Zenith National Insurance Corp. and Subsidiaries

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

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

(In thousands, except par value)		March 31, 2021		December 31, 2020
Assets:				
Investments:				
Fixed maturity securities, at fair value (amortized cost $1,126,701 in 2021 and $1,011,444 in 2020)	$	1,127,840	$	1,015,071
Equity securities, at fair value (cost $246,216 in 2021 and $246,217 in 2020)		280,329		222,520
Short-term investments, at fair value which approximates cost		48,399		174,756
Mortgage loans, at fair value which approximates cost		21,769		18,824
Other investments		116,187		114,433
Derivative assets, at fair value (cost $18,444 in 2021 and $22,510 in 2020)		4,475		234
Assets pledged for derivative obligations, at fair value (amortized cost $4,598 in 2021 and $6,417 in 2020)		4,600		6,418
Total investments		1,603,599		1,552,256
Cash		96,482		62,838
Accrued investment income		5,989		7,105
Premiums receivable		44,314		39,479
Reinsurance recoverables		39,246		39,652
Deferred policy acquisition costs		15,235		12,756
Deferred tax asset		40,531		39,315
Income tax receivable				1,930
Operating lease right-of-use assets		24,430		26,085
Goodwill		20,985		20,985
Other assets		61,745		61,004
Total assets	$	1,952,556	$	1,863,405
Liabilities:				
Unpaid losses and loss adjustment expenses	$	1,056,212	$	1,059,150
Unearned premiums		105,359		88,466
Policyholders' dividends accrued		33,458		32,807
Long-term debt		38,289		38,282
Income tax payable		6,374		
Operating lease liabilities		25,884		27,608
Derivative liabilities		1,430		3,243
Other liabilities		87,229		101,574
Total liabilities		1,354,235		1,351,130
Commitments and contingencies (see Note 10)				
Stockholders' equity:				
Common stock, $1 par value, 40 authorized shares; 39 shares issued and outstanding		39		39
Additional paid-in capital		400,872		400,264
Retained earnings		203,530		118,659
Accumulated other comprehensive loss		(6,120)		(6,687)
Total stockholders' equity		598,321		512,275
Total liabilities and stockholders' equity	$	1,952,556	$	1,863,405

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

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

	Three Months Ended March 31,	
(In thousands)	2021	2020
Revenues:		
Net premiums earned	$ 171,655	$ 163,748
Net investment income (loss)	(331)	2,619
Net realized gains on investments	1,953	15,931
Change in net unrealized gains/losses on fair value option investments	55,892	(90,010)
Net gains (losses) on derivatives	15,329	(32,246)
Service fee income	1,445	2,074
Total revenues	245,943	62,116
Expenses:		
Losses and loss adjustment expenses incurred	83,645	77,798
Underwriting and other operating expenses:		
Policyholder acquisition costs	32,552	32,722
Underwriting and other costs	31,612	31,286
Policyholders' dividends	5,353	4,490
Interest expense	830	830
Total expenses	153,992	147,126
Income (loss) before tax	91,951	(85,010)
Income tax expense (benefit)	19,080	(17,808)
Increase (decrease) in valuation allowance	(12,000)	25,900
Net income (loss)	84,871	(93,102)
Net change in unrealized gains/losses on investments, net of tax	627	(347)
Change in unrealized foreign currency translation adjustment, net of tax	(60)	(42)
Other comprehensive income (loss)	567	(389)
Total comprehensive income (loss)	$ 85,438	$ (93,491)

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)	Three Months Ended March 31, 2021	2020
Cash flows from operating activities:		
Premiums collected	$ 175,694	$ 178,700
Investment income received	5,053	5,848
Losses and loss adjustment expenses paid	(85,149)	(90,268)
Underwriting and other operating expenses paid	(75,572)	(78,420)
Interest paid	(1,646)	(1,646)
Income taxes paid	(143)	(63)
Net cash provided by operating activities	18,237	14,151
Cash flows from investing activities:		
Purchases of investments:		
Fixed maturity securities – fair value option	(552,955)	(477,046)
Equity securities – fair value option		(89)
Mortgage loans	(2,795)	
Other investments	(3,594)	(43)
Proceeds from maturities and redemptions of investments:		
Fixed maturity securities – fair value option	433,601	320,930
Proceeds from sales of investments:		
Fixed maturity securities – fair value option	2,222	63,549
Equity securities – fair value option		19,542
Other investments	2,490	1,573
Net decrease in short-term investments	128,219	118,677
Net derivative cash settlements	9,276	(7,581)
Capital expenditures and other	(169)	(661)
Net cash provided by investing activities	16,295	38,851
Cash flows from financing activities:		
Purchase of Fairfax shares for restricted stock awards	(888)	(4,393)
Net cash used in financing activities	(888)	(4,393)
Net increase in cash	33,644	48,609
Cash at beginning of period	62,838	17,918
Cash at end of period	$ 96,482	$ 66,527

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

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

	Three Months Ended March 31,	
(In thousands)	2021	2020
Reconciliation of net income (loss) to net cash provided by operating activities:		
Net income (loss)	$ 84,871	$ (93,102)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation expense	660	679
Net amortization (accretion)	2,404	(668)
Net realized gains on investments	(1,953)	(15,931)
Change in net unrealized gains/losses on fair value option investments	(55,892)	90,010
Net (gains) losses on derivatives	(15,329)	32,246
Equity in losses of investee	3,958	3,545
Stock-based compensation expense	1,496	2,026
Decrease (increase) in:		
Accrued investment income	1,116	1,478
Premiums receivable	(20,278)	(3,334)
Reinsurance recoverables	406	1,867
Deferred policy acquisition costs	(2,479)	(1,668)
Net income taxes	6,937	8,030
Increase (decrease) in:		
Unpaid losses and loss adjustment expenses	(2,938)	(14,852)
Unearned premiums	16,893	13,450
Policyholders’ dividends accrued	651	(832)
Accrued expenses	(1,261)	(4,805)
Interest payable	(823)	(823)
Other	(202)	(3,165)
Net cash provided by operating activities	$ 18,237	$ 14,151

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

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

(In thousands)	Three Months Ended March 31, 2021	2020
Common stock:	$ 39	$ 39
Additional paid-in capital:		
Beginning of period	400,264	399,097
Stock-based compensation expense	1,496	2,026
Purchases of Fairfax shares for restricted stock awards	(888)	(4,393)
End of period	400,872	396,730
Retained earnings:		
Beginning of period	118,659	162,336
Net income (loss)	84,871	(93,102)
End of period	203,530	69,234
Accumulated other comprehensive loss:		
Beginning of period	(6,687)	(4,102)
Net change in unrealized gains/losses on investments, net of tax	627	(347)
Change in unrealized foreign currency translation adjustment, net of tax	(60)	(42)
End of period	(6,120)	(4,491)
Total stockholders' equity	$ 598,321	$ 461,512

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

Note 1. Basis of Presentation and Accounting Policies

Basis of Presentation

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

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

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

Adopted Accounting Standards

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

Reference Rate Reform

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

Recent Accounting Standards Not Yet Adopted

Measurement of Credit Losses on Financial Instruments

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

Goodwill Impairment

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

Subsequent Events

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

Note 2. Investments

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

(In thousands)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
March 31, 2021				
Fair value option investments:				
Fixed maturity securities:				
State and local government debt	$ 10,310	$ 555		$ 10,865
U.S. Government debt (a)	1,036,015	555	$ (32)	1,036,538
Foreign government debt	49,396		(694)	48,702
Corporate debt	35,578	1,134	(377)	36,335
Total fixed maturity securities	1,131,299	2,244	(1,103)	1,132,440
Equity securities	246,216	51,352	(17,239)	280,329
Short-term investments	48,399			48,399
Other investments – affiliate corporate loans	9,322	628		9,950
Other investments – cost-method partnerships	35,296	4,462	(5,018)	34,740
Mortgage loans	21,769			21,769
Total fair value option investments	**$ 1,492,301**	**$ 58,686**	**$ (23,360)**	**$ 1,527,627**
December 31, 2020				
Fair value option investments:				
Fixed maturity securities:				
State and local government debt	$ 10,353	$ 616		$ 10,969
U.S. Government debt (a)	969,969	2,509	$ (4)	972,474
Corporate debt	36,414	1,451	(944)	36,921
Total fixed maturity securities	1,016,736	4,576	(948)	1,020,364
Equity securities	246,217	13,726	(37,423)	222,520
Short-term investments (b)	175,881			175,881
Other investments – affiliate corporate loans	16,697	1,368		18,065
Other investments – cost-method partnerships	32,020	3,130	(4,995)	30,155
Mortgage loans	18,824			18,824
Total fair value option investments	**$ 1,506,375**	**$ 22,800**	**$ (43,366)**	**$ 1,485,809**

(a) Includes investments of $4.6 million and $5.3 million pledged for derivative obligations at March 31, 2021 and December 31, 2020, respectively.
(b) Includes investments of $1.1 million pledged for derivative obligations at December 31, 2020.

Fixed maturity securities, including short-term investments, by contractual maturity at March 31, 2021 were as follows:

(In thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 841,486	$ 841,654
Due after one year through five years	312,654	313,627
Due after five years through ten years	22,760	22,563
Due after ten years	2,798	2,995
Total	$ 1,179,698	$ 1,180,839

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 March 31, 2021 also include other investments detailed below and derivative contracts described in Note 3.

Other investments consist of the following:

(In thousands)	March 31, 2021	December 31, 2020
Equity-method common stock (a) (c)	$ 71,497	$ 66,213
Cost-method partnerships, at fair value (cost $35,296 in 2021 and $32,020 in 2020) (b)	34,740	30,155
Affiliate corporate loans, at fair value (amortized cost $9,322 in 2021 and $16,697 in 2020) (c)	9,950	18,065
Total other investments	$ 116,187	$ 114,433

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

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

(c) In March 2021, Farmers Edge Inc. ("FE") loans were converted to equity-accounted FE common stock, at $9.3 million fair value, as part of FE's initial public offering (see Note 5).

At March 31, 2021, the Company had commitments to invest an additional $16.0 million in partnerships and limited liability companies.

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

	Three Months Ended March 31,	
(In thousands)	2021	2020
Sales of fixed maturity securities, including short-term investments and other (a)	$ 328	$ 12,306
Sale of equity securities (b)		2,808
Gains from other investments (c)	1,625	817
Net realized gains on investments	$ 1,953	$ 15,931

(a) Net realized gains on sales of fixed maturity securities, including short-term investments and other for the three months ended March 31, 2021 include a realized gain of $0.8 million related to the conversion of FE affiliate loans as part of its initial public offering, partially offset by a realized loss of $0.5 million related to the foreign currency indemnity that resulted from the Apple Bidco Limited acquisition by Atlast Corp. ("Atlas"). See Note 5 for more information on FE and Atlas investments.

Net realized gains on sales of fixed maturity securities, including short-term investments and other for the three months ended March 31, 2020 include $12.3 million of gross realized gains on sales of fair value option fixed maturity securities to affiliates of Fairfax and the Company.

(b) Net realized gains on sales of equity securities for the three months ended March 31, 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.

(c) Net realized gains from other investments for the three months ended March 31, 2021 primarily include a $1.0 million gain on a cost-method partnership distribution, dilution gains for equity-accounted common stocks of $1.0 million for Boat Rocker Media Inc. ("Boat Rocker") and $0.2 million for FE, partially offset by a dilution loss of $0.6 million for equity-accounted Helios Fairfax Partners Corp. common stock. See Note 5 for more information on these affiliated common stock investments.

Net realized gains from other investments for the three months ended March 31, 2020 include $0.8 million of gains on cost-method partnership distributions.

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

	Three Months Ended March 31,	
(In thousands)	2021	2020
Equity-method common stock	$ 793	$ (491)
Equity-method partnerships		52
Total before tax	$ 793	$ (439)
After tax	$ 627	$ (347)

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

	Three Months Ended March 31,	
(In thousands)	2021	2020
Change in net unrealized gains/losses recognized on fair value option investments	$ 55,892	$ (90,010)
Less: Net gains recognized on fair value option investments sold	(1,522)	(12,686)
Change in net unrealized gains/losses recognized on fair value option investments still held at the reporting date (a)	$ 57,414	$ (77,324)

(a) The change in net unrealized gains/losses recognized on fair value option investments still held at March 31, 2020 in the three months ended March 31, 2020 reflects a decrease in the fair vaue of these investments attributable to the disruption in global financial markets associated with the COVID-19 global pandemic beginning in March 2020 as discussed in Note 2. The majority of this fair value decline has reversed through March 31, 2021.

Net investment income (loss) was as follows:

	Three Months Ended March 31,	
(In thousands)	2021	2020
Fixed maturity securities (a)	$ 3,276	$ 5,989
Equity securities	600	377
Derivatives	745	659
Short-term and other investments (a) (b)	474	996
Mortgage loans	349	
Loss from equity-method investments (c)	(3,958)	(3,545)
Subtotal	1,486	4,476
Investment expenses	1,817	1,857
Net investment income (loss)	$ (331)	$ 2,619

(a) Income from fixed maturity securities in the first quarter of 2021 decreased compared to the corresponding period of 2020, primarily due to sales and maturities of higher yielding municipal bonds and short-dated U.S. treasury bonds and notes, and the reinvestment of the proceeds into lower yielding U.S. treasury bonds and high quality corporate bonds.

(b) Short-term and other investments include interest earned on FE loans. Accrued interest due in March 2021 on the FE loans of $1.1 million was rolled into the principal balance of the loans and represents a non-cash interest received transaction during the first quarter of 2021. All FE loans were converted into FE common stock as part of its initial public offering in March 2021 (see Note 5).

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

	Three Months Ended March 31,	
(In thousands)	2021	2020
Boat Rocker Media Inc.	$ (3,166)	$ (1,626)
Helios Fairfax Partners Corp. (fka Fairfax Africa Holdings Corp.)	(1,342)	679
Farmers Edge Inc.	(676)	(1,414)
AGT Food and Ingredients Inc.	(32)	(684)
Fairfax India Holdings Corp.	774	4,954
Toys R Us Canada (1)		(3,704)
Apple Bidco		(1,232)
Davos Brands LLC		(418)
Other	484	(100)
Loss from equity-method investments	$ (3,958)	$ (3,545)

(1) In the second quarter 2020, as a result of recording the Company's share of Toys R Us Canada's ("TRU") losses the Company reduced the carrying value of our investment in TRU to zero. Based on the latest GAAP financial statements of TRU as of February 27, 2021 (unaudited), the remaining share of the TRU's losses not yet recognized in the Company's results as of March 31, 2021 was approximately $15.7 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
March 31, 2021				
CPI-linked derivatives	$ 4,155,295	$ 18,444	$ 42	
Long equity total return swaps	39,030		4,433	$ 1,228
Foreign exchange forwards	75,506			202
Total		$ 18,444	$ 4,475	$ 1,430
December 31, 2020				
CPI-linked derivatives	$ 4,692,978	$ 22,510	$ 234	
Long equity total return swaps	48,067			$ 1,607
Foreign exchange forwards	36,342			1,636
Total		$ 22,510	$ 234	$ 3,243

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:

(In thousands)	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Gains (losses) on settlements		
Equity derivatives:		
Equity total return swaps – long positions	$ 11,306	$ (4,049)
CPI-linked derivatives (a)	(4,065)	(10,889)
U.S. government bond forwards		(3,269)
Foreign exchange forwards	(2,032)	(527)
Total	5,209	(18,734)
Change in fair value		
Equity derivatives:		
Equity total return swaps – long positions	4,812	(13,747)
CPI-linked derivatives (a)	3,874	15,218
U.S. government bond forwards		(20,786)
Foreign exchange forwards	1,434	5,956
Foreign currency options		(153)
Total	10,120	(13,512)
Net gains (losses) on derivatives		
Equity derivatives:		
Equity total return swaps – long positions	16,118	(17,796)
CPI-linked derivatives (a)	(191)	4,329
U.S. government bond forwards		(24,055)
Foreign exchange forwards	(598)	5,429
Foreign currency options		(153)
Total net gains (losses) on derivatives	$ 15,329	$ (32,246)

(a) One CPI-linked derivative contract with the notional amount of $0.4 billion matured in the three months ended March 31, 2021 with the fair value of zero at maturity, and $4.1 million of losses previously recognized in the change in fair value component of net gains (losses) on derivatives were reclassified to gains (losses) on settlements.

Equity Derivative Contracts

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

CPI-linked Derivative Contracts

The Company has purchased derivative contracts referenced to consumer price indexes (''CPI'') in the United States and Europe to serve as an economic hedge against the potential adverse financial impact on the Company of decreasing price levels. In the event of a sale, maturity or early settlement of any of these contracts, the Company would receive the fair value of that contract on the date of the transaction. The Company's maximum potential loss on any contract is limited to the original cost of that contract. Net unrealized gains (losses) on CPI-linked derivative contracts typically reflect the market's expectation of decreases (increases) in the values of the CPI indexes underlying these contracts at their respective maturities during the periods presented (these contracts are structured to benefit the Company during periods of decreasing CPI index values). At March 31, 2021, these contracts had a remaining weighted average life of approximately 3 years.

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

	Notional Amount		Weighted Average Strike Price	
(Notional amount in thousands)	Original Currency	US Dollars	In Original Currency	Index Value
Underlying CPI Index:				
March 31, 2021				
United States	2,980,000	$ 2,980,000	235.47	264.88
European Union	1,000,000	1,175,295	100.31	106.09
		$ 4,155,295		
December 31, 2020				
United States	2,980,000	$ 2,980,000	235.47	260.47
European Union	1,400,000	1,712,978	100.07	104.70
		$ 4,692,978		

Foreign Exchange Forward Contracts

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

Counterparty Risk

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

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

(In thousands)	March 31, 2021	December 31, 2020
Total derivative assets	$ 4,475	$ 234
Impact of net settlement arrangements	(881)	(157)
Fair value of collateral deposited for the benefit of the Company	(3,565)	(77)
Net derivative counterparty exposure after net settlement and collateral arrangements	$ 29	$

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 March 31, 2021 and December 31, 2020, the Company pledged to its counterparties securities with a fair value of $4.6 million and $6.4 million, respectively, as independent and mark-to-market collateral for CPI-linked and long equity total return swaps derivatives and recorded this amount as assets pledged for derivative obligations in the Consolidated Balance Sheets.

At March 31, 2021, the counterparties pledged for the Company's benefit $0.3 million of cash and $3.5 million of U.S. Treasury notes and bills, compared to $0.3 million of cash and $0.6 million of U.S. Treasury notes at December 31, 2020. The Company recorded the cash collateral as other assets in our 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).

(In thousands)	Gross and net amounts reflected in the Consolidated Balance Sheets	Gross amounts not offset in the Consolidated Balance Sheets: Derivative asset (liability)	Gross amounts not offset in the Consolidated Balance Sheets: Collateral provided (held) - financial instruments (a)	Net amount of exposure
March 31, 2021				
Derivative assets:				
Citibank, N.A.	$ 4,457	$ (881)	$ (3,547)	$ 29
Deutsche Bank AG London	18		(18)	
Total derivative assets	$ 4,475	$ (881)	$ (3,565)	$ 29
Derivative liabilities:				
Citibank, N.A.	$ (881)	$ 881		
Bank of New York Mellon (b)	(203)			$ (203)
Bank of America	(346)		$ 346	
Total derivative liabilities	$ (1,430)	$ 881	$ 346	$ (203)
December 31, 2020				
Derivative assets:				
Citibank, N.A.	$ 157	$ (157)		
Deutsche Bank AG London	77		$ (77)	
Bank of America				
Total derivative assets	$ 234	$ (157)	$ (77)	
Derivative liabilities:				
Citibank, N.A.	$ (372)	$ 157		$ (215)
Bank of New York Mellon (b)	(1,636)			(1,636)
Bank of America	(1,235)		$ 1,125	(110)
Total derivative liabilities	$ (3,243)	$ 157	$ 1,125	$ (1,961)

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

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

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

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

The three hierarchy levels are defined as follows:

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

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

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

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

		Fair Value Measurement Using		
(In thousands)	Total	Level 1	Level 2	Level 3
March 31, 2021				
Fair value option securities:				
Fixed maturity securities:				
State and local government debt	$ 10,865		$ 10,865	
U.S. government debt	1,036,538		1,036,538	
Foreign government debt	48,702		48,702	
Corporate debt	36,335		28,904	$ 7,431
Total fixed maturity securities	1,132,440		1,125,009	7,431
Equity securities (a)	280,329	$ 209,671	9,588	17,549
Short-term investments	48,399	48,399		
Other investments - affiliate corporate loans	9,950			9,950
Other investments - cost-method partnerships (a)	34,740			
Mortgage loans	21,769			21,769
Total fair value option investments	$ 1,527,627	$ 258,070	$ 1,134,597	$ 56,699
Derivatives:				
Equity total return swaps – long positions	$ 4,433		$ 4,433	
CPI-linked derivative contracts	42			$ 42
Total derivative assets	4,475		4,433	42
Equity total return swaps – long positions	(1,228)		(1,228)	
Foreign exchange forwards	(202)		(202)	
Total derivative liabilities	(1,430)		(1,430)	
Net derivatives	$ 3,045		$ 3,003	$ 42

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

(a) Certain common stock investments with a fair value of $43.5 million and $40.0 million at March 31, 2021 and December 31, 2020, respectively and cost-method partnership investments are measured using the NAV practical expedient and as a result have not been classified in the fair value hierarchy. The fair value amounts presented in the “Total” column are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Consolidated Balance Sheets.

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

(In thousands)	Corporate Debt	Equity Securities (a)	Derivatives	Affiliate Corporate Loans	Mortgage Loans
Balance at December 31, 2020	$ 6,974	$ 17,639	$ 234	$ 18,065	$ 18,824
Purchases				1,133	2,795
Sales and maturities				(9,289)	
Realized and unrealized gains/losses included in:					
Change in net unrealized gains/losses on fair value option investments	457	(90)		(739)	
Net investments income – accretion of discounts					150
Net realized gains on investments				780	
Net losses on derivatives			(192)		
Balance at March 31, 2021	$ 7,431	$ 17,549	$ 42	$ 9,950	$ 21,769
Balance at December 31, 2019	$ 7,842	$ 17,038	$ 671	$ 16,523	
Purchases				985	
Unrealized gains/losses included in:					
Change in net unrealized gains/losses on fair value option investments	(3,350)	(2,466)		(1,804)	
Net gains on derivatives			4,329		
Balance at March 31, 2020	$ 4,492	$ 14,572	$ 5,000	$ 15,704	

(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 were $1.2 million for each of the three months ended March 31, 2021 and 2020.

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

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

(In thousands)		March 31 2021		December 31, 2020
Fixed maturity securities, at fair value option	$	15,092	$	15,049
Equity securities, at fair value option		92,537		79,040
Other invested assets:				
Equity-method common stock		71,497		66,213
Affiliate corporate loans		9,950		18,065
Total	$	189,076	$	178,367

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

	Three Months Ended March 31,			
(In thousands)		2021		2020
Included in net income (loss):				
Net investment loss	$	(3,030)	$	(2,928)
Net realized gains on investments		1,371		15
Change in net unrealized gains/losses on fair value option investments		12,782		(23,990)
Included in other comprehensive income (loss):				
Net change in unrealized gains/losses on investments, before tax		793		(439)
Change in unrealized foreign currency translation adjustment, before tax		(76)		(53)
Total	$	11,840	$	(27,395)

On February 27, 2020 Seaspan Corporation ("Seaspan"), an affiliate of Faifax and the Company, 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-accounting 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). The Company elected the fair value option of accounting for its investment in Atlas affiliated common stock. At March 31, 2021 and December 31, 2020, the carrying value of the Company's investment in Atlas affiliated common stock was $39.4 million and $31.3 million, respectively.

In February 2020, in connection with the Atlas reorganization, the Company invested an additional $10.0 million in Atlas 5.50% unsecured debentures due March 1, 2027. At March 31, 2021 and December 31, 2020, the total carrying value of the Company's investment in Atlas affiliated fixed maturity securities was $15.1 million and $15.0 million, respectively.

The Company invests in the common stock shares of Recipe Unlimited Corp. ("Recipe"), a majority-owned subsidiary of Fairfax. The Company elected the fair value option of accounting for its investment in Recipe affiliated 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 March 31, 2021 and December 31, 2020, the carrying value of this investment was $9.6 million and $7.7 million, respectively.

In March 2021, Farmers Edge Inc. ("FE"), a majority-owned subsidiary of Fairfax and an equity-accounted affiliate of the Company, completed its initial public offering ("IPO") issuing 7.4 million common stock shares at $17.00 CAD per share. The common stock shares began trading on the Toronto Stock Exchange ("TSX") under the ticker symbol: FDGE. All outstanding principal and accrued interest on FE convertible debentures held by Fairfax and its affiliates (including FE affiliate loans held by the Company were converted to 114.6 million pre-IPO common shares. All FE common shares outstanding prior to the IPO were then consolidated into fewer shares through a 7 for 1 reverse stock split. Fairfax's controlling equity interest in FE increased to 59.9% on completion of the IPO and capital transactions. In connection with the conversion of FE 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 a fair value equal to the IPO price. At March 31, 2021 and December 31, 2020, the carrying value of this investment was $9.0 million and $0.8 million, respectively.

The Company owns an investment in common stock of Boat Rocker, a majority-owned subsidiary of Fairfax and an equity-accounted affiliate of the Company. In the first quarter of 2021, the Company received a $1.1 million return of capital distribution from Boat Rocker in the form of additional common stock shares. In March 2021, Boat Rocker completed an IPO issuing 18.9 million common stock shares at $9.00 CAD per share. The common stock shares began trading on the TSX under the ticker symbol: BRMI. Prior to the IPO, Fairfax converted its convertible debentures for subordinate voting shares of Boat Rocker; Boat Rocker converted its preferred shares to subordinate voting shares and issued additional subordinate voting shares to a third party; and finally Boat Rocker effected a 1.6016 for 1 stock split on its common shares outstanding. As a result, Fairfax has an economic and voting interest in Boat Rocker of 45.0% and 56.1% on completion of the IPO and capital transactions. At March 31, 2021 and December 31, 2020, the carrying value of this investment was $3.7 million and $7.2 million, respectively.

The Company owns an investment in equity-accounted common stock of Astarta Holding NV ("Astarta"), a Netherlands company that is an affiliate of Fairfax and the Company. Astarta common stock is publicly traded on the Polish stock exchange. 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 the first quarter of 2020. At March 31, 2021 and December 31, 2020, the carrying value of this investment was $2.2 million.

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

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., an affiliate of Fairfax and the Company, and received $21.6 million in U.S. treasury notes and $13.2 million in cash, and recognized realized gains of $12.1 million on these transactions.

Other

The Company continues to be a party to various reinsurance treaties with affiliates of Fairfax that were entered into in the ordinary course of business, primarily excess of loss reinsurance agreements with Odyssey Re for 2010 through 2021. At March 31, 2021 and December 31, 2020, the Company recorded net reinsurance recoverables of $0.3 million and $0.1 million, respectively, related to the reinsurance transactions with the affiliates of Fairfax.

Zenith National paid Fairfax $0.9 million and $4.4 million in the three months ended March 31, 2021 and 2020, respectively, for the cost of the open market purchase made by Fairfax on Zenith National's behalf of Fairfax Subordinate Voting Shares granted to certain officers under the Restricted Stock Plan.

The Company is party to a Master Administrative Services Agreement with various affiliates of Fairfax. Under the agreement, the affiliated parties provide and receive administration services such as accounting, underwriting, claims, reinsurance, preparation of regulatory reports, and actuarial services. The Company provides claims administrative services to Seneca Insurance Company, Inc. ("Seneca"), an affiliate of Fairfax and the Company, under this agreement. The Company is also party to a claims administration services agreement with TIG Insurance Company ("TIG"), an affiliate of Fairfax and the Company. Service fee income recorded in the Consolidated Statements of Comprehensive Income (Loss) in the three months ended March 31, 2021 and 2020 for TIG was $1.2 million and $1.8 million, respectively, and for Seneca was $0.1 million and $0.1 million, respectively. As of March 31, 2021 and December 31, 2020, the Company recorded a net liability of $2.3 million and $1.8 million, respectively, to TIG comprised of a loss fund held for TIG claims of $3.1 million and $2.7 million, respectively, offset by a service fee receivable from TIG of $0.8 million and $0.9 million, respectively. The loss fund held for Seneca claims was $0.6 million at March 31, 2021 and December 31, 2020.

Note 6. Reinsurance Recoverable

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

(In thousands)		March 31, 2021 (a)		December 31, 2020 (a)	A.M. Best Rating (b)	A.M. Best Rating Date
General Reinsurance Corp.	$	32,072	$	33,016	A++	03/2021
Zenith Insurance 2019 AG		1,397			NR	
Factory Mutual Insurance Company		1,291			A+	01/2021
All others (c)		4,486		6,636		
Total	$	39,246	$	39,652		

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

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

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

2021 Reinsurance Ceded Workers' Compensation Coverage

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

2020 Reinsurance Ceded Workers' Compensation Coverage

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

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

Note 7. Unpaid Losses and Loss Adjustment Expenses

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

(In thousands)		March 31, 2021		March 31, 2020
Beginning of period, net of reinsurance	$	1,021,329	$	1,046,248
Incurred claims:				
Current accident year		106,782		105,364
Prior accident years		(23,137)		(27,566)
Total incurred claims		83,645		77,798
Payments:				
Current accident year		(13,443)		(12,192)
Prior accident years		(71,553)		(78,492)
Total payments		(84,996)		(90,684)
End of period, net of reinsurance		1,019,978		1,033,362
Receivable from reinsurers for unpaid losses		36,234		37,651
End of period, gross of reinsurance	$	1,056,212	$	1,071,013

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 March 31, 2021						
Net changes in unrealized gains/losses on investments	$	793	$	166	$	627
Change in unrealized foreign currency translation adjustment		(76)		(16)		(60)
Total other comprehensive income	$	717	$	150	$	567
Three months ended March 31, 2020						
Net changes in unrealized gains/losses on investments	$	(439)	$	(92)	$	(347)
Change in unrealized foreign currency translation adjustment		(53)		(11)		(42)
Total other comprehensive loss	$	(492)	$	(103)	$	(389)

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

(In thousands)		March 31, 2021		December 31, 2020
Equity-method common stock	$	(7,272)	$	(8,065)
Deferred tax benefit		(1,527)		(1,693)
Net unrealized loss on investments, after tax		(5,745)		(6,372)
Net unrealized loss on foreign currency translation adjustment, before tax		(475)		(399)
Deferred tax benefit		(100)		(84)
Net unrealized loss on foreign currency translation adjustment, after tax		(375)		(315)
Total accumulated other comprehensive loss	$	(6,120)	$	(6,687)

Note 9. Stock-Based Compensation

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

	Number of Shares
Authorized for purchases and grants at plan inception in 2010	200,000
Additional authorization in 2020	300,000
Total authorized for purchases and grants	500,000
Purchased and restricted	(60,752)
Vested	(70,997)
Purchased and available for future grants	(275)
Available for future purchases at March 31, 2021	367,976

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

(Dollars in thousands, except share data)	Number of Shares	Weighted Average Purchase Price Per Share	Total Purchase Price
Purchased through December 31, 2018	106,825	$ 441.17	$ 47,129
Purchased in 2019	11,527	443.41	5,111
Purchased in 2020	11,518	381.37	4,393
Purchased in 2021	2,154	412.39	888
Total purchased since plan inception	132,024	435.68	$ 57,521

Changes in the restricted shares outstanding were as follows:

(Dollars in thousands, except share data)	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Grant Date Fair Value
Restricted Shares at December 31, 2018	56,243	$ 472.13	$ 26,554
Granted during 2019	12,426	473.36	5,882
Forfeited during 2019	(1,080)	469.56	(507)
Vested during 2019	(6,156)	412.44	(2,539)
Restricted Shares at December 31, 2019	61,433	478.40	29,390
Granted during 2020	12,844	440.82	5,662
Forferited during 2020	(200)	465.67	(93)
Vested during 2020	(16,476)	501.91	(8,269)
Restricted Shares at December 31, 2020	57,601	463.34	26,690
Granted during 2021	13,168	389.19	5,125
Forfeited during 2021	(1,084)	470.19	(510)
Vested during 2021	(8,933)	449.52	(4,016)
Restricted Shares at March 31, 2021	60,752	449.18	$ 27,289

Stock-based compensation expense before tax was $1.5 million and $2.0 million for the three months ended March 31, 2021 and 2020, respectively.

Unrecognized compensation expense before tax under the Restricted Stock Plan was $17.0 million and $15.1 million at March 31, 2021 and December 31, 2020, respectively.

Note 10. Commitments and Contingencies

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

Note 11. Leases

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

Lease expense was $2.3 million for each of the three months ended March 31, 2021 and 2020, respectively.

Additional information related to the operating leases is provided below:

	As of and for the three months ended March 31, 2021	
(In thousands)	Offices	Automobile
Cash payments included in the measurement of lease liabilities reported in operating cash flows	$ 1,835	$ 233
Weighted average discount rate	1.64%	1.05%
Weighted average remaining lease term (in years)	5.07	1.85

The following table presents the contractual maturities of the Company's lease liabilities as of March 31, 2021:

(In thousands)	Offices	Auto Fleet	Total
Remainder of 2021	$ 5,399	$ 610	$ 6,009
2022	5,358	540	5,898
2023	3,975	182	4,157
2024	3,404	10	3,414
2025	2,866		2,866
Thereafter	4,490		4,490
Total undiscounted lease payments	$ 25,492	$ 1,342	$ 26,834
Less: present value adjustment	924	26	950
Operating lease liability	$ 24,568	$ 1,316	$ 25,884