Zenith National Insurance Corp. and Subsidiaries

Consolidated Financial Statements
as of June 30, 2023 and December 31, 2022 and for the three and six months ended June 30, 2023 and 2022
(unaudited)

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

(In thousands, except par value)	June 30, 2023	December 31, 2022
Assets:		
Investments:		
Fixed maturity securities, at fair value (amortized cost $1,011,779 in 2023 and $954,638 in 2022)	$ 1,001,097	$ 931,231
Equity securities, at fair value (cost $287,421 in 2023 and $334,727 in 2022)	294,177	458,775
Short-term investments, at fair value which approximates cost	33,366	53,376
Mortgage loans, at fair value which approximates cost	253,386	162,019
Other investments	180,766	153,081
Derivative assets, at fair value (cost $13,014 in 2023 and $12,957 in 2022)	1,366	2,034
Total investments	1,764,158	1,760,516
Cash and cash equivalents	44,662	37,736
Accrued investment income	9,719	5,603
Premiums receivable	65,514	56,420
Earned but unbilled premium receivable	3,997	3,997
Reinsurance recoverables	45,419	52,070
Deferred policy acquisition costs	24,555	21,739
Deferred tax asset	66,805	42,795
Operating lease right-of-use assets	26,612	28,102
Goodwill	20,985	20,985
Other assets	56,951	53,074
Total assets	$ 2,129,377	$ 2,083,037
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 1,046,332	$ 1,059,744
Unearned premiums	141,040	121,205
Policyholders' dividends accrued	33,143	31,514
Long-term debt	38,354	38,340
Income tax payable	13,674	693
Operating lease liabilities	28,263	29,671
Derivative liabilities	2,093	
Other liabilities	91,520	97,264
Total liabilities	1,394,419	1,378,431
Commitments and contingencies (see Note 9)		
Stockholders' equity:		
Common stock, $1 par value, 40 authorized shares; 39 shares issued and outstanding	39	39
Additional paid-in capital	400,453	397,682
Retained earnings	347,356	318,733
Accumulated other comprehensive loss	(12,890)	(11,848)
Total stockholders' equity	734,958	704,606
Total liabilities and stockholders' equity	$ 2,129,377	$ 2,083,037

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2023	2022	2023	2022
Revenues:				
Net premiums earned	$ 181,733	$ 181,411	$ 357,251	$ 352,252
Net investment income	16,292	8,736	31,043	9,748
Net realized gains (losses) on investments	(8,567)	3,252	103,388	907
Change in net unrealized gains/losses on fair value option investments	(19,054)	(73,364)	(99,272)	(83,626)
Net gains (losses) on derivatives	(1,620)	212	(1,748)	305
Service fee revenue	1,756	1,894	3,876	3,460
Total revenues	170,540	122,141	394,538	283,046
Expenses:				
Losses and loss adjustment expenses incurred	101,433	98,916	203,943	192,807
Underwriting and other operating expenses:				
Policyholder acquisition costs	39,516	37,356	77,217	72,474
Underwriting and other costs	32,049	32,996	64,231	64,625
Policyholders' dividends	5,120	4,785	10,026	9,412
Interest expense	830	830	1,660	1,660
Total expenses	178,948	174,883	357,077	340,978
Income (loss) before tax	(8,408)	(52,742)	37,461	(57,932)
Income tax expense (benefit)	(1,960)	(11,024)	8,838	(12,092)
Net income (loss)	$ (6,448)	$ (41,718)	$ 28,623	$ (45,840)
Change in unrealized gains/losses on investments, net of tax	1,449	(504)	1,663	(536)
Change in unrealized foreign currency translation adjustments, net of tax	(2,346)	548	(2,705)	602
Other comprehensive income (loss)	(897)	44	(1,042)	66
Total comprehensive income (loss)	$ (7,345)	$ (41,674)	$ 27,581	$ (45,774)

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)	2023	2022
Operating activities:		
Premiums collected	$ 379,764	$ 375,373
Investment income received	15,064	9,614
Losses and loss adjustment expenses paid	(209,127)	(196,282)
Underwriting and other operating expenses paid	(165,831)	(149,239)
Interest paid	(1,646)	(1,646)
Income taxes paid	(19,590)	(6,701)
Net cash provided by (used in) operating activities	(1,366)	31,119
Investing activities:		
Purchases of investments:		
Fixed maturity securities – fair value option	(503,549)	(827,160)
Equity securities – fair value option	(36,668)	(54,128)
Mortgage loans	(101,151)	(40,062)
Other investments	(9,890)	(5,416)
Derivatives	(990)	(4,125)
Proceeds from maturities and redemptions of investments:		
Fixed maturity securities – fair value option	15,151	177,923
Derivatives		64
Proceeds from sales of investments:		
Fixed maturity securities – fair value option	426,579	506,400
Equity securities – fair value option	187,373	4,902
Mortgage loans	10,980	1,815
Other investments	4,498	3,308
Net decrease in short-term investments	18,752	180,569
Net derivative cash settlements	504	1,698
Capital expenditures and other	(3,180)	(1,167)
Net cash provided by (used in) investing activities	8,409	(55,379)
Financing activities:		
Purchase of Fairfax shares for restricted stock awards	(117)	(4,123)
Net cash used in financing activities	(117)	(4,123)
Net increase (decrease) in cash and cash equivalents	6,926	(28,383)
Cash and cash equivalents at beginning of period	37,736	104,568
Cash and cash equivalents at end of period	**$ 44,662**	**$ 76,185**

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)	2023	2022
Reconciliation of net income (loss) to net cash (used in) provided by operating activities:		
Net income (loss)	$ 28,623	$ (45,840)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation expense	908	999
Net amortization (accretion)	(5,613)	2,289
Net realized gains on investments	(103,388)	(907)
Change in net unrealized gains/losses on fair value option investments	99,272	83,626
Net losses (gains) on derivatives	1,748	(305)
Equity in earnings of investee	(5,108)	(1,193)
Stock-based compensation expense	2,888	4,157
Decrease (increase) in:		
Accrued investment income	(4,116)	(955)
Premiums receivable	(11,558)	(12,551)
Reinsurance recoverables	6,651	309
Deferred policy acquisition costs	(2,816)	(3,530)
Net income taxes	(10,752)	(18,793)
Increase (decrease) in:		
Unpaid losses and loss adjustment expenses	(13,412)	(3,081)
Unearned premiums	19,835	21,893
Policyholders' dividends accrued	1,629	895
Accrued expenses	(3,622)	1,742
Prepaid policy and guarantee fund assessments	(2,515)	177
Equity in pools	(1,702)	(777)
Other	1,682	2,964
Net cash provided by (used in) operating activities	$ (1,366)	$ 31,119

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)	2023	2022
Common stock:	$ 39	$ 39
Additional paid-in capital:		
Beginning of period	397,682	399,159
Stock-based compensation expense	2,888	4,157
Purchases of Fairfax shares for restricted stock awards	(117)	(4,123)
End of period	400,453	399,193
Retained earnings:		
Beginning of period	318,733	314,948
Net income (loss)	28,623	(45,840)
End of period	347,356	269,108
Accumulated other comprehensive loss:		
Beginning of period	(11,848)	(9,050)
Change in unrealized gains/losses on investments, net of tax	1,663	(536)
Change in unrealized foreign currency translation adjustments, net of tax	(2,705)	602
End of period	(12,890)	(8,984)
Total stockholders' equity	$ 734,958	$ 659,356

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, 2022.

Adopted Accounting Standards

Measurement of Credit Losses on Financial Instruments

Effective January 1, 2023, the Company adopted the new guidance on Financial Instruments – Credit Losses, which provides for the recognition and measurement of all expected credit losses ("CECL") for financial assets that are not recorded under the fair value option method of accounting. All of the Company's debt securities, including fixed maturity securities, short term investments, mortgage loans and affiliated corporate loans included in other investments, are recorded using the fair value option accounting. Therefore, the Company's only financial instruments within the scope of this guidance included accrued investment income, premiums receivable and reinsurance recoverables. The adoption of this guidance did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

The Company concluded that accrued investment income which primarily comprises of accrued interest receivable on debt securities to be excluded from the estimate of credit loses based on historically timely payments. Premiums receivable balances are all due within one year or less. The Company currently determines the allowance for premiums receivable based on an internal aging schedule using collectability and historical payment patterns, as well as current and expected future market conditions to determine the appropriateness of the allowance. Historical payment patterns provide the basis for the estimation along with similar risk characteristics and the Company's business strategy, which have not changed significantly over time. Based on the Company's past experience, the Company's allowance as of December 31, 2022 of $0.3 million was considered sufficient and did not change as of June 30, 2023. In assessing an allowance for reinsurance recoverables for paid and unpaid losses, the Company considers historical information, financial strength of reinsurers, collateralization amounts and ratings to determine the appropriateness of the allowance. Historically, the Company has not experienced a credit loss from reinsurance transactions and most of its reinsurance is recoverable from large, well capitalized reinsurance companies (see Note 6). As of December 31, 2022 and June 30, 2023, no CECL allowance was recorded related to reinsurance recoverables.

Recent Accounting Standards Not Yet Adopted

Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions

In June 2022, the Financial Accounting Standards Board issued new guidance which clarifies the existing fair value measurement guidance, when measuring the fair value of an equity security subject to contractual restrictions that prohibit the sale of an equity security and introduces new disclosure requirements for equity securities subject to contractual sale restrictions that are measured at fair value. The new standard clarifies that a contractual restriction on the sale of an equity security should not be considered in measuring the fair value of the security and requires an entity holding equity securities with contractual sale restrictions to disclose the fair value of equity securities subject to contractual sale restrictions, the nature and remaining duration of the restrictions and the circumstances that could cause a lapse in the restrictions. The guidance is effective for annual periods beginning after December 15, 2023, and interim periods within those annual periods. Early adoption is permitted. The guidance is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

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 August 15, 2023.

Note 2. Cash and Investments

In April 2023, the Company started investing substantially all of its operating cash balances in a highly liquid overnight money market fund, administered by Bank of America through a daily sweep mechanism. Previously, the Company held all of its operating cash in cash accounts at Bank of America. The invested balance as of June 30, 2023 was $49.8 million and was included as part of net cash and cash equivalents on the Consolidated Balance Sheets.

The cost or amortized cost and fair value of investments recorded at fair value under the fair value option as of June 30, 2023 and December 31, 2022 were as follows:

(In thousands)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
June 30, 2023				
Fair value option investments:				
Fixed maturity securities:				
U.S. Government debt	$ 966,648	$ 1,160	$ (16,479)	$ 951,329
State and local government debt	5,003		(1)	5,002
Foreign government debt	15,871	535		16,406
Corporate debt	24,257	4,502	(399)	28,360
Total fixed maturity securities	1,011,779	6,197	(16,879)	1,001,097
Equity securities	287,421	49,070	(42,314)	294,177
Short-term investments	33,366			33,366
Mortgage loans (a)	253,386			253,386
Other investments – cost-method partnerships	40,099	10,905	(2,325)	48,679
Other investments – affiliate corporate loans	9,322	175		9,497
Other investments – contingent consideration receivable	24,471	3,627		28,098
Total fair value option investments	$ 1,659,844	$ 69,974	$ (61,518)	$ 1,668,300
December 31, 2022				
Fair value option investments:				
Fixed maturity securities:				
U.S. Government debt	$ 915,301	$ 751	$ (22,115)	$ 893,937
State and local government debt	5,043	12		5,055
Foreign government debt	15,838		(1,001)	14,837
Corporate debt	18,456	19	(1,073)	17,402
Total fixed maturity securities	954,638	782	(24,189)	931,231
Equity securities	334,727	160,674	(36,626)	458,775
Short-term investments	53,377		(1)	53,376
Mortgage loans	162,019			162,019
Other investments – cost-method partnerships	36,233	8,833	(2,540)	42,526
Other investments – affiliate corporate loans	9,322		(409)	8,913
Other investments – contingent consideration receivable	14,519	1,204		15,723
Total fair value option investments	$ 1,564,835	$ 171,493	$ (63,765)	$ 1,672,563

(a) The Company invested an additional $100.4 million during the three months ended June 30, 2023 in short-dated residential and commercial mortgage loans acquired as a result of Fairfax's partnership with Kennedy Wilson Inc. ("KW"), which includes $80.3 million of first mortgage loans acquired from Pacific Western Bank in June 2023.

Fixed maturity securities, including short-term investments, by contractual maturity as of June 30, 2023 were as follows:

(In thousands)		Fair Value
Due in one year or less	$	444,994
Due after one year through five years		585,690
Due after ten years		3,779
Total	$	1,034,463

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

As of June 30, 2023 and December 31, 2022, total investments also include other investments detailed next and derivative contracts described in Note 3.

Other investments consisted of the following:

(In thousands)		June 30, 2023		December 31, 2022
Equity-method common stock (a)	$	94,492	$	85,919
Cost-method partnerships, at fair value (cost $40,099 in 2023 and $36,233 in 2022) (b)		48,679		42,526
Affiliate corporate loans, at fair value (amortized cost $9,322 in 2023 and 2022)		9,497		8,913
Contingent consideration receivable, at fair value (cost $24,471 in 2023 and $14,519 in 2022) (c)		28,098		15,723
Total other investments	$	180,766	$	153,081

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

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

(c) The balance as of June 30, 2023 includes $11.8 million of contingent value rights (“CVR”), at fair value, recorded as a result of a sale of a common stock investment in the first quarter of 2023, as described in footnote (a) in the table below. The fair value of the CVR was estimated as the difference between cash consideration received and the market price of the common stock immediately prior to the close of the transaction, and was included as part of total sales proceeds.

As of June 30, 2023, the Company had commitments to invest an additional $4.2 million in partnerships and limited liability companies.

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

(In thousands)	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Sales of equity securities (a)	$ (3,473)	$ (1,526)	$ 109,758	$ (1,578)
Sales of fixed maturity securities, including short-term investments and other (b)	(5,914)	2,663	(7,912)	(174)
Gains from other investments (c)	820	2,115	1,542	2,659
Net realized gains (losses) on investments	$ (8,567)	$ 3,252	$ 103,388	$ 907

(a) Net realized gains on sales of equity securities in the six months ended June 30, 2023 primarily consisted of $113.2 million of a realized gain on sale of a common stock investment in the first quarter of 2023, $110.5 million of which was previously recorded in change in net unrealized gains/losses on fair value option investments (see (a) in the table below), partially offset by realized losses in the three months ended June 30, 2023 of $2.4 million on the sale of one fair value option common stock and $1.0 million "day one" loss recorded as a result of the purchase of fair value option preferred stock and related warrants where cash paid exceeded the fair value of investments acquired.

Net realized losses on sales of equity securities in the three and six months ended June 30, 2022, included realized losses of $3.0 million on the sale of three fair value option common stocks, partially offset by a realized gain of $1.4 million related to the redemption of a preferred stock investment in exchange for common stock.

(b) Net realized losses on sales of fixed maturity securities, including short-term investments and other in the three months and six months ended June 30, 2023 were primarily from sales of U.S. government securities.

Net realized gains (losses) on sales of fixed maturity securities, including short-term investments and other in the three and six months ended June 30, 2022 included $5.8 million of indemnity-related losses recorded in connection with Atlas Corp.'s ("Atlas") acquisition of Apple Bidco Limited ("AB"), both affiliates of the Company; partially offset by a $5.5 million realized gain on the conversion of fair value option fixed maturity securities into common stock. See Note 5.

(c) Gains from other investments include primarily realized gains on cost method partnership distributions.

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

(In thousands)	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Change in net unrealized gains/losses recognized on fair value option investments	$ (19,054)	$ (73,364)	$ (99,272)	$ (83,626)
Less: Net losses (gains) recognized on fair value option investments sold (a)	8,348	1,020	(100,943)	1,101
Change in net unrealized gains/losses recognized on fair value option investments still held at the reporting date	$ (27,402)	$ (74,384)	$ 1,671	$ (84,727)

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

Net investment income was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2023	2022	2023	2022
Fixed maturity securities (a)	$ 9,231	$ 4,092	$ 16,235	$ 5,503
Equity securities	1,739	1,953	3,770	3,060
Mortgage loans	5,084	1,813	8,619	2,960
Short-term and other investments (a)	756	380	1,740	738
Net income from equity-method investments (b)	1,743	2,369	5,108	1,193
Subtotal	18,553	10,607	35,472	13,454
Investment expenses	2,261	1,871	4,429	3,706
Net investment income	$ 16,292	$ 8,736	$ 31,043	$ 9,748

(a) During the three and six months ended June 30, 2023, the Company continued to reinvest proceeds from sales and maturities of short-dated fixed maturity securities into higher yielding short-dated U.S. treasury bonds (with a term to maturity of 1 to 3 years), short-dated high quality corporate bonds and first mortgage loans, resulting in an increase in interest income in 2023.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2023	2022	2023	2022
Exco Resources Inc.	$ 1,186	$ (1,000)	$ 2,967	
Astarta Holdings NV	2,692	4,829	2,692	$ 4,829
Helios Fairfax Partners Corp.	300	(125)	1,048	(178)
Fairfax India Holdings Corp.	(569)	569	377	(609)
Alberta ULC	106	(616)	128	(572)
AGT Food and Ingredients Inc.	(109)	439	(109)	639
Peak Achievement Athletics	(153)	(299)	(211)	(456)
Farmers Edge Inc. (1)		(525)	(255)	(1,080)
Boat Rocker Media Inc	(683)	(903)	(494)	(1,380)
Grivalia Hospitality	(1,027)		(1,035)	
Income from equity-method investments	$ 1,743	$ 2,369	$ 5,108	$ 1,193

(1) In the first quarter 2023, as a result of the Company recording its share of Farmers Edge Inc. (“FE”) net income offset by other changes in FE's equity, the Company reduced the carrying value of its investment in FE to zero. Based on the latest available financial statements of FE as of March 31, 2023 (prepared in accordance with International Financial Reporting Standards ("IFRS") and unaudited), the remaining share of the FE’s reduction in equity not yet recognized in the Company's results as of June 30, 2023 was approximately $0.7 million.

As of June 30, 2023 and December 31, 2022, investments with a fair value of approximately $800 million, respectively, were on deposit with regulatory authorities in compliance with insurance company regulations. As of June 30, 2023, the Company had additional qualifying securities with a fair value of $185 million available for deposit.

Note 3. Derivative Contracts

Derivatives entered into by the Company are considered investments or economic hedges and are not designated for hedge accounting treatment for financial reporting. Derivatives are carried at fair value. The fair value of derivatives in a gain position and fair value of derivatives in a loss position are presented as derivative assets and derivative liabilities, respectively, in the Consolidated Balance Sheets. The initial premium paid for a derivative contract, if any, is recorded as a derivative asset and subsequently adjusted for changes in the fair value of the contract at each reporting date. Changes in the fair value of derivatives are recorded as net gains (losses) on derivatives in the Consolidated Statements of Comprehensive Income (Loss), with a corresponding adjustment to the carrying value of the derivative asset or liability. Cash settlements related to fair value changes on derivatives 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.

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

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

	Notional		Fair Value of Derivative	
(In thousands)	Amount	Cost	Assets	Liabilities
June 30, 2023				
CPI-linked derivatives	$ 3,075,500	$ 11,191		
Foreign exchange forwards	97,157			$ 2,093
Equity warrants (a)	10,000	1,823	$ 1,366	
Total		$ 13,014	$ 1,366	$ 2,093
December 31, 2022				
CPI-linked derivatives	$ 3,263,624	$ 11,991	$ 1	
Foreign exchange forwards	82,660		155	
Equity warrants (a)	13,527	966	1,878	
Total		$ 12,957	$ 2,034	

(a) As of June 30, 2023 and December 31, 2022, equity warrants included 0.5 million and 0.2 million shares of common stock warrants received in connection with the Company's investment in the preferred stock of the same issuer in June 2023 and March 2022, respectively.

As of December 31, 2022, equity warrants also included 0.7 million shares of Atlas common stock warrants, that were exercised in January 2023 for a payment of $8.5 million. See Note 5.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2023	2022	2023	2022
Net gains on settlements				
Equity warrants	$ (1)	$ 239	$ 1,366	$ 239
CPI-linked derivatives			(799)	
Foreign exchange forwards	305	1,230	503	1,698
Total	304	1,469	1,070	1,937
Change in fair value				
Equity warrants	(52)	(2,611)	(1,369)	(1,637)
CPI-linked derivatives		(22)	799	6
Foreign exchange forwards	(1,872)	1,376	(2,248)	(1)
Total	(1,924)	(1,257)	(2,818)	(1,632)
Net gains (losses) on derivatives				
Equity warrants	(53)	(2,372)	(3)	(1,398)
CPI-linked derivatives		(22)		6
Foreign exchange forwards	(1,567)	2,606	(1,745)	1,697
Total net gains (losses) on derivatives	$ (1,620)	$ 212	$ (1,748)	$ 305

As of June 30, 2023 and December 31, 2022, the Company had no amounts pledged to its counterparties for derivative transactions and there were no amounts pledged by the counterparties for the Company’s benefit.

Note 4. Fair Value Measurements

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

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

The three hierarchy levels are defined as follows:

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

Level 2— Inputs include directly or indirectly observable inputs (other than Level 1 inputs) such as quoted prices for similar financial instruments exchanged in active markets, quoted prices for identical or similar financial instruments exchanged in inactive markets and other market observable inputs. The fair value of the vast majority of the Company's investments in fixed maturity securities, along with most derivative contracts 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 NAV as a 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. Certain 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, 2023 and December 31, 2022 classified by the valuation hierarchy discussed previously:

		Fair Value Measurement Using		
(In thousands)	Total (a)	Level 1	Level 2	Level 3
June 30, 2023				
Fair value option securities:				
Fixed maturity securities:				
U.S. government debt	$ 951,329		$ 951,329	
State and local government debt	5,002		5,002	
Foreign government debt	16,406		16,406	
Corporate debt	28,360		15,727	$ 12,633
Total fixed maturity securities	1,001,097		988,464	12,633
Equity securities (b)	294,177	$ 209,163	9,253	48,520
Short-term investments	33,366	33,366		
Mortgage loans	253,386			253,386
Other investments – cost-method partnerships (a) (b)	48,679			
Other investments – affiliate corporate loans	9,497			9,497
Other investments – contingent consideration receivable (a)	28,098			28,098
Total fair value option investments	$ 1,668,300	$ 242,529	$ 997,717	$ 352,134
Derivatives:				
Equity warrants	$ 1,366			$ 1,366
Total derivative assets	1,366			1,366
Foreign exchange forwards	(2,093)		$ (2,093)	
Total derivative liabilities	(2,093)		(2,093)	
Net derivatives	$ (727)		$ (2,093)	$ 1,366

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

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

(b) As of June 30, 2023 and December 31, 2022, certain common stock investments with a fair value of $27.2 million and $30.0 million, respectively, and cost-method partnerships with a fair value of $48.7 million and $42.5 million, respectively, are measured using NAV as a practical expedient and not required to be classified in the fair value hierarchy.

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

(In thousands)	Corporate Debt	Equity Securities (a)	Mortgage Loans	Affiliate Corporate Loans	Contingent Consideration Receivable	Derivatives
Balance as of March 31, 2023	$ 9,760	$ 43,818	$ 162,946	$ 9,183	$ 27,391	$ 429
Purchases		4,167	100,417			990
Sales			(10,907)		(524)	
Realized and unrealized gains/losses included in:						
Net investment income – accretion of discount			465			
Net realized gains (losses) on investments			465		(27)	
Change in net unrealized gains/losses on fair value option investments	2,873	535		314	1,258	
Net losses on derivatives						(53)
Balance as of June 30, 2023	$ 12,633	$ 48,520	$ 253,386	$ 9,497	$ 28,098	$ 1,366
Balance as of December 31, 2022	$ 2,124	$ 38,921	$ 162,019	$ 8,913	$ 15,723	$ 1,879
Purchases	5,339	8,167	101,437		11,759 (b)	990
Sales			(10,980)		(1,716)	(1,500)
Realized and unrealized gains/losses included in:						
Net investment income – accretion of discount			445			
Net realized gains (losses) on investments			465		(90)	
Change in net unrealized gains/losses on fair value option investments	5,170	1,432		584	2,422	
Net losses on derivatives						(3)
Balance as of June 30, 2023	$ 12,633	$ 48,520	$ 253,386	$ 9,497	$ 28,098	$ 1,366

(In thousands)	Corporate Debt	Equity Securities (a)	Mortgage Loans	Affiliate Corporate Loans	Contingent Consideration Receivable	Derivatives
Balance as of March 31, 2022	$ 12,215	$ 27,265	$ 96,801	$ 15,210	$ 18,566	$ 8,339
Purchases			22,903			
Sales	(10,335)	(5,548)	(1,815)		(610)	(3,532)
Realized and unrealized gains/losses included in:						
Net investments income – accretion of discount			46			
Net realized gains on investments	5,523	1,386			2	240
Change in net unrealized gains/losses on fair value option investments	(5,338)	(3,076)		(491)	(74)	
Net losses on derivatives						(2,632)
Balance as of June 30, 2022	$ 2,065	$ 20,027	$ 117,935	$ 14,719	$ 17,884	$ 2,415
Balance as of December 31, 2021	$ 8,083	$ 23,642	$ 79,337	$ 10,209	$ 18,683	$ 3,214
Purchases		4,167	40,324	5,000		4,125
Sales	(10,335)	(5,548)	(1,815)		(1,500)	(3,532)
Realized and unrealized gains/losses included in:						
Net investments income – accretion of discount			89			
Net realized gains on investments	5,523	1,386			12	240
Change in net unrealized gains/losses on fair value option investments	(1,206)	(3,620)		(490)	689	
Net losses on derivatives						(1,632)
Balance as of June 30, 2022	$ 2,065	$ 20,027	$ 117,935	$ 14,719	$ 17,884	$ 2,415

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

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

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"), an affiliate of Fairfax and the Company. In the three and six months ended June 30, 2023 and 2022, investment management expenses incurred under these agreements were $1.3 million and $2.6 million, respectively, compared to $1.2 million and $2.6 million, respectively.

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

The Company's affiliated investments as of June 30, 2023 and December 31, 2022 were as follows :

(In thousands)	June 30, 2023	December 31, 2022
Equity securities, at fair value	$ 175,208	$ 156,716
Other investments:		
Equity-method common stock	94,492	85,919
Partnerships, at fair value	8,171	7,783
Affiliate corporate loans, at fair value	9,497	8,913
Equity warrants, at fair value		1,523
Total affiliated investment assets	$ 287,368	$ 260,854
Other liabilities – indemnity liability resulting from the sale of AB to Atlas	$ (12,541)	$ (14,167)

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

(In thousands)	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Included in net income (loss):				
Net investment gains	$ 3,051	$ 3,233	$ 8,155	$ 2,850
Net realized gains (losses) on investments	777	(1,268)	2,661	(4,025)
Change in net unrealized gains/losses on fair value option investments	(13,368)	(16,152)	(554)	(16,095)
Net losses on derivatives		(1,767)	(1,390)	(1,445)
Included in other comprehensive income (loss):				
Change in unrealized gains/losses on investments, before tax	1,834	(638)	2,104	(678)
Change in unrealized foreign currency translation adjustments, before tax	(2,970)	694	(3,424)	762
Total	$ (10,676)	$ (15,898)	$ 7,552	$ (18,631)

In March, 2023, Fairfax through its subsidiaries, including the Company, increased its investment in ONX Inc. (“ONX”) with purchases of debentures, warrants and additional preferred shares. As a result, ONX became an affiliate of Fairfax and the Company. The Company continued accounting for its affiliated investments in ONX using the fair value option under GAAP. As of both June 30, 2023 and December 31, 2022, the carrying value of the Company’s investment in ONX affiliated common stock was $0.5 million. As of June 30, 2023 and December 31, 2022, the carrying value of the Company’s investment in ONX preferred stock was $9.0 million and $5.0 million, respectively.

On March 28, 2023, Atlas and Poseidon Acquisition Corp. ("Poseidon") announced the completion of Poseidon’s acquisition of all outstanding common shares of Atlas not already owned by Fairfax and other Poseidon investors (“Poseidon Merger”). Poseidon is a consortium formed by Fairfax and other investors to complete the Poseidon Merger. In connection with the Poseidon Merger, in January 2023, the Company exercised all its Atlas common stock warrants for a cash payment of $8.5 million in exchange for 0.7 million of Atlas common stock shares recorded at a cost of $10.0 million. Separately, on March 9, 2023, Fairfax, including the Company, received 0.5 million of Atlas common stock shares that were previously held back at the time of the closing of the sale transaction of APR Energy (known as AB, an affiliated investment of both Fairfax and the Company) to Atlas on February 28, 2020. The Company recorded its portion of Atlas common stock shares received of 0.1 million at cost of $0.9 million, with an offset recorded in realized gain – other (effectively recognizing additional realized gain on the sale of APR Energy to Atlas). In relation to the same sale of APR Energy to Atlas, Fairfax agreed to potentially compensate Atlas for certain amounts and balances acquired in the transaction (“AB Indemnity”). In the six months ended June 30, 2023 and 2022, the Company paid $1.8 million and $2.5 million, respectively, to Atlas and recorded total realized losses of $0.2 million and $5.8 million, respectively, related to the AB Indemnity and additional related foreign exchange realized losses. As of June 30, 2023 and December 31, 2022, the carrying value of the Company’s investments in Atlas were as follows: fair value option accounted Atlas common stock of $55.9 million and $44.3 million, respectively; fair value option accounted Atlas preferred stock of $9.3 million and $9.0 million, respectively; and outstanding AB Indemnity liability of $12.5 million and $14.2 million, respectively.

In July 2022, Fairfax through its subsidiaries, including the Company, increased its interest in Grivalia Hospitality S.A. ("GH"), an affiliate of Fairfax and the Company, by acquiring additional common stock shares and commenced consolidating GH in the third quarter of 2022. The Company’s share of this investment was $7.1 million. In March 2023, the Company purchased an additional 3.1 million shares of GH common stock for $5.4 million. The Company continues to account for its investment in GH affiliated common stock using the equity-method of accounting. As of June 30, 2023 and December 31, 2022, the carrying value of the Company’s equity-method investment in GH affiliated common stock was $12.8 million and $7.1 million, respectively.

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

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

Other

The Company entered into reinsurance agreements with various subsidiaries of Allied World Assurance Company Holdings, Ltd. (collectively “Allied”), an affiliate of Fairfax and the Company, effective May 1, 2021, under which Allied cedes a portion of its global professional and medical liability business under the quota share and excess of loss reinsurance contracts on a risk-attaching basis. These agreements were renewed effective May 1, 2022, and then again effective May 1, 2023. Effective July 1, 2022, the Company entered into a risk attaching quota share agreement under which Allied cedes a portion of its cyber business to the Company. This agreement was renewed effective July 1, 2023. Total estimated premium assumed by the

Company for these agreements is expected to be earned over the 24-month period following the effective dates of the agreements.

The following table summarizes the impact from these agreements on various components of the balance sheet:

(In thousands)	June 30, 2023	December 31, 2022
Assets:		
Premiums receivable	$ 8,927	$ 9,550
Deferred policy acquisition costs	6,617	6,666
Liabilities:		
Unpaid losses and loss adjustment expenses	31,025	19,758
Unearned premiums	18,159	18,399

The following table summarizes the impact from these agreements on various components of net income:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2023	2022	2023	2022
Revenues:				
Net premium earned	$ 10,622	$ 6,205	$ 20,362	$ 11,198
Expenses:				
Loss and loss adjustment expenses incurred	6,398	3,669	12,647	6,995
Policy acquisition costs	3,925	2,101	7,485	3,784

The Company continues to be a party to various ceded 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 2023. As of June 30, 2023, and December 31, 2022, the Company recorded net payables for reinsurance of $0.3 million, respectively, related to the reinsurance transactions with affiliates of Fairfax. In the six months ended June 30, 2023, the Company recorded $1.9 million of ceded premium earned, compared to $1.6 million in the six months ended June 30, 2022.

In the six months ended June 30, 2023 and 2022, Zenith National paid Fairfax $0.1 million and $4.1 million, respectively, for the cost of the open market purchases made by Fairfax on behalf of Zenith National of Fairfax Subordinate Voting Shares granted to certain officers under the Restricted Stock Plan.

The Company is party to Master Administrative Services Agreements with various affiliates of Fairfax and the Company. Under the agreements, the affiliated parties provide and receive administration services such as accounting, underwriting, claims, reinsurance, preparation of regulatory reports, and actuarial services. The Company provides claims administration services to Seneca Insurance Company, Inc. (“Seneca”) and to RiverStone Group LLC and affiliates (“RiverStone”), both affiliates of Fairfax and the Company. Claims administration for RiverStone started in 2013 primarily for TIG Insurance Company workers’ compensation claims, and starting in December 2021, includes certain Crum & Forster Holdings Corp. workers’ compensation claims assumed by RiverStone. In the six months ended June 30, 2023 and 2022, service fee income recorded in the Consolidated Statements of Comprehensive Income (Loss), for RiverStone was $3.3 million and $2.8 million, respectively, and for Seneca was $38,000 and $52,000, respectively. As of June 30, 2023 and December 31, 2022, the Company recorded a net liability of $5.1 million and $5.9 million, respectively, to RiverStone comprised of a loss fund held for RiverStone claims of $5.7 million and $6.4 million, respectively, offset by a service fee receivable from RiverStone of $0.6 million and $0.5 million, respectively. As of June 30, 2023 and December 31, 2022, the loss fund held for Seneca claims were $0.4 million.

Note 6. Reinsurance Recoverable

Amounts recoverable for paid and unpaid losses from reinsurers as of June 30, 2023 and December 31, 2022 and their respective A.M. Best ratings were as follows:

(In thousands)	June 30, 2023 (a)	December 31, 2022 (a)	A.M. Best Rating (b)	A.M. Best Rating Date
General Reinsurance Corp.	$ 20,069	$ 21,543	A++	04/2023
Hannover Rueck SE	6,271	10,980	A++	01/2023
Partner Reinsurance Company	4,889	5,453	A+	12/2022
Transatlantic Reinsurance Company	4,811	5,292	A+	04/2023
Zenith Insurance 2019 AG IC 1 LLC	1,892	1,626	NR	
Factory Mutual Insurance Company	1,676	812	A+	01/2023
All others (c)	5,811	6,364		
Total	$ 45,419	$ 52,070		

(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 as of June 30, 2023 and December 31, 2022.

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, 2023	June 30, 2022
Beginning of period, net of reinsurance	$ 1,010,651	$ 1,003,800
Incurred claims:		
Current accident year	225,042	218,103
Prior accident years	(21,099)	(25,296)
Total incurred claims	203,943	192,807
Payments:		
Current accident year	(46,891)	(47,523)
Prior accident years	(160,437)	(146,598)
Total payments	(207,328)	(194,121)
End of period, net of reinsurance	1,007,266	1,002,486
Receivable from reinsurers for unpaid losses	39,066	43,509
End of period, gross of reinsurance	$ 1,046,332	$ 1,045,995

Note 8. 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	(63,202)
Vested/transferred	(95,380)
Purchased and available for future grants	(4,277)
Available for future purchases as of June 30, 2023	337,141

The following represents open market purchases of Fairfax Subordinate Voting Shares under the Restricted Stock Plan which also resulted in charges to the Company's Stockholders' equity:

(Dollars in thousands, except share data)	Number of Shares	Weighted Average Purchase Price Per Share	Total Purchase Price
Purchased through December 31, 2020	129,870	$ 436.07	$ 56,633
Purchased in 2021	14,526	441.18	6,409
Purchased in 2022	18,290	509.21	9,313
Purchased in 2023	173	679.20	117
Total purchased since plan inception	162,859	445.00	$ 72,472

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, 2020	57,601	$ 463.34	$ 26,690
Granted during 2021	22,496	405.50	9,122
Forfeited during 2021	(1,224)	466.47	(571)
Vested during 2021	(8,933)	449.52	(4,016)
Restricted Shares at December 31, 2021	69,940	446.45	31,225
Granted during 2022	11,893	494.64	5,883
Forfeited during 2022	(1,905)	448.30	(854)
Vested during 2022	(14,211)	449.96	(6,394)
Restricted Shares at December 31, 2022	65,717	454.36	29,860
Granted during 2023	8,203	514.48	4,220
Forfeited during 2023	(546)	438.31	(239)
Transfers during 2023	(154)	441.05	(68)
Vested during 2023	(10,018)	508.81	(5,097)
Restricted Shares as of June 30, 2023	63,202	453.70	$ 28,676

In the three and six months ended June 30, 2023, stock-based compensation expense before tax was $1.4 million and $2.9 million, respectively, compared to $2.3 million and $4.2 million for the same periods in 2022.

As of June 30, 2023 and December 31, 2022, unrecognized compensation expense before tax under the Restricted Stock Plan was $15.4 million and $14.3 million, respectively.

Note 9. 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.