Zenith National Insurance Corp. and Subsidiaries

Consolidated Financial Statements
as of September 30, 2022 and December 31, 2021 and for the three and nine months ended September 30, 2022 and 2021
(unaudited)

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

(In thousands, except par value)		September 30, 2022		December 31, 2021
Assets:				
Investments:				
Fixed maturity securities, at fair value (amortized cost $1,027,830 in 2022 and $898,491 in 2021)	$	1,000,727	$	897,537
Equity securities, at fair value (cost $324,938 in 2022 and $261,116 in 2021)		403,574		348,776
Short-term investments, at fair value which approximates cost		3,996		188,687
Mortgage loans, at fair value which approximates cost		163,663		79,337
Other investments		161,419		155,664
Derivative assets, at fair value (cost $14,058 in 2022 and $13,225 in 2021)		5,193		3,214
Total investments		1,738,572		1,673,215
Cash		49,013		104,568
Accrued investment income		7,381		4,466
Premiums receivable		56,390		48,816
Earned but unbilled premium receivable		4,002		
Reinsurance recoverables		49,637		47,854
Deferred policy acquisition costs		21,931		17,543
Deferred tax asset		54,312		44,191
Operating lease right-of-use assets		23,374		25,107
Goodwill		20,985		20,985
Other assets		56,978		59,161
Total assets	$	2,082,575	$	2,045,906
Liabilities:				
Unpaid losses and loss adjustment expenses	$	1,055,644	$	1,049,076
Unearned premiums		128,587		105,236
Policyholders’ dividends accrued		32,582		30,780
Long-term debt		38,333		38,310
Income tax payable		1,279		649
Operating lease liabilities		25,041		26,622
Derivative liabilities				380
Other liabilities		94,386		89,757
Total liabilities		1,375,852		1,340,810
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		395,999		399,159
Retained earnings		320,989		314,948
Accumulated other comprehensive loss		(10,304)		(9,050)
Total stockholders’ equity		706,723		705,096
Total liabilities and stockholders’ equity	$	2,082,575	$	2,045,906

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2022	2021	2022	2021
Revenues:				
Net premiums earned	$ 190,285	$ 184,844	$ 542,537	$ 527,323
Net investment income	6,494	2,090	16,242	14,730
Net realized gain (loss) on investments	(4,797)	21,027	(3,890)	45,757
Change in net unrealized gains/losses on fair value option investments	47,944	(454)	(35,682)	78,325
Net gains (losses) on derivatives	6,140	(1,877)	6,445	16,552
Service fee income	2,158	1,543	5,618	4,357
Total revenues	248,224	207,173	531,270	687,044
Expenses:				
Losses and loss adjustment expenses incurred	105,008	101,294	297,815	277,104
Underwriting and other operating expenses:				
Policyholder acquisition costs	38,422	35,178	110,896	100,993
Underwriting and other costs	33,641	31,196	98,266	93,147
Policyholders' dividends	4,484	4,631	13,896	14,422
Interest expense	830	830	2,490	2,490
Total expenses	182,385	173,129	523,363	488,156
Income before tax	65,839	34,044	7,907	198,888
Income tax expense	13,958	6,266	1,866	40,605
Decrease in valuation allowance				(29,500)
Net income	$ 51,881	$ 27,778	$ 6,041	$ 187,783
Change in unrealized gains/losses on investments, net of tax	159	(412)	(377)	1,309
Change in unrealized foreign currency translation adjustments, net of tax	(1,479)	(200)	(877)	(2,249)
Other comprehensive loss	(1,320)	(612)	(1,254)	(940)
Total comprehensive income	$ 50,561	$ 27,166	$ 4,787	$ 186,843

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

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

(In thousands)	Nine Months Ended September 30, 2022	2021
Cash flows from operating activities:		
Premiums collected	$ 570,193	$ 531,569
Investment income received	14,917	26,951
Losses and loss adjustment expenses paid	(293,656)	(276,508)
Underwriting and other operating expenses paid	(222,226)	(207,062)
Interest paid	(3,292)	(3,292)
Income taxes paid	(11,028)	(16,651)
Net cash provided by operating activities	54,908	55,007
Cash flows from investing activities:		
Purchases of investments:		
Fixed maturity securities – fair value option	(1,058,622)	(889,373)
Equity securities – fair value option	(54,128)	(5,000)
Mortgage loans	(85,939)	(28,005)
Derivatives	(4,125)	(134)
Corporate loan - affiliate	(5,000)	
Other investments	(8,726)	(5,850)
Proceeds from maturities and redemptions of investments:		
Fixed maturity securities – fair value option	278,861	842,126
Proceeds from sales of investments:		
Fixed maturity securities – fair value option	640,444	12,484
Equity securities – fair value option	4,902	
Derivatives	64	
Mortgage loans	2,042	10,000
Other investments	4,082	5,140
Net decrease in short-term investments	182,640	3,289
Net derivative cash settlements	4,679	9,851
Capital expenditures and other	(2,324)	(1,163)
Net cash used in investing activities	(101,150)	(46,635)
Cash flows from financing activities:		
Purchase of Fairfax shares for restricted stock awards	(9,313)	(4,750)
Net cash used in financing activities	(9,313)	(4,750)
Net increase (decrease) in cash	(55,555)	3,622
Cash at beginning of period	104,568	62,838
Cash at end of period	$ 49,013	$ 66,460

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

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

	Nine Months Ended September 30,	
(In thousands)	2022	2021
Reconciliation of net income to net cash provided by operating activities:		
Net income	$ 6,041	$ 187,783
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	1,486	1,947
Net amortization expense	1,612	7,659
Net realized losses (gains) on investments	3,890	(45,757)
Change in net unrealized losses/gains on fair value option investments	35,682	(78,325)
Net gains on derivatives	(6,445)	(16,552)
Equity in losses of investee	284	1,872
Stock-based compensation expense	6,153	3,988
Decrease (increase) in:		
Accrued investment income	(2,915)	3,526
Premiums receivable	(13,602)	(36,992)
Reinsurance recoverables	(1,783)	(7,982)
Deferred policy acquisition costs	(4,388)	(5,300)
Net income taxes	(9,161)	(5,546)
Increase (decrease) in:		
Unpaid losses and loss adjustment expenses	6,568	8,256
Unearned premiums	23,351	26,548
Policyholders' dividends accrued	1,802	1,016
Accrued expenses	3,388	4,840
Interest payable	(823)	(823)
Prepaid policy and guarantee fund assessments	5,127	4,974
Other	(1,359)	(125)
Net cash provided by operating activities	$ 54,908	$ 55,007

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

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

	Nine Months Ended September 30,	
(In thousands)	2022	2021
Common stock:	$ 39	$ 39
Additional paid-in capital:		
Beginning of period	399,159	400,264
Stock-based compensation expense	6,153	3,988
Purchases of Fairfax shares for restricted stock awards	(9,313)	(4,750)
End of period	395,999	399,502
Retained earnings:		
Beginning of period	314,948	118,659
Net income	6,041	187,783
End of period	320,989	306,442
Accumulated other comprehensive loss:		
Beginning of period	(9,050)	(6,687)
Change in unrealized gains/losses on investments, net of tax	(377)	1,309
Change in unrealized foreign currency translation adjustments, net of tax	(877)	(2,249)
End of period	(10,304)	(7,627)
Total stockholders' equity	$ 706,723	$ 698,356

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 ("TSX"), and is principally engaged in property and casualty insurance, reinsurance and associated investment management. Zenith National's wholly-owned subsidiaries (primarily Zenith Insurance Company ("Zenith Insurance")), specialize in the workers' compensation insurance business, nationally and, since 2010, in the property-casualty business for California agriculture. 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, 2021.

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.

Recent Accounting Standards Not Yet Adopted

Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions

In June 2022, the FASB issued new guidance which clarifies the existing fair value measurement guidance, when measuring the fair value of an equity security subject to contractual restrictions that prohibit the sale of an equity security and introduces new disclosure requirements for equity securities subject to contractual sale restrictions that are measured at fair value. The new standard clarifies that a contractual restriction on the sale of an equity security 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.

Subsequent Events

The Company evaluated subsequent events through the date and time that the Consolidated Financial Statements were issued on November 10, 2022.

Note 2. Investments

The cost or amortized cost and fair value of investments recorded at fair value under the fair value option as of September 30, 2022 and December 31, 2021 were as follows:

(In thousands)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
September 30, 2022				
Fair value option investments:				
Fixed maturity securities:				
U.S. Government debt	$ 988,286	$ 347	$ (25,081)	$ 963,552
State and local government debt	5,064	5		5,069
Foreign government debt	15,823		(1,163)	14,660
Corporate debt	18,657		(1,211)	17,446
Total fixed maturity securities	1,027,830	352	(27,455)	1,000,727
Equity securities	324,938	127,811	(49,175)	403,574
Short-term investments	3,999		(3)	3,996
Mortgage loans	163,663			163,663
Other investments – cost-method partnerships	35,150	9,161	(2,250)	42,061
Other investments – affiliate corporate loans	14,322		(134)	14,188
Other investments – contingent consideration receivable	14,936	2,055		16,991
Total fair value option investments	**$ 1,584,838**	**$ 139,379**	**$ (79,017)**	**$ 1,645,200**
December 31, 2021				
Fair value option investments:				
Fixed maturity securities:				
U.S. Government debt	$ 859,495		$ (459)	$ 859,036
State and local government debt	10,179	$ 321		10,500
Foreign government debt	15,014		(1,416)	13,598
Corporate debt	13,803	600		14,403
Total fixed maturity securities	898,491	921	(1,875)	897,537
Equity securities	261,116	113,129	(25,469)	348,776
Short-term investments	188,689		(2)	188,687
Mortgage loans	79,337			79,337
Other investments – cost-method partnerships	35,790	9,195	(2,387)	42,598
Other investments – affiliate corporate loans	9,322	887		10,209
Other investments – contingent consideration receivable	17,038	1,645		18,683
Total fair value option investments	**$ 1,489,783**	**$ 125,777**	**$ (29,733)**	**$ 1,585,827**

Fixed maturity securities, including short-term investments, by contractual maturity as of September 30, 2022 were as follows:

(In thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 83,365	$ 82,508
Due after one year through five years	936,859	911,369
Due after five years through ten years	8,807	8,797
Due after ten years	2,798	2,049
Total	$ 1,031,829	$ 1,004,723

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 September 30, 2022 and December 31, 2021, total investments also included other investments detailed below and derivative contracts described in Note 3.

Other investments consisted of the following:

(In thousands)		September 30, 2022		December 31, 2021
Equity-method common stock (a)	$	88,179	$	84,174
Cost-method partnerships, at fair value (cost $35,150 in 2022 and $35,790 in 2021) (b)		42,061		42,598
Affiliate corporate loans, at fair value (amortized cost $14,322 in 2022 and $9,322 in 2021)		14,188		10,209
Contingent consideration receivable, at fair value (cost $14,936 in 2022 and $17,038 in 2021)		16,991		18,683
Total other investments	$	161,419	$	155,664

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

As of September 30, 2022, the Company had commitments to invest an additional $9.9 million in partnerships and limited liability companies.

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
(In thousands)		2022		2021		2022		2021
Sales of fixed maturity securities, including short-term investments and other (a)	$	(3,193)	$	51	$	(3,366)	$	(9,291)
Sale of equity securities (b)						(1,578)		
Sale of mortgage loans				112				112
Gains (losses) from other investments (c)		(1,604)		20,864		1,054		54,936
Net realized gains (losses) on investments	$	(4,797)	$	21,027	$	(3,890)	$	45,757

(a) Net realized losses on sales of fixed maturity securities, including short-term investments and other in the three months ended September 30, 2022 primarily included a realized loss on sale of U.S. government securities of $2.9 million.

Net realized losses on sales of fixed maturity securities, including short-term investments and other in the nine months ended September 30, 2022 primarily 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; a realized loss on sale of U.S. government securities of $3.3 million, partially offset by a realized gain of $5.5 million on the conversion of fair value option fixed maturity securities into common stock.

Net realized losses on sales of fixed maturity securities, including short-term investments and other in the nine months ended September 30, 2021 primarily included $10.9 million of indemnity-related losses recorded in connection with Atlas' acquisition of AB.

(b) Net realized losses on sales of equity securities in the nine months ended September 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.

(c) Net realized losses from other investments in the three months ended September 30, 2022 included an other-than-temporary impairment of $1.7 million for the Company's equity-method investment in Farmers Edge Inc. ("FE").

Net realized gains from other investments in the nine months ended September 30, 2022, included realized gains of $2.3 million from cost-method partnership distributions, partially offset by an other-than-temporary impairment of $1.3 million for the Company's equity-method investment in FE.

Net realized gains from other investments in the three and nine months ended September 30, 2021 primarily included a realized gain of $20.1 million for the sale of the Company's equity-method investment in Toys "R" Us Canada in August 2021, dilution gains on equity-method investments of $19.7 million for Boat Rocker Media Inc. ("Boat Rocker") and $10.6 million for FE, in connection with their respective IPOs, and a $0.8 million realized gain on conversion of FE affiliate loans. See Note 5.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2022	2021	2022	2021
Change in unrealized gains/losses on investments, before tax	$ 202	$ (521)	$ (476)	$ 1,657
After tax	$ 159	$ (412)	$ (377)	$ 1,309

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2022	2021	2022	2021
Change in net unrealized gains/losses recognized on fair value option investments	$ 47,944	$ (454)	$ (35,682)	$ 78,325
Less: Net losses (gains) recognized on fair value option investments sold	113	(3)	1,214	(3,710)
Change in net unrealized gains/losses recognized on fair value option investments still held at the reporting date	$ 47,831	$ (451)	$ (36,896)	$ 82,035

Net investment income was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2022	2021	2022	2021
Fixed maturity securities (a)	$ 5,103	$ 1,370	$ 10,606	$ 6,484
Equity securities (b)	1,433	1,047	4,493	12,118
Mortgage loans	2,882	561	5,842	1,281
Derivatives		(16)		1,474
Short-term and other investments (a)	415	183	1,153	828
Income (loss) from equity-method investments (c)	(1,477)	858	(284)	(1,872)
Subtotal	8,356	4,003	21,810	20,313
Investment expenses	1,862	1,913	5,568	5,583
Net investment income	$ 6,494	$ 2,090	$ 16,242	$ 14,730

(a) Income from fixed maturity securities in the three and nine months ended September 30, 2022 increased compared to the corresponding period of 2021, primarily due to the sales and maturities of short-dated U.S. Treasury securities and corporate bonds, with the proceeds reinvested in mortgage loans and higher yielding long-term U.S. Treasury securities in response to rising interest rates.

(b) Income from equity securities in the nine months ended September 30, 2021, included a $8.3 million special dividend received from Resolute Forest Products in June 2021.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2022	2021	2022	2021
Astarta Holdings NV			$ 4,829	$ 571
Exco Resources Inc.	$ 1,119	$ (449)	1,119	(562)
Helios Fairfax Partners Corp.	(1,553)	3	(1,731)	(1,811)
Farmers Edge Inc.	(641)	(301)	(1,721)	(1,482)
Fairfax India Holdings Corp.	(708)	2,128	(1,317)	5,314
Boat Rocker Media Inc.	156	(1,038)	(1,224)	(4,839)
Alberta ULC	(496)	297	(1,068)	610
Other	646	218	829	327
Income (loss) from equity-method investments	$ (1,477)	$ 858	$ (284)	$ (1,872)

As of September 30, 2022 and December 31, 2021, investments with a fair value of $795 million and $850 million, respectively, were on deposit with regulatory authorities in compliance with insurance company regulations. As of September 30, 2022, the Company had additional qualifying securities with a fair value of $173 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:

(In thousands)	Notional Amount	Cost	Fair Value of Derivative Assets	Fair Value of Derivative Liabilities
September 30, 2022				
CPI-linked derivatives	$ 3,558,178	$ 13,091	$ 11	
Foreign exchange forwards	88,352		1,768	
Equity warrants (a)	13,527	967	3,414	
Total		$ 14,058	$ 5,193	
December 31, 2021				
CPI-linked derivatives	$ 3,548,602	$ 13,091	$ 25	
Foreign exchange forwards	81,067			$ 380
Equity warrants (b)	8,527	134	3,189	
Total		$ 13,225	$ 3,214	$ 380

(a) As of September 30, 2022, equity warrants included 0.7 million shares and 0.2 million shares of Atlas common stock warrants and Kennedy Wilson common stock warrants, respectively.

(b) As of December 31, 2021, equity warrants included 0.7 million shares of Atlas common stock warrants.

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:

(In thousands)	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Gains (losses) on settlements				
Equity derivatives:				
Equity total return swaps – long positions		$ (3,381)		$ 11,219
Equity warrants	$ 1		$ 240	
CPI-linked derivatives (a)		(5,354)		(9,419)
Foreign exchange forwards	2,981	3,903	4,679	(1,502)
Total	2,982	(4,832)	4,919	298
Change in fair value				
Equity derivatives:				
Equity total return swaps – long positions		(670)		1,607
Equity warrants	1,029	333	(608)	3,677
CPI-linked derivatives (a)	(20)	5,343	(14)	9,191
Foreign exchange forwards	2,149	(2,051)	2,148	1,779
Total	3,158	2,955	1,526	16,254
Net gains (losses) on derivatives				
Equity derivatives:				
Equity total return swaps – long positions		(4,051)		12,826
Equity warrants	1,030	333	(368)	3,677
CPI-linked derivatives (a)	(20)	(11)	(14)	(228)
Foreign exchange forwards	5,130	1,852	6,827	277
Total net gains (losses) on derivatives	$ 6,140	$ (1,877)	$ 6,445	$ 16,552

(a) Two CPI-linked derivative contracts with the notional amount of $0.9 billion, matured in the nine months ended September 30, 2021, with the fair value of zero at maturity and $9.4 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 contracts

The Company held long equity total return swaps on individual equities and equity index put options for investment purposes. These contracts provided the total return on a notional amount (including dividends and capital gains or losses) that is directly correlated to changes in fair value of the underlying individual equities or equity indexes in exchange for the payment of a floating rate of interest on the notional amount. Total return swaps required no initial net cash investment; and at inception the fair value was zero. The Company's long equity total return swaps may have contained reset provisions requiring counterparties to cash-settle on a monthly or quarterly basis for any fair value changes arising subsequent to the most recent reset date. Any cash amounts paid to settle unfavorable fair value changes and conversely, any cash amounts received in settlement of favorable fair value changes, were recorded as net gains (losses) on derivatives in the Consolidated Statements of Comprehensive Income (Loss) (included in the gains on settlements section in the table above).

As of December 31, 2021, the Company closed all its total return swap positions.

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). As of September 30, 2022, these contracts had a remaining weighted average life of approximately 1.6 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 as of September 30, 2022 and December 31, 2021:

	Notional Amount		Weighted Average Strike Price	
(Notional amount in thousands)	Original Currency	US Dollars	In Original Currency	Index Value
Underlying CPI Index:				
September 30, 2022				
United States	2,980,000	$ 2,980,000	235.47	296.81
European Union	500,000	578,178	100.63	119.00
		$ 3,558,178		
December 31, 2021				
United States	2,980,000	$ 2,980,000	235.47	278.80
European Union	500,000	568,602	100.63	109.97
		$ 3,548,602		

Foreign exchange forward contracts

The Company has exposure to foreign currency fluctuations for foreign investments held. Foreign exchange forward contracts ("foreign exchange forwards"), primarily denominated in the Canadian dollar are used to manage certain foreign currency exposures arising from foreign currency denominated investments. These foreign exchange forwards require no initial net cash investment and at inception the fair value is zero. These contracts have a term to maturity of less than one year and may be renewed at market rates.

Counterparty collateral and exposure

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

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

(In thousands)	September 30, 2022	December 31, 2021
Total derivative assets (a)	$ 1,779	$ 25
Fair value of collateral deposited for the benefit of the Company		(1)
Net derivative counterparty exposure after net settlement and collateral arrangements	$ 1,779	$ 24

(a) Excludes equity warrants with a fair value of $3.4 million and $3.2 million as of September 30, 2022 and December 31, 2021, respectively, 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.

As of September 30, 2022, no amounts were pledged by counterparties for the Company's benefit. As of December 31, 2021, the counterparties pledged $0.3 million in cash for the Company's benefit. The Company recorded the cash collateral as other assets and recorded a corresponding liability in its Consolidated Balance Sheets. The Company does not record in its Consolidated Balance Sheets securities pledged by counterparties as collateral for derivatives in a gain position.

As of September 30, 2022 and December 31, 2021, the Company had no pledged amounts recorded as contractually required collateral to a counterparty on any derivative contracts.

Offsetting of Derivative Assets/Liabilities

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

		Gross amounts not offset in the Consolidated Balance Sheets		
(In thousands)	Gross and net amounts reflected in the Consolidated Balance Sheets	Derivative asset (liability)	Collateral provided (held) - financial instruments (a)	Net amount of exposure
September 30, 2022				
Derivative assets:				
Bank of New York Mellon (b)	$ 1,768			$ 1,768
Citibank, N.A.	11			11
Total derivative assets (c)	$ 1,779			$ 1,779
December 31, 2021				
Derivative assets:				
Citibank, N.A.	$ 24			$ 24
Deutsche Bank AG London	1		$ (1)	
Total derivative assets (c)	$ 25		$ (1)	$ 24
Derivative liabilities:				
Bank of New York Mellon (b)	$ (380)			$ (380)
Total derivative liabilities	$ (380)			$ (380)

(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 $3.4 million and $3.2 million as of September 30, 2022 and December 31, 2021, respectively, which are not subject to counterparty risk.

Note 4. Fair Value Measurements

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

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

The three hierarchy levels are defined as follows:

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

Level 2— Inputs include directly or indirectly observable inputs (other than Level 1 inputs) such as quoted prices for similar financial instruments exchanged in active markets, quoted prices for identical or similar financial instruments exchanged in inactive markets and other market observable inputs. The fair value of the vast majority of the Company's investments in fixed maturity securities, along with most derivative contracts 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 September 30, 2022 and December 31, 2021 classified by the valuation hierarchy discussed previously:

		Fair Value Measurement Using		
(In thousands)	Total (a)	Level 1	Level 2	Level 3
September 30, 2022				
Fair value option securities:				
Fixed maturity securities:				
U.S. government debt	$ 963,552		$ 963,552	
State and local government debt	5,069		5,069	
Foreign government debt	14,660		14,660	
Corporate debt	17,446		15,397	$ 2,049
Total fixed maturity securities	1,000,727		998,678	2,049
Equity securities (b)	403,574	$ 335,873	18,006	18,700
Short-term investments	3,996	3,996		
Mortgage loans	163,663			163,663
Other investments – cost-method partnerships (a) (b)	42,061			
Other investments – affiliate corporate loans (a)	14,188			14,188
Other investments – contingent consideration receivable (a)	16,991			16,991
Total fair value option investments	$ 1,645,200	$ 339,869	$ 1,016,684	$ 215,591
Derivatives:				
Equity warrants	$ 3,414			$ 3,414
CPI-linked derivatives	11			11
Foreign exchange forwards	1,768		$ 1,768	
Total derivative assets	**$ 5,193**		**$ 1,768**	**$ 3,425**

		Fair Value Measurement Using		
(In thousands)	Total	Level 1	Level 2	Level 3
December 31, 2021				
Fair value option securities:				
Fixed maturity securities:				
U.S. government debt	$ 859,036		$ 859,036	
State and local government debt	10,500		10,500	
Foreign government debt	13,598		13,598	
Corporate debt	14,403		6,320	$ 8,083
Total fixed maturity securities	897,537		889,454	8,083
Equity securities (b)	348,776	$ 271,590	18,335	23,642
Short-term investments	188,687	188,687		
Mortgage loans	79,337			79,337
Other investments – cost-method partnerships (a) (b)	42,598			
Other investments – affiliate corporate loans (a)	10,209			10,209
Other investments – contingent consideration receivable (a)	18,683			18,683
Total fair value option investments	$ 1,585,827	$ 460,277	$ 907,789	$ 139,954
Derivatives:				
Equity warrants	$ 3,189			$ 3,189
CPI-linked derivatives	25			25
Total derivative assets	3,214			3,214
Foreign exchange forwards	(380)		$ (380)	
Total derivative liabilities	(380)		(380)	
Net derivatives	$ 2,834		$ (380)	$ 3,214

(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 the full composition of investments recorded under other investments.

(b) As of September 30, 2022 and December 31, 2021, certain common stock investments with a fair value of $31.0 million and $35.2 million, respectively, and cost-method partnerships with a fair value of $42.1 million and $42.6 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 June 30, 2022	$ 2,065	$ 20,027	$ 117,935	$ 14,719	$ 17,884	$ 2,415
Purchases			45,911			
Sales			(227)		(595)	
Realized and unrealized gains/losses included in:						
Net investments income – accretion of discounts			44			
Net realized losses on investments					(19)	
Change in net unrealized gains/losses on fair value option investments	(16)	(1,327)		(531)	(279)	
Net gains on derivatives						1,010
Balance as of September 30, 2022	$ 2,049	$ 18,700	$ 163,663	$ 14,188	$ 16,991	$ 3,425
Balance as of December 31, 2021	$ 8,083	$ 23,642	$ 79,337	$ 10,209	$ 18,683	$ 3,214
Purchases		4,167	86,235	5,000		4,125
Sales	(10,335)	(5,548)	(2,042)		(2,095)	(3,532)
Realized and unrealized gains/losses included in:						
Net investments income – accretion of discounts			133			
Net realized gains (losses) on investments	5,523	1,386			(7)	240
Change in net unrealized gains/losses on fair value option investments	(1,222)	(4,947)		(1,021)	410	
Net losses on derivatives						(622)
Balance as of September 30, 2022	$ 2,049	$ 18,700	$ 163,663	$ 14,188	$ 16,991	$ 3,425

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

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

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. Investment management expenses incurred under these agreements in the three and nine months ended September 30, 2022, were $1.2 million and $3.8 million, respectively, compared to $1.3 million and $3.7 million in the three and nine months ended September 30, 2021, 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 September 30, 2022 and December 31, 2021 were as follows:

(In thousands)		September 30, 2022		December 31, 2021
Equity securities, at fair value	$	132,501	$	94,473
Other investments:				
Equity-method common stock		88,179		84,174
Partnerships, at fair value		8,230		8,704
Affiliate corporate loans, at fair value		14,188		10,209
Equity warrants, at fair value		3,082		3,189
Total	$	246,180	$	200,749

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
(In thousands)		2022		2021		2022		2021
Included in net income:								
Net investment income	$	585	$	1,671	$	3,435	$	2,096
Net realized gain (loss) on investments		(1,605)		20,320		(5,630)		43,925
Change in net unrealized gains/losses on fair value option investments		(2,811)		18		(18,906)		16,003
Net gains (losses) on derivatives		1,339				(106)		
Included in other comprehensive loss:								
Change in unrealized gains/losses on investments, before tax		202		(521)		(476)		1,657
Change in unrealized foreign currency translation adjustments, before tax		(1,873)		(253)		(1,111)		(2,847)
Total	$	(4,163)	$	21,235	$	(22,794)	$	60,834

The Company owns a fair value investment in the common stock of Recipe, an affiliate of Fairfax and the Company. As of September 30, 2022 and December 31, 2021, the carrying value of the Company’s fair value option investment in Recipe was $8.9 million and $8.3 million, respectively. On October 28, 2022, Fairfax, through its subsidiaries including the Company, acquired all of the multiple voting shares and subordinate voting shares in the capital of Recipe, other than those shares owned by Fairfax and its affiliates, at a cash purchase price of Cdn$20.73 per share. The transaction was formally approved at a special meeting of shareholders of Recipe held on October 21, 2022, where 99.87% of all shareholders excluding Fairfax and Cara Holdings Limited voted in favor of the transaction. Court approval of the transaction was obtained on October 25, 2022, and the transaction closed on October 28, 2022. The transaction increased Fairfax’s equity ownership in Recipe from 39.4% at September 30, 2022 to approximately 84%, and Recipe was subsequently de-listed from the TSX. The Company’s share of this additional investment in Recipe in October 2022 was Cdn$11.0 million. The Company continues to account for its affiliated common stock investment in Recipe using the fair value option.

The Company owns a fair value option investment in the common stock of Stelco Holdings Inc.(“Stelco”), a Canadian publicly traded company. In August 2022, Stelco repurchased 5.1 million of its outstanding common shares under its substantial issuer bid which resulted in the loss of a certain right held by another investor and Fairfax’s ownership interest in Stelco increasing to 20.5%. Accordingly, Stelco became an affiliate of Fairfax and the Company and Fairfax commenced applying the equity-method of accounting to its interest in Stelco. The Company continues to account for its affiliated common stock investment in Stelco using the fair value option. As of September 30, 2022, and December 31, 2021, the carrying value of the Company's investment in Stelco was $43.2 million and $56.1 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, to 78.4% from 33.5% by acquiring additional common stock shares for cash. The Company initially invested $7.1 million in GH common stock in July 2022, and accounts for its affiliated common stock investment in GH using the equity-method of accounting. As of September 30, 2022, the carrying value of the Company’s investment in GH common stock was $7.1 million.

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

In February 2022, Fairfax through its subsidiaries, including the Company, invested in a $45 million short-term note issued by Access LNG Tema SCS (“Access LNG”), a Luxemburg limited partnership and an indirect investment of Helios, an affiliate of Fairfax and the Company. The note bears a 14% annual interest rate and has an initial term to maturity of nine months, which can be extended for an additional three months at the option of the issuer. The Company invested $5.0 million in the Access LNG note and recorded this investment as an Affiliate Corporate Loan in Other Assets. As of September 30, 2022, the carrying value of the Company’s investment in Access LNG’s affiliate corporate loan was $5.0 million.

The Company owns investments in the common stock, preferred stock, and equity warrants of Atlas, an affiliate of Fairfax and the Company, for which the Company elected the fair value option. As of September 30, 2022, and December 31, 2021, the carrying value of the Company’s investments in Atlas preferred stock was $9.1 million and $10.0 million, respectively; in Atlas common stock was $40.3 million and $40.9 million, respectively; and in Atlas warrants was $3.1 million and $3.2 million, respectively.

In February 2020, Seaspan Corporation (“Seaspan”) completed a holding company reorganization to create Atlas, whereby Atlas became the parent of Seaspan (the “Reorganization”). Certain Seaspan debentures were exchanged for Atlas preferred stock and Atlas warrants in the second quarter of 2021 and certain other Seaspan debentures were redeemed in the third quarter of 2021. The Company exchanged $10.0 million par value (fair value of $10.1 million) of its Seaspan bonds due in 2027 for 0.4 million shares of Atlas preferred stock (cost basis of $10.0 million) and 33,000 shares of Atlas warrants (cost basis of $0.1 million) and recorded a realized gain of $0.1 million on the conversion.

In April 2021, Fairfax signed an amendment agreement in relation to the original sale of AB to Atlas, both affiliates of Fairfax and the Company, to potentially compensate Atlas for certain amounts and balances acquired in the transaction (“AB Indemnity”). In the nine months ended September 30, 2022, and 2021, the Company recorded realized losses of $5.8 million and $10.9 million, respectively, for its share of realized losses related to the AB Indemnity and additional foreign exchange realized losses. As of September 30, 2022 and December 31, 2021, the carrying value of the Company’s outstanding AB Indemnity liability was $14.9 million and $11.7 million, respectively. As part of the agreement, Atlas also issued warrants to Fairfax and the Company with an exercise price of $13 per share and at no cost, expiring in April 2026. The Company received 0.6 million shares of these Atlas warrants.

On October 31, 2022 a consortium composed of Fairfax and certain other shareholders and directors of Atlas (collectively, the "Consortium"), signed a definitive agreement to acquire all of the outstanding common shares of Atlas, other than those shares owned by the Consortium, at a cash purchase price of $15.50, plus payment of all ordinary course quarterly dividends up until closing of the transaction. Pursuant to the transaction, Fairfax would transfer its approximate 45% interest in Atlas, inclusive of Fairfax’s interest upon eventual exercise of its holdings in Atlas equity warrants, into an entity formed by the Consortium, and is not obligated to purchase any additional interest not already owned by the Consortium. The other members of the Consortium have committed to fully fund the cash component of the transaction, and Fairfax would continue its ownership in Atlas as part of the Consortium. Closing of the transaction is expected to be completed in the first half of 2023, and is subject to receipt of shareholder and regulatory approvals and certain other customary closing conditions.

The Company owns a fair value option investment in the limited partnership of Transportation Recovery Fund (“TRF”). Fairfax, through its subsidiaries including the Company, has been a limited partner investor since 2013. In April 2021, a Fairfax representative signed an agreement to provide services to a new sub-advisor and participate in both the management group and the investment committee of TRF. Fairfax concluded that this appointment resulted in significant influence over the operations of TRF. 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 Fairfax and the Company. As of September 30, 2022, and December 31, 2021, the carrying value of the Company’s investment in TRF was $8.2 million and $8.7 million, respectively.

The Company owns an equity-method investment in the common stock of FE, a majority-owned subsidiary of Fairfax and an affiliate of the Company. In March 2021, FE completed its IPO, issuing 7.4 million common shares at Cdn$17.00 per share. The common stock shares began trading on the TSX under the ticker symbol: FDGE. All outstanding FE convertible debentures held by Fairfax through its subsidiaries, including the Company (“FE affiliate loans”) were exchanged for 114.6 million pre-IPO common shares. All FE common shares outstanding prior to the IPO were then consolidated into fewer shares through a 7 for 1 reverse stock split. In connection with the conversion of FE’s affiliate loans, the Company recorded a realized gain of $0.8 million and increased the cost basis of its investment in FE common stock by $9.3 million, representing additional shares received, at fair value equal to the IPO price. In September 2022 and December 2021, the Company recorded other-than-temporary impairments of $1.3 million and $14.5 million, respectively, as a result of the extent and duration that the fair value of FE’s common stock had been below its carrying value.

As of September 30, 2022, and December 31, 2021, the carrying value of the Company's equity-method investment in FE common stock was $0.7 million and $3.7 million, respectively.

The Company owns an equity-method investment in the common stock of Boat Rocker, a majority-owned subsidiary of Fairfax and an affiliate of the Company. In March 2021, Boat Rocker completed its IPO, issuing 18.9 million common stock shares at Cdn$9.00 per share. The common stock shares began trading on the TSX under the ticker symbol: BRMI. Prior to the IPO, Boat Rocker effected a 1.6016 for 1 stock split on its common shares outstanding, resulting in an increase in shares issued and outstanding. As of September 30, 2022, and December 31, 2021, the carrying value of the Company's equity-method investment in Boat Rocker common stock was $17.3 million and $18.6 million, respectively.

Other

In October 2022, Zenith National paid a $29.0 million ordinary dividend in cash to affiliates of Fairfax and the Company.

The Company entered into reinsurance agreements with various subsidiaries of Allied 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 reinsurance agreements were renewed effective May 1, 2022. Effective July 1, 2022, the Company entered into a risk attaching quota share agreement under which Allied cedes a portion of its Cyber business. 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)	September 30, 2022	December 31, 2021
Assets:		
Premiums receivable	$ 9,836	$ 6,583
Deferred policy acquisition costs	5,479	3,751
Liabilities:		
Unpaid losses and loss adjustment expenses	15,578	3,632
Unearned premiums	15,422	11,130

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2022	2021	2022	2021
Revenues:				
Net premium earned	$ 7,534	$ 2,323	$ 18,733	$ 2,323
Expenses:				
Loss and loss adjustment expenses incurred	5,242	1,504	12,236	1,504
Policy acquisition costs	2,625	783	6,409	783

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 2022. As of September 30, 2022, and December 31, 2021, the Company recorded net payables for reinsurance of $0.6 million and $0.1 million, respectively, related to the reinsurance transactions with affiliates of Fairfax. In the three and nine months ended September 30, 2022, the Company recorded $1.4 million and $3.0 million, respectively, of ceded premium earned, compared to $1.0 million and $2.7 million in the three and nine months ended September 30, 2021, respectively.

In the nine months ended September 30, 2022 and 2021, Zenith National paid Fairfax $9.3 million and $4.8 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 three and nine months ended September 30, 2022 and 2021, service fee income recorded in the Consolidated Statements of Comprehensive Income (Loss), for RiverStone was $1.8 million and $4.5 million and $1.3 million and $3.6 million, respectively, and for Seneca was $33,000 and $85,000 and $40,000 and $119,000, respectively. As of September 30, 2022 and December 31, 2021, the Company recorded a net liability of $3.5 million and $2.6 million, respectively, to RiverStone comprised of a loss fund held for RiverStone claims of $4.1 million and $3.3 million, respectively, offset by a service fee receivable from RiverStone of $0.6 million and $0.7 million, respectively. As of September 30, 2022 and December 31, 2021, the loss fund held for Seneca claims was $0.4 million.

Note 6. Reinsurance Recoverable

Amounts recoverable for paid and unpaid losses from reinsurers as of September 30, 2022 and December 31, 2021 and their respective A.M. Best ratings were as follows:

(In thousands)	September 30, 2022 (a)	December 31, 2021 (a)	A.M. Best Rating (b)	A.M. Best Rating Date
General Reinsurance Corp.	$ 21,337	$ 23,175	A++	04/2022
Transatlantic Reinsurance Company	10,774	9,885	A+	10/2022
Hannover Rueck SE	4,613	2,670	A+	01/2022
Partner Reinsurance Company	4,431	3,595	A+	05/2022
Zenith Insurance 2019 AG IC 1 LLC (c)	1,652	2,039	NR	
Factory Mutual Insurance Company	1,287	1,039	A+	01/2022
All others (d)	5,543	5,451		
Total	$ 49,637	$ 47,854		

(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) Group captive sponsored by the Company, effective January 1, 2020.

(d) No individual reinsurer in excess of $1.2 million as of September 30, 2022 and December 31, 2021.

2022 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. In April 2022, the Company entered into a new multi-cedant reinsurance contract for the $50 million in excess of $100 million layer, shared with other Fairfax affiliates.

2022 Reinsurance Ceded Agribusiness P&C Coverage

From January 1, 2022 through March 31, 2022, the Company maintained excess of loss per risk and catastrophe reinsurance on its Agribusiness P&C property lines of business that provides protection for losses up to $25 million and $20 million, respectively. In April 2022, the Company increased the catastrophe reinsurance coverage to $25 million. The Company retains the first $3.5 million for each per risk loss and $5.0 million for catastrophe loss.

From January 1, 2022 through June 30, 2022, the Company participated in a quota share reinsurance agreement for the umbrella line of business. Under this quota share agreement, the Company retains 50% of the first $1 million and 10% in excess of $1 million up to $10 million on any one policy, any one claim or any one occurrence. On July 1, 2022, the terms of the quota share reinsurance agreement for the umbrella line of business changed and the Company now retains 27.5% of the first dollar up to $10 million on any one policy, any one claim or any one occurrence. The Company also participates in a quota share reinsurance agreement for the equipment breakdown lines of business. Under the equipment breakdown quota share agreement, the Company cedes 100% of losses up to $100 million.

2021 Reinsurance Ceded Workers' Compensation Coverage

The Company maintained 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.

2021 Reinsurance Ceded Agribusiness P&C Coverage

The Company maintained excess of loss per risk and catastrophe reinsurance on its Agribusiness P&C property lines of business that provides protection for losses up to $25 million and $20 million, respectively. The Company retains the first $3.5 million for each per risk loss and $5.0 million for catastrophe loss.

The Company also participates in quota share reinsurance agreements for the umbrella and equipment breakdown lines of business. Under the umbrella quota share agreement, the Company retains 50% on the first $1 million and 10% in excess of $1 million up to $10 million on any one policy, any one claim or any one occurrence. Under the equipment breakdown quota share agreement, the Company cedes 100% of losses up to $100 million.

Note 7. Unpaid Losses and Loss Adjustment Expenses

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

(In thousands)	September 30, 2022	September 30, 2021
Beginning of period, net of reinsurance	$ 1,003,800	$ 1,021,329
Incurred claims:		
Current accident year	332,164	323,266
Prior accident years	(34,349)	(46,162)
Total incurred claims	297,815	277,104
Payments:		
Current accident year	(87,642)	(79,708)
Prior accident years	(204,746)	(195,613)
Total payments	(292,388)	(275,321)
End of period, net of reinsurance	1,009,227	1,023,112
Receivable from reinsurers for unpaid losses	46,417	44,294
End of period, gross of reinsurance	$ 1,055,644	$ 1,067,406

Note 8. Other Comprehensive Loss

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

(In thousands)	Pre-Tax	Income Tax Effect	After-Tax
Three Months Ended September 30, 2022			
Change in unrealized gains/losses on investments	$ 202	$ 43	$ 159
Change in unrealized foreign currency translation adjustments	(1,873)	(394)	(1,479)
Total other comprehensive loss	$ (1,671)	$ (351)	$ (1,320)
Nine Months Ended September 30, 2022			
Change in unrealized gains/losses on investments	$ (476)	$ (99)	$ (377)
Change in unrealized foreign currency translation adjustments	(1,111)	(234)	(877)
Total other comprehensive loss	$ (1,587)	$ (333)	$ (1,254)
Three Months Ended September 30, 2021			
Change in unrealized gains/losses on investments	$ (521)	$ (109)	$ (412)
Net unrealized foreign currency translation adjustment	(156)	(33)	(123)
Less: reclassification adjustment for net realized foreign exchange gains included in net income	(97)	(20)	(77)
Change in unrealized foreign currency translation adjustments	(253)	(53)	(200)
Total other comprehensive loss	$ (774)	$ (162)	$ (612)
Nine Months Ended September 30, 2021			
Change in unrealized gains/losses on investments	$ 1,657	$ 348	$ 1,309
Net unrealized foreign currency translation adjustment	(2,750)	(578)	(2,172)
Less: reclassification adjustment for net realized foreign exchange gains included in net income	(97)	(20)	(77)
Change in unrealized foreign currency translation adjustments	(2,847)	(598)	(2,249)
Total other comprehensive loss	$ (1,190)	$ (250)	$ (940)

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

(In thousands)	September 30, 2022	December 31, 2021
Net unrealized loss on investments, before tax	$ (8,159)	$ (7,683)
Deferred tax benefit	(1,713)	(1,614)
Net unrealized loss on investments, after tax	(6,446)	(6,069)
Net unrealized loss on foreign currency translation adjustments, before tax	(4,884)	(3,773)
Deferred tax benefit	(1,026)	(792)
Net unrealized loss on foreign currency translation adjustments, after tax	(3,858)	(2,981)
Total accumulated other comprehensive loss	$ (10,304)	$ (9,050)

Note 9. Stock-Based Compensation

The following table provides information about 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	(66,679)
Vested	(84,138)
Purchased and available for future grants	(11,869)
Available for future purchases as of September 30, 2022	337,314

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, 2019	118,352	$	441.40	$	52,240
Purchased in 2020	11,518		381.37		4,393
Purchased in 2021	14,526		441.18		6,409
Purchased in 2022	18,290		509.21		9,313
Total purchased since plan inception	162,686		444.75	$	72,355

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	11,715		495.34		5,803
Forfeited during 2022	(1,835)		448.82		(824)
Vested during 2022	(13,141)		448.91		(5,899)
Restricted Shares as of September 30, 2022	66,679		454.49	$	30,305

In the three and nine months ended September 30, 2022, stock-based compensation expense before tax was $2.0 million and $6.2 million, respectively, compared to $1.3 million and $4.0 million for the same periods in 2021.

As of September 30, 2022 and December 31, 2021, unrecognized compensation expense before tax under the Restricted Stock Plan was $16.0 million and $17.1 million, 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.