Zenith National Insurance Corp. and Subsidiaries

Consolidated Financial Statements
as of June 30, 2020 and December 31, 2019 and for the three and six months ended June 30, 2020 and 2019
(unaudited)

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

(In thousands, except par value)		June 30, 2020		December 31, 2019
Assets:				
Investments:				
Fixed maturity securities, at fair value (amortized cost $1,110,238 in 2020 and $1,030,806 in 2019)	$	1,118,517	$	1,072,560
Equity securities, at fair value (cost $242,566 in 2020 and $238,063 in 2019)		141,536		193,753
Short-term investments, at fair value which approximates cost		60,742		158,717
Other investments		138,838		191,363
Derivative assets, at fair value (cost $31,332 in 2020 and $46,837 in 2019)		1,305		4,537
Assets pledged for derivative obligations, at fair value (amortized cost $7,722 in 2020 and $10,580 in 2019)		7,746		10,594
Total investments		1,468,684		1,631,524
Cash		85,464		17,918
Accrued investment income		7,335		7,568
Premiums receivable		40,877		41,877
Reinsurance recoverables		38,904		40,156
Deferred policy acquisition costs		14,581		12,788
Deferred tax asset		47,111		47,607
Income tax receivable				2,431
Operating lease right-of-use assets		20,323		23,164
Goodwill		20,985		20,985
Other assets		61,069		57,794
Total assets	$	1,805,333	$	1,903,812
Liabilities:				
Unpaid losses and loss adjustment expenses	$	1,050,109	$	1,085,865
Unearned premiums		102,595		89,861
Policyholders' dividends accrued		36,475		37,857
Long-term debt		38,267		38,253
Income tax payable		6,407		
Operating lease liabilities		22,049		25,044
Derivative liabilities		2,942		1,819
Other liabilities		87,039		67,743
Total liabilities		1,345,883		1,346,442
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		397,918		399,097
Retained earnings		66,848		162,336
Accumulated other comprehensive loss		(5,355)		(4,102)
Total stockholders' equity		459,450		557,370
Total liabilities and stockholders' equity	$	1,805,333	$	1,903,812

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)	2020	2019	2020	2019
Revenues:				
Net premiums earned	$ 140,553	$ 182,713	$ 304,301	$ 363,274
Net investment income (loss)	(17,327)	3,333	(14,708)	6,808
Net realized gains (losses) on investments	14,614	(8,797)	30,545	(7,061)
Change in net unrealized gains/losses on fair value option investments	(4,820)	25,641	(94,830)	43,940
Net losses on derivatives	(2,004)	(11,798)	(34,250)	(23,686)
Service fee income	1,964	2,016	4,038	4,121
Total revenues	132,980	193,108	195,096	387,396
Expenses:				
Losses and loss adjustment expenses incurred	71,787	84,004	149,585	154,304
Underwriting and other operating expenses:				
Policyholder acquisition costs	29,010	33,683	61,732	68,120
Underwriting and other costs	30,048	33,287	61,334	66,925
Policyholders' dividends	4,382	5,652	8,872	11,052
Interest expense	830	830	1,660	1,660
Total expenses	136,057	157,456	283,183	302,061
Income (loss) before tax	(3,077)	35,652	(88,087)	85,335
Income tax expense (benefit)	(691)	6,587	(18,499)	17,116
Increase in valuation allowance			25,900	
Net income (loss)	$ (2,386)	$ 29,065	$ (95,488)	$ 68,219
Net change in unrealized gains/losses on investments, net of tax and reclassification adjustment	(1,554)	(653)	(1,901)	(738)
Net change in unrealized foreign currency translation adjustment, net of tax and reclassification adjustment	690	2,259	648	1,618
Other comprehensive income (loss)	(864)	1,606	(1,253)	880
Total comprehensive income (loss)	$ (3,250)	$ 30,671	$ (96,741)	$ 69,099

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)	Six Months Ended June 30, 2020	2019
Cash flows from operating activities:		
Premiums collected	$ 342,900	$ 374,540
Investment income received	11,300	8,662
Losses and loss adjustment expenses paid	(182,745)	(188,968)
Underwriting and other operating expenses paid	(136,571)	(145,862)
Interest paid	(1,646)	(1,646)
Income taxes received (paid)	2,267	(22,799)
Net cash provided by operating activities	35,505	23,927
Cash flows from investing activities:		
Purchases of investments:		
Fixed maturity securities – fair value option	(480,134)	(22,927)
Equity securities – fair value option	(90)	(3,344)
Corporate loan – affiliate		(12,302)
Derivatives		(433)
Other investments	(2,655)	(3,371)
Proceeds from maturities and redemptions of investments:		
Fixed maturity securities – fair value option	336,650	46,700
Corporate loan - affiliate		2,702
Proceeds from sales of investments:		
Fixed maturity securities – fair value option	78,415	49,868
Equity securities – fair value option	19,542	12,127
Other investments	1,687	1,463
Net (increase) decrease in short-term investments	114,285	(52,866)
Net derivative cash settlements	(29,632)	(32,038)
Capital expenditures and other	(1,634)	(1,874)
Net cash provided by (used in) investing activities	36,434	(16,295)
Cash flows from financing activities:		
Purchase of Fairfax shares for restricted stock awards	(4,393)	(111)
Net cash used in financing activities	(4,393)	(111)
Net increase in cash	67,546	7,521
Cash at beginning of period	17,918	29,667
Cash at end of period	$ 85,464	$ 37,188

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)	2020	2019
Reconciliation of net income (loss) to net cash provided by operating activities:		
Net income (loss)	$ (95,488)	$ 68,219
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation expense	1,356	1,828
Net amortization (accretion)	315	(8,005)
Net realized losses (gains) on investments	(30,545)	7,061
Change in net unrealized gains/losses on fair value option investments	94,830	(43,940)
Net losses on derivatives	34,250	23,686
Equity in losses/earnings of investee	26,723	11,206
Stock-based compensation expense	3,214	3,242
Decrease (increase) in:		
Accrued investment income	233	(761)
Premiums receivable	17,666	(8,719)
Reinsurance recoverables	1,252	6,032
Deferred policy acquisition costs	(1,793)	(2,071)
Net income taxes	9,666	(5,681)
Increase (decrease) in:		
Unpaid losses and loss adjustment expenses	(35,756)	(41,787)
Unearned premiums	12,734	14,644
Policyholders’ dividends accrued	(1,382)	(740)
Accrued expenses	1,416	413
Other	(3,186)	(700)
Net cash provided by operating activities	$ 35,505	$ 23,927

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)	2020	2019
Common stock:	$ 39	$ 39
Additional paid-in capital:		
Beginning of period	399,097	398,340
Stock-based compensation expense	3,214	3,242
Purchases of Fairfax shares for restricted stock awards	(4,393)	(111)
End of period	397,918	401,471
Retained earnings:		
Beginning of period	162,336	145,515
Net income (loss)	(95,488)	68,219
Reclassification of net unrealized losses on available-for-sale investments and cost-method partnerships from other comprehensive loss at January 1, 2019		(3,126)
End of period	66,848	210,608
Accumulated other comprehensive loss:		
Beginning of period	(4,102)	(6,724)
Reclassification of net unrealized losses on available-for-sale investments and cost-method partnerships to retained earnings at January 1, 2019		3,126
Net change in unrealized gains/losses on investments, net of tax and reclassification adjustment	(1,901)	(738)
Change in unrealized foreign currency translation adjustment, net of tax and reclassification adjustment	648	1,618
End of period	(5,355)	(2,718)
Total stockholders' equity	$ 459,450	$ 609,400

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, 2019.

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

Adopted Accounting Standards

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

Callable Debt Securities – Accounting for Premium Amortization

Effective January 1, 2020, the Company adopted the updated guidance for certain callable debt securities held at a premium. The guidance requires the premium to be amortized to the earliest call date, however, securities held at a discount will continue to be amortized to maturity. The adoption of this guidance did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Changes to the Disclosure Requirements for Fair Value Measurements

Effective January 1, 2020, the Company adopted the updated guidance which changes the fair value measurement disclosure requirements. The updated guidance removes certain disclosure requirements regarding the amounts and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy and the policy for timing of transfers between the levels. The updated guidance also adds disclosure requirements regarding unrealized gains and losses included in Other comprehensive income (loss) for recurring Level 3 fair value measurements and the range and weighted average of unobservable inputs used in Level 3 fair value measurements. The adoption of this guidance did not have a material impact on the Company's financial statements.

Accounting for Cloud Computing Implementation Costs

Effective January 1, 2020, the Company early adopted the updated guidance to reduce complexity for the accounting for costs of implementing a cloud computing service arrangement. The new guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The adoption of this guidance did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Accounting for Variable Interest Entities

Effective January 1, 2020, the Company early adopted the updated guidance that expands the application of a specific private company accounting alternative related to variable interest entities and changes how entities evaluate decision-making fees under the variable interest guidance. Entities will consider indirect interests held through related parties under common control on a proportionate basis rather than in their entirety. Entities are required to apply the amendments retrospectively. The adoption of this guidance did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Recent Accounting Standards Not Yet Adopted

Measurement of Credit Losses on Financial Instruments

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

Goodwill Impairment

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

COVID-19 pandemic

The rapid spread of the COVID-19 virus, which was declared by the World Health Organization to be a pandemic on March 11, 2020, and actions taken globally in response to COVID-19, have significantly disrupted business activities throughout the world.

Given the ongoing and dynamic nature of the circumstances surrounding COVID-19, it is difficult to predict how significant the impact of COVID-19, including any responses to it, will be on the global economy and the Company's businesses in particular, or for how long any disruptions are likely to continue. The extent of such impact will depend on future developments, which are highly uncertain, rapidly evolving and difficult to predict, including new information which may emerge concerning the severity of COVID-19 and additional actions which may be taken to contain COVID-19, as well as the timing of the re-opening of the economy in various parts of the world. Such further developments could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

The Company’s workers’ compensation business is highly correlated to economic cycles given that premium is based on insureds’ payrolls. Also, various government officials, including U.S. state insurance commissioners, have taken actions to protect small businesses from hardship caused by COVID-19 which in the aggregate may adversely impact the Company's results of operations in the near term. Premium earned in the three and six months ended June 3, 2020 decreased compared to the same period in 2019, reflecting adjusted insureds’ payrolls at the individual policy level from the impact of COVID-19, as well as a provision for the estimated reduction in insureds’ payrolls that have not yet been reported to us. The economic shut down of businesses and reduced payroll exposure also resulted in reduced frequency of claims during the three months ended June 30, 2020, which was offset by the estimated impact of COVID-19-related claims. At June 30, 2020, the estimated incurred losses for COVID-19 claims is $10 million.

The Company maintains adequate liquidity to support its operations. In the three months ended June 30, 2020, fixed maturity securities with a par value of $173.2 million were released by the California Department of Insurance. At June 30, 2020, investments with a fair value of approximately $933 million were on deposit with regulatory authorities for the protection of policyholder obligations in compliance with insurance company regulations. At June 30, 2020, the Company had additional qualifying securities with a fair value of approximately $216 million available for deposit.

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 7, 2020.

Note 2. Investments

The cost or amortized cost and fair value of investments recorded at fair value at June 30, 2020 and December 31, 2019 were as follows:

(In thousands)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
June 30, 2020				
Fair value option investments:				
Fixed maturity securities:				
State and local government debt	$ 10,437	$ 732		$ 11,169
U.S. Government debt (a)	1,067,493	9,409		1,076,902
Corporate debt	36,874	800	$ (2,638)	35,036
Total fixed maturity securities	1,114,804	10,941	(2,638)	1,123,107
Short-term investments (b)	63,897	1		63,898
Equity securities (c)	242,566	6,539	(107,569)	141,536
Other investments – affiliate corporate loans	16,697	237	(260)	16,674
Other investments – cost-method partnerships	31,444	1,641	(5,101)	27,984
Total fair value option investments	**$ 1,469,408**	**$ 19,359**	**$ (115,568)**	**$ 1,373,199**
December 31, 2019				
Fair value option investments:				
Fixed maturity securities:				
State and local government debt	$ 55,655	$ 38,741		$ 94,396
U.S. Government debt (a)	962,622	2,071	$ (20)	964,673
Corporate debt	22,167	1,394	(420)	23,141
Total fixed maturity securities	1,040,444	42,206	(440)	1,082,210
Short-term investments (b)	159,531	133	(3)	159,661
Equity securities	238,063	26,055	(70,365)	193,753
Other investments – affiliate corporate loans	15,712	811		16,523
Other investments – cost-method partnerships	29,649	2,794	(2,570)	29,873
Total fair value option investments	**$ 1,483,399**	**$ 71,999**	**$ (73,378)**	**$ 1,482,020**

(a) Includes investments of $4.6 million and $9.6 million pledged for derivative obligations at June 30, 2020 and December 31, 2019, respectively.
(b) Includes investments of $3.2 million and $0.9 million pledged for derivative obligations at June 30, 2020 and December 31, 2019, respectively.
(c) The increase in gross unrealized losses on equity securities from December 31, 2019 to June 30, 2020 were primarily driven by the impact of changes in fair value attributable to the recent disruption in global financial markets associated with the COVID-19 global pandemic, as discussed in Note 1.

Fixed maturity securities, including short-term investments, by contractual maturity at June 30, 2020 were as follows:

(In thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 1,108,443	$ 1,117,873
Due after one year through five years	52,599	52,100
Due after five years through ten years	14,861	14,725
Due after ten years	2,798	2,307
Total	$ 1,178,701	$ 1,187,005

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

Total investments at June 30, 2020 also include other investments detailed below and derivative contracts described in Note 3.

Other investments consist of the following:

(In thousands)	June 30, 2020	December 31, 2019
Equity-method common stock (a)	$ 82,653	$ 132,860
Equity-method partnerships (a)	11,527	12,107
Cost-method partnerships, at fair value (cost $31,444 in 2020 and $29,649 in 2019) (b)	27,984	29,873
Affiliate corporate loans (cost $16,697 in 2020 and $15,712 in 2019)	16,674	16,523
Total other investments	$ 138,838	$ 191,363

(a) Investments in common stock, partnerships and limited liability companies accounted for under the equity method are recorded at cost, adjusted for subsequent purchases, distributions, other-than-temporary impairments, if any, and the Company's share of the changes in the investee's net asset value since the initial acquisition. Decrease in the carrying value of equity-method common stock from December 31, 2019 to June 30, 2020 was primarily due to the Company's share of investee losses recognized during the three months ended June 30, 2020, mostly on a one-quarter lag, from the economic effects of COVID-19.

(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. Effective January 1, 2019, upon adoption of the updated guidance for financial instruments, changes in fair value of cost-method partnerships are recorded in change in net unrealized gains/losses on fair value option investments. Prior to the adoption of this updated accounting guidance, changes in fair value of cost-method partnerships were recorded in other comprehensive income/loss.

At June 30, 2020, the Company had commitments to invest an additional $15.6 million in partnerships and limited liability companies.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2020	2019	2020	2019
Sales of fixed maturity securities, including short-term investments and other (a)	$ 15,934	$ (7,932)	$ 28,240	$ (7,870)
Sale of equity securities (b)		(4,382)	2,808	(3,037)
Gains (losses) from other investments (c)	(1,320)	3,517	(503)	3,846
Net realized gains (losses) on investments	$ 14,614	$ (8,797)	$ 30,545	$ (7,061)

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

In June 2019, Exco Resources, Inc. (“Exco”), an affiliate of Fairfax and the Company, emerged from bankruptcy protection and settled the Company's Exco bonds with common shares, resulting in the company recording a net loss on investment of $4.6 million (realized losses of $7.8 million, of which $7.0 million and $3.2 million was recorded as unrealized losses in prior quarters and prior years, respectively). See Note 5.

(b) Net realized gains on sales of equity securities for the six months ended June 30, 2020 include realized gains of $2.8 million on sale of Eurobank Ergasias S.A. (“Eurobank”) common stock to an affiliate of Fairfax and the Company. See Note 5.

Net realized losses on sales of equity securities in the three and six months ended June 30, 2019 included realized foreign exchange losses of $2.7 million on the return of capital distribution from a privately held common stock investment and a realized loss of $1.7 million on the conversion of AGT Food and Ingredients Inc. (“AGT”) preferred stock to common stock as a result of the AGT privatization transaction. AGT is a majority owned subsidiary of Fairfax. See Note 5. Realized losses on equity securities in the six months ended June 30, 2019 were partially offset by realized gains of $1.3 million on the sale of two fair value option common stock investments.

(c) Net realized losses from other investments for the three and six months ended June 30, 2020 include an other-than-temporary impairment charge of $2.8 million and $4.0 million, respectively, on equity-accounted common stock investment in Astarta Holdings NV and a $1.2 million adjustment to reverse realized gain first recognized in February 2020 on the sale of equity-accounted common stock investment in Apple Bidco to Atlas Corp., an affiliate of Fairfax; partially offset by a $2.7 million dilution gain for equity-accounting common stock investment in Boat Rocker Media. See Note 5.

In May 2019 the Company derecognized its investment in Grivalia Properties REIC equity-method common stock upon its merger into Eurobank and recognized a gain of $2.7 million. See Note 5.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2020	2019	2020	2019
Equity-method common stock	$ (2,019)	$ (872)	$ (2,510)	$ (1,098)
Equity-method partnerships	51	46	103	165
Total before tax	$ (1,968)	$ (826)	$ (2,407)	$ (933)
After tax	$ (1,554)	$ (653)	$ (1,901)	$ (738)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2020	2019	2020	2019
Change in net unrealized gains/losses recognized on fair value option investments	$ (4,820)	$ 25,641	$ (94,830)	$ 43,940
Less: Net losses (gains) recognized on fair value option investments sold (a)	(12,686)	5,380	(41,154)	4,432
Change in net unrealized gains/losses recognized on fair value option investments still held at the reporting date (b)	$ 7,866	$ 20,261	$ (53,676)	$ 39,508

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

(b) The change in net unrealized gains/losses recognized on fair value option investments still held at June 30, 2020 in the three and six months ended June 30, 2020 is primarily a result of the economic effects of COVID-19 as discussed in Note 2.

Net investment income (loss) was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2020	2019	2020	2019
Fixed maturity securities (a)	$ 5,185	$ 7,481	$ 11,174	$ 15,252
Short-term and other investments (a)	466	1,235	1,462	2,230
Derivatives	639	523	1,298	963
Equity securities	1,243	663	1,620	3,317
Loss from equity-method investments (b)	(23,178)	(4,771)	(26,723)	(11,206)
Subtotal	(15,645)	5,131	(11,169)	10,556
Investment expenses	1,682	1,798	3,539	3,748
Net investment income (loss)	$ (17,327)	$ 3,333	$ (14,708)	$ 6,808

(a) Income from fixed maturity securities in the three and six months ended June 30, 2020 decreased compared to the corresponding periods of 2019, primarily due to sales and maturities of higher yielding short-dated U.S. treasury bonds in the second part of 2019, and the reinvestment of the proceeds into lower yielding U.S. treasury bonds.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2020	2019	2020	2019
Toys R Us Canada (1)	$ (7,608)	$ (913)	$ (11,312)	$ 5,170
Fairfax Africa Holdings Corp.	(9,446)	(1,578)	(8,767)	(5,066)
Boat Rocker Media Inc.	(2,238)	598	(3,864)	1,023
Farmers Edge Inc.	(1,375)	(951)	(2,789)	(2,779)
Apple Bidco		(389)	(1,232)	(5,740)
AGT Food and Ingredients Inc.	(186)		(870)	
Davos Brands LLC	(265)	(267)	(683)	(1,080)
Fairfax India Holdings Corp.	(2,349)	(486)	2,605	(91)
Astarta Holdings NV	651		651	(1,190)
Other	(362)	(785)	(462)	(1,453)
Loss from equity-method investments	$ (23,178)	$ (4,771)	$ (26,723)	$ (11,206)

(1) In June 2020, the Company received GAAP financial statements of Toys R Us Canada (“TRU”) as of February 2, 2020 (audited) and March 28, 2020 (unaudited). Based on this information, the Company’s share of additional TRU’s losses to be recognized was $17.1 million. The Company recorded equity in losses of TRU of $7.6 million in the three months ended June 30, 2020 that reduced the carrying value of the Company’s investment in TRU to zero. The remaining share of the TRU’s losses not yet recognized in the Company’s results at June 30, 2020 was approximately $9.5 million.

Note 3. Derivative Contracts

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

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

(In thousands)	Notional Amount	Cost	Fair Value of Derivative Assets	Fair Value of Derivative Liabilities
June 30, 2020				
CPI-linked derivatives	$ 4,777,046	$ 23,813	$ 1,222	
Foreign currency options	437,500	7,519	83	
Long equity total return swaps	43,503			$ 2,285
Foreign exchange forwards	21,512			657
Total		$ 31,332	$ 1,305	$ 2,942
December 31, 2019				
CPI-linked derivatives	$ 7,477,246	$ 39,318	$ 671	
Foreign currency options	437,500	7,519	820	
U.S. government bond forwards	97,000			$ 659
Long equity total return swaps	52,591		3,046	121
Foreign exchange forwards	60,613			1,039
Total		$ 46,837	$ 4,537	$ 1,819

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2020	2019	2020	2019
Losses on settlements				
Equity derivatives:				
Equity total return swaps – long positions	$ (5,039)	$ (8,516)	$ (9,008)	$ (19,898)
U.S. government bond forwards	(21,262)	(5,268)	(24,531)	(13,666)
CPI-linked derivatives (a)	(4,615)		(15,504)	
Foreign exchange forwards	4,250	(261)	3,723	1,092
Total	(26,666)	(14,045)	(45,320)	(32,472)
Change in fair value				
Equity derivatives:				
Equity total return swaps – long positions	8,537	8,325	(5,210)	11,078
Equity warrants				(20)
U.S. government bond forwards	21,445	68	659	4,378
CPI-linked derivatives (a)	837	(268)	16,055	(1,218)
Foreign exchange forwards	(5,574)	(1,634)	382	(1,597)
Foreign currency options	(583)	(4,244)	(736)	(3,835)
Total	24,662	2,247	11,150	8,786
Net losses on derivatives				
Equity derivatives:				
Equity total return swaps – long positions	3,498	(191)	(14,298)	(8,820)
Equity warrants				(20)
U.S. government bond forwards	183	(5,200)	(23,872)	(9,288)
CPI-linked derivatives (a)	(3,778)	(268)	551	(1,218)
Foreign exchange forwards	(1,324)	(1,895)	4,105	(505)
Foreign currency options	(583)	(4,244)	(736)	(3,835)
Total net losses on derivatives	$ (2,004)	$ (11,798)	$ (34,250)	$ (23,686)

(a) Seven CPI-linked derivative contracts with a total notional amount of $2.6 billion matured in the six months ended June 30, 2020 with a fair value of zero at maturity, and $15.5 million of losses previously recognized in the change in fair value component of net gains (losses) on derivatives were reclassified to gains (losses) on settlements.

Equity Derivative Contracts

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

CPI-linked Derivative Contracts

The Company has purchased derivative contracts referenced to consumer price indexes (''CPI'') in the United States and Europe to serve as an economic hedge against the potential adverse financial impact on the Company of decreasing price levels. In the event of a sale, maturity or early settlement of any of these contracts, the Company would receive the fair value of that contract on the date of the transaction. The Company's maximum potential loss on any contract is limited to the original cost of that contract. Net unrealized gains (losses) on CPI-linked derivative contracts typically reflect the market's expectation of decreases (increases) in the values of the CPI indexes underlying these contracts at their respective maturities during the periods presented (these contracts are structured to benefit the Company during periods of decreasing CPI index values). At June 30, 2020, these contracts had a remaining weighted average life of approximately 3 years. During the six months ended June 30, 2020 certain CPI-linked derivative contracts with a notional amount of $2.1 billion and $0.5 billion referenced to CPI indexes in the United States and European Union, respectively, matured.

The following table summarizes the notional amounts and underlying CPI Index price ("strike price") for the Company's CPI-linked derivative contracts at initiation and the index value at June 30, 2020 and December 31, 2019:

(Notional amount in thousands)	Notional Amount: Original Currency	Notional Amount: US Dollars	Weighted Average Strike Price In Original Currency	Index Value
Underlying CPI Index:				
June 30, 2020				
United States	2,980,000	$ 2,980,000	235.47	257.80
European Union	1,600,000	1,797,046	99.26	105.29
		$ 4,777,046		
December 31, 2019				
United States	5,120,000	$ 5,120,000	233.02	256.97
European Union	2,100,000	2,357,246	97.66	105.13
		$ 7,477,246		

U.S. Government Bond Forward Contracts

To reduce its exposure to interest rate risk (specifically exposure to state and local government bonds and long-dated U.S. treasury bonds held in its fixed income portfolio), the Company entered into forward contracts to sell long dated U.S. Treasury bonds with a notional amount of $97.0 million at December 31, 2019. These contracts had an average term to maturity of less than one year and may be renewed at market rates. In April 2020, the Company terminated all of the outstanding U.S. government bond forward contracts with a notional amount of $97.0 million and recognized a loss of $21.3 million and $24.5 milion in the three and six months ended June 30, 2020, respectively.

Foreign Exchange Forward Contracts

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

Counterparty Risk

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

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

(In thousands)		June 30, 2020		December 31, 2019
Total derivative assets	$	1,305	$	4,537
Impact of net settlement arrangements		(225)		(779)
Fair value of collateral deposited for the benefit of the Company		(852)		(3,126)
Excess of collateral pledged by the Company in favor of counterparties		157		
Net derivative counterparty exposure after net settlement and collateral arrangements	$	385	$	632

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

At June 30, 2020 and December 31, 2019, the Company pledged to its counterparties securities with a fair value of $7.7 million and $10.6 million, respectively, as independent and mark-to-market collateral for CPI-linked, U.S. government bond forwards (in 2019 only) and long equity total return swaps derivatives and recorded this amount as assets pledged for derivative obligations in the Consolidated Balance Sheets.

At June 30, 2020, the counterparties pledged for the Company’s benefit $0.3 million of cash and $0.6 million of U.S. Treasury notes compared to $0.3 million of cash and $3.1 million of U.S. Treasury notes at December 31, 2019. The Company recorded the cash collateral as other assets in the Company’s Consolidated Balance Sheets and recognized a corresponding liability. The Company does not record in the Consolidated Balance Sheets securities pledged by counterparties as collateral for derivatives in a gain position.

Offsetting of Derivative Assets/Liabilities

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

		Gross amounts not offset in the Consolidated Balance Sheets		
(In thousands)	Gross and net amounts reflected in the Consolidated Balance Sheets	Derivative asset (liability)	Collateral provided (held) - financial instruments (a)	Net amount of exposure
June 30, 2020				
Derivative assets:				
Citibank, N.A.	$ 1,049	$ (225)	$ (596)	$ 228
Deutsche Bank AG London	256		(256)	
Total derivative assets	$ 1,305	$ (225)	$ (852)	$ 228
Derivative liabilities:				
Citibank, N.A.	$ (225)	$ 225		
Bank of America	(2,059)		$ 2,059	
Bank of New York Mellon (b)	(658)			$ (658)
Total derivative liabilities	$ (2,942)	$ 225	$ 2,059	$ (658)
December 31, 2019				
Derivative assets:				
Citibank, N.A.	$ 3,973	$ (762)	$ (2,579)	$ 632
Deutsche Bank AG London	80		(80)	
Bank of America	484	(17)	(467)	
Total derivative assets	$ 4,537	$ (779)	$ (3,126)	$ 632
Derivative liabilities:				
Citibank, N.A.	$ (762)	$ 762		
Bank of New York Mellon (b)	(1,040)			$ (1,040)
Bank of America	(17)	17		
Total derivative liabilities	$ (1,819)	$ 779		$ (1,040)

(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.

Note 4. Fair Value Measurements

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

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

Considerable judgment may be required particularly in developing estimates of fair value for financial instruments classified as Level 3 in the fair value hierarchy as such estimates incorporate market unobservable inputs that require management to use its own assumptions. While the Company's valuation techniques for Level 3 financial instruments remained unchanged during the second quarter of 2020, the development of market unobservable inputs included added estimation uncertainty due to the global economic and social disruption caused by the ongoing and developing COVID-19 pandemic. Estimates of the amount and timing of future cash flows, discount rates, growth rates and other inputs incorporated into fair value measurements of Level 3 financial instruments are inherently more difficult to determine due to the unpredictable duration and impacts of the COVID-19 pandemic, including further actions that may be taken by governments to contain it and the timing of the re-opening of the economy in various parts of the world. The Company has assumed that the economic impacts of COVID-19 will remain for the duration of government mandated restrictions by jurisdiction as currently known, with gradual lifting of those restrictions. The uncertainty in those assumptions have been incorporated into the company's valuations of Level 3 financial instruments primarily through wider credit spreads and higher discount rates, as applicable. Additional volatility in the fair values of Level 3 financial instruments may arise in future periods if actual results differ materially from the Company's estimates.

There were no other significant changes to the valuation techniques and processes used at June 30, 2020 compared to those described in the Company's Consolidated Financial Statements at December 31, 2019.

The three hierarchy levels are defined as follows:

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

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

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

The following table presents the Company's investments measured at fair value on a recurring basis at June 30, 2020 and December 31, 2019 classified by the valuation hierarchy discussed previously:

		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
June 30, 2020				
Fair value option securities:				
Fixed maturity securities:				
State and local government debt	$ 11,169		$ 11,169	
U.S. government debt	1,076,902		1,076,902	
Corporate debt	35,036		29,755	$ 5,281
Total fixed maturity securities	1,123,107		1,117,826	5,281
Equity securities (a)	141,536	$ 88,770	4,040	15,266
Short-term investments	63,898	63,898		
Other investments - affiliate corporate loans	16,674			16,674
Other investments - cost-method partnerships (a)	27,984			
Total fair value option investments	$ 1,373,199	152,668	$ 1,121,866	$ 37,221
Derivatives:				
Foreign currency options	$ 83		$ 83	
CPI-linked derivative contracts	1,222			$ 1,222
Total derivative assets	1,305		83	1,222
Equity total return swaps – long positions	(2,285)		(2,285)	
Foreign exchange forward contracts	(657)		(657)	
Total derivative liabilities	(2,942)		(2,942)	
Net derivatives	$ (1,637)		$ (2,859)	$ 1,222

		Fair Value Measurement Using		
(In thousands)	Total	Level 1	Level 2	Level 3
December 31, 2019				
Fair value option securities:				
Fixed maturity securities:				
State and local government debt	$ 94,396		$ 94,396	
U.S. government debt	964,673		964,673	
Corporate debt	23,141		15,299	$ 7,842
Total fixed maturity securities	1,082,210		1,074,368	7,842
Equity securities (a)	193,753	$ 143,467		17,038
Short-term investments	159,661	153,650	6,011	
Other investments – affiliate corporate loans	16,523			16,523
Other investments – cost-method partnerships (a)	29,873			
Total fair value option investments	$ 1,482,020	$ 297,117	$ 1,080,379	$ 41,403
Derivatives:				
Equity total return swaps – long positions	$ 3,046		$ 3,046	
Foreign currency options	820		820	
CPI-linked derivative contracts	671			$ 671
Total derivative assets	4,537		3,866	671
Equity total return swaps – long positions	(121)		(121)	
U.S. Government bond forward contracts	(659)		(659)	
Foreign exchange forward contracts	(1,039)		(1,039)	
Total derivative liabilities	(1,819)		(1,819)	
Net derivatives	$ 2,718		$ 2,047	$ 671

(a) Certain common stock investments with a fair value of $33.5 million and $33.2 million at June 30, 2020 and December 31, 2019, respectively, and cost-method partnership investments are measured using the NAV practical expedient and have not been classified in the fair value hierarchy. The fair value amounts presented in the "Total" column are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Consolidated Balance Sheets.

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

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

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

(In thousands)	Corporate Debt	Equity Securities (a)	Derivatives	Affiliate Corporate Loans
Balance at March 31, 2019	$ 14,633	$ 26,605	$ 1,353	$ 9,440
Purchases		5,727		9,322
Sales and maturities	(5,914)	(11,484)		(2,702)
Net investment income - accretion of discounts	20			
Realized and unrealized gains/losses included in:				
Change in net unrealized gains/losses on fair value option investments	6,829	4,827		415
Net realized loss on investments	(7,811)	(4,382)		
Net losses on derivatives			(268)	
Balance at June 30, 2019	$ 7,757	$ 21,293	$ 1,085	$ 16,475
Balance at December 31, 2018	$ 17,862	$ 24,815	$ 2,303	$ 6,365
Purchases		5,727		12,302
Sales and maturities	(5,914)	(11,484)		(2,702)
Net investment income - accretion of discounts	41			
Realized and unrealized gains/losses included in:				
Change in net unrealized gains/losses on fair value option investments	3,579	6,617		510
Net realized loss on investments	(7,811)	(4,382)		
Net losses on derivatives			(1,218)	
Balance at June 30, 2019	$ 7,757	$ 21,293	$ 1,085	$ 16,475

(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"), a Fairfax affiliate. Investment management expenses incurred under these agreements for the three and six months ended June 30, 2020 were $1.1 million and $2.3 million, respectively, and $1.2 million and $2.4 million, respectively, for the comparable periods of 2019.

The Company owns common stock in publicly-traded and private companies and invests in limited partnerships which are affiliates of Fairfax (including but not limited to investments described in the following paragraphs). These investments are recorded using the equity method of accounting, unless a fair value option is elected for such securities; see Note 2 for additional information related to equity-method investments. The aggregate value of the Company's equity-method investments in Fairfax affiliates recorded in the Consolidated Balance Sheets was $94.2 million and $145.0 million at June 30, 2020 and December 31, 2019, respectively. The Company's share of net income/loss of the equity-method investees was recorded in net investment income. Net realized gains/losses on sales and on dilution resulting from additional shares issued or bought back by equity-method investees are recorded in net realized gains/losses on investments. The Company's share of other changes in investees' equity was recorded in net change in net unrealized gain/losses in Other Comprehensive Income (Loss). Net unrealized gains/losses on foreign currency translation adjustment related to the Company's equity-method investments are recorded in the change in unrealized foreign currency translation adjustment in Other Comprehensive Income (Loss).

The aggregate value of the Company's affiliated investments at June 30, 2020 and December 31, 2019 was as follows:

(In thousands)	June 30 2020	December 31, 2019
Fixed maturity securities, at fair value option	$ 14,544	$ 5,080
Equity securities, at fair value option	59,452	53,484
Other invested assets:		
Equity-method common stock	82,653	132,860
Equity-method partnerships	11,527	12,107
Affiliate corporate loans	16,674	16,523
Total	$ 184,850	$ 220,054

The following table summarizes the impact from the Company's affiliated investments on various components of Total Comprehensive Income (Loss):

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2020	2019	2020	2019
Included in Net Income (Loss):				
Net investment loss	$ (22,213)	$ (3,949)	$ (25,141)	$ (10,059)
Net realized losses on investments	(1,345)	(5,995)	(1,330)	(5,691)
Change in net unrealized gains/losses on fair value option investments	7,407	9,868	(16,583)	6,922
Included in Other Comprehensive Income (Loss):				
Net change in unrealized gains/losses on investments, before tax	(1,968)	(826)	(2,407)	(933)
Change in unrealized foreign currency translation adjustment, before tax	875	2,860	821	2,048
Total	(17,244)	1,958	(44,640)	(7,713)

The Company owns common shares in various mutual fund classes of HWIC Asia which is a wholly-owned subsidiary of Fairfax. The Company elected the fair value option of accounting for its investment in HWIC Asia common stock. At June 30, 2020 and December 31, 2019, the aggregate fair value of these investments was $33.5 million and $33.2 million, respectively. Changes in fair value for these investments are recorded in the change in net unrealized gains/losses on fair value option investments in the Consolidated Statements of Comprehensive Income (Loss). During the six months ended June 30, 2020, the Company recorded a net increase in unrealized gains/losses of $0.2 million on these investments, compared to a net decrease in unrealized gains/losses of $1.7 million during the six months ended June 30, 2019.

The Company owns common stock of Recipe Unlimited Corp. ("Recipe"), a majority-owned subsidiary of of Fairfax. The Company elected the fair value option of accounting for its investment in Recipe common stock. On March 30, 2020, the Company exchanged its investment in subordinate voting shares of Recipe for the same number of multiple voting shares of Recipe at the same price with RiverStone Insurance (UK) Limited and TIG Insurance (Barbados) Limited, both affiliates of Fairfax and the Company. The Company did not recognize any realized gain or loss on this exchange transaction. At June 30, 2020 and December 31, 2019, the carrying value of this investment was $4.0 million and $8.9 million, respectively. Changes in fair value for this investment is recorded in the change in net unrealized gains/losses on fair value option investments in the Consolidated Statements of Comprehensive Income (Loss). During the six months ended June 30, 2020, the Company recorded a net decrease in unrealized gains/losses of $4.9 million on this investment, compared to a net increase in unrealized gains/losses of $0.7 million during the six months ended June 30, 2019.

The Company owned common stock of Seaspan Corporate ("Seaspan"), a publicly traded affiliate of Fairfax and the Company. The Company elected the fair value option of accounting for its investment in Seaspn common stock. On February 27, 2020 Seaspan completed a reorganization pursuant to which Atlas Corp.

("Atlas"), a newly created holding company, became its parent. Shareholders of Seaspan, including the Company, exchanged their Seaspan shares for Atlas shares with no change in ownership percentage. On February 28, 2020, Atlas acquired all issued and outstanding shares of Apple Bidco Limited (“AB”), an affiliate of Fairfax and the Company, from the Company and AB shareholders in an all-stock transaction at a deemed value of $21.1 million. Accordingly, the Company derecognized its investment in equity-accounted AB common stock, recorded a net pre-tax loss of $31,000 and increased its carrying value of Atlas by the fair value of the AB common stock exchanged (considered to be equal to the fair value of the newly issued Atlas common shares received of $21.1 million). At June 30, 2020 and December 31, 2019, the carrying value of this investment was $22.0 million and $11.3 million, respectively. Changes in fair value for this investment is recorded in the change in net unrealized gains/losses on fair value option investments in the Consolidated Statements of Comprehensive Income (Loss). During the six months ended June 30, 2020, the Company recorded a net decrease in unrealized gains/losses of $10.5 million on this investment, compared to a net increase in unrealized gains/losses of $1.6 million during the six months ended June 30, 2019.

The Company owns $5.0 million par value of Atlas 5.50% unsecured debentures due February 14, 2025. In February 2020, the Company invested $10.0 million in Atlas 5.50% unsecured debentures due March 1, 2027 (collectively, Atlas bonds). At June 30, 2020 and December 31, 2019, the total carrying value of Atlas bonds investment was $14.5 million and $5.1 million, respectively.

The Company owns an investment in common stock of Astarta Holding NV (“Astarta”), a Netherlands company that is an affiliate of both Fairfax and the Company. Astarta common stock is publicly traded on the Polish stock exchange. The fair value of this investment has been significantly below its carrying value for an extended period of time. Therefore, the Company recorded an other-than-temporary impairment realized loss of $11.6 million in the fourth quarter of 2019 due to the extent and duration of the impairment. As the fair value of Astarta continued to decline during the first quarter of 2020, the Company recorded additional other-than-temporary impairment realized loss of $1.2 million. In June 2020, upon receipt of the GAAP financial statements of Astarta (audited), the Company recorded its share of Astarta’s changes in equity for the twelve months ended December 31, 2019 and recorded additional other-than-temporary impairment realized loss of $2.8 million on this investment. The carrying value of Astarta was $2.2 million and $3.4 million at June 30, 2020 and December 31, 2019, respectively.

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

At December 31, 2018, the Company owned an investment in the common stock of Grivalia Properties REIC (“Grivalia”), a majority-owned publicly traded subsidiary of Fairfax. The Company recorded this affiliated common stock investment using the equity method of accounting. On May 17, 2019, Grivalia merged into Eurobank Ergasias S.A. (‘‘Eurobank’’), as a result of which shareholders of Grivalia, including the Company, received 20.9 million newly issued shares of Eurobank common stock in exchange for each share of Grivalia, with the fair value of $16.7 million. Accordingly, the Company derecognized its investment in Grivalia and recognized a net realized gain of $2.7 million on this transaction ($5.2 million realized gain on sale, partially offset by a $2.5 million realized loss as a result of the reclassification of the cumulative translation adjustment to earnings). In connection with the merger, on February 5, 2019 Grivalia had paid a pre-merger capital dividend; the Company recorded cash received of $0.6 million as a reduction of the carrying value of Grivalia prior to the merger. The Company elected the fair value option of accounting for its investment in Eurobank common stock. In January 2020, the Company sold its investment in Eurobank to Odyssey Group Holdings, Inc., an affiliate of Fairfax and the Company, and recognized realized gain of $2.8 million on this transaction.

At December 2018, the Company owned the following investments in Exco Resources, Inc. (“Exco”), an affiliate of Fairfax and the Company: Exco equity-method common stock (“Old Exco Stock”, carried at zero as of December 31, 2018), 1.75 and 1.5 Exco Lien Bonds (“Exco Bonds”) and private debtor-in-possession loans to Exco (“Exco DIP Loans”) classified as Other Investments – Affiliate Corporate Loans in the Consolidated Balance Sheets. Exco filed for bankruptcy restructuring in January 2018. On June 28, 2019, Exco emerged from bankruptcy protection and settled the Company’s investments in Exco DIP Loans and Exco Bonds with $2.8 million in cash and newly issued Exco common stock (“Exco Stock”) with a fair value of $5.9 million. The Company derecognized its investment in Exco Bonds and recorded a net loss of $0.8 million in the second quarter of 2019 (realized losses of $7.8 million, of which $7.0 million was recorded as unrealized losses in prior quarters). The derecognition of the previously owned Old Exco Stock did not have an impact on the 2019 investment results as this investment was valued at zero at December 31, 2018. The carrying value of this affiliated Exco Stock was $6.6 million and $6.1 million at June 30, 2020 and December 31, 2019, respectively.

At December 31, 2018, the Company owned an investment in the preferred stock of AGT Foods and Ingredients Inc. (“AGT”). In April 2019, AGT completed its previously announced management led privatization, resulting in the conversion of the outstanding preferred stock into new AGT Class A common stock (“AGT Stock”). In connection with the privatization, Fairfax, including the Company, as a member of the buying group, extended loans to AGT (“AGT Loans”) in order to, among other things, acquire all of the outstanding AGT old common stock shares not already owned by the buying group. Upon closing, Fairfax’s total holdings in AGT Stock represented a controlling equity interest in AGT. In connection with the AGT Loans, Fairfax, including the Company, received warrants (“AGT Warrants”). The Company immediately sold the AGT Warrants to Wentworth Insurance Company Ltd. (“Wentworth”), an affiliate of the Company and Fairfax, at cost. The Company classifies its investment in the AGT Loans as Affiliated Corporate Loans in Other Invested Assets. The Company derecognized its investment in AGT preferred stock and recognized a realized loss of $1.7 million on this transaction. At June 30, 2020 and December 31, 2019, the carrying value of the Company’s investment in the AGT Loans and AGT Stock was $9.1 million and $9.6 million, respectively, and $3.1 million and $4.9 million, respectively.

The Company owns an investment in common stock of Boat Rocker Media Inc. (“Boat Rocker”), a majority-owned subsidiary of Fairfax. In March 2019, the Company sold a portion of the investment to a third party for $0.4 million and recognized a realized gain on the sale of $0.3 million. The carrying value of this equity-method common stock investment was $7.6 million and $10.9 million at June 30, 2020 and December 31, 2019, respectively.

In February 2018, Fairfax and the Company entered into a private loan agreement with Farmers Edge, Inc. (“Farmers Edge”), an affiliate of Fairfax and the Company (“Farmers Edge Loan”). Fairfax and the Company also received warrants to purchase Farmers Edge common stock in connection with this loan (“Farmers Edge Warrants”). The Company’s share of this investment was $4.1 million, allocated between $3.4 million (Canadian $5.0 million par value) in Farmers Edge Loan and $0.7 million in Farmers Edge Warrants, as estimated by HWIC. The Company sold the Farmers Edge Warrants to Wentworth on the same day they were acquired, substantially at cost. In February 2019, the Company invested an additional CAD $4.0 million in Farmers Edge Loans. Farmers Edge Loans are included in Other Investments – Affiliate Corporate Loans in the Consolidated Balance Sheets. The Company also owns 5.3 million shares of Farmers Edge affiliated equity-method common stock, with a carrying value of $3.3 million and $5.6 million at June 30, 2020 and December 31, 2019, respectively. At June 30, 2020 and December 31, 2019, the total carrying value of the Farmers Edge Loans was $7.6 million and $6.9 million, respectively.

Other

The Company continues to be a party to various reinsurance treaties with affiliates of Fairfax that were entered into in the ordinary course of business, primarily excess of loss reinsurance agreements with Odyssey Re for 2010 through 2018. At June 30, 2020 and December 31, 2019, the Company recorded net reinsurance recoverables of $0.5 million and $0.4 million, respectively, related to the reinsurance transactions with the affiliates of Fairfax.

Zenith National paid Fairfax $4.4 million and $0.1 million in the six months ended June 30, 2020 and 2019, respectively, for the cost of the open market purchase made by Fairfax on Zenith National's behalf of Fairfax Subordinate Voting Shares granted to certain officers under the Restricted Stock Plan.

In November 2014, the Company entered into a Master Administrative Services Agreement with various affiliates of Fairfax. Under the agreement, the affiliated parties provide and receive administration services such as accounting, underwriting, claims, reinsurance, preparation of regulatory reports, and actuarial services. The Company began providing claims processing services for Seneca Insurance Company, Inc. ("Seneca") under this agreement in March 2016 and recorded service fee income of $0.1 million and $0.2 million in each of the three and six months ended June 30, 2020 and 2019, in the Consolidated Statements of Comprehensive Income (Loss) which was substantially offset by costs of dedicated staff and allocated shared services. Other liabilities at June 30, 2020 and December 31, 2019 include a loss fund of $0.6 million maintained by the Company to process future workers' compensation claim payments on behalf of Seneca.

In March 2013, the Company entered into an agreement with TIG Insurance Company ("TIG") to become their primary workers' compensation claims service provider. The Company recorded service fee income of $1.9 million and $3.8 million and $1.9 million and $3.9 million, in the three and six months ended June 30, 2020 and 2019, respectively, in the Consolidated Statements of Comprehensive Income (Loss) which is substantially offset by costs of dedicated staff and allocated shared services. Other liabilities at June 30, 2020 include a net liability of $3.0 million which includes a net loss fund liability of $4.2 million reduced by a service fee income receivable of $1.2 million. Other liabilities at December 31, 2019 include a net liability of $1.2 million which included a net loss fund liability of $2.7 million reduced by a service fee income receivable of $1.5 million.

Note 6. Reinsurance Recoverable

Amounts recoverable for paid and unpaid losses from reinsurers at June 30, 2020 and December 31, 2019 and their respective A.M. Best ratings were as follows:

(In thousands)		June 30, 2020 (a)		December 31, 2019 (a)	A.M. Best Rating (b)	A.M. Best Rating Date
General Reinsurance Corp.	$	31,727	$	33,718	A++	03/2020
Factory Mutual Insurance Company		1,231		853	A+	01/2020
All others (c)		5,946		5,585		
Total	$	38,904	$	40,156		

(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 $0.7 million and $0.8 million at June 30, 2020 and December 31, 2019, respectively.

For January 1, 2020 through April 14, 2020 loss occurrences, the Company has excess of loss and catastrophe reinsurance which provides protection for losses without a pandemic exclusion up to $150 million. For the agriculture business, the Company retains the first $10 million and the layer from $20 million to $50 million of each loss. For all other business classes, the Company retains the first $50 million of each loss.

For April 15, 2020 through December 31, 2020 loss occurrences, the Company has excess of loss catastrophe reinsurance which provides protection for losses without a pandemic exclusion up to $150 million. For the agriculture business, the Company retains the first $10 million of each loss. For all other business classes, the Company retains the first $20 million of each loss.

Note 7. Unpaid Losses and Loss Adjustment Expenses

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

(In thousands)		June 30, 2020		June 30, 2019
Beginning of period, net of reinsurance	$	1,046,248	$	1,100,916
Incurred claims:				
Current accident year		197,538		213,186
Prior accident years		(47,953)		(58,882)
Total incurred claims		149,585		154,304
Payments:				
Current accident year		(35,166)		(41,732)
Prior accident years		(147,079)		(148,429)
Total payments		(182,245)		(190,161)
End of period, net of reinsurance		1,013,588		1,065,059
Receivable from reinsurers for unpaid losses		36,521		41,020
End of period, gross of reinsurance	$	1,050,109	$	1,106,079

Note 8. Other Comprehensive Income (Loss)

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

(In thousands)		Pre-Tax		Income Tax Effect		After-Tax
Three months ended June 30, 2020						
Change in unrealized gains/losses on investments	$	(1,968)	$	(414)	$	(1,554)
Change in unrealized foreign currency translation adjustment		874		184		690
Total other comprehensive loss	$	(1,094)	$	(230)	$	(864)
Six months ended June 30, 2020						
Change in unrealized gains/losses on ivestments	$	(2,407)	$	(506)	$	(1,901)
Change in unrealized foreign currency translation adjustment		821		173		648
Total other comprehensive loss	$	(1,586)	$	(333)	$	(1,253)
Three months ended June 30, 2019						
Net unrealized losses arising during the period	$	(755)	$	(158)	$	(597)
Less: reclassification adjustment for net realized gains included in net income		(71)		(15)		(56)
Net change in unrealized gains/losses on investments		(826)		(173)		(653)
Unrealized foreign currency translation adjustment arising during the period		748		157		591
Less: reclassification adjustment for net realized foreign exchange losses included in net income		2,111		443		1,668
Net change in unrealized foreign currency translation adjustment		2,859		600		2,259
Total other comprehensive income	$	2,033	$	427	$	1,606
Six months ended June 30, 2019						
Net unrealized losses arising during the period	$	(862)	$	(180)	$	(682)
Less: reclassification adjustment for net realized gains included in net income		(71)		(15)		(56)
Net change in unrealized gains/losses on investments		(933)		(195)		(738)
Unrealized foreign currency translation adjustment arising during the period		(63)		(13)		(50)
Less: reclassification adjustment for net realized foreign exchange losses included in net income		2,111		443		1,668
Net change in unrealized foreign currency translation adjustment		2,048		430		1,618
Total other comprehensive income	$	1,115	$	235	$	880

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

(In thousands)		June 30, 2020		December 31, 2019
Equity-method common stock	$	(7,655)	$	(5,145)
Equity-method partnerships		1,773		1,670
Net unrealized loss on investments, before tax		(5,882)		(3,475)
Deferred tax benefit		(1,236)		(730)
Net unrealized loss on investments, after tax		(4,646)		(2,745)
Net unrealized loss on foreign currency translation adjustment, before tax		(897)		(1,718)
Deferred tax benefit		(188)		(361)
Net unrealized loss on foreign currency translation adjustment, after tax		(709)		(1,357)
Total accumulated other comprehensive loss	$	(5,355)	$	(4,102)

Note 9. Stock-Based Compensation

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

	Number of Shares
Authorized for purchases and grants at plan inception in 2010	200,000
Purchased and restricted	(57,805)
Vested	(62,064)
Purchased and available for future grants	(10,001)
Available for future purchases at June 30, 2020	70,130

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, 2017	95,510	$ 437.24	$ 41,762
Purchased in 2018	11,315	474.36	5,367
Purchased in 2019	11,527	443.41	5,111
Purchased in 2020	11,518	381.37	4,393
Total purchased since plan inception	129,870	436.07	$ 56,633

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, 2017	50,287	$ 454.37	$ 22,849
Granted during 2018	11,608	508.90	5,907
Forfeited during 2018	(305)	474.43	(144)
Vested during 2018	(5,347)	384.87	(2,058)
Restricted Shares at December 31, 2018	56,243	472.13	26,554
Granted during 2019	12,426	473.36	5,882
Forfeited during 2019	(1,080)	469.56	(507)
Vested during 2019	(6,156)	412.44	(2,539)
Restricted Shares at December 31, 2019	61,433	478.40	29,390
Granted during 2020	12,848	440.82	5,664
Vested during 2020	(16,476)	501.91	(8,269)
Restricted Shares at June 30, 2020	57,805	463.35	26,785

Stock-based compensation expense before tax was $1.2 million and $3.2 million for the three and six months ended June 30, 2020, respectively, compared to $1.9 million and $3.2 million in the corresponding periods of 2019, respectively.

Unrecognized compensation expense before tax under the Restricted Stock Plan was $16.3 million and $13.9 million at June 30, 2020 and December 31, 2019, respectively.

Note 10. Commitments and Contingencies

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

Note 11. Leases

The Company has operating leases for offices and automobiles. The automobile leases have remaining lease terms of 1 month to 3 years. The office leases have remaining lease terms of 1 month to 8 years, some of which include options to extend the leases for up to 5 years, and some of which include options to terminate the leases within 3 years. The majority of the Company's property or office leases include an option to extend or renew the lease term. The exercise of the renewal option is at the Company's discretion. The operating lease liability includes lease payments related to options to extend or renew the lease term if the Company is reasonably certain of exercising those options. The Company utilizes a risk-free interest rate for periods comparable to the term of the underlying lease to determine the present value of lease payments.

Lease expense was $2.3 million for each of the three months ended June 30, 2020 and 2019. Lease expense was $4.6 million for each of the six months ended June 30, 2020 and 2019.

Additional information related to the operating leases is provided below:

	As of and for the Six Months Ended June 30, 2020	
(In thousands)	Offices	Automobile
Cash payments included in the measurement of lease liabilities reported in operating cash flows	$ 3,608	$ 527
Weighted average discount rate	2.13%	1.98%
Weighted average remaining lease term (in years)	4.6	1.96

The following table presents the contractual maturities of the Company's lease liabilities at June 30, 2020:

(In thousands)	Offices	Auto Fleet	Total
Remainder of 2020	$ 3,424	$ 466	$ 3,890
2021	5,985	677	6,662
2022	4,073	311	4,384
2023	2,696	34	2,730
2024	2,087		2,087
Thereafter	3,406		3,406
Total undiscounted lease payments	$ 21,671	$ 1,488	$ 23,159
Less: present value adjustment	1,053	57	1,110
Operating lease liability	$ 20,618	$ 1,431	$ 22,049