Zenith National Insurance Corp. and Subsidiaries

Consolidated Financial Statements
as of June 30, 2021 and December 31, 2020 and for the six months ended June 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)		June 30, 2021		December 31, 2020
Assets:				
Investments:				
Fixed maturity securities, at fair value (amortized cost $1,051,187 in 2021 and $1,011,444 in 2020)	$	1,052,915	$	1,015,071
Equity securities, at fair value (cost $256,216 in 2021 and $246,217 in 2020)		308,757		222,520
Short-term investments, at fair value which approximates cost		97,586		174,756
Mortgage loans, at fair value which approximates cost		34,281		18,824
Other investments		151,182		114,433
Derivative assets, at fair value (cost $18,580 in 2021 and $22,510 in 2020)		7,056		234
Assets pledged for derivative obligations, at fair value which approximates cost		2,955		6,418
Total investments		1,654,732		1,552,256
Cash		107,557		62,838
Accrued investment income		12,639		7,105
Premiums receivable		45,616		39,479
Reinsurance recoverables		38,601		39,652
Deferred policy acquisition costs		15,976		12,756
Deferred tax asset		48,084		39,315
Income tax receivable				1,930
Operating lease right-of-use assets		29,858		26,085
Goodwill		20,985		20,985
Other assets		58,087		61,004
Total assets	$	2,032,135	$	1,863,405
Liabilities:				
Unpaid losses and loss adjustment expenses	$	1,051,711	$	1,059,150
Unearned premiums		109,293		88,466
Policyholders' dividends accrued		33,350		32,807
Long-term debt		38,296		38,282
Income tax payable		174		
Operating lease liabilities		31,296		27,608
Derivative liabilities		696		3,243
Other liabilities		93,553		101,574
Total liabilities		1,358,369		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		402,078		400,264
Retained earnings		278,664		118,659
Accumulated other comprehensive loss		(7,015)		(6,687)
Total stockholders' equity		673,766		512,275
Total liabilities and stockholders' equity	$	2,032,135	$	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)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2021	2020	2021	2020
Revenues:				
Net premiums earned	$ 170,824	$ 140,553	$ 342,479	$ 304,301
Net investment income (loss)	12,971	(17,327)	12,640	(14,708)
Net realized gains on investments	22,777	14,614	24,730	30,545
Change in net unrealized gains/losses on fair value option investments	22,887	(4,820)	78,779	(94,830)
Net gains (losses) on derivatives	3,100	(2,004)	18,429	(34,250)
Service fee income	1,369	1,964	2,814	4,038
Total revenues	233,928	132,980	479,871	195,096
Expenses:				
Losses and loss adjustment expenses incurred	92,165	71,787	175,810	149,585
Underwriting and other operating expenses:				
Policyholder acquisition costs	33,263	29,010	65,815	61,732
Underwriting and other costs	30,339	30,048	61,951	61,334
Policyholders’ dividends	4,438	4,382	9,791	8,872
Interest expense	830	830	1,660	1,660
Total expenses	161,035	136,057	315,027	283,183
Income (loss) before tax	72,893	(3,077)	164,844	(88,087)
Income tax expense (benefit)	15,259	(691)	34,339	(18,499)
Increase (decrease) in valuation allowance	(17,500)		(29,500)	25,900
Net income (loss)	$ 75,134	$ (2,386)	$ 160,005	$ (95,488)
Net change in unrealized gains/losses on investments, net of tax	1,094	(1,554)	1,721	(1,901)
Net change in unrealized foreign currency translation adjustment, net of tax	(1,989)	690	(2,049)	648
Other comprehensive loss	(895)	(864)	(328)	(1,253)
Total comprehensive income (loss)	$ 74,239	$ (3,250)	$ 159,677	$ (96,741)

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

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

	Six Months Ended June 30,	
(In thousands)	2021	2020
Cash flows from operating activities:		
Premiums collected	$ 345,967	$ 342,900
Investment income received	13,858	11,300
Losses and loss adjustment expenses paid	(180,265)	(182,745)
Underwriting and other operating expenses paid	(138,450)	(136,571)
Interest paid	(1,646)	(1,646)
Income taxes received (paid)	(11,417)	2,267
Net cash provided by operating activities	28,047	35,505
Cash flows from investing activities:		
Purchases of investments:		
Fixed maturity securities – fair value option	(869,813)	(480,134)
Equity securities – fair value option		(90)
Mortgage loans	(15,306)	
Other investments	(3,853)	(2,655)
Proceeds from maturities and redemptions of investments:		
Fixed maturity securities – fair value option	814,191	336,650
Proceeds from sales of investments:		
Fixed maturity securities – fair value option	4,926	78,415
Equity securities – fair value option		19,542
Other investments	2,469	1,687
Net decrease in short-term investments	76,466	114,285
Net derivative cash settlements	9,196	(29,632)
Capital expenditures and other	(716)	(1,634)
Net cash provided by investing activities	17,560	36,434
Cash flows from financing activities:		
Purchase of Fairfax shares for restricted stock awards	(888)	(4,393)
Net cash used in financing activities	(888)	(4,393)
Net increase in cash	44,719	67,546
Cash at beginning of period	62,838	17,918
Cash at end of period	**$ 107,557**	**$ 85,464**

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

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

	Six Months Ended June 30,	
(In thousands)	2021	2020
Reconciliation of net income (loss) to net cash provided by operating activities:		
Net income (loss)	$ 160,005	$ (95,488)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation expense	1,313	1,356
Net amortization	4,986	315
Net realized gains on investments	(24,730)	(30,545)
Change in net unrealized gains/losses on fair value option investments	(78,779)	94,830
Net losses (gains) on derivatives	(18,429)	34,250
Equity in losses/earnings of investee	2,730	26,723
Stock-based compensation expense	2,702	3,214
Decrease (increase) in:		
Accrued investment income	(5,534)	233
Premiums receivable	(27,748)	17,666
Reinsurance recoverables	1,051	1,252
Deferred policy acquisition costs	(3,220)	(1,793)
Net income taxes	(6,580)	9,666
Increase (decrease) in:		
Unpaid losses and loss adjustment expenses	(7,439)	(35,756)
Unearned premiums	20,827	12,734
Policyholders’ dividends accrued	543	(1,382)
Accrued expenses	4,127	1,416
Other	2,222	(3,186)
Net cash provided by operating activities	$ 28,047	$ 35,505

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

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

	Six Months Ended June 30,	
(In thousands)	2021	2020
Common stock:	$ 39	$ 39
Additional paid-in capital:		
Beginning of period	400,264	399,097
Stock-based compensation expense	2,702	3,214
Purchases of Fairfax shares for restricted stock awards	(888)	(4,393)
End of period	402,078	397,918
Retained earnings:		
Beginning of period	118,659	162,336
Net income (loss)	160,005	(95,488)
End of period	278,664	66,848
Accumulated other comprehensive loss:		
Beginning of period	(6,687)	(4,102)
Net change in unrealized gains/losses on investments, net of tax	1,721	(1,901)
Change in unrealized foreign currency translation adjustment, net of tax	(2,049)	648
End of period	(7,015)	(5,355)
Total stockholders' equity	$ 673,766	$ 459,450

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.

Subsequent Events

The Company evaluated subsequent events through the date and time that the Consolidated Financial Statements were issued on August 5, 2021.

Note 2. Investments

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

(In thousands)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
June 30, 2021				
Fair value option investments:				
Fixed maturity securities:				
U.S. Government debt (a)	$ 967,436	$ 53	$ (73)	$ 967,416
State and local government debt	10,267	480		10,747
Foreign government debt	49,376	(1)	(1,358)	48,017
Corporate debt	27,062	2,628		29,690
Total fixed maturity securities	1,054,141	3,160	(1,431)	1,055,870
Equity securities	256,216	72,100	(19,559)	308,757
Short-term investments	97,586			97,586
Other investments – affiliate corporate loans	9,322	993		10,315
Other investments – cost-method partnerships	35,147	6,811	(3,861)	38,097
Mortgage loans	34,281			34,281
Total fair value option investments	**$ 1,486,693**	**$ 83,064**	**$ (24,851)**	**$ 1,544,906**
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 (b)	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 $3.0 million and $5.3 million pledged for derivative obligations at June 30, 2021 and December 31, 2020, respectively.
(b) Includes investments of $1.1 million pledged for derivative obligations at December 31, 2020.

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

(In thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 820,168	$ 820,229
Due after one year through five years	314,728	316,423
Due after five years through ten years	14,033	13,653
Due after ten years	2,798	3,151
Total	$ 1,151,727	$ 1,153,456

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

Other investments consist of the following:

(In thousands)	June 30, 2021	December 31, 2020
Equity-method common stock (a)	$ 102,770	$ 66,213
Cost-method partnerships, at fair value (cost $35,147 in 2021 and $32,020 in 2020) (b)	38,097	30,155
Affiliate corporate loans, at fair value (amortized cost $9,322 in 2021 and $16,697 in 2020)	10,315	18,065
Total other investments	$ 151,182	$ 114,433

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

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

At June 30, 2021, the Company had commitments to invest an additional $15.1 million in partnerships and limited liability companies.

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

(In thousands)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Sales of fixed maturity securities, including short-term investments and other (a)	$ (8,890)	$ 15,934	$ (8,562)	$ 28,240
Sale of equity securities (b)				2,808
Gains (losses) from other investments (c)	31,667	(1,320)	33,292	(503)
Net realized gains on investments	$ 22,777	$ 14,614	$ 24,730	$ 30,545

(a) Net realized losses on sales of fixed maturity securities, including short-term investments and other for the three and six months ended June 30, 2021 included a realized loss of $9.6 million recorded in connection with Atlas Corp.'s ("Atlas") acquisition of Apple Bidco Limited ("AB"), both affiliates of the Company; partially offset by a realized gain of $0.8 million related to the conversion of Farmer's Edge ("FE") affiliate loans into FE common stock as part of its initial public offering ("IPO") and a realized gain of $0.1 million on the conversion of Seaspan Corporation ("Seaspan") 5.50% unsecured debentures due March 1, 2027 into Atlas preferred stock. See Note 5.

Net realized gains on sales of fixed maturity securities, including short-term investments and other for the three and six months ended June 30, 2020 include $14.7 million and $26.8 million, respectively, of gross realized gains on sales of fair value option fixed maturity securities to affiliates of Fairfax and the Company. See Note 5.

(b) Net realized gains on sales of equity securities for the six months ended June 30, 2020 include 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 six months ended June 30, 2021 primarily include dilution gains on equity-method investments of $18.7 million and $19.7 million, respectively, for Boat Rocker Media Inc. ("Boat Rocker") and $10.4 million and $10.6 million, respectively, for FE, in connection with their respective IPO, a $2.5 million adjustment to previously recorded other-than-temporary-impairment losses for Astarta Holdings NV ("Astarta"), partially offset by a dilution loss of $0.6 million on the equity-method investment for Helios Fairfax Partners Corp. See Note 5.

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

(In thousands)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Equity-method common stock	$ 1,385	$ (2,019)	$ 2,178	$ (2,510)
Equity-method partnerships		51		103
Total before tax	$ 1,385	$ (1,968)	$ 2,178	$ (2,407)
After tax	$ 1,094	$ (1,554)	$ 1,721	$ (1,901)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2021	2020	2021	2020
Change in net unrealized gains/losses recognized on fair value option investments	$ 22,887	$ (4,820)	$ 78,779	$ (94,830)
Less: Net gains recognized on fair value option investments sold (a)	(1,737)	(12,686)	(3,259)	(41,154)
Change in net unrealized gains/losses recognized on fair value option investments still held at the reporting date (b)	$ 24,624	$ 7,866	$ 82,038	$ (53,676)

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

(b) The change in net unrealized gains/losses recognized on fair value option investments still held at June 30, 2020 in the three and six months ended June 30, 2020 reflected the decrease in the fair value of equity investments as a result of the economic effects of COVID-19. The subsequent increase in the fair value of these investments is reflected in the three and six months ended June 30, 2021.

Net investment income (loss) was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2021	2020	2021	2020
Fixed maturity securities (a)	$ 1,838	$ 5,185	$ 5,114	$ 11,174
Short-term and other investments (a)	171	466	645	1,462
Derivatives	745	639	1,490	1,298
Equity securities (b)	10,471	1,243	11,071	1,620
Mortgage loans	371		720	
Income (loss) from equity-method investments (c)	1,228	(23,178)	(2,730)	(26,723)
Subtotal	14,824	(15,645)	16,310	(11,169)
Investment expenses	1,853	1,682	3,670	3,539
Net investment income (loss)	$ 12,971	$ (17,327)	$ 12,640	$ (14,708)

(a) Income from fixed maturity securities in the three and six months ended June 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 three and six months ended June 30, 2021 includes a $8.3 million special dividend declared in June 2021 on one common stock investment.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2021	2020	2021	2020
Fairfax India Holdings Corp.	2,412	(2,349)	3,186	2,605
Astarta Holdings NV	571	651	571	651
Boat Rocker Media Inc.	(635)	(2,238)	(3,801)	(3,864)
Helios Fairfax Partners Corp.	(472)	(9,446)	(1,814)	(8,767)
Farmers Edge Inc.	(505)	(1,375)	(1,181)	(2,789)
Toys R Us Canada (1)		(7,608)		(11,312)
Apple Bidco Limited				(1,232)
Other	(143)	(813)	309	(2,015)
Income (loss) from equity-method investments	$ 1,228	$ (23,178)	$ (2,730)	$ (26,723)

(1) As a result of recording the Company's share of Toys R Us Canada's ("TRU") losses in the second quarter 2020, the Company reduced the carrying value of its investment in TRU to zero. Based on the latest GAAP financial statements of TRU as of May 29, 2021 (unaudited), the remaining share of the TRU's losses not yet recognized in the Company's results as of June 30, 2021 was approximately $18.6 million.

At June 30, 2021 and December 31, 2020, investments with a fair value of approximately $930 million were on deposit with regulatory authorities in compliance with insurance company regulations. At June 30, 2021, the Company had additional qualifying securities with a fair value of $167 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
June 30, 2021				
CPI-linked derivatives	$ 4,165,902	$ 18,444	$ 16	
Long equity total return swaps	42,323		1,366	$ 696
Foreign exchange forwards	82,775		2,194	
Equity warrants (a)		136	3,480	
Total		$ 18,580	$ 7,056	$ 696
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 June 30,		Six Months Ended June 30,	
(In thousands)	2021	2020	2021	2020
Gains (losses) on settlements				
Equity derivatives:				
Equity total return swaps – long positions	$ 3,294	$ (5,039)	$ 14,600	$ (9,008)
U.S. government bond forwards		(21,262)		(24,531)
CPI-linked derivatives (a)		(4,615)	(4,065)	(15,504)
Foreign exchange forwards	(3,373)	4,250	(5,405)	3,723
Total	(79)	(26,666)	5,130	(45,320)
Change in fair value				
Equity derivatives:				
Equity total return swaps – long positions	(2,535)	8,537	2,277	(5,210)
Equity warrants	3,344		3,344	
U.S. government bond forwards		21,445		659
CPI-linked derivatives (a)	(26)	837	3,848	16,055
Foreign exchange forwards	2,396	(5,574)	3,830	382
Foreign currency options		(583)		(736)
Total	3,179	24,662	13,299	11,150
Net gains (losses) on derivatives				
Equity derivatives:				
Equity total return swaps – long positions	759	3,498	16,877	(14,298)
Equity warrants	3,344		3,344	
U.S. government bond forwards		183		(23,872)
CPI-linked derivatives (a)	(26)	(3,778)	(217)	551
Foreign exchange forwards	(977)	(1,324)	(1,575)	4,105
Foreign currency options		(583)		(736)
Total net gains (losses) on derivatives	$ 3,100	$ (2,004)	$ 18,429	$ (34,250)

(a) One CPI-linked derivative contract with the notional amount of $0.4 billion matured in the six months ended June 30, 2021 with the fair value of zero at maturity, and $4.1 million of losses previously recognized in the change in fair value component of net gains (losses) on derivatives were reclassified to gains (losses) on settlements.

Equity Derivative Contracts

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

CPI-linked Derivative Contracts

The Company has purchased derivative contracts referenced to consumer price indexes (‘‘CPI’’) in the United States and Europe to serve as an economic hedge against the potential adverse financial impact on the Company of decreasing price levels. In the event of a sale, maturity or early settlement of any of these contracts, the Company would receive the fair value of that contract on the date of the transaction. The Company’s maximum potential loss on any contract is limited to the original cost of that contract. Net unrealized gains (losses) on CPI-linked derivative contracts typically reflect the market's expectation of decreases (increases) in the values of the CPI indexes underlying these contracts at their respective maturities during the periods presented (these contracts are structured to benefit the Company during periods of decreasing CPI index values). At June 30, 2021, these contracts had a remaining weighted average life of approximately 2 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 June 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:				
June 30, 2021				
United States	2,980,000	$ 2,980,000	235.47	271.69
European Union	1,000,000	1,185,902	100.31	107.26
		$ 4,165,902		
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)		June 30, 2021		December 31, 2020
Total derivative assets (a)	$	3,576	$	234
Impact of net settlement arrangements		(457)		(157)
Fair value of collateral deposited for the benefit of the Company		(925)		(77)
Net derivative counterparty exposure after net settlement and collateral arrangements	$	2,194	$	

(a) Excludes equity warrants with a fair value of $3.5 million at June 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 June 30, 2021 and December 31, 2020, the Company pledged to its counterparties securities with a fair value of $3.0 million and $6.4 million, respectively, as independent and mark-to-market collateral for CPI-linked (2020 only) and long equity total return swaps derivatives and recorded this amount as assets pledged for derivative obligations in the Consolidated Balance Sheets.

At June 30, 2021, the counterparties pledged for the Company's benefit $0.3 million of cash and $1.9 million of U.S. Treasury notes and bills, 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.

Offsetting of Derivative Assets/Liabilities

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

		Gross amounts not offset in the Consolidated Balance Sheets		
(In thousands)	Gross and net amounts reflected in the Consolidated Balance Sheets	Derivative asset (liability)	Collateral provided (held) - financial instruments (a)	Net amount of exposure
June 30, 2021				
Derivative assets:				
Citibank, N.A.	$ 1,375	$ (457)	$ (918)	
Deutsche Bank AG London (b)	7		(7)	
Bank of New York Mellon	2,194			$ 2,194
Total derivative assets (c)	$ 3,576	$ (457)	$ (925)	$ 2,194
Derivative liabilities:				
Citibank, N.A.	$ (457)	$ 457		
Bank of America	(239)			$ (239)
Total derivative liabilities	$ (696)	$ 457		$ (239)
December 31, 2020				
Derivative assets:				
Citibank, N.A.	$ 157	$ (157)		
Deutsche Bank AG London	77		$ (77)	
Bank of America				
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 $3.5 million at June 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.

Considerable judgment may be required particularly in developing estimates of fair value for financial instruments classified as Level 3 in the fair value hierarchy as such estimates incorporate market unobservable inputs that require management to use its own assumptions. While the Company's valuation techniques for Level 3 financial instruments remained unchanged during the second quarter of 2021, the development of market unobservable inputs included added estimation uncertainty due to the global economic and social disruption caused by the ongoing and developing COVID-19 pandemic. Estimates of the amount and timing of future cash flows, discount rates, growth rates and other inputs incorporated into fair value measurements of Level 3 financial instruments are inherently more difficult to determine due to the unpredictable duration and impact of the COVID-19 pandemic, including further actions that may be taken by governments to contain it and the timing of the reopening of the economy in various parts of the world. The Company has assumed that the economic impact of COVID-19 will remain for the duration of government mandated restrictions by jurisdiction as currently known, with gradual lifting of those restrictions. The uncertainty in those assumptions have been incorporated into the company's valuations of Level 3 financial instruments primarily through wider credit spreads and higher discount rates, as applicable. Additional volatility in the fair values of Level 3 financial instruments may arise in future periods if actual results differ materially from the Company's estimates.

There were no other significant changes to the valuation techniques and processes used at June 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 June 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
June 30, 2021				
Fair value option securities:				
Fixed maturity securities:				
U.S. government debt	$ 967,416		$ 967,416	
State and local government debt	10,747		10,747	
Foreign government debt	48,017		48,017	
Corporate debt	29,690		20,285	$ 9,405
Total fixed maturity securities	1,055,870		1,046,465	9,405
Equity securities (a)	308,757	$ 230,990	20,207	17,820
Short-term investments	97,586	97,586		
Other investments - affiliate corporate loans	10,315			10,315
Other investments - cost-method partnerships (a)	38,097			
Mortgage loans	34,281			34,281
Total fair value option investments	$ 1,544,906	$ 328,576	$ 1,066,672	$ 71,821
Derivatives:				
Equity total return swaps – long positions	$ 1,366		$ 1,366	
Equity warrants	3,480			$ 3,480
CPI-linked derivative contracts	16			16
Foreign exchange forwards	2,194		2,194	
Total derivative assets	7,056		3,560	3,496
Equity total return swaps – long positions	(696)		(696)	
Total derivative liabilities	(696)		(696)	
Net derivatives	$ 6,360		$ 2,864	$ 3,496

		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 $39.7 million and $40.0 million at June 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.

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
Balance at March 31, 2021	$ 7,431	$ 17,549	$ 42	$ 9,950	$ 21,769
Purchases			133		12,512
Realized and unrealized gains/losses included in:					
Change in net unrealized gains/losses on fair value option investments	1,974	271		365	
Net gains on derivatives			3,321		
Balance at June 30, 2021	$ 9,405	$ 17,820	$ 3,496	$ 10,315	$ 34,281
Balance at December 31, 2020	$ 6,974	$ 17,639	$ 234	$ 18,065	18,824
Purchases			133	1,133	15,306
Sales, maturities and conversions				(9,289)	
Realized and unrealized gains/losses included in:					
Change in net unrealized gains/losses on fair value option investments	2,431	181		(374)	
Net investments income – accretion of discounts					151
Net realized gains on investments				780	
Net gains on derivatives			3,129		
Balance at June 30, 2021	$ 9,405	$ 17,820	$ 3,496	$ 10,315	34,281

(In thousands)	Corporate Debt	Equity Securities	Derivatives	Affiliate Corporate Loans
Balance at March 31, 2020	$ 4,492	$ 14,572	$ 5,000	$ 15,704
Realized and unrealized gains/losses included in:				
Change in net unrealized gains/losses on fair value option investments	789	694		970
Net losses on derivatives			(3,778)	
Balance at June 30, 2020	$ 5,281	$ 15,266	$ 1,222	$ 16,674
Balance at December 31, 2019	$ 7,842	$ 17,038	$ 671	$ 16,523
Purchases				985
Realized and unrealized gains/losses included in:				
Change in net unrealized gains/losses on fair value option investments	(2,561)	(1,772)		(834)
Net gains on derivatives			551	
Balance at June 30, 2020	$ 5,281	$ 15,266	$ 1,222	$ 16,674

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 six months ended June 30, 2021 were $1.3 million and $2.4 million, respectively, compared to $1.1 million and $2.3 million in the three and six months ended June 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 June 30, 2021 and December 31, 2020 was as follows:

(In thousands)	June 30 2021	December 31, 2020
Equity securities, at fair value	$ 101,079	$ 79,040
Fixed maturity securities, at fair value	5,000	15,049
Other invested assets:		
Equity-method common stock	102,770	66,213
Affiliate corporate loans, at fair value	10,315	18,065
Partnerships, at fair value	7,982	
Equity warrants, at fair value	3,480	
Total	$ 230,626	$ 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 June 30,		Six Months Ended June 30,	
(In thousands)	2021	2020	2021	2020
Included in Net Income (Loss):				
Net investment income (loss)	$ 3,455	$ (22,213)	$ 425	$ (25,141)
Net realized gains (losses) on investments	22,234	(1,345)	23,605	(1,330)
Change in net unrealized gains/losses on fair value option investments	3,201	7,407	15,984	(16,583)
Included in Other Comprehensive Loss:				
Net change in unrealized gains/losses on investments, before tax	1,385	(1,968)	2,178	(2,407)
Change in unrealized foreign currency translation adjustment, before tax	(2,518)	874	(2,594)	821
Total	27,757	(17,245)	39,598	(44,640)

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 $8.0 million and $7.4 million at June 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). At June 30, 2021 and December 31, 2020, the carrying value of the Company's fair value option investment in Atlas affiliated common stock was $41.1 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 June 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 Altas No Cost Warrants was $3.3 million as of June 30, 2021.

Prior to the Seaspan reorganization, the Company owned $5.0 million par value of Seaspan 5.50% unsecured debentures due February 14, 2025. Concurrently with the reorganization, the Company invested $10.0 million in Seaspan 5.50% unsecured debentures due March 1, 2027 (collectively, Atlas Bonds). In June 2021, Atlas and Fairfax agreed to exchange and amend certain terms of the outstanding Atlas Bonds. The Atlas Bonds due in 2026 and 2027 were exchanged for shares of 7.00% Cumulative Redeemable Perpetual Preferred Stock – Series J ("Atlas Preferred Stock") and warrants to purchase an equal number of shares of Atlas common stock ("Atlas Warrants") at an exercise price of $13.71 per share (based on the closing price of Atlas common stock on May 21, 2021). In addition, certain terms of the Atlas bonds due in 2025 were amended. As part of these transactions, the Company exchanged $10.0 million par value of its Atlas 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. The Company continues to hold $5.0 million par value of the Atlas Bonds due in 2025, with an amortized cost of $4.7 million and fair value of $5.0 million as of June 30, 2021.

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 June 30, 2021 and December 31, 2020, the carrying value of the Company's equity-method investment in FE common stock was $19.0 million and $0.8 million, respectively.

In November 2020, Boat Rocker, a majority-owned subsidiary of Fairfax, issued additional 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 June 30, 2021 and December 31, 2020, the carrying value of the Company's equity-method investment in Boat Rocker common stock was $23.2 million and $7.2 million, respectively.

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 2020 based on the continued decline in the fair value of this investment. In June 2021, the Company recorded an adjustment of $2.5 million to previously recorded other-than-temporary losses upon receipt of GAAP financial statements. At June 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.

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 June 30, 2021 and December 31, 2020, the carrying value of the Company's fair value option investment in Recipe common stock was $10.2 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 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 June 30, 2021 and December 31, 2020, the Company recorded a net reinsurance payable of $0.2 million and recoverable of $0.1 million, respectively, related to the reinsurance transactions with the affiliates of Fairfax.

Zenith National paid Fairfax $0.9 million and $4.4 million in the six months ended June 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 a Master Administrative Services Agreement with various affiliates of Fairfax. Under the agreement, the affiliated parties provide and receive administration services such as accounting, underwriting, claims, reinsurance, preparation of regulatory reports, and actuarial services. The Company provides claims administrative services to Seneca Insurance Company, Inc. ("Seneca"), an affiliate of Fairfax and the Company, under this agreement. The Company is also party to a claims administration services agreement with TIG Insurance Company ("TIG"), an affiliate of Fairfax and the Company. Service fee income recorded in the Consolidated Statements of Comprehensive Income (Loss) in the three and six months ended June 30, 2021 and 2020 for TIG was $1.1 million and $2.3 million and $1.9 million and $3.8 million, respectively, and for Seneca was $23,000 and $79,000; and $71,000 and $172,000, respectively. As of June 30, 2021 and December 31, 2020, the Company recorded a net liability of $3.9 million and $1.8 million, respectively, to TIG comprised of a loss fund held for TIG claims of $4.3 million and $2.7 million, respectively, offset by a service fee receivable from TIG of $0.4 million and $0.9 million, respectively. The loss fund held for Seneca claims was $0.6 million at June 30, 2021 and December 31, 2020.

In April 2021, 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 six months ended June 30, 2021 from this arrangement was not material.

Note 6. Reinsurance Recoverable

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

(In thousands)	June 30, 2021 (a)	December 31, 2020 (a)	A.M. Best Rating (b)	A.M. Best Rating Date
General Reinsurance Corp.	$ 30,753	$ 33,016	A++	03/2021
Zenith Insurance 2019 AG	1,835		NR	
Factory Mutual Insurance Company	1,395		A+	01/2021
All others (c)	4,618	6,636		
Total	$ 38,601	$ 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 June 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)	June 30, 2021	June 30, 2020
Beginning of period, net of reinsurance	$ 1,021,329	$ 1,046,248
Incurred claims:		
Current accident year	211,181	197,538
Prior accident years	(35,371)	(47,953)
Total incurred claims	175,810	149,585
Payments:		
Current accident year	(40,879)	(35,166)
Prior accident years	(139,386)	(147,079)
Total payments	(180,265)	(182,245)
End of period, net of reinsurance	1,016,874	1,013,588
Receivable from reinsurers for unpaid losses	34,837	36,521
End of period, gross of reinsurance	$ 1,051,711	$ 1,050,109

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 June 30, 2021			
Change in unrealized gains/losses on investments	$ 1,385	$ 291	$ 1,094
Change in unrealized foreign currency translation adjustment	(2,518)	(529)	(1,989)
Total other comprehensive loss	$ (1,133)	$ (238)	$ (895)
Six Months Ended June 30, 2021			
Change in unrealized gains/losses on investments	$ 2,178	$ 457	$ 1,721
Change in unrealized foreign currency translation adjustment	(2,594)	(545)	(2,049)
Total other comprehensive loss	$ (416)	$ (88)	$ (328)
Three Months Ended June 30, 2020			
Change in unrealized gains/losses on investments	$ (1,968)	$ (414)	$ (1,554)
Change in unrealized foreign currency translation adjustment	874	184	690
Total other comprehensive loss	$ (1,094)	$ (230)	$ (864)
Six Months Ended June 30, 2020			
Change in unrealized gains/losses on investments	$ (2,407)	$ (506)	$ (1,901)
Change in unrealized foreign currency translation adjustment	821	173	648
Total other comprehensive loss	$ (1,586)	$ (333)	$ (1,253)

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

(In thousands)		June 30, 2021		December 31, 2020
Equity-method common stock	$	(5,887)	$	(8,065)
Deferred tax benefit		(1,236)		(1,693)
Net unrealized loss on investments, after tax		(4,651)		(6,372)
Net unrealized loss on foreign currency translation adjustment, before tax		(2,993)		(399)
Deferred tax benefit		(629)		(84)
Net unrealized loss on foreign currency translation adjustment, after tax		(2,364)		(315)
Total accumulated other comprehensive loss	$	(7,015)	$	(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	(60,752)
Vested	(70,997)
Purchased and available for future grants	(275)
Available for future purchases at June 30, 2021	367,976

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	2,154		412.39		888
Total purchased since plan inception	132,024		435.68	$	57,520

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	13,168	389.19	5,125
Forfeited during 2021	(1,084)	470.19	(510)
Vested during 2021	(8,933)	449.52	(4,016)
Restricted Shares at June 30, 2021	60,752	449.18	$ 27,289

Stock-based compensation expense before tax was $1.5 million and $2.7 million for the three and six months ended June 30, 2021, respectively, compared to $1.2 million and $3.2 million in the corresponding periods of 2020.

Unrecognized compensation expense before tax under the Restricted Stock Plan was $15.8 million and $15.1 million at June 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 $2.3 million and $4.6 million in the three and six months ended at both June 30, 2021 and 2020, respectively.

Additional information related to the operating leases is provided below:

	As of and for the Six Months Ended June 30, 2021	
(In thousands)	Offices	Automobile
Cash payments included in the measurement of lease liabilities reported in operating cash flows	$ 3,605	$ 456
Weighted average discount rate	1.44%	0.87%
Weighted average remaining lease term (in years)	5.3	1.8

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

(In thousands)	Offices	Auto Fleet	Total
Remainder of 2021	$ 4,083	$ 397	$ 4,480
2022	6,270	600	6,870
2023	5,099	234	5,333
2024	4,560	25	4,585
2025	4,031		4,031
Thereafter	6,793		6,793
Total undiscounted lease payments	$ 30,836	$ 1,256	$ 32,092
Less: present value adjustment	777	19	796
Operating lease liability	$ 30,059	$ 1,237	$ 31,296