Zenith National Insurance Corp. and Subsidiaries

Consolidated Financial Statements and Supplementary Consolidating Information December 31, 2021 and 2020 and for the Three Years Ended December 31, 2021

Zenith National Insurance Corp. and Subsidiaries
Consolidated Financial Statements

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Report of Independent Auditors

To the Management of Zenith National Insurance Corp.

Opinion

We have audited the accompanying consolidated financial statements of Zenith National Insurance Corp. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of comprehensive income (loss), of stockholders' equity and of cash flows for each of the three years in the period ended December 31, 2021, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplemental Information

Accounting principles generally accepted in the United States of America require that information about incurred and paid claims development that precedes the current reporting period and the historical claims payout percentages included in Note 8 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board (FASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers LLP

Los Angeles, California
February 25, 2022

ZENITH NATIONAL INSURANCE CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)	December 31, 2021	2020
Assets:		
Investments:		
Fixed maturity securities, at fair value (amortized cost $898,491 in 2021 and $1,011,444 in 2020)	$ 897,537	$ 1,015,071
Equity securities, at fair value (cost $261,116 in 2021 and $246,217 in 2020)	348,776	222,520
Short-term investments, at fair value which approximates cost	188,687	174,756
Mortgage loans, at fair value which approximates cost	79,337	18,824
Other investments	155,664	114,433
Derivative assets, at fair value (cost $13,225 in 2021 and $22,510 in 2020)	3,214	234
Assets pledged for derivative obligations, at fair value which approximates cost		6,418
Total investments	1,673,215	1,552,256
Cash	104,568	62,838
Accrued investment income	4,466	7,105
Premiums receivable	48,816	39,479
Reinsurance recoverables	47,854	39,652
Deferred policy acquisition costs	17,543	12,756
Deferred tax asset	44,191	39,315
Income tax receivable		1,930
Operating lease right-of-use assets	25,107	26,085
Goodwill	20,985	20,985
Other assets	59,161	61,004
Total assets	$ 2,045,906	$ 1,863,405
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 1,049,076	$ 1,059,150
Unearned premiums	105,236	88,466
Policyholders’ dividends accrued	30,780	32,807
Long-term debt	38,310	38,282
Income tax payable	649	
Operating lease liabilities	26,622	27,608
Derivative liabilities	380	3,243
Other liabilities	89,757	101,574
Total liabilities	1,340,810	1,351,130
Commitments and contingencies (see Note 15)		
Stockholders’ equity:		
Common stock, $1 par value, 40 authorized shares; 39 shares issued and outstanding	39	39
Additional paid-in capital	399,159	400,264
Retained earnings	314,948	118,659
Accumulated other comprehensive loss	(9,050)	(6,687)
Total stockholders’ equity	705,096	512,275
Total liabilities and stockholders’ equity	$ 2,045,906	$ 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)

	Year Ended December 31,		
(In thousands)	2021	2020	2019
Revenues:			
Net premiums earned	$ 711,141	$ 643,837	$ 734,997
Net investment income (loss)	17,428	(10,735)	15,543
Net realized gains (losses) on investments	22,850	24,538	(12,824)
Change in net unrealized gains/losses on fair value option investments	116,610	(19,187)	14,715
Net gains (losses) on derivatives	15,718	(31,506)	(26,170)
Service fee income	5,660	6,976	8,425
Total revenues	889,407	613,923	734,686
Expenses:			
Losses and loss adjustment expenses incurred	357,187	329,078	343,418
Underwriting and other operating expenses:			
Policy acquisition costs	137,914	128,576	138,953
Underwriting and other costs	121,570	125,824	132,269
Policyholders' dividends	19,518	18,360	21,690
Interest expense	3,321	3,321	3,321
Total expenses	639,510	605,159	639,651
Income before tax	249,897	8,764	95,035
Current	22,855	13,462	19,519
Deferred	28,553	(11,421)	(81)
Increase (decrease) in valuation allowance	(32,800)	20,400	
Total income tax expense	18,608	22,441	19,438
Net income (loss)	$ 231,289	$ (13,677)	$ 75,597
Change in unrealized gains/losses on investments, net of tax and reclassification adjustments	303	(3,627)	(2,653)
Change in unrealized foreign currency translation adjustments, net of tax and reclassification adjustments	(2,666)	1,042	2,149
Other comprehensive loss	(2,363)	(2,585)	(504)
Total comprehensive income (loss)	$ 228,926	$ (16,262)	$ 75,093

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

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

	Year Ended December 31,		
(In thousands)	2021	2020	2019
Cash flows from operating activities:			
Premiums collected	$ 713,131	$ 685,178	$ 745,808
Investment income received	29,802	23,951	17,518
Losses and loss adjustment expenses paid	(372,657)	(353,894)	(396,732)
Underwriting and other operating expenses paid	(292,324)	(274,138)	(298,136)
Interest paid	(3,292)	(3,292)	(3,292)
Income taxes paid	(20,276)	(12,960)	(25,248)
Net cash provided by operating activities	54,384	64,845	39,918
Cash flows from investing activities:			
Purchases of investments:			
Fixed maturity securities – fair value option	(936,009)	(611,222)	(483,450)
Equity securities – fair value option	(5,000)	(3,740)	(2,711)
Corporate loan – affiliate			(12,302)
Mortgage loans	(70,119)	(18,636)	
Other investments	(8,126)	(3,872)	(14,977)
Derivatives	(134)		(1,151)
Proceeds from maturities and redemptions of investments:			
Fixed maturities securities – fair value option	963,425	561,205	471,378
Corporate loan – affiliate			2,702
Proceeds from sales of investments:			
Fixed maturity securities – fair value option	68,690	79,575	76,945
Equity securities – fair value option	79	19,542	13,129
Mortgage loans	10,000		
Other investments	10,759	20,106	4,409
Net increase in short-term investments	(13,345)	(396)	(30,084)
Net derivative cash settlements	10,143	(25,515)	(34,750)
Capital expenditures and other	(1,608)	(2,579)	(3,025)
Net cash provided by (used in) investing activities	28,755	14,468	(13,887)
Cash flows from financing activities:			
Dividends paid to common stockholders	(35,000)	(30,000)	(32,669)
Purchase of Fairfax shares for restricted stock awards	(6,409)	(4,393)	(5,111)
Net cash used in financing activities	(41,409)	(34,393)	(37,780)
Net increase (decrease) in cash	41,730	44,920	(11,749)
Cash at beginning of year	62,838	17,918	29,667
Cash at end of year	$ 104,568	$ 62,838	$ 17,918

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

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

	Year Ended December 31,		
(In thousands)	2021	2020	2019
Reconciliation of net income (loss) to net cash provided by operating activities:			
Net income (loss)	$ 231,289	$ (13,677)	$ 75,597
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation expense	2,560	2,863	3,264
Net amortization (accretion)	10,406	3,542	(14,965)
Net realized (gains) losses on investments	(22,850)	(24,538)	12,824
Change in net unrealized gains/losses on fair value option investments	(116,610)	19,187	(14,715)
Net (gains) losses on derivatives	(15,718)	31,506	26,170
Equity in losses of investee	195	31,876	19,760
Stock-based compensation expense	5,304	5,560	5,868
Decrease (increase) in:			
Accrued investment income	2,639	463	(3,716)
Premiums receivable	(34,887)	27,279	(2,572)
Reinsurance recoverables	(8,202)	504	7,729
Deferred policy acquisition costs	(4,787)	32	(641)
Net income taxes	(1,668)	9,482	(5,811)
Increase (decrease) in:			
Unpaid losses and loss adjustment expenses	(10,074)	(26,715)	(62,001)
Unearned premiums	16,770	(1,395)	3,151
Policyholders' dividends accrued	(2,027)	(5,050)	(5,380)
Accrued expenses	568	7,503	(1,677)
Prepaid policy and guarantee fund assessments	665	(4,076)	1,678
Other	811	499	(4,645)
Net cash provided by operating activities	$ 54,384	$ 64,845	$ 39,918

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

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

	Year Ended December 31,		
(In thousands)	2021	2020	2019
Common stock:			
Beginning of year	$ 39	$ 39	$ 39
End of year	39	39	39
Additional paid-in capital:			
Beginning of year	400,264	399,097	398,340
Stock-based compensation expense	5,304	5,560	5,868
Purchases of Fairfax shares for restricted stock awards	(6,409)	(4,393)	(5,111)
End of year	399,159	400,264	399,097
Retained earnings:			
Beginning of year	118,659	162,336	145,515
Net income (loss)	231,289	(13,677)	75,597
Reclassification of net unrealized losses on available-for-sale investments and cost-method partnerships from other comprehensive loss at January 1, 2019 (see Note 2)			(3,126)
Dividends to common stockholders	(35,000)	(30,000)	(55,650)
End of year	314,948	118,659	162,336
Accumulated other comprehensive loss:			
Beginning of year	(6,687)	(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 (see Note 2)			3,126
Change in unrealized gains/losses on investments, net of tax and reclassification adjustments	303	(3,627)	(2,653)
Change in unrealized foreign currency translation adjustments, net of tax and reclassification adjustments	(2,666)	1,042	2,149
End of year	(9,050)	(6,687)	(4,102)
Total stockholders' equity	$ 705,096	$ 512,275	$ 557,370

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

Note 1. Basis of Presentation and Summary of Operations

Basis of Presentation

The accompanying Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include Zenith National Insurance Corp. ("Zenith National") and its subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Organization and Operations

Zenith National is a Delaware holding company, which is an indirect wholly-owned subsidiary of Fairfax Financial Holdings Limited ("Fairfax"). Fairfax is a Canadian financial services holding company, whose common stock is publicly traded on the Toronto Stock Exchange ("TSX"), and is principally engaged in property and casualty insurance, reinsurance and associated investment management.

Zenith National's wholly-owned subsidiaries (primarily Zenith Insurance Company ("Zenith Insurance")), specialize in the workers' compensation insurance business nationally and, since 2010, in the property-casualty business for California agriculture ("Agribusiness P&C"). Unless otherwise indicated, all references to the "Company" refer to Zenith National together with its subsidiaries.

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, differences in accounting by Fairfax for certain investments owned by the Company and accounting adjustments recorded by Fairfax related to the acquisition of the Company.

Use of Estimates

GAAP requires the use of assumptions and estimates in reporting certain assets and liabilities and related disclosures. Actual results could differ from those estimates.

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 that the Consolidated Financial Statements were issued on February 25, 2022.

Note 2. Summary of Accounting Policies

Investments

As of December 31, 2021 and 2020, $1.6 billion and $1.5 billion, respectively, of investments in fixed maturity securities, equity securities, short-term investments, mortgage loans, and certain other investments were recorded under the fair value option method of accounting. These investments are carried at fair value with changes in fair value recorded in the change in net unrealized gains/losses on fair value option investments in the Consolidated Statements of Comprehensive Income (Loss).

As of December 31, 2021 and 2020, other investments are comprised of investments in partnerships and limited liability companies, investments in equity-method common stock, corporate loans to affiliates, and a contingent consideration receivable for 2021. An affiliate is defined as a related party entity, generally when Fairfax is deemed to have control or when Fairfax or the Company have the ability to exercise significant influence over an entity. Investments in partnerships and limited liability companies where the Company's ownership is minor and does not have significant operating or financial influence ("cost-method partnerships") are carried at fair value. Investments in the common stock of an entity where the Company's ownership share is more than minor, as well as investments in the common stock of an affiliate are recorded under the equity-method of accounting, unless the fair value option is elected. The carrying value of the Company's investments in equity-method common stock represents the initial cost, adjusted for any additional purchases/distributions, other-than-temporary impairments, if any (as discussed below), and the Company's share of the changes in the investee's net asset value ("NAV") since the initial acquisition. Affiliate corporate loans and the contingent consideration receivable are carried at fair value, with changes in fair value recorded in the change in net unrealized gain/losses on fair value option investments in the Company's Consolidated Statements of Comprehensive Income (Loss).

Investments could be subject to default by the issuer or declines in fair value that become other-than-temporary. The Company continually assesses the prospects for its investments, other than fair value option investments, as part of its ongoing portfolio management, including the identification of other-than-temporary declines in fair value. The Company's other-than-temporary assessment includes reviewing the extent and duration of declines in fair value of such investments below the cost or amortized cost basis or carrying value, the seniority and duration of the securities, historical and projected company financial performance, company-specific news and other developments, the outlook for industry sectors, credit ratings, and macro-economic changes, including government policy initiatives. An other-than-temporary impairment is recorded in net income and reflected as a reduction in the cost basis or carrying value of the security based on the extent and duration that its fair value is below cost or carrying value, in addition to issuer specific events. In the years ended December 31, 2021 and 2020, the Company recorded other-than-temporary impairments of $14.5 million and $16.7 million, respectively, on equity-method common stock investments.

Investment income is recorded when earned. Realized capital gains and losses are determined under the "average cost" method.

Derivative Contracts

Derivative contracts may include interest rate and total return swaps, consumer price index linked ("CPI-linked"), foreign currency forwards and options and warrants contracts, all of which derive their value mainly from changes in underlying interest rates, foreign exchange rates, inflation indexes or equity instruments. A derivative contract may be traded on an exchange or over-the-counter ("OTC"). OTC derivative contracts are individually negotiated between contracting parties and may include the Company's forwards, CPI-linked derivatives and total return swaps.

The Company uses derivatives principally to mitigate financial risks arising from its investment holdings and monitors its derivatives for effectiveness in achieving their risk management objectives. Derivatives entered into by the Company are considered investments or economic hedges and are not designated for hedge accounting treatment for financial reporting.

Derivatives are carried at fair value. The fair value of derivatives in a gain position and fair value of derivatives in a loss position are presented as derivative assets and derivative liabilities, respectively, in the Consolidated Balance Sheets. The initial premium paid for a derivative contract, if any, is recorded as a derivative asset and subsequently adjusted for changes in the fair value of the contract at each reporting date. Changes in the fair value of derivatives are recorded as net gains (losses) on derivatives in the Consolidated Statements of Comprehensive Income (Loss), with a corresponding adjustment to the carrying value of the derivative asset or liability. Cash settlements related to fair value changes on derivatives are also recorded in the Consolidated

Statements of Comprehensive Income (Loss) as net gains (losses) on derivatives, and are recorded as an investing activity in the Consolidated Statements of Cash Flows.

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

See Note 4 for additional information related to derivative contracts.

Cash

Cash includes demand deposits with financial institutions.

Recognition of Property-Casualty Revenue and Expense

Revenue Recognition

The consideration paid for an insurance policy is generally known as a “premium.” Premiums billed to the Company’s policyholders are recorded as revenues in the Consolidated Statements of Comprehensive Income (Loss). Premiums are billed and collected according to policy terms, predominantly in the form of installments during the policy period. Premiums are earned pro-rata over the terms of the policies. Billed premiums applicable to the unexpired terms of policies in-force are recorded in the accompanying Consolidated Balance Sheets as a liability for unearned premiums.

Certain states in which the Company conducts business require that the Company bill additional amounts, or assessments, to policyholders in accordance with state statutes. In some cases, the Company is required to pay in advance, estimated amounts of these assessments to the relevant regulatory agency. Premiums do not include these assessments and their collection does not have any impact on the Company’s results of operations.

Any amounts receivable for billed premiums are charged-off upon initiating the legal collection process. An estimate of amounts that are likely to be charged-off is established as an allowance for doubtful accounts as of the balance sheet date. The estimate is comprised of any specific accounts that are past due and are considered probable to be charged-off and a provision against remaining accounts receivable based on historical bad debt expense. Premiums receivable is reported net of an allowance for estimated uncollectible amounts which was $0.3 million at both December 31, 2021 and 2020.

Workers’ compensation premiums are determined based upon the payroll of the insured, the applicable premium rates and, where applicable, an experience-based modification factor and a debit or credit applied by the Company’s underwriters based upon individual risk characteristics. Audits of policyholders’ records are conducted after policy expiration to make a final determination of applicable premiums. Included with premiums earned is an estimate of the impact of final audit premiums. The Company can estimate this adjustment because it monitors, by policy, how much additional premium will be billed or refunded in final audit invoices as a percentage of the original estimated amount that was billed. The Company uses the historical percentage and current trends to estimate the probable amount to be billed or refunded as of the balance sheet date. When payrolls increase during policy periods, the Company may bill less premium than is actually owed and will establish a receivable for the estimated amount due from its policyholders. When payrolls decline during policy periods (such as during a recession), the Company may bill more premium than is actually owed and will establish a liability for the estimated amount to be refunded to its policyholders. As of December 31, 2021, the Company did not record a receivable or payable for premiums due to or from policyholders. As of December 31, 2020, the Company recorded a liability of $24.1 million in premiums (net of commissions) owed to policyholders as a result of the estimated reduction in payrolls that were expected for the impact of the COVID-19 Pandemic.

The Company has written a relatively small number of workers' compensation policies that are retrospectively rated. Under this type of policy, subsequent to policy expiration, the policyholder may be entitled to a refund or owe additional premium based on the amount of losses sustained under the policy. These retrospective premium adjustments are limited in the amount by which they increase or decrease the standard amount of premium applicable to the policy. The Company can estimate these retrospective premium adjustments because it knows the underlying loss experience of the policies involved. As of December 31, 2021 and 2020, the net premiums payable under retrospectively rated workers' compensation policies reflected in unearned premiums was $2.0 million.

Losses and Loss Adjustment Expenses Incurred

Losses and loss adjustment expenses incurred in the accompanying Consolidated Statements of Comprehensive Income (Loss) include provisions for the amount the Company expects to ultimately pay for all reported and unreported claims for the applicable periods. Loss adjustment expenses are the expenses applicable to the process of administering, settling and investigating claims, including related legal expenses.

Estimates of losses from environmental and asbestos related claims are included in overall loss reserves and to date have not been material.

Unpaid Losses and Loss Adjustment Expenses

The liabilities for unpaid losses and loss adjustment expenses ("loss reserves") in the accompanying Consolidated Balance Sheets are estimates of the unpaid amounts that the Company expects to pay for the ultimate cost of reported and unreported claims as of the balance sheet date. Loss reserves are estimates and are inherently uncertain; they do not and cannot represent an exact measure of ultimate liability. The Company's actuaries perform a comprehensive review of loss reserves at the end of every quarter, from which a point estimate of loss reserves is determined. The loss reserve estimates recorded in the financial statements reflect management's best estimate of loss reserves based on the actuarial point estimate as well as judgment regarding the inherent uncertainties of ultimate loss costs. As of December 31, 2021 and 2020, there was no material difference between the actuarial point estimate and the loss reserve estimate recorded in the financial statements. As of December 31, 2021, workers' compensation, the Company's principle line of insurance, accounts for 87% of the net earned premium in 2021 and 91% of the outstanding liabilities for unpaid losses and loss adjustment expenses, net of reinsurance recoverable. Given the long-tail nature of workers' compensation liabilities, the ultimate losses will not be known for many years and estimating loss reserves is a complex process which involves a combination of actuarial techniques and management judgment including the consideration of all relevant data.

The Company's actuaries produce a point estimate for workers' compensation loss reserves using the results of various methods of estimation. The actuaries prepare reserve estimates for all accident years using the Company's historical claims data and many of the common actuarial methodologies for estimating loss reserves, such as paid loss development methods, incurred loss development methods, the Bornhuetter-Ferguson methods and methods that utilize claim counts and average severity. The actuarial point estimate is based on a selection of the results of these various methods depending upon both the age of the accident year and the geographic state of the injury. For mature accident years, all of the methods produce very similar loss estimates; the actuarial point selections are primarily based upon the paid loss development methods for California workers' compensation and incurred loss development methods for all other lines of business and jurisdictions. For recent accident years, the Bornhuetter-Ferguson methods and methods that utilize claim counts and average severity are weighted with paid and incurred loss development methods.

When losses are reported to the Company, it establishes individual estimates of the ultimate cost of the claims, known as “case reserves.” These case reserves are continually monitored and revised in response to new information and for amounts paid. The Company’s actuaries use this information about reported claims in some of their estimation techniques. In estimating the Company’s total loss reserves, the Company makes provision for two types of loss development. At the end of any calendar period, there are a number of claims that have not yet been reported but will arise out of accidents that have already occurred. These are referred to in the insurance industry as incurred but not reported (“IBNR”) claims and the Company’s loss reserves contain an estimate for IBNR claims. In addition to this provision for late reported claims, the Company also has to estimate, and make provision for, the extent to which the case reserves on known claims may also develop. These types of reserves are referred to in the insurance industry as “bulk” reserves. The Company’s loss reserves make provision for both IBNR and bulk reserves in total, but not separately. The large majority of claims are reported promptly and therefore, as of the balance sheet date, the number of IBNR claims is relatively insignificant.

The principal uncertainty in the Company’s workers’ compensation loss reserve estimates is the risk of increasing claim costs, particularly medical. In estimating loss reserves, the Company’s actuaries consider medical costs by evaluating long-term trends. The additional uncertainties considered in estimating ultimate loss costs include the ultimate number of expensive cases and the length of time required to settle long-term expensive cases. Expensive claims are those involving permanent disability of an injured worker and are paid over many years. The ultimate costs of expensive claims are difficult to estimate because of such factors as the on-going and possibly increasing need for medical care, complications from comorbidity, the duration of disability, life expectancy and benefits for dependents, as well as increased costs associated with obtaining settlement approval from Medicare.

The greater part of the challenge in estimating the loss reserves is associated with estimating the year-over-year increase (or decrease) in average claim severity for each accident year. Year-over-year rates of change of workers’ compensation average claim severity (severity trends/inflation) vary considerably. The Company’s initial workers’ compensation loss reserve estimates for recent accident years provide for claim severity trends that contemplate the long-term trend observed in the Company’s business. As loss experience emerges, actuarial estimates of ultimate losses and severity trends converge with those of the traditional dollar based loss development methods, resulting in net favorable or unfavorable development of the total loss reserve estimate.

Different assumptions about the claim severity inflation rates would change the workers' compensation loss reserve estimates; a material change is reasonably possible although management cannot predict if, when and to what extent such a change will occur. If the average annual inflation rate for each of the accident years 2019 through 2021 were increased or decreased by one percentage point in each year, the loss reserve estimates as of December 31, 2021 would change accordingly by approximately $16.9 million.

The Company believes its loss reserve estimates are adequate. However, the ultimate losses will not be known with any certainty for several years. The Company evaluates its loss reserve estimates every quarter to reflect the most current data and judgments. Any resulting adjustments to loss reserves are reflected in the Company’s Consolidated Statements of Comprehensive Income (Loss) in the period in which the change is made.

Deferred Policy Acquisition Costs

Policy acquisition costs, consisting of agent commissions and premium taxes that vary with, and are primarily related to, the production of new or renewal business are deferred and amortized as the related premiums are earned.

A premium deficiency is recorded if the sum of expected losses and loss adjustment expenses, expected dividends to policyholders, unamortized acquisition costs and policy maintenance costs exceeds the remaining unearned premiums. A premium deficiency would first be recorded by charging any unamortized acquisition costs to expense to the extent required to eliminate the deficiency. If the premium deficiency were greater than unamortized acquisition costs, a liability would be accrued for the excess deficiency. The Company does not consider anticipated investment income when determining if a premium deficiency exists. As of December 31, 2021 and 2020, no premium deficiency existed.

Policyholders' Dividends

The Company issues certain policies in which the policyholder may qualify to receive a dividend. An estimated provision for workers' compensation policyholders' dividends is accrued as the related premiums are earned. Such dividends do not become a fixed liability unless and until declared by the respective Board of Directors of Zenith National's insurance subsidiaries. The dividend to which a policyholder may be entitled is set forth in the policy. Dividends are calculated after policy expiration. The Company is able to estimate any liability it may have because it knows the underlying loss experience of the policies it has written with dividend provisions and can estimate the future liability from the policy terms. Approximately 47% of the Company's workers' compensation net premiums were earned from participating policies with dividend provisions.

State Guaranty Fund Assessments

Guaranty funds ("Guaranty Funds") exist in several states to ensure that policyholders (holders of direct insurance policies but not of reinsurance policies) receive payment of their claims if insurance companies become insolvent. A Guaranty Fund is funded primarily by statutorily required assessments on insurance companies doing business in the state. Various mechanisms exist in some of these states for assessed insurance companies to recover these assessments. Upon the insolvency of an insurance company, the Guaranty Funds become primarily liable for the payment of the insolvent company's liabilities to policyholders. The declaration of an insolvency establishes the presumption that assessments by the Guaranty Funds are probable. The Company writes workers' compensation insurance in many states in which unpaid workers' compensation liabilities are the responsibility of the Guaranty Funds and has received, and expects to continue to receive, Guaranty Fund assessments, some of which may be based on a certain amount of the premiums it has already earned as of December 31, 2021.

As of December 31, 2021 and 2020, the Company recorded an estimate of $2.0 million and $1.9 million, respectively, for the expected net liability for Guaranty Fund assessments. The ultimate impact of such assessments will depend upon the amount and timing of actual assessments and of any recoveries to which the Company may be entitled.

Reinsurance Ceded

In the ordinary course of business and in accordance with general insurance industry practices, the Company purchases excess of loss reinsurance to protect it against the impact of large, irregularly occurring losses in the workers' compensation and Agribusiness P&C business. The Company has also entered into quota share reinsurance agreements to cede a portion of certain coverages within the Agribusiness P&C business. Such reinsurance reduces the magnitude of such losses on net income and the capital of the Company. Reinsurance makes the assuming reinsurer liable to the ceding company to the extent of the reinsurance. It does not, however, discharge the ceding company from its primary liability to its policyholders in the event the reinsurer is unable to meet its obligations under such reinsurance agreement. The Company monitors the financial condition of its reinsurers and does not believe that it is currently exposed to any material credit risk through its ceded reinsurance arrangements because most of its reinsurance is recoverable from large, well-capitalized reinsurance companies. As such, the Company did not record an allowance for uncollectible recoverables from its reinsurers. Historical write-offs have been infrequent and insignificant.

Premiums earned and losses and loss adjustment expenses incurred are stated in the accompanying Consolidated Statements of Comprehensive Income (Loss) after deduction of amounts ceded to reinsurers. Balances due from reinsurers on unpaid losses, including an estimate of such recoverables related to reserves for IBNR losses, are reported as assets and are included in reinsurance recoverables even though amounts due on unpaid losses and loss adjustment expenses are not recoverable from the reinsurer until such losses are paid.

Properties and Equipment

Properties and equipment used in operations, including certain costs incurred to develop and obtain computer software, are capitalized and carried at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis using the following useful lives: buildings — up to 40 years; and other property and equipment — 3 to 10 years. Expenditures for maintenance and repairs are charged to operations as incurred. Additions and improvements to buildings and other fixed assets are capitalized and depreciated over the useful lives of the properties and equipment. Upon disposition, the asset cost and related depreciation are removed from the accounts and the resulting gain or loss is included in the Company's results of operations.

Intangible Assets

As of December 31, 2021 and 2020, goodwill from acquisitions was $21.0 million, of which $19.0 million is included in the assets of Zenith Insurance with the remaining $2.0 million included in Zenith National's assets. As of December 31, 2021 and 2020, the Company had no intangible assets other than goodwill. The Company tests goodwill for impairment annually and more frequently if an event occurs or circumstances change that management determines would more likely than not reduce the fair value of a reporting unit below its carrying amount. A reporting unit is an operating segment or a unit one level below the operating segment. The impairment tests include a comparison of the carrying amount of goodwill to the present value of future cash flows of both the Company's total workers' compensation business and the Southeast region workers' compensation business operation, a reporting unit. The fair value, estimated based on the present value of future cash flows of the reporting unit, exceeded its carrying amount as of December 31, 2021. Therefore, goodwill of the reporting unit is not considered impaired.

Restricted Stock

Under a restricted stock plan adopted by Fairfax in September 2010 ("Restricted Stock Plan"), certain Company officers are awarded shares of Fairfax Subordinate Voting Shares, no par value, with restricted ownership rights ("Restricted Stock"). Under the terms of the original Restricted Stock Plan agreement, 200,000 Fairfax Subordinate Voting Shares were authorized for purchase. In April 2020, the Restricted Stock Plan was amended and restated to provide for an additional 300,000 Fairfax Subordinate Voting Shares. Vesting of shares awarded in 2012 through November 2014 were conditioned upon the Company meeting a performance criterion in either the third, fourth or fifth year following the award date, with vesting to occur in three equal consecutive annual installments following the first year in which the condition was met. The Restricted Stock awarded after 2014 vests on the fifth anniversary of the award date and contains no performance conditions. The Restricted Stock vests in full upon the death or disability of the recipient of Restricted Stock. Restricted Stock is generally forfeited by employees who terminate employment prior to vesting. During the vesting period, the Restricted Stock Plan participants are entitled to voting rights and ordinary cash dividends paid by Fairfax from the date of the award. Restricted Stock awards under the Restricted Stock Plan are accounted for as equity awards based on the amount paid by the Company for the open market purchase of Fairfax Subordinate Voting Shares prior to each award. Compensation expense is recorded over the vesting period based on the grant date fair value with an offsetting entry to the initial charge to the Company's stockholders' equity.

Adopted Accounting Standards

Measurement of Credit Losses on Financial Instruments

Effective January 1, 2021, the Company adopted the 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 shall 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. The adoption of this guidance did not have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

Goodwill Impairment

Effective January 1, 2021, the Company adopted the 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 is effective for annual periods or any interim goodwill impairment tests beginning after December 15, 2021. Early adoption is permitted. The adoption of this guidance did not have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

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 Financial Accounting Standards Board’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.

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.

Recognition and Measurement of Financial Assets and Financial Liabilities

Effective January 1, 2019, the Company adopted the updated guidance for the recognition, measurement, presentation and disclosure of certain financial instruments. The updated guidance requires equity investments, except those accounted for under the equity-method of accounting, that have readily determinable fair value to be measured at fair value with any changes in fair value recorded in net income. Equity securities that do not have readily determinable fair values may be measured at estimated fair value or cost less impairment, if any, adjusted for subsequent observable price changes, with changes in the carrying value recorded in net income. A qualitative assessment for impairment is required for equity investments without readily determinable fair values. The updated guidance also eliminates the requirement to disclose the method and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost on the balance sheet. Upon adoption of this guidance on January 1, 2019, \$4.2 million of pre-tax net unrealized losses on equity investments previously classified as available-for-sale and \$0.3 million of pre-tax net unrealized gains on cost-method partnership investments were reclassified from accumulated other comprehensive loss ("AOCL") to retained earnings. The change in accounting for equity securities and cost-method partnership investments did not affect the Company's total shareholders' equity and the after-tax net unrealized losses of \$3.1 million reclassified to retained earnings will never be recognized in net income.

Note 3. Investments

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

(In thousands)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
December 31, 2021				
Fair value option investments:				
Fixed maturity securities:				
U.S. Government debt	$ 859,495		$ (459)	$ 859,036
State and local government debt	10,179	$ 321		10,500
Foreign government debt	15,014		(1,416)	13,598
Corporate debt	13,803	600		14,403
Total fixed maturity securities	898,491	921	(1,875)	897,537
Equity securities	261,116	113,129	(25,469)	348,776
Short-term investments	188,689		(2)	188,687
Mortgage loans	79,337			79,337
Other investments – cost-method partnerships	35,790	9,195	(2,387)	42,598
Other investments – affiliate corporate loans	9,322	887		10,209
Other investments – contingent consideration receivable	17,038	1,645		18,683
Total fair value option investments	**$ 1,489,783**	**$ 125,777**	**$ (29,733)**	**$ 1,585,827**
December 31, 2020				
Fair value option investments:				
Fixed maturity securities:				
U.S. Government debt (a)	$ 969,969	$ 2,509	$ (4)	$ 972,474
State and local government debt	10,353	616		10,969
Corporate debt	36,414	1,451	(944)	36,921
Total fixed maturity securities	1,016,736	4,576	(948)	1,020,364
Equity securities	246,217	13,726	(37,423)	222,520
Short-term investments (a)	175,881			175,881
Mortgage loans	18,824			18,824
Other investments – cost-method partnerships	32,020	3,130	(4,995)	30,155
Other investments – affiliate corporate loans	16,697	1,368		18,065
Total fair value option investments	**$ 1,506,375**	**$ 22,800**	**$ (43,366)**	**$ 1,485,809**

(a) Includes investments of $5.3 million in U.S. Government debt and $1.1 million in short-term investments pledged for derivative obligations as of December 31, 2020.

Fixed maturity securities, including short-term investment, by contractual maturity as of December 31, 2021 were as follows:

(In thousands)	Fair Value
Due in one year or less	$ 1,019,116
Due after one year through five years	64,079
Due after ten years	3,029
Total	$ 1,086,224

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

As of December 31, 2021 and 2020, total investments also include other investments detailed next and derivative contracts described in Note 4.

Other investments consisted of the following:

	December 31,	
(In thousands)	2021	2020
Equity-method common stock (a)	$ 84,174	$ 66,213
Cost-method partnerships, at fair value (cost $35,790 in 2021 and $32,020 in 2020) (b)	42,598	30,155
Affiliate corporate loans, at fair value (amortized cost $9,322 in 2021 and $16,697 in 2020)	10,209	18,065
Contingent consideration receivable, at fair value (cost $17,038 in 2021) (c)	18,683	
Total other investments	$ 155,664	$ 114,433

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

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

(c) In August 2021, the Company sold its equity-method common stock investment in Toys "R" Us Canada ("Toys") and recorded a contingent consideration receivable that represents the estimated fair value of future monthly royalty revenue from Toys. See Note 12.

As of December 31, 2021, the Company had commitments to invest an additional $11.0 million in partnerships and limited liability companies.

Net investment income (loss) was as follows:

	Year Ended December 31,		
(In thousands)	2021	2020	2019
Fixed maturity securities (a)	$ 7,944	$ 20,143	$ 30,122
Equity securities (b)	13,227	2,558	5,829
Short-term and other investments (a)	1,019	2,385	4,840
Derivatives	1,474	2,764	2,151
Mortgage loans	2,087	400	
Loss from equity-method investments (c)	(195)	(31,876)	(19,760)
Subtotal	25,556	(3,626)	23,182
Investment expenses	8,128	7,109	7,639
Net investment income (loss)	$ 17,428	$ (10,735)	$ 15,543

(a) Income from fixed maturity securities in the year ended December 31, 2021 decreased compared to the corresponding periods of 2020 and 2019, primarily due to sales and maturities of higher yielding municipal bonds and short-dated U.S. treasury bonds and notes and the reinvestment of the proceeds into lower yielding U.S. treasury bonds, high quality corporate bonds and interest-bearing cash deposits.

(b) Income from equity securities in the year ended December 31, 2021 included an $8.3 million special dividend from one common stock investment.

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

	Year Ended December 31,		
(In thousands)	2021	2020	2019
Fairfax India Holdings Corp.	$ 6,625	$ 3,822	$ 221
Alberta ULC	1,868	(149)	(711)
Peak Achievement Athletics	882	2,274	(339)
Astarta Holdings NV	571	651	949
Boat Rocker Media Inc.	(3,509)	(6,469)	(180)
Helios Fairfax Partners Corp.	(2,386)	(12,964)	(8,751)
Farmers Edge Inc.	(2,029)	(4,765)	(4,931)
Exco Resources Inc.	(1,115)	(147)	139
AGT Food and Ingredients Inc.	(1,102)	(702)	(625)
Toys "R" Us Canada (1)		(11,312)	1,891
Apple Bidco		(1,232)	(5,957)
Davos Brands LLC		(883)	(1,664)
Other			198
Losses from equity-method investments	$ (195)	$ (31,876)	$ (19,760)

(1) In June 2020, as a result of recording its share of Toys' losses, the Company reduced the carrying value of its investment in Toys to zero. In August 2021, the Company sold its investment in Toys in exchange for $1.1 million in cash and an $18.9 million contingent consideration receivable (recorded in other investments), at fair value, and recorded a gain on sale of $20.1 million.

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

	Year Ended December 31,		
(In thousands)	2021	2020	2019
Sales of fixed maturity securities, including short-term investments and other (a)	$ (14,438)	$ 26,691	$ (2,451)
Sales of equity securities (b)	(22)	2,808	(3,256)
Sale of mortgage loans	113		
Gains (losses) from other investments (c)	37,197	(4,961)	(7,117)
Net realized gains (losses) on investments	$ 22,850	$ 24,538	$ (12,824)

(a) Net realized losses on sales of fixed maturity securities, including short-term investments and other in the year ended December 31, 2021 included realized losses of $14.8 million recorded in connection with Atlas Corp.'s ("Atlas", formerly Seaspan Corporation, or "Seaspan") acquisition of Apple Bidco Limited ("AB"), both affiliates of Fairfax and the Company, a $1.8 million realized loss on the sale of fair value option fixed maturity securities, partially offset by realized gains of $1.5 million for post-sale consideration received in connection with the Company's former equity-method partnership investment in Davos Brands LLC ("Davos"). See Note 12.

Net realized gains on sales of fixed maturity securities, including short-term investments and other in the year ended December 31, 2020 included $26.8 million of gross realized gains on sales of fair value option fixed maturity securities to affiliates of Fairfax and the Company. See Note 12.

Net realized losses on sales of fixed maturity securities, including short-term investments and other in the year ended December 31, 2019 included $4.6 million losses on bonds issued by Exco Resources, Inc. ("Exco"), partially offset by realized gains of $5.5 million, primarily $4.9 million in realized gains recorded upon transfer of certain fair value option fixed maturity securities to pay dividends to affiliates of Fairfax and the Company in December 2019. See Note 12.

(b) Net realized gains on sales of equity securities in the year ended December 31, 2020 included realized gains of $2.8 million on the sale of Eurobank Ergasias S.A. ("Eurobank") common stock to an affiliate of Fairfax and the Company. See Note 12.

Net realized losses on sales of equity securities in the year ended December 31, 2019 included realized foreign exchange losses of $2.7 million on a return of capital distribution from a privately held common stock investment and realized losses of $1.7 million on the conversion of AGT Food and Ingredients Inc. ("AGT") preferred stock to common stock as a result of AGT's privatization. Realized losses on equity securities in the year ended December 31, 2019 were partially offset by realized gains of $1.3 million on the sale of two fair value option common stock investments. See Note 12.

(c) Net realized gains from other investments in the year ended December 31, 2021 primarily included a realized gain of $20.1 million on the sale of the Company's equity-method investment in Toys; gains on equity-method investments in connection with their respective initial public offerings ("IPOs") of $16.4 million dilution gain for Boat Rocker Media Inc. ("Boat Rocker"), $10.6 million dilution gain for Farmers Edge ("FE") and of $0.8 million gain on the conversion of FE loans into common stock; and realized gains of $1.8 million on cost-method partnership distributions; partially offset by an other-than-temporary impairment loss of $14.5 million for FE recognized in December 2021. See Note 12.

Net realized losses from other investments in the year ended December 31, 2020 included other-than-temporary impairments of $12.7 million and $4.0 million, respectively, on the Company's equity-method common stock investments in Helios Fairfax Partners Corp. ("HFP", formerly Fairfax Africa Holdings Corp.) and Astarta; partially offset by an $8.0 million realized gain on the sale of Davos, a $2.7 million dilution gain for Boat Rocker and $1.0 million of gains on cost-method partnership distributions. See Note 12.

Net realized losses from other investments in the year ended December 31, 2019 included a $11.6 million other-than-temporary impairment for Astarta, partially offset by a $2.7 million gain on the sale of Grivalia Properties REIC, a $0.8 million dilution gain for FE and a $0.8 million gain on cost-method partnership distributions. See Note 12.

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

	Year Ended December 31,		
(In thousands)	2021	2020	2019
Equity-method common stock	$ 382	$ (2,920)	$ (3,626)
Equity-method partnerships		(1,670)	268
Total before tax	$ 382	$ (4,590)	$ (3,358)
After tax (see Note 13)	$ 303	$ (3,627)	$ (2,653)

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

	Year Ended December 31,		
(In thousands)	2021	2020	2019
Change in net unrealized gains/losses recorded on fair value option investments	$ 116,610	$ (19,187)	$ 14,715
Less: Net losses (gains) recorded on fair value option investments sold (a)	(2,520)	(45,625)	5,077
Change in net unrealized gains/losses recorded on fair value option investments still held at the reporting date	$ 119,130	$ 26,438	$ 9,638

(a) Net gains in the year ended December 31, 2020 are primarily due to the sale of municipal bonds to affiliates of Fairfax and the Company. See Note 12.

As of December 31, 2021 and 2020, investments with a fair value of approximately $850 million and $926 million, respectively, were on deposit with regulatory authorities in compliance with insurance company regulations. As of December 31, 2021, the Company had additional qualifying securities with a fair value of approximately $218 million available for deposit.

Note 4. Derivative Contracts

See Note 2 for a description of the Company's accounting policies related to derivative contracts.

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

	Notional		Fair Value of Derivative	
(In thousands)	Amount	Cost	Assets	Liabilities
December 31, 2021				
CPI-linked derivatives	$ 3,548,602	$ 13,091	$ 25	
Foreign exchange forwards	81,067			$ 380
Equity warrants	8,527	134	3,189	
Total		$ 13,225	$ 3,214	$ 380
December 31, 2020				
CPI-linked derivatives	$ 4,692,978	$ 22,510	$ 234	
Equity total return swaps – long positions	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) and were as follows:

	Year Ended December 31,		
(In thousands)	2021	2020	2019
Gains (losses) on settlements			
Equity derivatives:			
Equity total return swaps – long positions	$ 11,219	$ (4,525)	$ (18,840)
Equity index put options			(640)
CPI-linked derivatives (a)	(9,419)	(16,808)	(1,740)
U.S. Government bond forwards		(24,531)	(16,954)
Foreign exchange forwards	(1,210)	2,860	796
Foreign currency options		(7,102)	
Total	590	(50,106)	(37,378)
Change in fair value			
Equity derivatives:			
Equity total return swaps – long positions	1,607	(4,532)	13,883
Equity warrants	3,055		(20)
CPI-linked derivatives (a)	9,210	16,371	108
U.S. Government bond forwards		659	4,871
Foreign exchange forwards	1,256	(597)	(1,023)
Foreign currency options		6,699	(6,611)
Total	15,128	18,600	11,208
Net gains (losses) on derivatives			
Equity derivatives:			
Equity total return swaps – long positions	12,826	(9,057)	(4,957)
Equity index put options			(640)
Equity warrants	3,055		(20)
CPI-linked derivatives (a)	(209)	(437)	(1,632)
U.S. Government bond forwards		(23,872)	(12,083)
Foreign exchange forwards	46	2,263	(227)
Foreign currency options		(403)	(6,611)
Total net gains (losses) on derivatives	$ 15,718	$ (31,506)	$ (26,170)

(a) In the years ended December 31, 2021 and 2020, two and eight CPI Linked derivative contracts matured, with a notional amount of $0.9 billion and $2.9 billion, respectively, and losses previously recorded in change in fair value of $9.4 million and $16.8 million, respectively, were reclassified to losses on settlements.

Equity contracts

The Company held long equity total return swaps on individual equities and equity index put options for investment purposes. These contracts provided the total return on a notional amount (including dividends and capital gains or losses) that is directly correlated to changes in fair value of the underlying individual equities or equity indexes in exchange for the payment of a floating rate of interest on the notional amount. The Company recorded dividends and interest paid or received related to its long equity total return swaps on a net basis as investment income in the Consolidated Statements of Comprehensive Income (Loss).

Total return swaps required no initial net cash investment; and at inception the fair value was zero. The Company's long equity total return swaps may have contained reset provisions requiring counterparties to cash-settle on a monthly or quarterly basis for any fair value changes arising subsequent to the most recent reset date. Any cash amounts paid to settle unfavorable fair value changes and conversely, any cash amounts received in settlement of favorable fair value changes, were recorded as net gains (losses) on derivatives in the Consolidated Statements of Comprehensive Income (Loss) (included in the Gains (losses) on settlements section in the table above). To the extent that a contractual reset date does not correspond to the balance sheet date, the Company recorded net gains (losses) on derivatives in the Consolidated Statements of Comprehensive Income (Loss) to adjust the carrying value of the corresponding derivative asset or liability associated with each total return swap to reflect its fair value at the balance sheet date (included in the change in fair value section in the table above). Final cash settlements on total return swaps were recorded as net gains (losses) on derivatives net of any previously recorded unrealized fair value changes since the last reset date (also included in the gains (losses) on settlements section in the table above). As of December 31, 2021, the Company closed all its positions on total return swaps and had no pledged amounts recorded. As of December 31, 2020, the Company had pledged securities with a fair value of $5.3 million, as contractually required collateral to counterparties for long equity total return swaps.

In the years ended December 31, 2021, 2020 and 2019, the Company recorded net dividend and interest income earned on its total return swaps of $1.5 million, $2.8 million and $2.2 million, respectively, in net investment income.

CPI-linked derivative contracts

The Company's derivative contracts referenced to the consumer price index in the United States and Europe ("CPI-linked derivatives") serve as an economic hedge against the potential adverse financial impact on the Company of decreasing price levels. The initial premium paid for each contract is recorded as a derivative asset and is subsequently adjusted for changes in fair value of the contract at each balance sheet date with a corresponding offset to net gains (losses) on derivatives in the Consolidated Statements of Comprehensive Income (Loss). In the event of a sale, expiration or early settlement of any of these contracts, the Company would receive a cash settlement equal to 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. The Company's CPI-linked derivatives have a remaining weighted average life of 2 years as of December 31, 2021. As of December 31, 2021, the Company had no pledged amounts recorded as contractually required collateral to a counterparty on any CPI-linked derivatives. As of December 31, 2020, the Company had pledged securities with a fair value of $1.1 million, as contractually required collateral to counterparties for CPI-linked derivatives.

The following table summarizes the notional amounts and underlying CPI Index price ("strike price") for the Company's CPI-linked derivatives at initiation and the index values as of December 31, 2021 and 2020:

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

U.S. Government bond forward contracts

The Company held forward contracts to sell long dated U.S. government bonds ("Treasury locks") to reduce its exposure to interest rate risk. Treasury locks derive their value primarily from changes in fair value of the underlying U.S. Treasury bond between the contract inception and expiration dates, require no initial net cash investment, and at inception the fair value is zero. These contracts had a term to maturity of less than one year with an option to renew at market rates. To the extent that the expiration 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 Treasury lock to reflect its fair value at the balance sheet date with the corresponding net gains (losses) on derivatives recorded in the Consolidated Statements of Comprehensive Income (Loss). In 2020, the Company terminated all of its outstanding U.S. government bond forward contracts with a notional amount of $0.2 billion and recorded a loss of $23.9 million on their termination.

Foreign exchange forward contracts

Foreign exchange forward contracts (“foreign exchange forwards”), primarily denominated in the Canadian dollar are used to manage certain foreign currency exposures arising from foreign currency denominated investments. These foreign exchange forwards require no initial net cash investment and at inception the fair value is zero. These contracts have a term to maturity of less than one year and may be renewed at market rates. To the extent that the expiration date does not correspond to the balance sheet date, the Company adjusts the carrying value of the corresponding derivative asset or liability associated with each foreign exchange forward to reflect its fair value at the balance sheet date with the corresponding net gains (losses) on derivatives recorded in the Consolidated Statements of Comprehensive Income (Loss). As of December 31, 2021 and 2020, the Company had no pledged amounts recorded as contractually required collateral to a counterparty on any foreign exchange forwards.

Counterparty collateral and exposure

The Company endeavors to limit counterparty risk through the terms of master netting agreements negotiated with the counterparties to its derivative contracts. These agreements provide for a single net settlement of all financial instruments covered by the agreement in the event of default by the counterparty, thereby permitting obligations owed by the Company to a counterparty to be offset to the extent of the aggregate amount receivable by the Company from that counterparty (“net settlement arrangements”). Pursuant to these agreements, the counterparties to the derivative contracts are also contractually required to deposit eligible collateral in collateral accounts (subject to certain minimum thresholds) for the benefit of the Company depending on the then current fair value of the derivative contracts. The Company had not exercised its right to sell or repledge collateral as of December 31, 2021.

As of December 31, 2021, the Company had no pledged amounts recorded as contractually required collateral to a counterparty on any derivative contracts. As of December 31, 2020, the Company had pledged to its counterparties securities with a fair value of $6.4 million as independent and mark-to-market collateral for CPI-linked and equity long total return swap derivative contracts and recorded these amounts as assets pledged for derivative obligations in the Company’s Consolidated Balance Sheet.

As of December 31, 2021, the counterparties pledged $0.3 million in cash compared to $0.3 million in cash and $0.6 million of U.S. Treasury notes as of December 31, 2020. The Company recorded the cash collateral as other assets and recorded a corresponding liability in its Consolidated Balance Sheets. The Company does not record in its Consolidated Balance Sheets securities pledged by counterparties as collateral for derivatives in a gain position.

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

	December 31,	
(In thousands)	2021	2020
Total derivative assets	$ 25	$ 234
Impact of net settlement arrangements		(157)
Fair value of collateral deposited for the benefit of the Company	(1)	(77)
Net derivative counterparty exposure after net settlement and collateral arrangements	$ 24	$

The net derivative counterparty exposure after net settlement and collateral arrangements relates principally to the timing of collateral placement.

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 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
December 31, 2021				
Derivative assets:				
Citibank, N.A.	$ 24			$ 24
Deutsche Bank AG London	1		$ (1)	
Total derivative assets (b)	$ 25		$ (1)	$ 24
Derivative liabilities:				
Bank of New York Mellon (c)	$ (380)			$ (380)
Total derivative liabilities	$ (380)			$ (380)
December 31, 2020				
Derivative assets:				
Citibank, N.A.	$ 157	$ (157)		
Deutsche Bank AG London	77		$ (77)	
Total derivative assets	$ 234	$ (157)	$ (77)	
Derivative liabilities:				
Citibank, N.A.	$ (372)	$ 157		$ (215)
Bank of New York Mellon (c)	(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) Excludes equity warrants with a fair value of $3.2 million as of December 31, 2021, which are not subject to counterparty risk.

(c) Represents foreign exchange forward contracts that are not subject to a master netting arrangement.

Note 5. Fair Value Measurements

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

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

The COVID-19 pandemic has increased market uncertainty and may adversely impact the fair value or future cash flows of the company's equity and equity-related holdings.

There were no other significant changes to the valuation techniques and processes used as of December 31, 2021 compared to those described in the Company’s Consolidated Financial Statements as of 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 and foreign exchange forwards) are priced based on information provided by independent pricing service providers, while much of the remainder are based primarily on non-binding third party broker-dealer quotes that are prepared using Level 2 inputs. Where third party broker-dealer quotes are used, typically at least one quote is obtained from a broker-dealer with particular expertise in the instrument being priced. Certain common stock investments which are measured at fair value using the NAV as a practical expedient have been excluded.

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

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

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

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

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

(b) As of December 31, 2021 and 2020, certain common stock investments with a fair value of $35.2 million and $40.0 million, respectively, and cost-method partnerships with a fair value of $42.6 million and $30.2 million, respectively, are measured using NAV as a practical expedient and not required to be classified in the fair value hierarchy.

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

(In thousands)	Corporate Debt	Equity Securities (a)	Mortgage Loans	Affiliate Corporate Loans	Contingent Consideration Receivable (b)	Derivatives
Balance as of December 31, 2019	$ 7,842	$ 17,038		$ 16,523		$ 671
Purchases			$ 18,636	985		
Realized and unrealized gains/losses included in:						
Net investments income – accretion of discounts			188			
Change in net unrealized gains/losses on fair value option investments	(868)	601		557		
Net losses on derivatives						(437)
Balance as of December 31, 2020	$ 6,974	$ 17,639	$ 18,824	$ 18,065		$ 234
Purchases		5,000	70,282	1,133	$ 18,863	133
Sales			(10,000)	(9,289)	(1,852)	
Realized and unrealized gains/losses included in:						
Net investments income – accretion of discounts			118			
Realized gains on investments			113	781	27	
Change in net unrealized gains/losses on fair value option investments	1,109	1,003		(481)	1,645	
Net gains on derivatives						2,847
Balance as of December 31, 2021	$ 8,083	$ 23,642	$ 79,337	$ 10,209	$ 18,683	$ 3,214

(a) Change in unrealized gain/losses from equity securities includes changes in fair value and foreign currency fluctuations.

(b) In August 2021, the Company sold its equity-method common stock investment in Toys and recorded a contingent consideration receivable comprised primarily of the estimated fair value of future monthly royalty revenue from Toys. See Note 12.

The following table provides information on the valuation techniques, significant unobservable inputs and ranges for each major category of Level 3 assets measured at fair value on a recurring basis as of December 31, 2021:

(In thousands)	Balance at December 31, 2021	Valuation Techniques	Significant Unobservable Inputs
Corporate debt (a)	$ 8,083	Market approach	Credit spread of issuer
Equity securities (b)	$ 23,642	Market approach	Credit spread of issuer Estimated NAV multiple
Mortgage loans (c)	$ 79,337	Market approach Discounted cash flow	Recent transaction price Credit spread of issuer
Affiliate corporate loans (a)	$ 10,209	Market approach	Credit spread of issuer
Contingent consideration receivable (d)	$ 18,683	Discounted cash flow	Discount rate
Derivatives (e)	$ 3,214	Market approach	Broker quotes

(a) The Level 3 corporate debt and affiliate corporate loans consists of two private placement fixed maturity securities, recorded at fair value and two affiliate corporate loans, carried at fair value, with fair value determined using a Black-Scholes Model. Prices for identical instruments are not available and significant subjectivity may be involved when fair value is determined using pricing data available for comparable instruments.

(b) The Level 3 equity securities consists primarily of a common stock and preferred stock, recorded at fair value. The common stock is an investment in a company based in the United Kingdom with fair value estimated as a multiple of NAV because a significant portion of its NAV, excluding cash balances, was comprised of real estate holdings supported by appraisals and adjusted based on observable economic and market conditions, including foreign currency fluctuations. The preferred stock's fair value is determined using a Black-Scholes Model. Prices for identical instruments are not available and significant subjectivity may be involved when fair value is determined using pricing data available for comparable instruments.

(c) The Level 3 mortgage loans consists of eleven loans purchased in 2021 and recorded at fair value determined using recent transaction prices and one mortgage loan purchased in 2020 recorded at fair value determined using a Discounted Cash Flow Model.

(d) The Level 3 contingent consideration receivable is recorded at fair value determined using a Discounted Cash Flow Model.

(e) The Level 3 derivatives consist primarily of CPI-linked derivatives, recorded at fair value, using broker-dealer quotes which management has determined use market observable inputs except for the inflation volatility input which is not market observable.

Note 6. Properties and Equipment

Properties and equipment, included in other assets, consist of the following:

	December 31,	
(In thousands)	2021	2020
Land	$ 15,208	$ 15,208
Buildings	42,537	42,156
Other property and equipment	87,135	86,892
Subtotal	144,880	144,256
Accumulated depreciation	(113,724)	(111,165)
Total	$ 31,156	$ 33,091

In the years ended December 31, 2021, 2020, and 2019, depreciation expense was $2.6 million, $2.9 million and $3.3 million, respectively.

Note 7. Income Tax

The Company is included in the consolidated federal income tax return of Fairfax (US) Inc. and its eligible subsidiaries and in various state combined or consolidated income tax returns. Zenith National and Fairfax (US) Inc. are parties to a tax allocation agreement whereby, in general, federal income taxes are allocated by Fairfax (US) Inc. to Zenith National equal to the taxes that would have been payable/refunded between the Company and the Internal Revenue Service (“IRS”) if it had filed a stand-alone consolidated federal income tax return. The insurance subsidiaries pay premium taxes on direct premiums written in lieu of most state income or franchise taxes.

The differences between the statutory income tax rate and the Company’s effective tax rate on income, as reflected in the Consolidated Statements of Comprehensive Income (Loss), were as follows:

	Year Ended December 31,		
(In thousands) Statutory tax rate at 21%	2021	2020	2019
Statutory income tax expense	$ 52,478	$ 1,840	$ 19,957
Increase (reduction) in tax:			
Tax-exempt interest and other investments	(1,903)	(468)	(1,165)
Foreign taxes paid	660	164	534
Non-deductible expenses and other	173	505	112
Income tax expense before valuation allowance	51,408	2,041	19,438
Increase (decrease) in valuation allowance	(32,800)	20,400	
Income tax expense	$ 18,608	$ 22,441	$ 19,438

Deferred tax is provided based upon temporary differences between the tax and book basis of assets and liabilities. The components of the deferred tax assets and liabilities were as follows:

	December 31,			
	2021		2020	
	Deferred Tax		Deferred Tax	
(In thousands)	Assets	Liabilities	Assets	Liabilities
Unpaid losses and loss adjustment expenses discount	$ 17,208		$ 16,163	
Limitation on deduction for unearned premiums	6,683		6,253	
Investments	18,847		50,159	
Policyholders' dividends accrued	6,464		6,890	
Compensation and benefits	5,220		4,743	
Deferred policy acquisition costs		$ 3,684		$ 2,678
Properties and equipment		272		560
Capital loss carryforward	2,530			
Other	395		345	
Total before valuation allowance	$ 57,347	$ 3,956	$ 84,553	$ 3,238
Valuation allowance	(9,200)		(42,000)	
Net deferred tax asset	$ 44,191		$ 39,315	

GAAP requires the Company to evaluate the recoverability of its deferred tax assets ("DTAs") and establish a valuation allowance, if necessary, to reduce the DTA to an amount that is more likely than not to be realized (a likelihood of more than 50%). In making this evaluation, the Company is required to consider all available evidence, both positive and negative, including objectively verifiable evidence of taxable income in the immediate ensuing years. The discounting of loss reserves for tax purposes reverse over 10 to 25 years; and the limitation on deductions for unearned premiums reverse in the following year. Investments-related DTAs as of December 31, 2021 are primarily attributable to deferred and unrealized tax losses on the Company's equity securities.

In assessing the recoverability of the Company's DTAs, management evaluates whether it is more likely than not that some portion or all of the deferred tax assets will not be realized by generating sufficient taxable income of the appropriate character. Management considers the reversal of deferred tax liabilities, carryback potential of an appropriate nature, and tax-planning strategies in making this assessment. The Company established a valuation allowance of $9.2 million and $42.0 million, recorded as a non-cash reduction of its investment-related DTAs, as of December 31, 2021 and 2020, respectively. The valuation allowance does not adversely affect the Company's ability to use these tax deductions to reduce taxable income in the future.

As of December 31, 2021 and 2020, there were no material unrecognized tax benefits.

The Company recognizes any interest and penalties related to uncertain tax positions in income tax expense; however, there were none in the years ended December 31, 2021, 2020 and 2019.

There are no taxable years currently under IRS audit. Taxable year 2020 is subject to examination by the IRS. Taxable years 2017 through 2020 are subject to examination by state taxing authorities.

Note 8. Unpaid Losses and Loss Adjustment Expenses

See Note 2 for a description of the Company's accounting policies related to unpaid losses and loss adjustment expenses.

The Company's workers' compensation incurred and paid losses and allocated loss adjustment expenses, net of reinsurance, are presented in the following tables.

Workers Compensation (in thousands)	Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance Years Ended December 31,										As of December 31, 2021	
Accident Year	2012 (1)	2013 (1)	2014 (1)	2015 (1)	2016 (1)	2017 (1)	2018 (1)	2019 (1)	2020(1)	2021	Net IBNR Reserves	Cumulative Number of Reported Claims (2)
2012	$ 385,899	$ 350,993	$ 332,441	$ 321,499	$ 312,301	$ 309,930	$ 307,331	$ 305,814	$ 302,925	$ 300,268	$ 12,537	$ 30,096
2013		370,296	341,735	323,545	309,959	302,556	297,707	293,888	290,411	289,276	11,265	30,675
2014			358,819	331,551	307,190	294,755	286,855	282,139	278,267	276,228	11,857	30,437
2015				354,155	329,034	315,023	299,935	290,627	284,453	282,822	15,006	30,892
2016					360,638	340,182	323,750	311,498	305,082	303,110	13,969	31,554
2017						354,148	328,410	312,606	306,378	304,405	16,974	31,438
2018							337,529	312,395	302,111	294,941	16,572	31,568
2019								310,160	293,573	284,806	14,526	30,447
2020									285,156	257,577	18,062	23,502
2021										290,066	62,031	25,546
									Total	$ 2,883,499		

(1) Data presented for these calendar years is required supplementary information, which is unaudited.

(2) The amounts reported for the cumulative number of reported claims include direct and assumed open and closed claims by accident year at the claimant level. The amounts do not include claim counts for business assumed through pools and associations. Claims reported are counted even if they eventually close with no loss or loss adjustment payment or if they are within a policy deductible where the insured is responsible for payment of losses in the deductible layer.

Workers' Compensation

(In thousands)	Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance									
	Years Ended December 31,									
Accident Year	**2012 (1)**	**2013 (1)**	**2014 (1)**	**2015 (1)**	**2016 (1)**	**2017 (1)**	**2018 (1)**	**2019 (1)**	**2020 (1)**	**2021**
2012	$ 77,738	$ 168,162	$ 212,470	$ 241,385	$ 256,922	$ 266,111	$ 272,125	$ 276,218	$ 278,959	$ 280,359
2013		70,631	166,783	211,947	237,852	251,613	258,546	262,315	264,362	266,474
2014			73,323	160,065	203,881	229,189	240,337	246,592	250,333	253,097
2015				74,561	166,502	214,635	236,628	247,394	252,161	255,918
2016					81,103	177,908	225,456	247,851	259,036	266,018
2017						85,204	183,532	230,039	248,840	260,113
2018							85,641	178,957	219,585	241,758
2019								81,641	166,594	210,793
2020									63,482	147,295
2021										68,804
									Total	$ 2,250,629

All outstanding liabilities for unpaid losses and allocated loss adjustment expenses beginning 2012, net of reinsurance	$ 632,870
All outstanding liabilities for unpaid losses and allocated loss adjustment expenses prior to 2012, net of reinsurance	188,416
Total outstanding liabilities for unpaid losses and allocated loss adjustment expenses, net of reinsurance	$ 821,286

(1) Data presented for these calendar years is required supplementary information, which is unaudited.

The reconciliation of the net incurred and paid loss development tables to the liability for unpaid losses and loss adjustment expenses is as follows:

(In thousands)		December 31, 2021
Workers' compensation	$	821,286
Other insurance operations		83,515
Liabilities for unpaid losses and allocated loss adjustment expenses, net of reinsurance		904,801
Liabilities for unpaid unallocated loss adjustment expenses		98,999
Liabilities for unpaid losses and loss adjustment expenses, net of reinsurance		1,003,800
Receivable from reinsurers for unpaid losses		45,276
Total gross liabilities for unpaid losses and loss adjustment expenses	$	1,049,076

The following table presents the average annual percentage payout of losses and loss adjustment expenses incurred by age, net of reinsurance, for an accident year as of December 31, 2021. The percentages show the average portion of the net losses and loss adjustment expenses paid in each succeeding year.

Average Annual Percentage Payout of Incurred Losses and Loss Adjustment Expenses by Age, Net of Reinsurance (unaudited)										
Years	1	2	3	4	5	6	7	8	9	10
	28.5%	32.3%	15.2%	7.6%	4.1%	2.2%	1.4%	1.0%	0.8%	0.5%

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

	Year Ended December 31,					
(In thousands)		2021		2020		2019
Beginning of year, net of reinsurance	$	1,021,329	$	1,046,248	$	1,100,917
Incurred claims:						
Current accident year		428,014		403,169		425,553
Prior accident years		(70,827)		(74,091)		(82,135)
Total incurred claims		357,187		329,078		343,418
Payments:						
Current accident year		(129,164)		(115,514)		(137,727)
Prior accident years		(245,552)		(238,483)		(260,360)
Total payments		(374,716)		(353,997)		(398,087)
End of year, net of reinsurance		1,003,800		1,021,329		1,046,248
Receivable from reinsurers for unpaid losses		45,276		37,821		39,617
End of year, gross of reinsurance	$	1,049,076	$	1,059,150	$	1,085,865

The net favorable development of $70.8 million in 2021 was principally attributable to workers' compensation favorable loss development trends for 2018 through 2020 accident years. The net favorable development of $74.1 million in 2020 was principally attributable to workers' compensation favorable loss development trends for 2015 through 2019 accident years. The net favorable development of $82.1 million in 2019 was principally attributable to workers' compensation favorable loss development trends for 2016 through 2018 accident years.

Note 9. Long-Term Debt

As of December 31, 2021 and 2020, the outstanding principal amount and fair value of the Company's Subordinated Deferrable Interest Debentures ("long-term debt") was $38.5 million. The long-term debt is due in 2028 and bears interest at the rate of 8.55% per annum.

The semi-annual interest payments on the long-term debt may be deferred by Zenith National for up to ten consecutive semi-annual periods. This debt is redeemable by Zenith National at 100% of the principal amount plus a ‘‘make-whole premium,’’ if any, together with accrued and unpaid interest. The make-whole premium is the excess of the sum of the present value of the principal amount at maturity and the present value of the remaining scheduled payments of interest over 100% of the principal amount. The original issue costs and discount on the long-term debt of $1.7 million are being amortized over the term of the long-term debt. In the years ended December 31, 2021, 2020 and 2019, interest, issue costs and discount expense were $3.3 million.

Note 10. Reinsurance Ceded

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 maintained excess of loss catastrophe reinsurance that provided 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 retained 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 retained the first $50 million of each loss.

For April 15, 2020 through December 31, 2020 loss occurrences, the Company maintained excess of loss catastrophe reinsurance that provided 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 retained 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 retained the first $20 million of each loss.

2021 Reinsurance Ceded Agribusiness P&C Coverage

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

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

2020 Reinsurance Ceded Agribusiness P&C Coverage

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

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

Reinsurance transactions reflected in the accompanying Consolidated Statements of Comprehensive Income (Loss) were as follows:

	Year Ended December 31,		
(In thousands)	2021	2020	2019
Direct premiums earned	$ 722,464	$ 651,913	$ 739,670
Assumed premiums earned	9,495	6,900	7,067
Ceded premiums earned	(20,818)	(14,976)	(11,740)
Net premiums earned	$ 711,141	$ 643,837	$ 734,997
Ceded losses and loss adjustment expenses incurred	$ 14,224	$ 54	$ 2,285

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

	December 31,		A.M. Best	A.M. Best
(In thousands)	2021 (a)	2020 (a)	Rating (b)	Rating Date
General Reinsurance Corp.	$ 23,175	$ 33,016	A++	03/2021
Transatlantic Reinsurance Company	9,885		A+	11/2021
Partner Reinsurance Company	3,595		A+	05/2021
Hannover Rueck SE	2,670	45	A+	01/2022
Zenith Insurance 2019 AG IC 1 LLC	2,039	1,048	NR	
All others (c)	6,490	5,543		
Total	$ 47,854	$ 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 both December 31, 2021 and 2020.

Note 11. Stockholders' Equity and Statutory Financial Information

Dividend Restrictions

The California Insurance Holding Company System Regulatory Act limits the ability of Zenith Insurance to pay dividends to Zenith National and for Zenith Insurance to receive dividends from its insurance subsidiary by providing that the appropriate insurance regulatory authorities in the state of California must approve any dividend that, together with all other such dividends paid during the preceding twelve months, exceeds the greater of: (a) 10% of the paying company's statutory surplus as regards policyholders at the preceding December 31; or (b) 100% of the net income for the preceding year. In addition, any such dividend must be paid from policyholders' surplus attributable to accumulated earnings. Such restrictions on dividends are not cumulative. Dividend payments from Zenith Insurance to Zenith National must also be in compliance with the California Corporations Code that permit dividends to be paid only out of retained earnings and only if specified ratios between assets and liabilities and between current assets and current liabilities exist after payment.

In 2021 and 2020, Zenith National paid ordinary dividends of $35.0 million and $30.0 million, respectively, in cash to affiliates of Fairfax and the Company. In 2019, Zenith National paid ordinary dividends of $55.7 million ($23.0 million in fixed maturity securities, at fair value, including accrued interest, and $32.7 million in cash) to affiliates of Fairfax and the Company.

In 2021 and 2020, Zenith Insurance paid ordinary dividends of $40.0 million and $35.0 million, respectively, in cash to Zenith National. In 2019, Zenith Insurance paid ordinary dividends of $60.7 million ($23.0 million in fixed maturity securities, at fair value including accrued interest, and $37.7 million in cash) to Zenith National. Zenith Insurance has the ability to pay up to $70.8 million of dividends to Zenith National without prior approval of the California Department of Insurance ("California DOI") during 2022.

In 2021, 2020 and 2019, ZNAT Insurance Company ("ZNAT"), a wholly-owned insurance subsidiary of Zenith Insurance, paid cash dividends of $2.4 million, $2.5 million and $2.8 million, respectively, to Zenith Insurance to reduce ZNAT's excess capital. ZNAT Insurance has the ability to pay up to $2.3 million Zenith Insurance without prior approval of the California DOI during 2022.

Statutory Financial Data

The capital stock and surplus and net income of the Company's insurance subsidiaries, prepared in accordance with the statutory accounting practices of the National Association of Insurance Commissioners, were as follows:

	As of and for the Year Ended December 31,		
(In thousands)	2021	2020	2019
Capital stock and surplus	$ 708,097	$ 522,329	$ 531,836
Net income (loss)	$ 49,559	$ (65,924)	$ 66,650

Statutory accounting net income/loss differs from GAAP primarily due to the timing of the recognition of changes in fair value of investment securities.

The insurance business is subject to state-by-state regulation and legislation focused on solvency, pricing, market conduct, claims practices, underwriting, accounting, investment criteria, and other areas. Such regulation and legislation changes frequently. Compliance is essential and is an inherent risk and cost of the business. The Company believes it is in compliance with all material regulations.

Note 12. 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., an affiliate of Fairfax and the Company. In the years ended December 31, 2021, 2020 and 2019, investment management expenses incurred under these agreements were $5.0 million, $4.5 million and $4.8 million, respectively.

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

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

As of December 31, 2021 and 2020, the carrying values of the Company's affiliated investments were as follows:

	December 31,	
(In thousands)	2021	2020
Fixed maturity securities, at fair value		$ 15,049
Equity securities, at fair value	$ 94,473	79,040
Other investments:		
Equity-method common stock	84,174	66,213
Partnerships, at fair value (a)	8,704	
Affiliate corporate loans, at fair value	10,209	18,065
Equity warrants, at fair value	3,189	
Total	$ 200,749	$ 178,367

(a) As of December 31, 2021, this amount is comprised of the Company's investment in Transportation Recovery Fund ("TRF") that became an affiliate in 2021. As of December 31, 2020, the carrying value of TRF was $7.4 million. See below for more detail.

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

	Year Ended December 31,		
(In thousands)	2021	2020	2019
Included in net income (loss):			
Net investment income (loss)	$ 4,465	$ (28,249)	$ (15,718)
Net realized gains (losses) on investments	23,322	(5,978)	(17,247)
Change in net unrealized gains/losses on fair value option investments	7,925	4,862	2,099
Net gains on derivatives	3,055		
Included in other comprehensive loss:			
Change in unrealized gains/losses on investments, before tax	382	(4,590)	(3,358)
Change in unrealized foreign currency translation adjustments, before tax	(3,374)	1,318	2,720
Total	$ 35,775	$ (32,637)	$ (31,504)

The Company owns fair value option investments in the common stock of various mutual fund classes of HWIC Asia, a wholly-owned subsidiary of Fairfax. In the years ended December 31, 2021, 2020, and 2019, the Company recorded changes in unrealized gains/losses of ($4.8) million, $6.8 million and ($7.0) million, respectively. In the years ended December 31, 2021 and 2019, the Company recorded dividend income of $1.7 million and $1.6 million, respectively. No dividend income was recorded in 2020. As of December 31, 2021 and 2020, the aggregate carrying value of the Company's fair value option investment in HWIC Asia common stock was $35.2 million and $40.0 million, respectively.

The Company owns a fair value option investment in the common stock of Recipe Unlimited Corp. ("Recipe"), a majority-owned subsidiary of Fairfax. In March 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 Fairfax and Company affiliates. The Company did not recognize any realized gain or loss on this exchange transaction. In the years ended December 31, 2021, 2020, and 2019, the Company recorded changes in unrealized gains/losses of $0.6 million, ($1.2) million and ($2.3) million, respectively. In the years ended December 31, 2020 and 2019, the Company recorded dividend income of $50,000 and $0.2 million, respectively. No dividend income was recorded in 2021. As of December 31, 2021 and 2020, the carrying value of the Company's fair value option investment in Recipe common stock was $8.3 million and $7.7 million, respectively.

The Company owns fair value option investments in the common stock, preferred stock, and equity warrants of Atlas, an affiliate of Fairfax and the Company. In February 2020, Seaspan completed a holding company reorganization to create Atlas, whereby Atlas became the parent of Seaspan (the "Reorganization"). Prior to the Reorganization, the Company owned $5.0 million par value of 5.50% unsecured debentures issued by Seaspan due in 2025 and 0.8 million shares of common stock of Seaspan. As part of the Reorganization, Seaspan shareholders received equal shares of Atlas common shares for each Seaspan common share held immediately prior to the closing of the Reorganization. Seaspan shareholders, including the Company, exchanged their shares in Seaspan for equal shares in Atlas, with no change in ownership percentage. Concurrently with the Reorganization, the Company invested $10.0 million in 5.50% unsecured debentures issued by Seaspan due March 2027 (collectively, Seaspan bonds).

In conjunction with the Reorganization, in February 2020, Atlas acquired all of the shares issued and outstanding of AB, an affiliate of Fairfax and the Company, from AB shareholders including the Company, in an all-stock transaction. Accordingly, the Company derecognized its equity-method investment in AB common stock, recorded a net pre-tax loss of $31,000 and increased the carrying value of its investment in Atlas by $21.1 million, the fair value of the AB common stock exchanged. The Company elected the fair value option of accounting for its investment in Atlas affiliated common stock. In the years ended December 31, 2021, 2020 and 2019, the Company recorded changes in unrealized gains/losses of $9.6 million, ($1.2) million and $5.1 million, respectively. In the years ended December 31, 2021, 2020, and 2019, the Company recorded dividend income of $1.4 million, $1.2 million and $0.4 million, respectively. As of December 31, 2021 and 2020, the carrying value of the Company's fair value option investment in Atlas common stock was $40.9 million and $31.3 million, respectively.

In April 2021, Fairfax signed an amendment agreement in relation to the original sale of AB to Atlas to potentially compensate Atlas for certain amounts and balances ("AB Indemnity"). In the year ended December 31, 2021, the Company recorded its share of realized losses related to the AB Indemnity of $13.3 million, and additional $1.5 million of realized foreign exchange losses for its share of the related foreign exchange indemnification. As of December 31, 2021, the carrying value of the Company's outstanding AB Indemnity liability was $11.7 million. As part of the agreement, Atlas also issued warrants to Fairfax and the Company with an exercise price of $13 per share, expiring in April 2026, including an option for Atlas to require Fairfax and the Company to exercise these warrants after the fourth year if Atlas' stock price at that time equals or exceeds $26 per share ("Atlas no cost warrants"). The Company received 0.6 million shares of these warrants, at zero cost. As of December 31, 2021, the carrying value of the Company's fair value option investment in Atlas no cost warrants was $3.0 million.

In June 2021, Fairfax entered into an exchange and amendment transaction with Atlas in relation to its investment in Seaspan bonds, whereby Fairfax affiliates, including the Company exchanged the original principal plus accrued interest of their Seaspan bonds due in 2026 and 2027 for newly issued Atlas preferred shares (Atlas Series J - 7.00% Cumulative Redeemable Perpetual Preferred) ("Atlas preferred stock") and equity warrants with an exercise price of $13.71 per share ("Atlas warrants"). The Company exchanged $10.0 million par value of its Seaspan bonds due in 2027, with a fair value of $10.1 million, for 0.4 million shares of Atlas preferred stock (cost basis of $10.0 million) and 33,000 shares of Atlas warrants (cost basis of $0.1 million) and recorded a realized gain of $0.1 million on the conversion. In August 2021, Atlas redeemed all of its remaining Seaspan bonds due in 2025 and 2026 held by Fairfax and affiliates for cash at original principal plus accrued interest. The Company redeemed its remaining $5.0 million par value Seaspan bonds due in 2025 and recorded a $0.3 million realized gain on redemption. As of December 31, 2021, the carrying value of the Company's fair value option investments in Atlas preferred stock and Atlas warrants was $10.0 million and $0.2 million, respectively.

The Company owned an equity-method investment in the common stock of Toys, a wholly-owned subsidiary of Fairfax. In 2020, the Company's share of Toys' cumulative losses exceeded the Company's carrying value of Toys. As a result, after recording equity in losses of Toys of $11.3 million in 2020, the remaining unrecorded share of Toys' losses as of December 31, 2020 was approximately $13.7 million. In August 2021, Fairfax including the Company sold Toys for purchase consideration which consisted principally of a monthly royalty on future revenue from Toys (Contingent Consideration Receivable, or "CCR"). As a result, the Company sold its investment in Toys and recognized a gain on the sale of $20.1 million. The consideration received by the Company included $1.1 million in cash and an $18.9 million CCR recorded in Other investments on the Consolidated Balance Sheets. As of December 31, 2021, the carrying value of the CCR was $18.7 million, which included an unrealized gain on foreign exchange.

The Company owns a fair value option investment in the limited partnership of TRF. Fairfax, through its subsidiaries including the Company, has been a limited partner investor since 2013. In February 2021, TRF decided to appoint a new sub-advisor as well as restructure its management group and investment committee. In April 2021, a Fairfax representative signed the agreement to provide services to the new sub-advisor and participate in both the management group and the investment committee. Fairfax concluded that this appointment resulted in significant influence over the operations of TRF. The Company continues to account for its investment in TRF using the fair value option, with fair value equal to NAV and no impact to the carrying value of TRF; however, TRF is now considered an affiliate of Fairfax and the Company. As of December 31, 2021 and 2020, the carrying value of the Company's investment in TRF was $8.7 million and $7.4 million, respectively.

In March 2021, FE, a majority-owned subsidiary of Fairfax, completed an IPO, issuing 7.4 million common shares at $17.00 CAD per share. The common stock shares began trading on the TSX under the ticker symbol: FDGE. All outstanding FE convertible debentures held by Fairfax through its subsidiaries, including the Company ("FE affiliate loans"), which included original principal and accrued interest, were exchanged for 114.6 million pre-IPO common shares. All FE common shares outstanding prior to the IPO were then consolidated into fewer shares through a 7 for 1 reverse stock split. In connection with the conversion of FE's affiliate loans, the Company recorded a realized gain of $0.8 million and increased the cost basis of its investment in FE common stock by $9.3 million, representing additional shares received, at fair value equal to the IPO price. In 2021, the Company recorded dilution gains of $10.6 million, primarily as a result of the IPO transactions. In December 2021, the Company recorded an other-than-temporary impairment of $14.5 million as a result of the extent and duration that the fair value of FE's common stock had been below its carrying value. As of December 31, 2021 and 2020, the carrying value of the Company's equity-method investment in FE common stock was $3.7 million and $0.8 million, respectively.

The Company owns an equity-method investment in the common stock of Boat Rocker, a majority-owned subsidiary of Fairfax and an affiliate of the Company. In November 2020, Boat Rocker issued additional shares in exchange for a payable from its original shareholders. The Company recorded a $1.1 million additional investment in Boat Rocker with a corresponding amount as payable for securities as of December 31, 2020. On January 1, 2021, the payable for securities was settled when Boat Rocker declared an in-kind dividend distribution of $1.1 million. In March 2021, Boat Rocker completed its IPO, issuing 18.9 million common stock shares at $9.00 CAD per share. The common stock shares began trading on the TSX under the ticker symbol: BRMI. Prior to the IPO, Boat Rocker effected a 1.6016 for 1 stock split on its common shares outstanding, resulting in an increase in shares issued and outstanding. In 2021, the Company recorded dilution gains of $16.4 million, primarily as a result of the IPO transactions. As of December 31, 2021 and 2020, the carrying value of the Company's equity-method investment in Boat Rocker common stock was $18.6 million and $7.2 million, respectively.

The Company owned an equity-method investment in the common stock of Fairfax Africa Holdings Corporation (“FAH”), a majority-owned subsidiary of Fairfax and an affiliate of the Company. In the year ended December 31, 2020, the Company recorded an other-than-temporary impairment of $12.7 million for FAH as a result of the extent and duration that the fair value of FAH’s common stock had been below its carrying value. In December 2020, FAH completed its strategic transaction with Helios Holdings Limited (“Helios”), pursuant to which Helios contributed certain fee streams to FAH in exchange for a 45.9% equity and voting interest in the share capital of FAH upon closing. Following the transaction, FAH was renamed Helios Fairfax Partners Corporation (“HFP”). HFP common stock continues to be publicly traded on the TSX, under the new ticker symbol following the transaction: HFPC.U. The Company continues to record its investment in HFP using the equity-method of accounting. As of December 31, 2021 and 2020, the carrying value of the Company’s equity-method investment in HFP common stock was $12.2 million and $13.7 million, respectively.

The Company owns an equity-method investment in the common stock of Astarta, a Netherlands company that is an affiliate of Fairfax and the Company. In 2020 and 2019, the Company recorded other-than-temporary impairments of $11.9 million and $4.0 million, respectively, based on the continued decline in the fair value of this investment. As of December 31, 2021 and 2020, the carrying value of the Company’s equity-method investment in Astarta common stock was $2.1 million and $2.2 million, respectively.

The Company owned an equity-method partnership investment in Davos, an affiliate of Fairfax and the Company. In September 2020, Fairfax affiliates, including the Company sold their investment in Davos for cash proceeds of $17.6 million and recorded a net realized gain of $8.0 million. The Company and other former shareholders of Davos are eligible to receive additional consideration contingent on the performance of the Aviation American Gin brand over the next ten years. In 2021, the Company recorded realized gains of $1.5 million as a result of additional consideration received from the sale of Davos.

In January 2020, the Company sold its investment in Eurobank to Odyssey Group Holdings, Inc., an affiliate of Fairfax and the Company, and recorded a realized gain of $2.8 million.

The Company owns an equity-method investment in the common stock of Peak Achievements Athletics (“PAA”), a private Canadian company that is an affiliate of Fairfax and the Company. In December 2019, the Company recorded a cash distribution received from PAA of $1.3 million as a return of capital. As of December 31, 2021 and 2020, the carrying value of the Company’s equity-method investment in PAA common stock was $9.4 million and $9.3 million, respectively.

The Company owns an equity-method investment in the common stock of Exco, an affiliate of Fairfax and the Company. In January 2018, Exco filed for bankruptcy and in June 2019, emerged from bankruptcy protection. Prior to the bankruptcy proceedings, the Company owned investments in Exco bonds, loans, and common stock (“Exco investments”). As part of the bankruptcy settlement, the Company disposed of the Exco investments and received $2.8 million in cash and newly issued shares of Exco common stock, with a fair value of $5.9 million and began accounting for the new common stock under the equity-method. As a result of these transactions, the Company recorded a realized loss of $7.8 million, partially offset by the change in net unrealized gains/losses on investments of $3.2 million and a $0.3 million investment income reduction. As of December 31, 2021 and 2020, the carrying value of the Company’s equity-method investment in Exco common stock was $4.7 million and $5.9 million, respectively.

The Company owns investments in the equity-method common stock and affiliate corporate loans of AGT. As of December 31, 2018, the Company owned an investment in the preferred stock of AGT. In April 2019, AGT completed its management led privatization, resulting in the exchange of AGT’s outstanding preferred shares into new AGT common shares (Class A) (“AGT common stock”). In the year ended December 31, 2019, as a result of the privatization, the Company recorded a realized loss of $1.7 million on the conversion of the AGT preferred stock into AGT common stock and began equity-method accounting for its AGT common stock. Concurrently, 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. In connection with the AGT loans, Fairfax, including the Company, received warrants (“AGT warrants”) and immediately sold the AGT warrants to Wentworth Insurance Company Ltd., a Fairfax and Company affiliate, at cost. The Company recorded its investment in AGT loans as affiliate corporate loans in other investments. As of December 31, 2021 and 2020, the carrying value of the Company’s equity method investment in AGT common stock was $0.2 million and $2.1 million, respectively, and AGT loans was $10.2 million and $10.0 million, respectively.

Other

In December 2021 and 2020, Zenith National paid a $35.0 million and $30.0 million ordinary dividend in cash to affiliates of Fairfax and the Company, respectively.

In December 2019, Zenith National paid a $25.0 million ordinary dividend to affiliates of Fairfax and the Company in the form of a fixed maturity security and cash. The Company transferred a portion of its investment in certain tax exempt fixed maturity securities with a fair value of $23.0 million, including accrued interest, to Fairfax (US) Inc. and recorded a realized gain of $4.9 million. In September 2019, Zenith National paid a $30.7 million ordinary dividend in cash to affiliates of Fairfax and the Company.

The Company entered into reinsurance agreements with various subsidiaries of Allied effective May 1, 2021, under which Allied cedes a portion of its global professional and medical liability business under the quota share and excess of loss reinsurance contracts on a risk-attaching basis. Total estimated premium assumed by the Company is expected to be approximately $22 million in the first year of the agreement, earned over the 24 months following the effective date of the agreement. The net impact on the Company’s income before tax in the year ended December 31, 2021 from this arrangement was $0.3 million, on net premiums earned of $5.9 million.

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

In the years ended December 31, 2021, 2020 and 2019, Zenith National paid Fairfax $6.4 million, $4.4 million and $5.1 million, 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 Master Administrative Services Agreements with various affiliates of Fairfax and the Company. Under the agreements, the affiliated parties provide and receive administration services such as accounting, underwriting, claims, reinsurance, preparation of regulatory reports, and actuarial services. The Company provides claims administration services to Seneca Insurance Company, Inc. (“Seneca”) and to TIG Insurance Company (“TIG”), both affiliates of Fairfax and the Company. In the years ended December 31, 2021, 2020 and 2019, service fee income recorded in the Consolidated Statements of Comprehensive Income (Loss), for TIG was $4.6 million, $6.2 million, and $8.0 million, respectively, and for Seneca was $0.1 million, $0.3 million and $0.4 million, respectively. As of December 31, 2021 and 2020, the Company recorded a net liability of $2.6 million and $1.8 million, respectively, to TIG comprised of a loss fund held for TIG claims of $3.3 million and $2.7 million, respectively, offset by a service fee receivable from TIG of $0.7 million and $0.9 million, respectively. As of December 31, 2021 and 2020, the loss fund held for Seneca claims was $0.4 million and $0.6 million, respectively.

Note 13. Other Comprehensive Loss

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

(In thousands)	Pre-Tax	Tax Expense (Benefit)	After-Tax
Year ended December 31, 2021			
Change in unrealized gains/losses on investments	$ 382	$ 79	$ 303
Net unrealized foreign currency translation adjustments arising during the year	(3,277)	(688)	(2,589)
Less: reclassification adjustment for net realized foreign exchange gains included in net income	(97)	(20)	(77)
Change in unrealized foreign currency translation adjustments	(3,374)	(708)	(2,666)
Total other comprehensive loss	$ (2,992)	$ (629)	$ (2,363)
Year ended December 31, 2020			
Net unrealized losses on investments arising during the year	$ (2,920)	$ (613)	$ (2,307)
Less: reclassification adjustment for net realized gains included in net loss	(1,670)	(350)	(1,320)
Change in unrealized gains/losses on investments	(4,590)	(963)	(3,627)
Change in unrealized foreign currency translation adjustments	1,319	277	1,042
Total other comprehensive loss	$ (3,271)	$ (686)	$ (2,585)
Year ended December 31, 2019			
Net unrealized gains on investments arising during the year	$ (3,287)	$ (690)	$ (2,597)
Less: reclassification adjustment for net realized gains included in net income	(71)	(15)	(56)
Change in unrealized gains/losses on investments	(3,358)	(705)	(2,653)
Net unrealized foreign currency translation adjustments arising during the year	609	128	481
Less: reclassification adjustment for net realized foreign exchange losses included in net income	2,111	443	1,668
Change in unrealized foreign currency translation adjustments	2,720	571	2,149
Total other comprehensive loss	$ (638)	$ (134)	$ (504)

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

	December 31,	
(In thousands)	2021	2020
Equity-method common stock	$ (7,683)	$ (8,065)
Equity-method partnerships		
Net unrealized loss on investments, before tax	(7,683)	(8,065)
Deferred tax benefit	(1,614)	(1,693)
Net unrealized loss on investments, after tax	(6,069)	(6,372)
Net unrealized loss on foreign currency translation adjustments, before tax	(3,773)	(399)
Deferred tax benefit	(792)	(84)
Net unrealized loss on foreign currency translation adjustments, after tax	(2,981)	(315)
Total accumulated other comprehensive loss	$ (9,050)	$ (6,687)

Note 14. Employee Benefit and Retirement Plans

The Company offers a tax deferred savings plan created under Section 401(k) of the Internal Revenue Code for all eligible employees. In the years ended December 31, 2021, 2020 and 2019, the Company matched 75.0%, 66.7% and 58.3%, respectively, of the first 6% of compensation (subject to certain limits) that employees contributed to the plan and was not liable for any future payments under the plan. In the years ended December 31, 2021, 2020 and 2019, the Company contributed $5.5 million, $4.7 million and $4.1 million, respectively, under the plan.

In June 2010, an employee stock purchase plan was approved by Zenith National's Board of Directors providing for the purchase of up to 100,000 Fairfax Subordinate Voting Shares. In April 2020, the plan was amended and restated to provide for an additional 200,000 Fairfax Subordinate Voting Shares. The plan limits employee contributions to 10% of base salary or wages before tax for each payroll period. Under this stock purchase plan, the Company matches 30% of employee contributions and purchases Fairfax Subordinate Voting Shares at market value. If the Company achieves certain annual profitability conditions, it will provide an additional 20% match on the total contributions made during the year to employees who are employed on the date the additional match is made. In the years ended December 31, 2021, 2020 and 2019, the Company contributed $2.3 million, $2.2 million and $2.1 million, respectively, in matching contributions under the plan. The Company is not liable for any future payments under the plan.

Note 15. Commitments and Contingencies

Litigation

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.

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 7 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 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.

In the years ended December 31, 2021, 2020 and 2019, lease expense was $8.9 million, $9.2 million and $9.1 million, respectively.

Additional information related to the operating leases is provided below:

	As of and for the year ended December 31, 2021	
(In thousands)	Offices	Automobile
Cash payments included in the measurement of lease liabilities reported in operating cash flows	$ 6,755	$ 891
Weighted average discount rate	1.42%	0.66%
Weighted average remaining lease term (in years)	5.17	1.67

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

(In thousands)	Offices	Auto Fleet	Total
2022	$ 5,613	$ 610	$ 6,223
2023	5,099	277	5,376
2024	4,560	58	4,618
2025	4,031		4,031
2026	3,444		3,444
Thereafter	3,349		3,349
Total undiscounted lease payments	$ 26,096	$ 945	$ 27,041
Less: present value adjustment	409	10	419
Operating lease liability	$ 25,687	$ 935	$ 26,622

Note 16. 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	(69,940)
Vested	(70,997)
Purchased and available for future grants	(3,459)
Available for future purchases as of December 31, 2021	355,604

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	14,526	441.18	6,409
Total purchased since plan inception	144,396	436.58	$ 63,042

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 as of 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 as of December 31, 2019	61,433	478.40	29,390
Granted during 2020	12,844	440.82	5,662
Forfeited during 2020	(200)	465.67	(93)
Vested during 2020	(16,476)	501.91	(8,269)
Restricted Shares as of December 31, 2020	57,601	463.34	26,690
Granted during 2021	22,496	405.50	9,122
Forfeited during 2021	(1,224)	466.47	(571)
Vested during 2021	(8,933)	449.52	(4,016)
Restricted Shares as of December 31, 2021	69,940	446.45	$ 31,225

In the years ended December 31, 2021, 2020, and 2019, stock-based compensation expense before tax was $5.3 million, $5.6 million and $5.9 million, respectively.

As of December 31, 2021 and 2020, unrecognized compensation expense before tax under the Restricted Stock Plan was $17.1 million and $13.9 million, respectively.

Supplementary Consolidating Information

Report of Independent Auditors

To the Management of Zenith National Insurance Corp.

We have audited the consolidated financial statements of Zenith National Insurance Corp. and its subsidiaries as of and for the year ended December 31, 2021 and our report thereon appears on page 2 and 3 of this document which included an unmodified opinion on those consolidated financial statements. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information as of and for the year ended December 31, 2021 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies.

PricewaterhouseCoopers LLP

Los Angeles, California
February 25, 2022

ZENITH NATIONAL INSURANCE CORP. AND SUBSIDIARIES
SUPPLEMENTARY CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2021

(In thousands)	Zenith Insurance Company	ZNAT Insurance Company	1390 Main Street LLC	Zenith of Nevada, Inc.	Zenith Captive Insurance	Zenith Insurance Company Eliminations	Note	**Zenith Insurance Company & Subsidiaries**	Zenith National Insurance Corp.	Zenith National Insurance Corp. Eliminations	Note	**Zenith National Insurance Corp. & Subsidiaries**
Assets:												
Investments	$ 1,614,042	$ 46,927						$ 1,660,969	$ 12,246			$ 1,673,215
Cash	94,459	8,324		$ 1	$ 336			103,120	1,448			104,568
Accrued investment income	4,255	211						4,466				4,466
Premiums receivable	47,718	1,098						48,816				48,816
Reinsurance recoverables	69,311	157,268				$ (178,725)	(2a)	47,854				47,854
Deferred policy acquisition costs	15,857	1,686						17,543				17,543
Deferred tax asset	42,795	956	$ (30)					43,721	470			44,191
Investment in subsidiaries	31,590					(31,590)	(2b)		730,080	$ (730,080)	(2c)	
Operating lease right-of-use assets	25,107							25,107				25,107
Goodwill	18,976							18,976	2,009			20,985
Other assets	49,319	513	9,223					59,055	106			59,161
Intercompany	10,169	(10,907)						(738)	738			
Total assets	$ 2,023,598	$ 206,076	$ 9,193	$ 1	$ 336	$ (210,315)		$ 2,028,889	$ 747,097	$ (730,080)		$ 2,045,906
Liabilities:												
Unpaid losses and loss adjustment expenses	$ 1,048,370	$ 165,210				$ (164,504)	(2a)	$ 1,049,076				$ 1,049,076
Unearned premiums	105,236	14,221				(14,221)	(2a)	105,236				105,236
Policyholders' dividends accrued	27,555	3,225						30,780				30,780
Long-term debt									$ 38,310			38,310
Operating lease liabilities	26,622							26,622				26,622
Income tax payable	660	32			$ (5)			687	(38)			649
Derivative liabilities	380							380				380
Other liabilities	84,695	1,325			8			86,028	3,729			89,757
Total liabilities	1,293,518	184,013			3	(178,725)		1,298,809	42,001			1,340,810
Total stockholders' equity	730,080	22,063	$ 9,193	$ 1	333	(31,590)	(2b)	730,080	705,096	$ (730,080)	(2c)	705,096
Total liabilities and stockholders' equity	$ 2,023,598	$ 206,076	$ 9,193	$ 1	$ 336	$ (210,315)		$ 2,028,889	$ 747,097	$ (730,080)		$ 2,045,906

This supplementary consolidating balance sheet should be read in connection with the accompanying notes to supplementary consolidating balance sheet, the consolidated financial statements and notes to the consolidated financial statements.

ZENITH NATIONAL INSURANCE CORP. AND SUBSIDIARIES
NOTES TO SUPPLEMENTARY CONSOLIDATING BALANCE SHEET

1. Basis of Presentation

The accompanying supplementary consolidating Balance Sheet has been prepared in accordance with GAAP and includes the accounts of Zenith Insurance, ZNAT, 1390 Main Street LLC, Zenith of Nevada, Inc., Zenith Captive Insurance Company and Zenith National.

2. Consolidating Eliminations

The following eliminations are reflected in the accompanying supplementary consolidating Balance Sheet as of December 31, 2021:

(a) To eliminate intercompany reinsurance balances;

(b) To eliminate Zenith Insurance's investment in ZNAT, 1390 Main Street LLC, Zenith of Nevada, Inc. and Zenith Captive Insurance Company; and

(c) To eliminate Zenith National's investment in Zenith Insurance.