsequent Events

The Company evaluated subsequent events through the date and time that the Consolidated Financial Statements were issued on November 12, 2021.

Note 2. Investments

The cost or amortized cost and fair value of investments recorded at fair value at September 30, 2021 and December 31, 2020 were as follows:

(In thousands)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
September 30, 2021				
Fair value option investments:				
Fixed maturity securities:				
U.S. Government debt	$ 937,624	$ 124	$ (9)	$ 937,739
State and local government debt	10,224	403		10,627
Foreign government debt	64,387		(1,833)	62,554
Corporate debt	21,751	1,622	(10)	23,363
Total fixed maturity securities	1,033,986	2,149	(1,852)	1,034,283
Equity securities	261,216	73,711	(22,701)	312,226
Short-term investments	172,004			172,004
Other investments – affiliate corporate loans	9,322	593		9,915
Other investments – cost-method partnerships	36,350	8,751	(3,108)	41,993
Other investments – contingent consideration receivable	18,863	216		19,079
Mortgage loans	37,325			37,325
Total fair value option investments	**$ 1,569,066**	**$ 85,420**	**$ (27,661)**	**$ 1,626,825**
December 31, 2020				
Fair value option investments:				
Fixed maturity securities:				
U.S. Government debt (a)	$ 969,969	$ 2,509	$ (4)	$ 972,474
State and local government debt	10,353	616		10,969
Corporate debt	36,414	1,451	(944)	36,921
Total fixed maturity securities	1,016,736	4,576	(948)	1,020,364
Equity securities	246,217	13,726	(37,423)	222,520
Short-term investments (a)	175,881			175,881
Other investments – affiliate corporate loans	16,697	1,368		18,065
Other investments – cost-method partnerships	32,020	3,130	(4,995)	30,155
Mortgage loans	18,824			18,824
Total fair value option investments	**$ 1,506,375**	**$ 22,800**	**$ (43,366)**	**$ 1,485,809**

(a) Includes investments of $5.3 million in U.S. Government debt and $1.1 million in short-term investments pledged for derivative obligations at December 31, 2020.

Fixed maturity securities, including short-term investments, by contractual maturity at September 30, 2021 were as follows:

(In thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 1,101,015	$ 1,101,264
Due after one year through five years	88,160	88,277
Due after five years through ten years	13,963	13,701
Due after ten years	2,852	3,045
Total	$ 1,205,990	$ 1,206,287

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

Total investments at September 30, 2021 also include other investments detailed below and derivative contracts described in Note 3.

Other investments consist of the following:

(In thousands)	September 30, 2021	December 31, 2020
Equity-method common stock (a)	$ 102,977	$ 66,213
Cost-method partnerships, at fair value (cost $36,350 in 2021 and $32,020 in 2020) (b)	41,993	30,155
Affiliate corporate loans, at fair value (amortized cost $9,322 in 2021 and $16,697 in 2020)	9,915	18,065
Contingent consideration receivable, at fair value (cost $18,863 in 2021) (c)	19,079	
Total other investments	$ 173,964	$ 114,433

(a) Investments in common stock accounted for under the equity-method are recorded at cost, adjusted for subsequent purchases, distributions, other-than-temporary impairments, if any, and the Company's share of the changes in the investee's net asset value since the initial acquisition.

(b) Partnerships and limited liability company investments where the Company's ownership is minor and the Company does not have significant operating or financial influence are recorded at fair value.

(c) Contingent consideration receivable ("CCR") was recorded as a result of the sale of Toys "R" Us Canada ("Toys") equity-method common stock in August 2021, and represents estimated fair value of the monthly royalty on future revenue of Toys. See Note 5.

At September 30, 2021, the Company had commitments to invest an additional $13.2 million in partnerships and limited liability companies.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2021	2020	2021	2020
Sales of fixed maturity securities, including short-term investments and other (a)	$ 51	$ (987)	$ (9,291)	$ 27,253
Sale of equity securities (b)				2,808
Sale of mortgage loans	112		112	
Gains (losses) from other investments (c)	20,864	(8,465)	54,936	(8,968)
Net realized gains (losses) on investments	$ 21,027	$ (9,452)	$ 45,757	$ 21,093

(a) Net realized losses on sales of fixed maturity securities, including short-term investments and other for the nine months ended September 30, 2021 included a realized loss of $10.9 million recorded in connection with Atlas Corp.'s ("Atlas", formerly Seaspan Corporation) acquisition of Apple Bidco Limited ("AB"), both affiliates of the Company. See Note 5.

Net realized gains on sales of fixed maturity securities, including short-term investments and other in the nine months ended September 30, 2020 included $26.8 million of realized gains on sales of fair value option fixed maturity securities to affiliates of Fairfax and the Company. See Note 5.

(b) Net realized gains on sales of equity securities in the nine months ended September 30, 2020 included realized gains of $2.8 million on the sale of Eurobank Ergasias S.A. ("Eurobank") common stock to an affiliate of Fairfax and the Company. See Note 5.

(c) Net realized gains from other investments in the three and nine months ended September 30, 2021 primarily included a realized gain of $20.1 million for the sale of the Company's equity-method investment in Toys in August 2021, dilution gains on equity-method investments of $19.7 million for Boat Rocker Media Inc. ("Boat Rocker") and $10.6 million for Farmers Edge ("FE"), in connection with their respective initial public offering ("IPO") in March 2021, and a $2.5 million adjustment to previously recorded other-than-temporary-impairment losses for Astarta Holdings NV ("Astarta") recorded in the second quarter 2021. See Note 5.

Net realized losses from other investments in the nine months ended September 30, 2020 included an other-than-temporary impairment charge of $16.6 million on an equity-method common stock investment in Helios Fairfax Partners Corp ("HFP"); an other-than-temporary impairment loss of $4.0 million on an equity-method investment in Astarta; partially offset by an $8.0 million realized gain on the sale of an equity-method partnership investment in Davos Brands LLC ("Davos") and a $2.7 million dilution gain on an equity-method investment in Boat Rocker. See Note 5.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2021	2020	2021	2020
Equity-method common stock	$ (521)	$ 160	$ 1,657	$ (2,350)
Equity-method partnerships		(1,773)		(1,670)
Total before tax	$ (521)	$ (1,613)	$ 1,657	$ (4,020)
After tax	$ (412)	$ (1,275)	$ 1,309	$ (3,176)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2021	2020	2021	2020
Change in net unrealized gains/losses recognized on fair value option investments	$ (454)	$ 31,144	$ 78,325	$ (63,686)
Less: Net gains recognized on fair value option investments sold (a)	(3)	(667)	(3,710)	(40,543)
Change in net unrealized gains/losses recognized on fair value option investments still held at the reporting date	$ (451)	$ 31,811	$ 82,035	$ (23,143)

(a) Net gains recognized during the nine months ended September 30, 2020 are primarily related to the sale of municipal bonds to affiliates of Fairfax. See Note 5.

Net investment income (loss) before tax was as follows:

(In thousands)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Fixed maturity securities (a)	$ 1,370	$ 5,065	$ 6,484	$ 16,239
Equity securities (b)	1,047	477	12,118	2,097
Derivatives	(16)	729	1,474	2,027
Short-term and other investments (a)	183	425	828	1,887
Mortgage loans	561	90	1,281	90
Net income (loss) from equity-method investments (c)	858	(703)	(1,872)	(27,426)
Subtotal	4,003	6,083	20,313	(5,086)
Investment expenses	1,913	1,634	5,583	5,173
Net investment income (loss)	$ 2,090	$ 4,449	$ 14,730	$ (10,259)

(a) Income from fixed maturity securities in the three and nine months ended September 30, 2021 decreased compared to the corresponding periods of 2020, primarily due to sales and maturities of higher yielding municipal bonds and short-dated U.S. treasury bonds and notes and the reinvestment of the proceeds into lower yielding U.S. treasury bonds, high quality corporate bonds and interest-bearing cash deposits.

(b) Income from equity securities in the nine months ended September 30, 2021 includes an $8.3 million special dividend declared in June 2021 on one common stock investment.

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

(In thousands)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Fairfax India Holdings Corp.	$ 2,128	$ 488	$ 5,314	$ 3,093
Peak Achievement Athletics	653	1,234	782	905
Astarta Holdings NV			571	651
Boat Rocker Media Inc.	(1,038)	(1,191)	(4,839)	(5,055)
Helios Fairfax Partners Corp.	3	(328)	(1,811)	(9,095)
Farmers Edge Inc.	(301)	(1,178)	(1,482)	(3,967)
Toys “R” Us Canada (1)				(11,312)
Apple Bidco				(1,232)
Davos Brands LLC		(200)		(883)
Other	(587)	472	(407)	(531)
Income (loss) from equity-method investments	$ 858	$ (703)	$ (1,872)	$ (27,426)

(1) As a result of recording the Company’s share of Toys’ losses in the three months ended June 30, 2020, the Company reduced the carrying value of its investment in Toys to zero. In August 2021, the Company sold its investment in Toys and recognized a gain on the sale of $20.1 million. See Note 5.

At September 30, 2021 and December 31, 2020, investments with a fair value of $857 million and $926 million, respectively, were on deposit with regulatory authorities in compliance with insurance company regulations. At September 30, 2021, the Company had additional qualifying securities with a fair value of $293 million available for deposit.

Note 3. Derivative Contracts

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

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

	Notional		Fair Value of Derivative	
(In thousands)	Amount	Cost	Assets	Liabilities
September 30, 2021				
CPI-linked derivatives	$ 3,559,475	$ 13,091	$ 6	
Foreign exchange forwards	80,830		143	
Equity warrants (a)	8,527	134	3,811	
Total		$ 13,225	$ 3,960	
December 31, 2020				
CPI-linked derivatives	$ 4,692,978	$ 22,510	$ 234	
Long equity total return swaps	48,067			$ 1,607
Foreign exchange forwards	36,342			1,636
Total		$ 22,510	$ 234	$ 3,243

(a) Equity warrants were comprised of Atlas common stock purchase warrants. See Note 5.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2021	2020	2021	2020
Gains (losses) on settlements				
Equity derivatives:				
Equity total return swaps – long positions	$ (3,381)	$ 384	$ 11,219	$ (8,704)
CPI-linked derivatives (a)	(5,354)		(9,419)	(15,504)
Foreign exchange forwards	3,903	(726)	(1,502)	2,997
U.S. government bond forwards				(24,531)
Total	(4,832)	(342)	298	(45,742)
Change in fair value				
Equity derivatives:				
Equity total return swaps – long positions	(670)	1,416	1,607	(3,794)
Equity warrants	333		3,677	
CPI-linked derivatives (a)	5,343	(313)	9,191	15,742
Foreign exchange forwards	(2,051)	559	1,779	941
U.S. government bond forwards				659
Foreign currency options		343		(393)
Total	2,955	2,005	16,254	13,155
Net gains (losses) on derivatives				
Equity derivatives:				
Equity total return swaps – long positions	(4,051)	1,800	12,826	(12,498)
Equity warrants	333		3,677	
CPI-linked derivatives (a)	(11)	(313)	(228)	238
Foreign exchange forwards	1,852	(167)	277	3,938
U.S. government bond forwards				(23,872)
Foreign currency options		343		(393)
Total net gains (losses) on derivatives	$ (1,877)	$ 1,663	$ 16,552	$ (32,587)

(a) Two and eight CPI-linked derivative contracts with the notional amount of $0.9 billion and $2.6 billion, respectively, matured in the nine months ended September 30, 2021 and 2020, respectively, with the fair value of zero at maturity, and $9.4 million and $15.5 million, respectively, of losses previously recognized in the change in fair value component of net gains (losses) on derivatives were reclassified to gains (losses) on settlements.

Equity Derivative Contracts

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

CPI-linked Derivative Contracts

The Company has purchased derivative contracts referenced to consumer price indexes (‘‘CPI’’) in the United States and Europe to serve as an economic hedge against the potential adverse financial impact on the Company of decreasing price levels. In the event of a sale, maturity or early settlement of any of these contracts, the Company would receive the fair value of that contract on the date of the transaction. The Company’s maximum potential loss on any contract is limited to the original cost of that contract. Net unrealized gains (losses) on CPI-linked derivative contracts typically reflect the market's expectation of decreases (increases) in the values of the CPI indexes underlying these contracts at their respective maturities during the periods presented (these contracts are structured to benefit the Company during periods of decreasing CPI index values). At September 30, 2021, these contracts had a remaining weighted average life of approximately 3 years.

The following table summarizes the notional amounts and underlying CPI Index price (“strike price”) for the Company’s CPI-linked derivative contracts at initiation and the index value at September 30, 2021 and December 31, 2020:

(Notional amount in thousands)	Notional Amount: Original Currency	Notional Amount: US Dollars	Weighted Average Strike Price In Original Currency	Index Value
Underlying CPI Index:				
September 30, 2021				
United States	2,980,000	$ 2,980,000	235.47	274.31
European Union	500,000	579,475	100.63	108.06
		$ 3,559,475		
December 31, 2020				
United States	2,980,000	$ 2,980,000	235.47	260.47
European Union	1,400,000	1,712,978	100.07	104.70
		$ 4,692,978		

Foreign Exchange Forward Contracts

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

Counterparty Risk

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

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

(In thousands)	September 30, 2021	December 31, 2020
Total derivative assets (a)	$ 149	$ 234
Impact of net settlement arrangements		(157)
Fair value of collateral deposited for the benefit of the Company	(3)	(77)
Net derivative counterparty exposure after net settlement and collateral arrangements	$ 146	$

(a) Excludes equity warrants with a fair value of $3.8 million at September 30, 2021 which are not subject to counterparty risk.

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

At September 30, 2021, the counterparties pledged for the Company's benefit $0.3 million of cash, compared to $0.3 million of cash and $0.6 million of U.S. Treasury notes at December 31, 2020. The Company recorded the cash collateral as other assets in Consolidated Balance Sheets and recognized a corresponding liability. The Company does not record in the Consolidated Balance Sheets securities pledged by counterparties as collateral for derivatives in a gain position.

At December 31, 2020, the Company pledged to its counterparties securities with a fair value of $6.4 million as independent and mark-to-market collateral for CPI-linked and long equity total return swaps derivatives and recorded this amount as assets pledged for derivative obligations in the Consolidated Balance Sheets.

Offsetting of Derivative Assets/Liabilities

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

(In thousands)	Gross and net amounts reflected in the Consolidated Balance Sheets	Gross amounts not offset in the Consolidated Balance Sheets: Derivative asset (liability)	Gross amounts not offset in the Consolidated Balance Sheets: Collateral provided (held) - financial instruments (a)	Net amount of exposure
September 30, 2021				
Derivative assets:				
Citibank, N.A.	$ 3		$ (3)	
Deutsche Bank AG London (b)	3			$ 3
Bank of New York Mellon	143			143
Total derivative assets (c)	$ 149		$ (3)	$ 146
December 31, 2020				
Derivative assets:				
Citibank, N.A.	$ 157	$ (157)		
Deutsche Bank AG London	77		$ (77)	
Total derivative assets	$ 234	$ (157)	$ (77)	
Derivative liabilities:				
Citibank, N.A.	$ (372)	$ 157		$ (215)
Bank of New York Mellon (b)	(1,636)			(1,636)
Bank of America	(1,235)		$ 1,125	(110)
Total derivative liabilities	$ (3,243)	$ 157	$ 1,125	$ (1,961)

(a) Amounts of collateral pledged to the Company by the counterparties (collateral held) and pledged by the Company to the counterparties (collateral provided) reflected above are to the extent of the net counterparty exposure before collateral.

(b) Represents foreign currency contracts that are not subject to a master netting arrangement.

(c) Excludes equity warrants with a fair value of $3.8 million at September 30, 2021 which are not subject to counterparty risk.

Note 4. Fair Value Measurements

Fair values for substantially all of the Company’s financial instruments are measured using market or income approaches. Considerable judgment may be required in interpreting market data used to develop estimates of fair value. Accordingly, actual values realized in future market transactions may differ from the estimates presented in these consolidated financial statements In determining fair value, the Company primarily uses prices and other relevant information generated by market transactions involving identical or comparable assets (“market approach”). The Company also considers the impact of a significant decrease in volume and level of activity for an asset or liability when compared with normal activity to identify transactions that are not orderly.

Fair value measurements are determined under a three level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value, distinguishing between market participant assumptions developed based on market data obtained from sources independent of the reporting entity (“observable inputs”) and the reporting entity’s own assumptions about market participant assumptions developed based on the best information available in the circumstances (“unobservable inputs”). The hierarchy level assigned to each security carried at fair value is based on the Company’s assessment of the transparency and reliability of the inputs used in the valuation of each instrument at the measurement date. The highest priority is given to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Securities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company recognizes transfers between levels at the end of each reporting period in which the transfer is identified.

COVID-19 pandemic has increased market uncertainty and may adversely impact the fair value or future cash flows of the company's equity and equity-related holdings.

There were no significant changes to the valuation techniques and processes used at September 30, 2021 compared to those described in the Company’s Consolidated Financial Statements at December 31, 2020.

The three hierarchy levels are defined as follows:

Level 1— Inputs represent unadjusted quoted prices for identical instruments exchanged in active markets. The fair values of publicly traded equity securities, highly liquid cash management funds and short-term U.S. Government securities are based on published quotes in active markets.

Level 2— Inputs include directly or indirectly observable inputs (other than Level 1 inputs) such as quoted prices for similar financial instruments exchanged in active markets, quoted prices for identical or similar financial instruments exchanged in inactive markets and other market observable inputs. The fair value of the vast majority of the Company’s investments in fixed maturity securities along with most derivative contracts (including long equity total return swaps, foreign exchange forward contracts and U.S. Government bond forward contracts) are priced based on information provided by independent pricing service providers while much of the remainder are based primarily on non-binding third party broker-dealer quotes that are prepared using Level 2 inputs. Where third party broker-dealer quotes are used, typically at least one quote is obtained from a broker-dealer with particular expertise in the instrument being priced. Certain common stock investments which are measured at fair value using the net asset value per share (“NAV”) practical expedient have been excluded.

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

The following table presents the Company's investments measured at fair value on a recurring basis as of September 30, 2021 and December 31, 2020 classified by the valuation hierarchy discussed previously:

		Fair Value Measurement Using		
(In thousands)	Total	Level 1	Level 2	Level 3
September 30, 2021				
Fair value option securities:				
Fixed maturity securities:				
U.S. government debt	$ 937,739		$ 937,739	
State and local government debt	10,627		10,627	
Foreign government debt	62,554		62,554	
Corporate debt	23,363		14,575	$ 8,788
Total fixed maturity securities	1,034,283		1,025,495	8,788
Equity securities (a)	312,226	$ 233,808	19,057	22,287
Short-term investments	172,004	172,004		
Other investments - affiliate corporate loans	9,915			9,915
Other investments - cost-method partnerships (a)	41,993			
Other investments - contingent consideration receivable (b)	19,079			19,079
Mortgage loans	37,325			37,325
Total fair value option investments	$ 1,626,825	$ 405,812	$ 1,044,552	$ 97,394
Derivatives:				
Equity warrants	$ 3,811			$ 3,811
CPI-linked derivative contracts	6			6
Foreign exchange forwards	143		$ 143	
Total derivative assets	**$ 3,960**		**$ 143**	**$ 3,817**

		Fair Value Measurement Using		
(In thousands)	Total	Level 1	Level 2	Level 3
December 31, 2020				
Fair value option securities:				
Fixed maturity securities:				
U.S. government debt	$ 972,474		$ 972,474	
State and local government debt	10,969		10,969	
Corporate debt	36,921		29,947	$ 6,974
Total fixed maturity securities	1,020,364		1,013,390	6,974
Equity securities (a)	222,520	$ 157,124	7,708	17,639
Short-term investments	175,881	175,881		
Other investments – affiliate corporate loans	18,065			18,065
Other investments – cost-method partnerships (a)	30,155			
Mortgage loans	18,824			18,824
Total fair value option investments	$ 1,485,809	$ 333,005	$ 1,021,098	$ 61,502
Derivatives:				
CPI-linked derivative contracts	$ 234			$ 234
Total derivative assets	234			234
Equity total return swaps – long positions	(1,607)		$ (1,607)	
Foreign exchange forward contracts	(1,636)		(1,636)	
Total derivative liabilities	(3,243)		(3,243)	
Net derivatives	$ (3,009)		$ (3,243)	$ 234

(a) Certain common stock investments with a fair value of $37.1 million and $40.0 million at September 30, 2021 and December 31, 2020, respectively and cost-method partnership investments are measured using the NAV practical expedient and as a result have not been classified in the fair value hierarchy. The fair value amounts presented in the "Total" column are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Consolidated Balance Sheets.

(b) CCR was recorded as a result of the sale of Toys equity-method common stock in August 2021, and represents estimated fair value of the monthly royalty on future revenue of Toys, derived internally using the discounted cash flows model with unobservable inputs. See Note 5.

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

(In thousands)	Corporate Debt	Equity Securities	Derivatives	Affiliate Corporate Loans	Mortgage Loans	Contingent Consideration Receivable (a)
Balance at June 30, 2021	$ 9,405	$ 17,820	$ 3,496	$ 10,315	$ 34,281	
Purchases		5,000			12,835	$ 18,863
Sales, maturities and conversions					(10,000)	
Realized and unrealized gains/losses included in:						
Net investments income – accretion of discounts					96	
Net realized gains on investments					113	
Change in net unrealized gains/losses on fair value option investments	(617)	(533)		(400)		216
Net gains on derivatives			321			
Balance at September 30, 2021	$ 8,788	$ 22,287	$ 3,817	$ 9,915	$ 37,325	$ 19,079
Balance at December 31, 2020	$ 6,974	$ 17,639	$ 234	$ 18,065	$ 18,824	
Purchases		5,000	133	1,133	28,141	$ 18,863
Sales, maturities and conversions				(9,289)	(10,000)	
Realized and unrealized gains/losses included in:						
Net investments income – accretion of discounts					247	
Net realized gains on investments				780	113	
Change in net unrealized gains/losses on fair value option investments	1,814	(352)		(774)		216
Net gains on derivatives			3,450			
Balance at September 30, 2021	$ 8,788	$ 22,287	$ 3,817	$ 9,915	$ 37,325	$ 19,079

(In thousands)	Corporate Debt	Equity Securities	Derivatives	Affiliate Corporate Loans	Mortgage Loans
Balance at June 30, 2020	$ 5,281	$ 15,266	$ 1,222	$ 16,674	
Purchases					$ 18,636
Realized and unrealized gains/losses included in:					
Net investments income – accretion of discounts					36
Change in net unrealized gains/losses on fair value option investments	435	1,106		390	
Net losses on derivatives			(313)		
Balance at September 30, 2020	$ 5,716	$ 16,372	$ 909	$ 17,064	$ 18,672
Balance at December 31, 2019	$ 7,842	$ 17,038	$ 671	$ 16,523	
Purchases				985	$ 18,636
Realized and unrealized gains/losses included in:					
Net investments income – accretion of discounts					36
Change in net unrealized gains/losses on fair value option investments	(2,126)	(666)		(444)	
Net gains on derivatives			238		
Balance at September 30, 2020	$ 5,716	$ 16,372	$ 909	$ 17,064	$ 18,672

(a) CCR was recorded as a result of the sale of Toys equity-method common stock in August 2021, and represents estimated fair value of the monthly royalty on future revenue of Toys, derived internally using the discounted cash flows model with unobservable inputs. See Note 5.

Note 5. Related Party Transactions

Investments

Management of all of the Company's investments is centralized at Fairfax through investment management agreements entered into in 2010. The parties to these agreements are Zenith National's insurance subsidiaries, Fairfax and Hamblin Watsa Investment Counsel, Ltd. ("HWIC"), a Fairfax affiliate. Investment management expenses incurred under these agreements for the three and nine months ended September 30, 2021 were $1.3 million and $3.7 million, respectively, compared to $1.0 million and $3.3 million in the three and nine months ended September 30, 2020.

The Company owns common stock, fixed maturity securities and corporate loans issued by publicly-traded and private companies which are affiliates of Fairfax (including but not limited to investments described in the following paragraphs). Affiliated common stock investments are recorded using the equity-method of accounting, unless a fair value option is elected for such securities. The Company's share of net income/loss of the equity-method investees was recorded in net investment income. Net realized gains/losses on sales and on dilution resulting from additional shares issued or bought back by equity-method investees are recorded in net realized gains/losses on investments. The Company's share of other changes in investees' equity is recorded in net change in net unrealized gain/losses in Other Comprehensive Income (Loss). Net unrealized gains/losses on foreign currency translation adjustment related to the Company's equity-method investments are recorded in the change in unrealized foreign currency translation adjustment Other Comprehensive Income (Loss).

The aggregate value of the Company's affiliated investments at September 30, 2021 and December 31, 2020 was as follows:

(In thousands)	September 30 2021	December 31, 2020
Equity securities, at fair value	$ 100,007	$ 79,040
Fixed maturity securities, at fair value		15,049
Other invested assets:		
Equity-method common stock	102,977	66,213
Affiliate corporate loans, at fair value	9,915	18,065
Partnerships, at fair value	9,233	
Equity warrants, at fair value	3,811	
Total	$ 225,943	$ 178,367

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2021	2020	2021	2020
Included in Net Income (Loss):				
Net investment income (loss)	$ 1,671	$ 302	$ 2,096	$ (24,839)
Net realized gains (losses) on investments	20,320	(8,549)	43,925	(9,879)
Change in net unrealized gains/losses on fair value option investments	18	6,341	16,003	(10,242)
Included in Other Comprehensive Income (Loss):				
Net change in unrealized gains/losses on investments, before tax	(521)	(1,613)	1,657	(4,020)
Change in unrealized foreign currency translation adjustment, before tax	(253)	61	(2,847)	882
Total	21,235	(3,458)	60,834	(48,098)

The Company owned an equity-method investment in the common stock of Toys, a wholly-owned subsidiary of Fairfax. In the second quarter of 2020, the Company received GAAP financial statements of Toys as of December 28, 2019 (audited) and as of August 29, 2020 (unaudited). Based on this information, the Company's additional share of Toys' cumulative losses through August 29, 2020 was $20.0 million. Therefore, in the second quarter of 2020, the Company recorded equity in losses of Toys of $7.6 million that reduced the carrying value of its investment in Toys to zero. The remaining share of the Toys' losses not recognized in the Company's results as of September 30, 2020 was approximately $12.4 million. In August 2021, Fairfax sold Toys for purchase consideration which consisted principally of a monthly royalty on future revenue of Toys (Contingent Consideration Receivable, or CCR). As a result, the Company sold its investment in Toys and recognized a gain on the sale 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. As of September 30, 2021, the carrying value of the CCR was $19.1 million, which includes unrealized gain on foreign exchange.

The Company owns an equity-method investment in the common stock of Astarta, a Netherlands company that is an affiliate of Fairfax and the Company. The Company recorded other-than-temporary losses of $11.9 million in 2019 and $4.0 million in the first quarter of 2020 based on the continued decline in the fair value of this investment. In June 2021, the Company received Astarta's audited GAAP equity as of December 31, 2020 which the Company used to estimate Astarta's GAAP equity as of March 31, 2020. As a result, the Company recorded in the second quarter 2021, an adjustment of $2.5 million to previously recorded other-than-temporary losses. At September 30, 2021 and December 31, 2020, the carrying value of the Company's equity-method investment in Astarta common stock was $2.1 million and $2.2 million respectively.

On February 22, 2021, Transportation Recovery Fund ("TRF"), a limited partnership investment, where Fairfax, through its subsidiaries, including the Company, has been a limited partner investor since 2013, decided to appoint a new sub-advisor and restructure its management group and investment committee. As a result of the change in management, a Fairfax representative was expected to be appointed to both day-to-day management of the fund and a position on the investment committee. In April 2021, the Fairfax representative signed the agreement to provide services to the new sub-advisor and participate in both the management group and the investment committee of TRF. Fairfax concluded that this appointment results in significant influence over the operations of TRF, and therefore the Company now considers TRF a related party. 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; however, TRF is now considered an affiliate of the Company. The carrying value of the Company's investment in TRF was $9.2 million and $7.4 million at September 30, 2021 and December 31, 2020, respectively.

On February 27, 2020, Seaspan, an affiliate of Fairfax and the Company, completed the implementation of a holding company reorganization to create Atlas, whereby Atlas became the parent of Seaspan (the "reorganization"). Shareholders of Seaspan, including the Company, exchanged their Seaspan shares for Atlas shares with no change in ownership percentage. On February 28, 2020, Atlas acquired all the issued and outstanding shares of AB, an affiliate of Fairfax and the Company, from the Company and AB shareholders in an all-stock transaction at a deemed value of $21.1 million. Accordingly, the Company derecognized its equity-method investment in AB common stock, recorded a net pre-tax loss of $31,000 and increased the carrying value of its investment in Atlas by the fair value of the AB common stock exchanged (considered to be equal to the fair value of the newly issued Atlas common shares received of $21.1 million). The company elected to account for Atlas affiliated common stock using the fair value option. At September 30, 2021 and December 31, 2020, the carrying value of the Company's investment in Atlas common stock was $43.9 million and $31.3 million, respectively.

On April 30, 2021, Fairfax signed an amendment agreement in relation to the original sale of AB to Atlas to potentially compensate Atlas for losses on the sale of certain AB assets (if any, including property, plant and equipment and inventory) and to also reimburse certain imputed interest penalties on tax balances ("AB Indemnity"). As of September 30, 2021, the Company recorded $8.5 million for its share of the AB Indemnity liability in Other liabilities with the corresponding amount recorded as a realized loss. As part of the agreement, Atlas also issued warrants to Fairfax and the Company with an exercise price of $13, expiring on April 30, 2026, including an option for Atlas to require Fairfax and the Company to exercise these warrants after the fouth year if Atlas' stock price at that time equals or exceeds $26 per share ("Atlas No Cost Warrants"). The Company received 620,774 shares of these warrants, at zero cost. The fair value of the Atlas No Cost Warrants was $3.6 million as of September 30, 2021.

Prior to the Seaspan reorganization, the Company owned $5.0 million par value of 5.50% unsecured debentures issued by Seaspan Corporation, an operating subsidiary of Atlas, due February 14, 2025. Concurrently with the reorganization, the Company invested $10.0 million in 5.50% unsecured debentures issued by Seaspan Corporation due March 1, 2027 (collectively, Seaspan Bonds). In June 2021, Fairfax entered into an exchange and amendment transaction with Atlas in relation to its investment in Seaspan Bonds, whereby Fairfax and the Company exchanged principal amount of the Seaspan Bonds due in 2026 and 2027 for newly-issued Atlas Series J 7.00% Cumulative Redeemable Perpetual Preferred Stock shares ("Atlas Preferred Stock") and equity warrants with an exercise price of $13.71 per share ("Atlas Warrants"). In addition, certain terms of the Seaspan Bonds due in 2025 were amended. As part of these transactions, the Company exchanged $10.0 million par value of its Seaspan Bonds due in 2027, with a fair value of $10.1 million, for 0.4 million shares of Atlas Preferred Stock (cost basis of $10.0 million) and 33,000 shares of Atlas Warrants (cost basis of $0.1 million) and recorded a realized gain of $0.1 million on the conversion. In August 2021, Atlas redeemed all of its remaining Seaspan Bonds due in 2025 and 2026 held by Fairfax and affiliates for cash at original principal plus accrued interest. The Company redeemed its remaining $5.0 million par value Seaspan Bonds due in 2025 and recorded a $0.3 million realized gain on redemption. As of September 30, 2021, the fair value of the Company's investments in Atlas Preferred Stock and Atlas Warrants was $10.0 million and $0.2 million, respectively.

In March 2021, FE, a majority-owned subsidiary of Fairfax, completed an IPO, issuing 7.4 million common stock shares at $17.00 CAD per share. The common stock shares began trading on the Toronto Stock Exchange ("TSX") under the ticker symbol FDGE. All outstanding FE convertible debentures held by Fairfax through its subsidiaries, including the Company ("FE affiliate loans"), which included original principal and accrued interest, were converted to 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 the cost basis of its investment in FE common stock increased by $9.3 million, which represented additional shares received, at a fair value equal to the IPO price. In the second quarter of 2021, upon receipt of FE's financial statements as of March 31, 2021, the Company recorded a dilution gain of $10.4 million as a result of the IPO stock issuance and debt conversion transactions. At September 30, 2021 and December 31, 2020, the carrying value of the Company's equity-method investment in FE common stock was $18.8 million and $0.8 million, respectively.

In November 2020, Boat Rocker, a majority-owned subsidiary of Fairfax, issued additional common stock shares in exchange for a payable from original shareholders. This transaction was initiated for tax reasons at the Boat Rocker level. In connection with this transaction, in December 2020 the Company recorded additional investment in Boat Rocker of $1.1 million, with a corresponding payable for securities as of December 31, 2020. In the first quarter of 2021, the payable for securities balance was settled when Boat Rocker distributed a dividend to the Company in the amount equal to the additional investment made in November 2020 of $1.1 million, paying in kind via additional common stock shares of Boat Rocker that were already received in November 2020. In March 2021, Boat Rocker completed its IPO, issuing 18.9 million common stock shares at $9.00 CAD 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 the second quarter of 2021, upon receipt of Boat Rocker's financial statements as of March 31, 2021, the Company recorded a dilution gain of $18.7 million as a result of the IPO equity transactions. At September 30, 2021 and December 31, 2020, the carrying value of the Company's equity-method investment in Boat Rocker common stock was $22.2 million and $7.2 million, respectively.

The Company owned an equity-method investment in the common stock of Fairfax Africa Holdings Corp. ("FAH"), a majority-owned subsidiary of Fairfax and an affiliate of the Company. As of September 30, 2020, the fair value of this investment had been significantly below its carrying value for an extended period of time. Therefore, due to the extent and duration of the impairment, the Company recorded an other-than-temporary impairment realized loss on its investment in FAH of $16.6 million in the third quarter of 2020. On December 8, 2020, FAH completed its transaction with Helios Holdings Limited ("Helios"), pursuant to which Helios contributed certain fee streams to FAH in exchange for a 45.9% equity and voting interest in the share capital of FAH upon closing. FAH was renamed Helios Fairfax Partners Corp. ("HFP"). HFP common stock is publicly traded on the Toronto stock exchange; and the Company continues to record its investment in HFP using the equity method of accounting. The carrying value of HFP was $12.7 million and $13.7 million at September 30, 2021 and December 31, 2020, respectively.

The Company owned an equity-method investment in Davos, an affiliate of Fairfax and the Company. On September 30, 2020, the Company, along with the affiliates of Fairfax, sold its investment in Davos for cash proceeds of $17.6 million and recorded a net realized gain of $8.0 million. The Company and other former shareholders of Davos are eligible to receive additional consideration contingent on the brand performance over the next ten years of Aviation American Gin, which is majority owned by Davos. During 2021, the Company recorded $1.1 million realized gains as a result of additional consideration received from the sale of Davos.

The Company owns a fair value option investment in the common stock of Recipe Unlimited Corp. ("Recipe"), a majority-owned subsidiary of Fairfax. On March 30, 2020, the Company exchanged its investment in subordinate voting shares of Recipe for the same number of multiple voting shares of Recipe at the same price with RiverStone Insurance (UK) Limited and TIG Insurance (Barbados) Limited, both affiliates of Fairfax and the Company. The Company did not recognize any realized gain or loss on this exchange transaction. At September 30, 2021 and December 31, 2020, the carrying value of the Company's fair value option investment in Recipe common stock was $9.1 million and $7.7 million, respectively.

In March 2020, the Company sold a portion of its investment in certain municipal bonds, at fair value, to various subsidiaries of Allied World Assurance Company Holdings, Ltd. (collectively "Allied"), an affiliate of Fairfax and the Company, and received $21.6 million in U.S. treasury notes and $13.2 million in cash, and recognized realized gains of $12.1 million on these transactions. In April 2020, the Company sold the remaining portion of its investment in these municipal bonds, at fair value, to various subsidiaries of Allied for $31.3 million in cash and $17.1 million in commercial paper and recognized realized gains of $14.7 million on these transactions.

In January 2020, the Company sold its investment in Eurobank to Odyssey Group Holdings, Inc., an affiliate of Fairfax and the Company, and recognized realized gain of $2.8 million on this transaction.

Other

The Company continues to be a party to various reinsurance treaties with affiliates of Fairfax that were entered into in the ordinary course of business, primarily excess of loss reinsurance agreements with Odyssey Re for 2010 through 2021. At September 30, 2021 and December 31, 2020, the Company recorded a net reinsurance recoverable of $21,000 and $0.1 million, respectively, related to the reinsurance transactions with the affiliates of Fairfax.

Zenith National paid Fairfax $4.8 million and $4.4 million in the nine months ended September 30, 2021 and 2020, 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 under which the affiliated parties provide and receive administration services such as accounting, underwriting, claims, reinsurance, preparation of regulatory reports, and actuarial services. Under these agreements, the Company provides claims administrative services to TIG Insurance Company ("TIG") and the Seneca Insurance Company, Inc. ("Seneca"), both affiliates of Fairfax and the Company. Service fee income recorded in the Consolidated Statements of Comprehensive Income (Loss) in the three and nine months ended September 30, 2021 and 2020 for TIG was $1.3 million and $3.6 million and $1.2 million and $5.0 million, respectively, and for Seneca was $40,000 and $119,000; and $65,000 and $232,000, respectively. As of September 30, 2021 and December 31, 2020, the Company recorded a net liability of $3.5 million and $1.8 million, respectively, to TIG comprised of a loss fund held for TIG claims of $3.9 million and $2.7 million, respectively, offset by a service fee receivable from TIG of $0.5 million and $0.9 million, respectively. The loss fund held for Seneca claims was $0.4 million at September 30, 2021 and December 31, 2020.

The Company entered into reinsurance agreements with various subsidiaries of Allied, effective May 1, 2021, under which Allied ceded to the Company a portion of its global professional and medical liability business under quota share and excess of loss reinsurance contracts on a risk-attaching basis. Total estimated written premium assumed by the Company is expected to be approximately $22 million, earned over the 24 months following the effective date of the agreement. The net impact on the Company's financial results in the three and nine months ended September 30, 2021 from this arrangement was $36,000 on net premiums earned of $2.3 million.

Note 6. Reinsurance Recoverable

Amounts recoverable for paid and unpaid losses from reinsurers at September 30, 2021 and December 31, 2020 and their respective A.M. Best ratings were as follows:

(In thousands)		September 30, 2021 (a)		December 31, 2020 (a)	A.M. Best Rating (b)	A.M. Best Rating Date
General Reinsurance Corp.	$	24,423	$	33,016	A++	03/2021
Transatlantic Reinsurance Company		8,767			A+	10/2020
Partner Reinsurance Compay of the US		3,188			A+	05/2021
Hannover Ruck SE		3,005			A+	12/2020
Zenith Insurance 2019 AG		1,912			NR	
Factory Mutual Insurance Company		1,299			A+	01/2021
All others (c)		5,040		6,636		
Total	$	47,634	$	39,652		

(a) Under insurance regulations in California, reinsurers placed securities on deposit equal to the California component of the Company's ceded workers' compensation loss reserves.

(b) A.M. Best, in assigning ratings, is primarily concerned with the ability of insurance and reinsurance companies to pay the claims of policyholders. In the A.M. Best ratings scheme, ratings of B+ to A++ are considered "Secure" and ratings of B and below are considered "Vulnerable." NR means A.M. Best does not rate the reinsurer.

(c) No individual reinsurer in excess of $1.2 million at September 30, 2021 and December 31, 2020.

2021 Reinsurance Ceded Workers' Compensation Coverage

The Company maintains excess of loss catastrophe reinsurance that provides protection for losses up to $150 million for losses including catastrophe losses arising out of earthquakes and acts of terrorism including nuclear, biological and chemical attacks. For the agriculture business, the Company retains the first $10 million of each loss arising from industrial accidents and the first $20 million of each loss arising out of earthquakes and acts of terrorism. For all other business classes, the Company retains the first $20 million of each loss.

2020 Reinsurance Ceded Workers' Compensation Coverage

For January 1, 2020 through April 14, 2020 loss occurrences, the Company maintains excess of loss catastrophe reinsurance that provides protection up to $150 million for losses including catastrophe losses arising out of earthquakes and acts of terrorism including nuclear, biological and chemical attacks. For the agriculture business, the Company retains the first $10 million and the layer from $20 million to $50 million of each loss arising from industrial accidents and the first $50 million of each loss arising out of earthquakes and acts of terrorism. For all other business classes, the Company retains the first $50 million of each loss.

For April 15, 2020 through December 31, 2020 loss occurrences, the Company maintains excess of loss catastrophe reinsurance that provides protection for losses up to $150 million for losses including catastrophe losses arising out of earthquakes and acts of terrorism including nuclear, biological and chemical attacks. For the agriculture business, the Company retains the first $10 million of each loss arising from industrial accidents and the first $20 million of each loss arising out of earthquakes and acts of terrorism. For all other business classes, the Company retains the first $20 million of each loss.

Note 7. Unpaid Losses and Loss Adjustment Expenses

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

(In thousands)	September 30, 2021	September 30, 2020
Beginning of period, net of reinsurance	$ 1,021,329	$ 1,046,248
Incurred claims:		
Current accident year	323,266	300,068
Prior accident years	(46,162)	(62,403)
Total incurred claims	277,104	237,665
Payments:		
Current accident year	(79,708)	(69,887)
Prior accident years	(195,613)	(195,262)
Total payments	(275,321)	(265,149)
End of period, net of reinsurance	1,023,112	1,018,764
Receivable from reinsurers for unpaid losses	44,294	40,355
End of period, gross of reinsurance	$ 1,067,406	$ 1,059,119

Note 8. Other Comprehensive Income (Loss)

Other comprehensive income (loss) is comprised of changes in unrealized gains/losses on investments and foreign currency translation adjustments. The following table summarizes the components of the Company's other comprehensive income (loss):

(In thousands)		Pre-Tax		Income Tax Effect		After-Tax
Three Months Ended September 30, 2021						
Change in unrealized gains/losses on investments	$	(521)	$	(109)	$	(412)
Net unrealized foreign currency translation adjustment		(156)		(33)		(123)
Less: reclassification adjustment for net realized foreign exchange gains included in net income		(97)		(20)		(77)
Change in unrealized foreign currency translation adjustment		(253)		(53)		(200)
Total other comprehensive loss	$	(774)	$	(162)	$	(612)
Nine Months Ended September 30, 2021						
Change in unrealized gains/losses on investments	$	1,657	$	348	$	1,309
Net unrealized foreign currency translation adjustment		(2,750)		(578)		(2,172)
Less: reclassification adjustment for net realized foreign exchange gains included in net income		(97)		(20)		(77)
Change in unrealized foreign currency translation adjustment		(2,847)		(598)		(2,249)
Total other comprehensive loss	$	(1,190)	$	(250)	$	(940)
Three Months Ended September 30, 2020						
Net unrealized gains arising during the period	$	57	$	12	$	45
Less: reclassification adjustment for net realized gains included in net income		(1,670)		(350)		(1,320)
Net change in unrealized gains/losses on investments		(1,613)		(338)		(1,275)
Change in unrealized foreign currency translation adjustment		62		13		49
Total other comprehensive loss	$	(1,551)	$	(325)	$	(1,226)
Nine Months Ended September 30, 2020						
Net unrealized gains arising during the period	$	(2,350)	$	(494)	$	(1,856)
Less: reclassification adjustment for net realized gains included in net income		(1,670)		(350)		(1,320)
Net change in unrealized gains/losses on investments		(4,020)		(844)		(3,176)
Change in unrealized foreign currency translation adjustment		883		186		697
Total other comprehensive loss	$	(3,137)	$	(658)	$	(2,479)

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

(In thousands)		September 30, 2021		December 31, 2020
Equity-method common stock	$	(6,408)	$	(8,065)
Deferred tax benefit		(1,345)		(1,693)
Net unrealized loss on investments, after tax		(5,063)		(6,372)
Net unrealized loss on foreign currency translation adjustment, before tax		(3,246)		(399)
Deferred tax benefit		(682)		(84)
Net unrealized loss on foreign currency translation adjustment, after tax		(2,564)		(315)
Total accumulated other comprehensive loss	$	(7,627)	$	(6,687)

Note 9. Stock-Based Compensation

The following table provides information regarding the Fairfax Subordinate Voting Shares under the Restricted Stock Plan:

	Number of Shares
Authorized for purchases and grants at plan inception in 2010	200,000
Additional authorization in 2020	300,000
Total authorized for purchases and grants	500,000
Purchased and restricted	(65,134)
Vested	(70,997)
Purchased and available for future grants	(4,893)
Available for future purchases at September 30, 2021	358,976

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, 2018	106,825	$ 441.17	$ 47,128
Purchased in 2019	11,527	443.41	5,111
Purchased in 2020	11,518	381.37	4,393
Purchased in 2021	11,154	425.85	4,750
Total purchased since plan inception	141,024	435.26	$ 61,382

Changes in the restricted shares outstanding were as follows:

(Dollars in thousands, except share data)	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Grant Date Fair Value
Restricted Shares at December 31, 2018	56,243	$ 472.13	$ 26,554
Granted during 2019	12,426	473.36	5,882
Forfeited during 2019	(1,080)	469.56	(507)
Vested during 2019	(6,156)	412.44	(2,539)
Restricted Shares at December 31, 2019	61,433	478.40	29,390
Granted during 2020	12,844	440.82	5,662
Forferited during 2020	(200)	465.67	(93)
Vested during 2020	(16,476)	501.91	(8,269)
Restricted Shares at December 31, 2020	57,601	463.34	26,690
Granted during 2021	17,690	396.59	7,015
Forfeited during 2021	(1,224)	466.47	(571)
Vested during 2021	(8,933)	449.52	(4,016)
Restricted Shares at September 30, 2021	65,134	$ 447.05	$ 29,118

Stock-based compensation expense before tax was $1.3 million and $4.0 million for the three and nine months ended September 30, 2021, respectively, compared to $1.2 million and $4.4 million in the corresponding periods of 2020.

Unrecognized compensation expense before tax under the Restricted Stock Plan was $16.3 million and $15.1 million at September 30, 2021 and December 31, 2020, respectively.

Note 10. Commitments and Contingencies

The Company is involved in various litigation proceedings that arise in the ordinary course of business. Disputes adjudicated in the workers' compensation administrative systems may be appealed to review boards or civil courts, depending on the issues and local jurisdictions involved. From time to time, plaintiffs also sue the Company on theories falling outside of the exclusive jurisdiction and remedies of the workers' compensation claims adjudication systems. Certain of these legal proceedings seek injunctive relief or substantial monetary damages, including claims for punitive damages, which may not be covered by reinsurance agreements. Historically, the Company has not experienced any material exposure or damages from any of these legal proceedings. In addition, in the opinion of management, after consultation with legal counsel, currently outstanding litigation is either without merit or the ultimate liability, if any, is not expected to have a material adverse effect on the Company's consolidated financial condition, results of operations or cash flows.

Note 11. Leases

The majority of the Company's property or office leases include an option to extend or renew the lease term. The exercise of the renewal option is at the Company's discretion. The operating lease liability includes lease payments related to options to extend or renew the lease term if the Company is reasonably certain of exercising those options. The Company utilizes a risk-free interest rate for periods comparable to the term of the underlying lease to determine the present value of lease payments.

Lease expense was $2.1 million and $6.7 million in the three and nine months ended September 30, 2021, respectively, compared to $2.3 million and $6.9 million in the three and nine months ended September 30, 2020, respectively.

Additional information related to the operating leases is provided below:

	As of and for the Nine Months Ended September 30, 2021	
(In thousands)	Offices	Automobile
Cash payments included in the measurement of lease liabilities reported in operating cash flows	$ 5,252	$ 673
Weighted average discount rate	1.43%	0.76%
Weighted average remaining lease term (in years)	5.32	1.80

The following table presents the contractual maturities of the Company's lease liabilities as of September 30, 2021:

(In thousands)	Offices	Auto Fleet	Total
Remainder of 2021	$ 1,721	$ 186	$ 1,907
2022	5,613	627	6,240
2023	5,099	261	5,360
2024	4,560	43	4,603
2025	4,031		4,031
Thereafter	6,793		6,793
Total undiscounted lease payments	$ 27,817	$ 1,117	$ 28,934
Less: present value adjustment	718	15	733
Operating lease liability	$ 27,099	$ 1,102	$ 28,201