FAIRFAX INDIA
HOLDINGS CORPORATION

3

INTERIM REPORT

For the nine months ended September 30, 2018

Consolidated Balance Sheets
as at September 30, 2018 and December 31, 2017
(unaudited - US$ thousands)

	Notes	September 30, 2018	December 31, 2017
Assets			
Cash and cash equivalents	6, 14	**16,319**	13,244
Restricted cash	6, 7	**21,915**	10,598
Short term investments	6	**13,894**	27,481
Bonds	5, 6	**610,063**	694,252
Common stocks	5, 6	**1,900,187**	1,913,993
Total cash and investments		**2,562,378**	2,659,568
Interest receivable		**7,236**	9,422
Income taxes refundable		**1,596**	3,098
Other assets		**138**	133
Total assets		**2,571,348**	2,672,221
Liabilities			
Accounts payable and accrued liabilities		**970**	977
Payable for rights issue	5	**—**	15,954
Payable to related parties	12	**8,144**	122,826
Deferred income taxes	10	**2,016**	—
Term loans	7	**545,841**	400,000
Total liabilities		**556,971**	539,757
Equity			
Common shareholders' equity	8	**2,014,377**	2,132,464
		2,571,348	2,672,221

See accompanying notes.

Consolidated Statements of Earnings

for the three and nine months ended September 30, 2018 and 2017
(unaudited - US$ thousands except share and per share amounts)

	Notes	Third quarter 2018	Third quarter 2017	First nine months 2018	First nine months 2017
Income					
Interest	6	**5,318**	6,061	**17,890**	15,060
Dividends	6	**1,411**	3,463	**7,986**	8,088
Net realized gains (losses) on investments	6	**(2)**	—	**(3,335)**	1,195
Net change in unrealized gains (losses) on investments and other costs	6	**136,234**	(69,779)	**138,115**	478,504
Net foreign exchange losses	6	**(25,909)**	(6,200)	**(55,068)**	(23,214)
		117,052	(66,455)	**105,588**	479,633
Expenses					
Investment and advisory fees	12	**8,771**	5,059	**25,257**	19,303
Performance fee	12	**—**	(22,627)	**—**	84,334
General and administration expenses	13	**1,170**	780	**3,277**	3,518
Interest expense	7	**9,427**	7,598	**19,379**	10,839
		19,368	(9,190)	**47,913**	117,994
Earnings (loss) before income taxes		**97,684**	(57,265)	**57,675**	361,639
Provision for (recovery of) income taxes	10	**3,504**	(4,111)	**4,317**	(2,805)
Net earnings (loss)		**94,180**	(53,154)	**53,358**	364,444
Net earnings (loss) per share	9	**$ 0.61**	$ (0.36)	**$ 0.35**	$ 2.50
Net earnings (loss) per diluted share	9	**$ 0.61**	$ (0.36)	**$ 0.35**	$ 2.43
Shares outstanding (weighted average)	9	**154,586,489**	147,434,531	**153,043,675**	145,564,047

See accompanying notes.

Consolidated Statements of Comprehensive Income
for the three and nine months ended September 30, 2018 and 2017
(unaudited - US$ thousands)

	Third quarter		First nine months	
	2018	2017	**2018**	2017
Net earnings (loss)	**94,180**	(53,154)	**53,358**	364,444
Other comprehensive income (loss), net of income taxes				
Item that may be subsequently reclassified to net earnings (loss)				
Unrealized foreign currency translation gains (losses), net of income taxes of nil (2017 - nil)	**(119,852)**	(24,605)	**(269,657)**	63,156
Other comprehensive income (loss), net of income taxes	**(119,852)**	(24,605)	**(269,657)**	63,156
Comprehensive income (loss)	**(25,672)**	(77,759)	**(216,299)**	427,600

See accompanying notes.

Consolidated Statements of Changes in Equity
for the nine months ended September 30, 2018 and 2017
(unaudited - US$ thousands)

	Subordinate voting shares	Multiple voting shares	Share-based payments, net	Retained earnings	Accumulated other comprehensive income (loss)	Common shareholders' equity
Balance as of January 1, 2018	**1,206,512**	**300,000**	**(64)**	**597,105**	**28,911**	**2,132,464**
Net earnings for the period	—	—	—	**53,358**	—	**53,358**
Other comprehensive loss:						
Unrealized foreign currency translation losses	—	—	—	—	**(269,657)**	**(269,657)**
Issuance of shares (note 8)	**114,437**	—	—	—	—	**114,437**
Purchases and amortization	**(10,877)**	—	**(46)**	—	—	**(10,923)**
Excess of consideration over book value of common shares purchased for cancellation (note 8)	—	—	—	**(5,302)**	—	**(5,302)**
Balance as of September 30, 2018	**1,310,072**	**300,000**	**(110)**	**645,161**	**(240,746)**	**2,014,377**
Balance as of January 1, 2017	713,027	300,000	(186)	144,604	(81,999)	1,075,446
Net earnings for the period	—	—	—	364,444	—	364,444
Other comprehensive income:						
Unrealized foreign currency translation gains	—	—	—	—	63,156	63,156
Issuance of shares, net of issuance costs	493,504	—	—	—	—	493,504
Amortization	—	—	107	—	—	107
Balance as of September 30, 2017	1,206,531	300,000	(79)	509,048	(18,843)	1,996,657

See accompanying notes.

Consolidated Statements of Cash Flows
for the three and nine months ended September 30, 2018 and 2017
(unaudited - US$ thousands)

		Third quarter		First nine months	
	Notes	**2018**	2017	**2018**	2017
Operating activities					
Net earnings (loss)		**94,180**	(53,154)	**53,358**	364,444
Items not affecting cash and cash equivalents:					
Net bond premium amortization		**68**	154	**321**	164
Deferred income taxes	10	**2,178**	(1,190)	**2,178**	—
Amortization of share-based payment awards		**20**	16	**58**	107
Net realized losses (gains) on investments	6	**2**	—	**3,335**	(1,195)
Net change in unrealized gains on investments	6	**(136,234)**	(4,423) (1)	**(138,115)**	(552,706) (1)
Net foreign exchange losses	6	**25,909**	6,200	**55,068**	23,214
Net sales of short term investments classified as FVTPL		**1,707**	—	**13,327**	27,011
Purchases of bonds and common stocks classified as FVTPL	14	**(89,114)**	(296,599) (1)	**(180,504)**	(812,484) (1)
Sales of bonds and common stocks classified as FVTPL	14	**—**	—	**72,750**	78,458
Changes in operating assets and liabilities:					
Interest receivable		**(3,272)**	(6,471)	**1,145**	(2,099)
Income taxes refundable		**1,223**	5,650	**1,223**	4,610
Payable to related parties		**3,103**	(25,746)	**6,114**	86,726
Other		**3,649**	(4,235)	**(510)**	9,464
Cash used in operating activities		**(96,581)**	(379,798)	**(110,252)**	(774,286)
Financing activities					
Term loans:					
Proceeds	7	**—**	400,000	**550,000**	400,000
Issuance costs	7	**—**	(3,022)	**(5,545)**	(3,022)
Repayments	7	**—**	—	**(400,000)**	(225,000)
Net decrease (increase) in restricted cash in support of term loans		**5,307**	(15,424)	**(11,317)**	3,386
Subordinate voting shares:					
Issuances		**—**	—	**—**	500,004
Issuance costs		**—**	—	**—**	(6,500)
Purchases for cancellation	8	**(16,179)**	—	**(16,179)**	—
Cash provided by (used in) financing activities		**(10,872)**	381,554	**116,959**	668,868
Increase (decrease) in cash and cash equivalents		**(107,453)**	1,756	**6,707**	(105,418)
Cash and cash equivalents - beginning of period		**125,284**	31,280	**13,244**	146,960
Foreign currency translation		**(1,512)**	5,741	**(3,632)**	(2,765)
Cash and cash equivalents - end of period		**16,319**	38,777	**16,319**	38,777

(1) Excludes $74,202 cash consideration paid attributable to the costs incurred to purchase the additional 10.0% equity interest in Bangalore International Airport Limited (see note 5).

See accompanying notes.

Index to Notes to Interim Consolidated Financial Statements

1. Business Operations

Fairfax India Holdings Corporation ("the company" or "Fairfax India") is an investment holding company whose objective is to achieve long term capital appreciation, while preserving capital, by investing in public and private equity securities and debt instruments in India and Indian businesses or other businesses with customers, suppliers or business primarily conducted in, or dependent on, India ("Indian Investments"). The company makes all or substantially all of its investments either directly or through one of its wholly-owned subsidiaries, FIH Mauritius Investments Ltd ("FIH Mauritius") and FIH Private Investments Ltd ("FIH Private").

Fairfax Financial Holdings Limited ("Fairfax") is Fairfax India's ultimate parent and acts as its administrator. Fairfax is a holding company which, through its subsidiaries, is principally engaged in property and casualty insurance and reinsurance and the associated investment management. Hamblin Watsa Investment Counsel Ltd. (the "Portfolio Advisor"), a wholly-owned subsidiary of Fairfax and registered portfolio manager in the province of Ontario, is the portfolio advisor of the company and its consolidated subsidiaries, responsible to source and advise with respect to all investments.

At September 30, 2018 Fairfax, through its subsidiaries, owned 30,000,000 multiple voting shares and 21,558,422 subordinate voting shares of Fairfax India. Fairfax India's subordinate voting shares trade on the Toronto Stock Exchange ("TSX") under the symbol FIH.U. The multiple voting shares of the company are not traded. At September 30, 2018 Fairfax's holdings of multiple and subordinate voting share represented 93.7% of the voting rights and 33.5% of the equity interest in Fairfax India (December 31, 2017 - 93.6% and 30.2% respectively). See note 12 for additional details on the increase in Fairfax's equity interest in the company.

The company is federally incorporated and is domiciled in Ontario, Canada. The principal office of the company, Fairfax and the Portfolio Advisor is located at 95 Wellington Street West, Suite 800, Toronto, Ontario M5J 2N7.

2. Basis of Presentation

The company's interim consolidated financial statements for the three and nine months ended September 30, 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard 34 *Interim Financial Reporting*. Accordingly, certain information and disclosures normally included in the annual consolidated financial statements prepared in accordance with IFRS as issued by the IASB have been omitted or condensed. These interim consolidated financial statements should be read in conjunction with the company's annual consolidated financial statements for the year ended December 31, 2017, which have been prepared in accordance with IFRS as issued by the IASB effective as at December 31, 2017.

These interim consolidated financial statements were approved for issue by the company's Board of Directors on November 1, 2018.

3. Summary of Significant Accounting Policies

The principal accounting policies applied to the preparation of these interim consolidated financial statements are as set out in the company's annual consolidated financial statements for the year ended December 31, 2017, prepared in accordance with IFRS as issued by the IASB. Those policies and methods of computation have been consistently applied to all periods presented except as described below.

Total cash and investments

Total cash and investments include cash and cash equivalents, restricted cash, short term investments, bonds and common stocks. Management determines the appropriate classifications of investments at their acquisition date.

Classification

Short term investments, bonds and common stocks are classified as fair value through profit or loss (''FVTPL''). The company manages these investments on a fair value basis, using fair value information to assess investment performance and to make investment decisions. The company has not elected to irrevocably designate any of its investments at fair value through other comprehensive income. The company classifies its short term investments and bonds based on both the company's business model for managing those financial assets and their contractual cash flow characteristics. While the contractual cash flows of certain of the company's short term investments and bonds are solely principal and interest, those investments are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to the company's business model of maximizing total investment return on a fair value basis.

Recognition and measurement

The company recognizes purchases and sales of investments on the trade date, which is the date on which the company commits to purchase or sell the asset. Transactions pending settlement are reflected on the consolidated balance sheets in other assets or in accounts payable and accrued liabilities. The company recognizes cash and investments at fair value upon initial recognition.

Subsequent to initial recognition, investments classified as FVTPL are measured at fair value with changes in fair value reported in the consolidated statements of earnings as income comprised of interest, dividends, net realized gains (losses) on investments and net change in unrealized gains (losses) on investments and other costs. Interest represents interest income on short term investments and bonds (except for Sanmar bonds where interest income is included in its fair value measurement (see note 5)) calculated using the effective interest method, net of investment expenses. Dividends represents dividends received on holdings of common stocks. The sum of interest income, net realized gains (losses) on investments and net change in unrealized gains (losses) on investments and other costs is equal to their total change in fair value for the reporting period.

Interest, dividends, net realized gains (losses) on investments and net change in unrealized gains (losses) on investments are reported as operating activities in the consolidated statements of cash flows.

Transaction costs related to investments classified as FVTPL are expensed as incurred. An investment is derecognized when the rights to receive cash flows from the investment have expired or have been transferred and when the company has transferred substantially all the risks and rewards of ownership.

Short term investments are debt instruments with maturity dates between three months and twelve months when purchased.

Bonds are debt instruments with maturity dates greater than twelve months when purchased.

Term loans

Term loans are recognized initially at fair value, net of incremental and directly attributable transaction costs, and subsequently measured at amortized cost. Interest expense on term loans are recognized in the consolidated statements of earnings using the effective interest method. Term loans are derecognized when extinguished, with any gain or loss on extinguishment recognized in other expenses in the consolidated statements of earnings.

Other financial assets and financial liabilities

All other financial assets and financial liabilities, primarily comprised of interest receivable, income taxes refundable, other assets, accounts payable and accrued liabilities, payable for rights issue, and payable to related parties, are initially recognized at fair value and subsequently measured at amortized cost which approximates fair value. Under the amortized cost method, financial assets and liabilities reflect the amount required to be received or paid and discounted when appropriate, at the contract's effective interest rate.

Net realized gains (losses) on investments, and Net change in unrealized gains (losses) on investments and other costs

Net realized gains (losses) arising on the disposition of investments and net change in unrealized gains (losses) arising on the re-measurement of investments at fair value (inclusive of interest income from Sanmar bonds) are included in net realized gains (losses) on investments and net change in unrealized gains (losses) on investments and other costs in the consolidated statements of earnings, respectively. In 2017 net change in unrealized gains (losses) on investments and other costs in the consolidated statement of earnings included costs incurred to purchase the additional 10.0% equity interest in Bangalore International Airport Limited (see note 5).

Interest and dividend income

Interest income is recognized on an accrual basis using the effective interest method and includes bank interest and interest from investments in debt instruments, except for Sanmar bonds where interest income is included in its fair value measurement (see note 5). Calculation of a debt instrument’s effective interest rate does not consider expected credit losses and requires estimates of future cash flows considering all contractual terms of the financial instrument including the stated interest rate, discount or premium, and any origination or structuring fees. Interest receivable is shown separately on the consolidated balance sheets based on the debt instruments' stated rates of interest. Dividends from equity investments are recognized when the company's right to receive payment is established.

New accounting pronouncements adopted in 2018

IFRS 9 Financial Instruments ("IFRS 9")
The complete version of IFRS 9 supersedes the 2010 version of IFRS 9 ("IFRS 9 (2010)") previously applied by the company. IFRS 9 includes requirements for the classification and measurement of financial assets and financial liabilities, an expected credit loss model for financial assets measured at amortized cost or fair value through other comprehensive income, and new hedge accounting guidance. The company has determined that its classifications of financial assets and financial liabilities remain unchanged under IFRS 9 from those of IFRS 9 (2010). Equity investments continue to be mandatorily classified as FVTPL, debt investments continue to be classified as FVTPL due to the company's business model for the management of those debt investments, and financial liabilities continue to be classified as amortized cost. IFRS 9 was adopted effective January 1, 2018 in accordance with its retrospective transition provisions without restatement of comparative periods. The company has determined that adoption of IFRS 9 did not have an impact on the consolidated financial statements.

New accounting pronouncement issued but not yet effective

Conceptual Framework for Financial Reporting ("Conceptual Framework")

On March 29, 2018 the IASB published a revised Conceptual Framework that includes revised definitions of an asset and a liability as well as new guidance on measurement, derecognition, presentation and disclosure. The revised Conceptual Framework does not constitute an accounting pronouncement and will not result in any immediate change to IFRS, but the IASB and IFRS Interpretations Committee will use it in setting future standards. The revised Conceptual Framework is effective for the company beginning on January 1, 2020 and will apply when developing an accounting policy for an issue not addressed by IFRS. The company is currently evaluating the impact of the revised Conceptual Framework on its consolidated financial statements and does not expect to adopt it in advance of its effective date.

4. Critical Accounting Estimates and Judgments

In the preparation of the company's interim consolidated financial statements, management has made a number of critical accounting estimates and judgments in the preparation of notes 5, 6 and 10 in a manner consistent with those as described in the company's annual consolidated financial statements for the year ended December 31, 2017.

5. Indian Investments

Throughout this interim consolidated financial statements for the three and nine months ended September 30, 2018, the term "Indian Investments" refers to deployed capital invested in Public and Private Indian Investments as disclosed within this note.

Summary of Changes in the Fair Value of the Company's Indian Investments

A summary of changes in the fair value of the company's Public and Private Indian Investments for the third quarters of 2018 and 2017 were as follows:

	Third quarter												
	Public Indian Investments					Private Indian Investments (1)							
	Common stocks					Bonds	Common stocks						
	IIFL	Fairchem	5paisa	Other	Total	Sanmar	BIAL	NCML	Sanmar	Saurashtra	NSE	Total	Total Indian Investments
Balance as of July 1, 2018	**827,698**	**101,895**	**15,813**	**3,005**	**948,411**	**321,218**	**643,783**	**170,049**	**605**	**25,278**	**63,897**	**1,224,830**	**2,173,241**
Purchases	**—**	**—**	**—**	**89,114**	**89,114**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**89,114**
Net change in unrealized gains (losses) on investments (2)	**(211,922)**	**3,222**	**(4,681)**	**(8,937)**	**(222,318)**	**68,258**	**72,416**	**(1,701)**	**225,013**	**(1,720)**	**(3,655)**	**358,611**	**136,293**
Net unrealized foreign currency translation losses	**(29,626)**	**(6,589)**	**(577)**	**(2,368)**	**(39,160)**	**(22,467)**	**(40,473)**	**(9,132)**	**(16,764)**	**(1,275)**	**(2,181)**	**(92,292)**	**(131,452)**
Balance as of September 30, 2018	**586,150**	**98,528**	**10,555**	**80,814**	**776,047**	**367,009**	**675,726**	**159,216**	**208,854**	**22,283**	**58,061**	**1,491,149**	**2,267,196**
Balance as of July 1, 2017	792,890	138,490	—	—	931,380	319,103	467,940	156,233	219	31,127	35,796	1,010,418	1,941,798
Purchases	—	—	—	—	—	—	200,093 (3)	25,602	—	—	—	225,695	225,695
Net change in unrealized gains (losses) on investments and other costs (2)	5,682	(24,267)	—	—	(18,585)	6,783	(67,717) (3)	4,119	609	3,109	4,378	(48,719)	(67,304)
Net unrealized foreign currency translation losses	(11,375)	(1,644)	—	—	(13,019)	(3,381)	(7,926)	(2,314)	(2)	(331)	(438)	(14,392)	(27,411)
Balance as of September 30, 2017	787,197	112,579	—	—	899,776	322,505	592,390	183,640	826	33,905	39,736	1,173,002	2,072,778

(1) At September 30, 2018 all Private Indian Investments were classified as Level 3 in the fair value hierarchy.

(2) For all Private Indian Investments classified as Level 3 in the fair value hierarchy, net change in unrealized gains (losses) on investments related to unrealized gains (losses) on investments held at the end of the reporting periods.

(3) On July 13, 2017 the company completed an additional 10.0% equity investment in BIAL for cash consideration of $200,093 (12.9 billion Indian rupees). The cash consideration paid for the additional 10.0% equity interest in BIAL exceeded the estimated fair value of those additional shares acquired, as a result $74,202 (approximately 4.8 billion Indian rupees) of the cash consideration paid was attributable to the costs incurred and has been included in the table above in purchases and was recorded in net change in unrealized gains (losses) on investments and other costs included in the consolidated statements of earnings.

A summary of changes in the fair value of the company’s Public and Private Indian Investments for the first nine months of 2018 and 2017 were as follows:

	First nine months													
	Public Indian Investments					Private Indian Investments (1)								
	Common stocks					Bonds	Common stocks							
	IIFL	**Fairchem**	**5paisa**	**Other**	**Total**	**Sanmar**	**BIAL**	**NCML**	**Sanmar**	**Saurashtra**	**NSE**	**Privi**	**Total**	**Total Indian Investments**
Balance as of January 1, 2018	**888,485**	**149,200**	**19,958**	**—**	**1,057,643**	**333,172**	**608,288**	**179,054**	**556**	**28,000**	**40,452**	**—**	**1,189,522**	**2,247,165**
Purchases	**—**	**—**	**—**	**94,090**	**94,090**	**—**	**67,391**	**—**	**—**	**—**	**—**	**—**	**67,391**	**161,481**
Net change in unrealized gains (losses) on investments (2)	**(211,922)**	**(35,481)**	**(7,581)**	**(10,742)**	**(265,726)**	**79,567**	**83,265**	**1,684**	**225,104**	**(2,562)**	**24,245**	**—**	**411,303**	**145,577**
Net unrealized foreign currency translation losses	**(90,413)**	**(15,191)**	**(1,822)**	**(2,534)**	**(109,960)**	**(45,730)**	**(83,218)**	**(21,522)**	**(16,806)**	**(3,155)**	**(6,636)**	**—**	**(177,067)**	**(287,027)**
Balance as of September 30, 2018	**586,150**	**98,528**	**10,555**	**80,814**	**776,047**	**367,009**	**675,726**	**159,216**	**208,854**	**22,283**	**58,061**	**—**	**1,491,149**	**2,267,196**
Balance as of January 1, 2017	265,951	45,488	—	—	311,439	299,093	—	146,586	440	—	26,504	54,315	526,938	838,377
Purchases	75,175	—	—	—	75,175	—	585,591 (4)	25,602	—	30,018	—	—	641,211	716,386
Transfer due to Merger (3)	—	54,315	—	—	54,315	—	—	—	—	—	—	(54,315)	(54,315)	—
Net change in unrealized gains on investments and other costs (2)	434,292	8,896	—	—	443,188	11,756	8,879 (4)	6,398	370	3,139	12,218	—	42,760	485,948
Net unrealized foreign currency translation gains (losses)	11,779	3,880	—	—	15,659	11,656	(2,080)	5,054	16	748	1,014	—	16,408	32,067
Balance as of September 30, 2017	787,197	112,579	—	—	899,776	322,505	592,390	183,640	826	33,905	39,736	—	1,173,002	2,072,778

(1) At September 30, 2018 all Private Indian Investments were classified as Level 3 in the fair value hierarchy.

(2) For all Private Indian Investments classified as Level 3 in the fair value hierarchy, net change in unrealized gains (losses) on investments related to unrealized gains (losses) on investments held at the end of the reporting periods.

(3) The merger of Fairchem and Privi resulted in the reallocation of the investment in Privi from Private Indian Investments to the Public Indian Investment in Fairchem.

(4) On July 13, 2017 the company completed an additional 10.0% equity investment in BIAL for cash consideration of $200,093 (12.9 billion Indian rupees). The cash consideration paid for the additional 10.0% equity interest in BIAL exceeded the estimated fair value of those additional shares acquired, as a result $74,202 (approximately 4.8 billion Indian rupees) of the cash consideration paid was attributable to the costs incurred and has been included in the table above in purchases and was recorded in net change in unrealized gains (losses) on investments and other costs included in the consolidated statements of earnings.

Public Indian Investments

The fair values of Fairfax India's Public Indian Investments, whose shares are listed on both the BSE (formerly known as Bombay Stock Exchange Limited) and the National Stock Exchange of India ("NSE of India"), are determined using the bid prices of those investments (without adjustments or discounts) at the balance sheet date.

Investment in IIFL Holdings Limited

IIFL Holdings Limited ("IIFL") is a publicly traded, diversified financial services holding company located in Mumbai, India with principal lines of business in wealth management, capital markets and other activities (comprised of retail investment brokerage, institutional equities, investment banking and financial products distribution) and a non-banking finance company.

In December 2015 and February 2017 the company acquired 84,641,445 common shares of IIFL (representing a 26.9% equity interest) for aggregate cash consideration of $276,734 (approximately 18.5 billion Indian rupees). In October 2017 IIFL spun-off its wholly-owned subsidiary 5Paisa Digital Undertaking through the formation of a new public company, 5paisa Capital Limited ("5paisa") in a non-cash transaction. The distribution of 5paisa to IIFL shareholders was characterized as a return of capital which resulted in Fairfax India recording the initial cost of its investment in 5paisa at its fair value of $19,758 with a corresponding amount recorded as a reduction of the cost of the company's investment in IIFL. Additional details on the 5paisa spin-off transaction are disclosed later in note 5.

On January 31, 2018 IIFL's board of directors approved a draft plan to reorganize IIFL into three listed entities (the "reorganization") consisting of IIFL Finance (currently known as IIFL Holdings Limited comprised of the loans and mortgages businesses), IIFL Wealth (comprised of the wealth, asset management and alternative investment fund businesses) and IIFL Securities (comprised of all other IIFL businesses including investment brokerage, distribution and investment banking). Shareholders of IIFL will receive seven common shares of IIFL Securities and one common share of IIFL Wealth for every seven IIFL shares held. IIFL Holdings Limited will be renamed IIFL Finance, and shares of IIFL Finance, IIFL Wealth and IIFL Securities will be listed on the BSE and NSE of India. The reorganization is anticipated to be completed in the fourth quarter of 2018 to early 2019, subject to customary closing conditions and applicable regulatory approvals.

At September 30, 2018 the fair value of the company's investment in IIFL was $586,150 (December 31, 2017 - $888,485) comprised of 84,641,445 common shares representing a 26.5% equity interest (December 31, 2017 - 26.6%). The changes in fair value of the company's investment in IIFL for the third quarters and first nine months of 2018 and 2017 are presented in the tables disclosed earlier in note 5.

Investment in Fairchem Speciality Limited

Fairchem Speciality Limited ("Fairchem") is a publicly traded, specialty chemical manufacturer located in Ahmedabad, India. Fairchem manufactures oleochemicals used in the paints, inks and adhesives industries, as well as intermediate nutraceutical and health products.

Privi Organics Limited ("Privi"), a wholly-owned subsidiary of Fairchem, is a supplier of aroma chemicals to the fragrance industry and is located in Mumbai, India.

In February 2016 Fairfax India acquired a 44.7% equity interest in Fairchem for cash consideration of $19,409 (approximately 1.3 billion Indian rupees) and in August 2016 acquired a 50.8% equity interest in Privi for cash consideration of $54,975 (approximately 3.7 billion Indian rupees). In March 2017 Fairchem and Privi were merged with the surviving entity continuing as Fairchem (the "Merger") and with no changes to management of the underlying companies.

On September 5, 2018 Fairchem converted all outstanding compulsorily convertible preference shares ("CCPS") into common shares of Fairchem.

At September 30, 2018 the fair value of the company's investment in Fairchem was $98,528 comprised of 19,046,078 common shares representing a 48.8% equity interest. At December 31, 2017 the fair value of the company's investment in Fairchem was $149,200 comprised of 18,307,318 common shares (fair value of $143,413) and 738,760 CCPS (fair value of $5,787) representing a 48.8% equity interest on a fully diluted basis (or a 48.7% equity interest excluding the impact of the CCPS). The changes in fair value of the company's investment in Fairchem for the third quarters and first nine months of 2018 and 2017 are presented in the tables disclosed earlier in note 5.

Investment in 5paisa Capital Limited

5paisa Capital Limited ("5paisa"), located in Mumbai, India, is a publicly traded, online financial services provider with a do-it-yourself based investment brokerage model where the customer can execute investment transactions for a low brokerage fee. 5paisa is engaged in providing an online technology platform through Internet terminals and mobile applications for trading securities on the BSE and the NSE of India.

In October 2017 IIFL spun-off its wholly-owned subsidiary 5Paisa Digital Undertaking through the formation of a new public company, 5paisa Capital Limited, listed on the BSE and the NSE of India effective November 16, 2017. This non-cash transaction resulted in Fairfax India receiving one new common share of 5paisa for every 25 common shares of IIFL held for a total of 3,385,657 common shares of 5paisa with a fair value of $19,758. The distribution of 5paisa to IIFL shareholders was characterized as a return of capital which resulted in Fairfax India recording the initial cost of its investment in 5paisa at its fair value of $19,758 with a corresponding amount recorded as a reduction of the cost of the company's investment in IIFL.

At September 30, 2018 the fair value of the company's investment in 5paisa was $10,555 (December 31, 2017 - $19,958) comprised of 3,385,657 common shares representing a 26.6% equity interest (December 31, 2017 - 26.6%). The changes in fair value of the company's investment in 5paisa for the third quarter and first nine months of 2018 are presented in the tables disclosed earlier in note 5.

Investment in Other Public Indian Investments

During the third quarter and first nine months of 2018, the company acquired common shares of public companies in the financial services sector, listed on both the BSE and the NSE of India ("Other Public Indian Investments") for aggregate cash consideration of $89,114 and $94,090. At September 30, 2018 the fair value of the company's investment in Other Public Indian Investments was $80,814 (December 31, 2017 - nil) and represents less than 1.0% equity interest in each of the public companies. The changes in fair value of the company's investment in Other Public Indian Investments for the third quarter and first nine months of 2018 are presented in the tables disclosed earlier in note 5.

Private Indian Investments

The fair values of Fairfax India's Private Indian Investments cannot be derived from an active market and accordingly, are determined using industry accepted valuation techniques and models, excluding NSE, where the fair value at September 30, 2018 was based on a recent third party transaction. Market observable inputs are used where possible, with unobservable inputs used where necessary. Use of unobservable inputs can involve significant judgment and may materially affect the reported fair value of these investments.

Investment in Bangalore International Airport Limited

Bangalore International Airport Limited ("BIAL") is a private company located in Bengaluru, India. BIAL, under a concession agreement with the Government of India until the year 2038 (with the right to extend the agreement for an additional 30 years), has the exclusive rights to carry out the development, design, financing, construction, commissioning, maintenance, operation and management of the Kempegowda International Airport Bengaluru (“KIAB”) through a public-private partnership. KIAB is the first greenfield airport in India built through a public-private partnership.

During 2017 Fairfax India had invested aggregate cash consideration of $585,591 (approximately 38.1 billion Indian rupees) (inclusive of $74,202 of costs incurred, approximately 4.8 billion Indian rupees) for a 48.0% equity interest in BIAL through the following transactions: (i) March 24, 2017 the company acquired a 38.0% equity interest in BIAL for cash consideration of $385,498 (approximately 25.2 billion Indian rupees); and (ii) July 13, 2017 acquired an additional 10.0% equity interest in BIAL for cash consideration of $200,093 (12.9 billion Indian rupees) which the company determined included $74,202 of consideration in excess of the fair value of those additional shares acquired. The costs incurred of $74,202 were recorded in net change in unrealized gains (losses) on investments and other costs in the interim consolidated financial statements for the three and nine months ended September 30, 2017.

On May 16, 2018 Fairfax India acquired an additional 6.0% equity interest in BIAL from Siemens Project Ventures GmbH ("Siemens") for cash consideration of $67,391 (approximately 4.6 billion Indian rupees). Upon completion of this transaction, the company had invested aggregate cash consideration of $652,982 (approximately 42.7 billion Indian rupees) (inclusive of $74,202 of costs incurred, approximately 4.8 billion Indian rupees) for a 54.0% equity interest in BIAL.

At September 30, 2018 the company estimated the fair value of its investment in BIAL using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 11.1% to 12.5% and a long term growth rate of 3.5% (December 31, 2017 - 10.4% to 11.7% and 3.0%, respectively) for BIAL's two business units and the estimated fair value of the monetizable leasehold land (approximately 460 acres) based on third party valuations with an assumed 20.0% discount factor (December 31, 2017 - 20.0%) for the leasehold nature of the asset. Free cash flow projections were based on EBITDA estimates derived from financial information for BIAL's two business units prepared in the third quarter of 2018 by BIAL's management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which BIAL operates. At September 30, 2018 the company's internal valuation model indicated that the fair value of the company's investment in BIAL was $675,726 (December 31, 2017 - $608,288). The changes in fair value of the company's investment in BIAL for the third quarters and first nine months of 2018 and 2017 are presented in the tables disclosed earlier in note 5.

Investment in National Collateral Management Services Limited

National Collateral Management Services Limited ("NCML") is a private agricultural commodities storage company headquartered in Gurugram, India, operating in the agriculture value chain and offering end-to-end solutions in grain procurement, testing, storage and collateral management. NCML's wholly-owned subsidiary, NCML Finance Private Ltd, focuses on rural and agri-business finance.

In the third quarter of 2015 and August 2017 Fairfax India acquired an 89.5% equity interest in NCML for cash consideration of $174,318 (approximately 11.3 billion Indian rupees). The payable for rights issue at December 31, 2017 related to Fairfax India's participation in NCML's rights issue that was settled in January 2018.

At September 30, 2018 the company estimated the fair value of its investment in NCML using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 12.2% to 22.1% and long term growth rates ranging from 2.4% to 6.0% (December 31, 2017 - 12.0% to 19.9% and 2.4% to 6.0%, respectively). Free cash flow projections were based on EBITDA estimates derived from financial information for NCML's business units prepared in the third quarter of 2018 by NCML's management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which NCML operates. At September 30, 2018 the company's internal valuation model indicated that the fair value of the company's investment in NCML was $159,216 (December 31, 2017 - $179,054). The changes in fair value of the company's investment in NCML for the third quarters and first nine months of 2018 and 2017 are presented in the tables disclosed earlier in note 5.

Investment in Sanmar Chemicals Group

Sanmar Chemicals Group ("Sanmar"), a private company, is one of the largest suspension polyvinyl chloride ("PVC") manufacturers in India, headquartered in Chennai, India with an operational presence in India and Egypt. Sanmar also manufactures caustic soda, calcium chloride, chloromethanes, refrigerant gases, industrial salt and specialty chemical intermediates.

In April 2016 Fairfax India invested $250,000 in Sanmar comprised of $1,000 in common shares (representing a 30.0% equity interest) and $249,000 in bonds, and in September 2016 invested an additional $50,000 in Sanmar bonds. Both tranches of Sanmar bonds mature on April 22, 2023 (7 years from the date of issuance of the first tranche), subject to earlier redemption at the option of Sanmar under certain circumstances. In lieu of cash, the coupon payment on the bond is payable in kind in the form of additional Sanmar bonds over the life of the financial instrument. A redemption premium may also be payable in kind to the company.

On September 17, 2018 the company announced that it had entered into an agreement with Sanmar to which the $299,000 in Sanmar bonds will be settled for proceeds equal to, at the date of cancellation, the bonds' principal amount plus an effective annual interest rate of 13.0%. The company will invest $194,289 at current exchange rates (approximately 14.1 billion Indian rupees) of the net proceeds received from the settlement of the Sanmar bonds into 171,710 newly issued common shares of Sanmar, increasing the company's equity interest in Sanmar to 42.9% from 30.0% at September 30, 2018. The company will receive the remaining proceeds in cash. This transaction is subject to customary closing conditions and third party consents, and is expected to be completed in the first half of 2019.

Sanmar Common Shares

At September 30, 2018 the company estimated the fair value of its investment in Sanmar common shares using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 13.4% to 16.6% and long term growth rates ranging from 3.0% to 4.0% (December 31, 2017 - 15.2% to 19.5% and 2.0% to 3.6%, respectively). Free cash flow projections were based on EBITDA estimates derived from financial information for Sanmar's four business units (with additional financial information and analysis completed for Chemplast's underlying business units involved in new capital projects) prepared in the third quarter of 2018 by Sanmar's management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which Sanmar operates. In the third quarter of 2018 Fairfax India recorded unrealized gains of $225,013 on its investment in Sanmar common shares primarily as a result of: (i) positive operational developments at Sanmar Egypt (successful completion of its increased capacities in Egypt) and Chemplast (will benefit from the completion of new capital projects); (ii) continued strong demand for PVC and related products in India, Europe, the Middle East and North Africa; and (iii) the decrease in the after-tax discount rates (principally related to the decreased risk at Sanmar Egypt as a result of the completion of its capital expenditure project to increase capacity). At September 30, 2018 the company's internal valuation model indicated that the fair value of the company's investment in Sanmar common shares was $208,854 (December 31, 2017 - $556). The changes in fair value of the company's investment in Sanmar common shares for the third quarters and first nine months of 2018 and 2017 are presented in the tables disclosed earlier in note 5.

Sanmar Bonds

At September 30, 2018 the company estimated the fair value of its investment in Sanmar bonds using an industry accepted discounted cash flow and option pricing model that incorporated Sanmar's estimated credit spread of 4.7% (December 31, 2017 - 8.2%) and assumptions related to certain redemption options embedded in the bonds. The estimated credit spread was based on the credit spreads of a peer group of comparable companies adjusted for credit risk specific to Sanmar. In the third quarter of 2018 Fairfax India recorded unrealized gains of $68,258 on its investment in Sanmar bonds primarily relating to a decrease in the estimated credit spread used in the internal valuation model as a result of factors disclosed earlier under the Sanmar Common Shares heading which increased the company's estimated enterprise value for Sanmar. At September 30, 2018 the company's internal valuation model indicated that the fair value of the company's investment in Sanmar bonds was $367,009 (December 31, 2017 - $333,172). The changes in fair value of the company's investment in Sanmar bonds for the third quarters and first nine months of 2018 and 2017 are presented in the tables disclosed earlier in note 5.

Investment in Saurashtra Freight Private Limited

Saurashtra Freight Private Limited ("Saurashtra"), a private company headquartered in Mumbai, India, runs one of the largest container freight stations at Mundra port (Gujarat). Services provided by Saurashtra's container freight station includes transportation of containers to and from the port, stuffing/destuffing of containers, cargo storage, transportation of cargo to the end customer, and the storage, maintenance and repair of empty containers. In the third quarter of 2017 Saurashtra commenced operations in a new line of business, Fairfreight Lines, that focuses on new services for container shipping, offering integrated logistic solutions to its customers by providing containers, which are leased by Saurashtra, to importers and exporters to transport cargo.

In February 2017 Fairfax India acquired a 51.0% equity interest in Saurashtra for cash consideration of $30,018 (approximately 2.0 billion Indian rupees).

At September 30, 2018 the company estimated the fair value of its investment in Saurashtra using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 15.7% to 16.4% and long term growth rates ranging from 4.0% to 5.0% (December 31, 2017 - 14.6% to 14.7% and 4.0% to 5.0%, respectively). Free cash flow projections were based on EBITDA estimates derived from financial information for Saurashtra's two business units prepared in the third quarter of 2018 by Saurashtra's management. The discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which Saurashtra operates. At September 30, 2018 the company's internal valuation model indicated that the fair value of the company's investment in Saurashtra was $22,283 (December 31, 2017 - $28,000). The changes in fair value of the company's investment in Saurashtra for the third quarters and first nine months of 2018 and 2017 are presented in the tables disclosed earlier in note 5.

Investment in National Stock Exchange of India Limited

National Stock Exchange of India Limited ("NSE"), a private company located in Mumbai, India, operates India's largest stock exchange. In addition to providing a platform for exchange-traded financial products in India, NSE's flagship index, Nifty50, is used extensively by investors in India and around the world as a barometer of the Indian capital markets.

In the third quarter of 2016 Fairfax India acquired a 1.0% equity interest in NSE for cash consideration of $26,783 (approximately 1.8 billion Indian rupees).

At September 30, 2018 the company's estimated fair value of its investment in NSE of $58,061 was based on a recent third party transaction completed in the third quarter of 2018, and corroborated by the company through independent confirmation. At December 31, 2017 the estimated fair value of the company's investment in NSE was based on an internal market approach valuation model. The model referenced the earnings multiple of a peer group of comparable companies that had a median earnings multiple of 26.2 times, that when applied to NSE's earnings resulted in a fair value at December 31, 2017 of $40,452. The changes in fair value of the company's investment in NSE for the third quarters and first nine months of 2018 and 2017 are presented in the tables disclosed earlier in note 5.

Investment in The Catholic Syrian Bank Limited

The Catholic Syrian Bank Limited ("CSB"), a private company headquartered in Thrissur, India, was established in 1920 and is a full-service bank offering neighborhood banking, non-resident Indian services, small-to-medium enterprise and wholesale banking services through 421 branches and 264 automated teller machines across India.

Subsequent to September 30, 2018

On October 19, 2018 the company invested $60,157 (approximately 4.4 billion Indian rupees) in securities of CSB, comprised of 19.8 million common shares for $9,456 (approximately 0.7 billion Indian rupees), and warrants to purchase 66.5 million common shares for $50,701 (approximately 3.7 billion Indian rupees). The consideration paid at closing represented 25.0% and 40.0% of the consideration payable for the common shares and warrants respectively. The balance of the consideration payable to CSB of approximately $104 million at the exchange rate at that date (approximately 7.7 billion Indian rupees) is payable as follows: (i) within 12 months for the remaining consideration payable on the common shares (approximately $28 million, 2.1 billion Indian rupees), upon request by CSB; and (ii) within 18 months for the remaining consideration payable on the warrants (approximately $76 million, 5.6 billion Indian rupees), payable in one or more tranches either upon request by CSB or at the option of Fairfax India. Following the payment of the remaining consideration on the common shares and warrants, Fairfax India will have invested approximately $165 million (approximately 12.1 billion Indian rupees) and will own a 51.0% equity interest in CSB on a fully diluted basis.

6. Cash and Investments

Fair Value Disclosures

The company's use of quoted market prices (Level 1), valuation models using observable market information as inputs (Level 2) and valuation models without observable market information as inputs (Level 3) in the valuation of securities by type of issuer was as follows:

	September 30, 2018					December 31, 2017				
	Quoted prices (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total fair value of assets**	**Total fair value of assets in Indian rupees (in millions)**	Quoted prices (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value of assets	Total fair value of assets in Indian rupees (in millions)
Cash and cash equivalents	**16,319**	**—**	**—**	**16,319**	**1,183**	13,244	—	—	13,244	845
Restricted cash[1]	**21,915**	**—**	**—**	**21,915**	**1,589**	10,598	—	—	10,598	676
	38,234	**—**	**—**	**38,234**	**2,772**	23,842	—	—	23,842	1,521
Short term investments - U.S. treasury bills	**13,894**	**—**	**—**	**13,894**	**1,007**	27,481	—	—	27,481	1,754
Bonds:										
Government of India[2]	**—**	**153,977**	**—**	**153,977**	**11,162**	—	259,356	—	259,356	16,554
Indian corporate[2]	**—**	**89,077**	**—**	**89,077**	**6,457**	—	101,724	—	101,724	6,493
Sanmar	**—**	**—**	**367,009**	**367,009**	**26,605**	—	—	333,172	333,172	21,266
	—	**243,054**	**367,009**	**610,063**	**44,224**	—	361,080	333,172	694,252	44,313
Common stocks:										
IIFL	**586,150**	**—**	**—**	**586,150**	**42,490**	888,485	—	—	888,485	56,710
Fairchem[3]	**98,528**	**—**	**—**	**98,528**	**7,142**	149,200	—	—	149,200	9,523
5paisa	**10,555**	**—**	**—**	**10,555**	**765**	19,958	—	—	19,958	1,274
Other	**80,814**	**—**	**—**	**80,814**	**5,858**	—	—	—	—	—
BIAL	**—**	**—**	**675,726**	**675,726**	**48,983**	—	—	608,288	608,288	38,825
NCML	**—**	**—**	**159,216**	**159,216**	**11,542**	—	—	179,054	179,054	11,429
Sanmar	**—**	**—**	**208,854**	**208,854**	**15,140**	—	—	556	556	36
Saurashtra	**—**	**—**	**22,283**	**22,283**	**1,615**	—	—	28,000	28,000	1,787
NSE	**—**	**—**	**58,061**	**58,061**	**4,209**	—	—	40,452	40,452	2,582
	776,047	**—**	**1,124,140**	**1,900,187**	**137,744**	1,057,643	—	856,350	1,913,993	122,166
Total cash and investments	**828,175**	**243,054**	**1,491,149**	**2,562,378**	**185,747**	1,108,966	361,080	1,189,522	2,659,568	169,754
	32.3%	**9.5%**	**58.2%**	**100.0%**	**100.0%**	41.7%	13.6%	44.7%	100.0%	100.0%

(1) Comprised of funds set aside as restricted cash to fund term loan interest payments.

(2) Priced based on information provided by independent pricing service providers at September 30, 2018 and December 31, 2017. There were no changes in valuation techniques for these securities during the first nine months of 2018.

(3) Includes the fair value of 738,760 CCPS that were priced based on the bid of Fairchem's share price at December 31, 2017. On September 5, 2018 Fairchem converted all outstanding CCPS into common shares of Fairchem.

Transfers between fair value hierarchy levels are considered effective from the beginning of the reporting period in which the transfer is identified. During the first nine months of 2018 and 2017 there were no transfers of financial instruments between Level 1 and Level 2.

During the first nine months of 2017 as a result of the Merger of Fairchem and Privi, described in note 5, the investment in Privi was transferred out of Level 3 in the fair value hierarchy and aggregated with the Level 1 investment in Fairchem.

A summary of changes in fair value of the company's Private Indian Investments (classified as Level 3) denominated in the company's functional currency of the Indian rupee for the first nine months of 2018 and 2017 was as follows:

Indian rupees (in millions)	**Bonds**	**Common stocks**						
	Sanmar	**BIAL**	**NCML**	**Sanmar**	**Saurashtra**	**NSE**	**Privi**	**Total**
Balance as of January 1, 2018	**21,266**	**38,825**	**11,429**	**36**	**1,787**	**2,582**	**—**	**75,925**
Purchases	**—**	**4,571**	**—**	**—**	**—**	**—**	**—**	**4,571**
Net change in unrealized gains (losses) on investments	**5,339**	**5,587**	**113**	**15,104**	**(172)**	**1,627**	**—**	**27,598**
Balance as of September 30, 2018	**26,605**	**48,983**	**11,542**	**15,140**	**1,615**	**4,209**	**—**	**108,094**
Balance as of January 1, 2017	20,299	—	9,949	30	—	1,799	3,686	35,763
Purchases	—	38,116 (1)	1,629	—	2,010	—	—	41,755
Transfer out of category	—	—	—	—	—	—	(3,686)	(3,686)
Net change in unrealized gains on investments and other costs	767	579 (1)	417	24	205	797	—	2,789
Balance as of September 30, 2017	21,066	38,695	11,995	54	2,215	2,596	—	76,621

(1) On July 13, 2017 the company completed an additional 10.0% equity investment in BIAL for cash consideration of $200,093 (12.9 billion Indian rupees). The cash consideration paid for the additional 10.0% equity interest in BIAL exceeded the estimated fair value of those additional shares acquired, as a result $74,202 (approximately 4.8 billion Indian rupees) of the cash consideration paid was attributable to the costs incurred and has been included in the table above in purchases and was recorded in net change in unrealized gains (losses) on investments and other costs included in the consolidated statements of earnings.

The changes in fair value of the company's Private Indian Investments (classified as Level 3) in the company's presentation currency of U.S. dollars are disclosed in note 5. For all Private Indian Investments classified as Level 3 in the fair value hierarchy net change in unrealized gains (losses) on investments in the first nine months of 2018 and 2017 related to unrealized gains (losses) on investments held at September 30, 2018 and September 30, 2017.

The table that follows illustrates the potential impact on net earnings (loss) of various combinations of changes in unobservable inputs in the company's internal valuation models for its Private Indian Investments classified as Level 3 at September 30, 2018. The analysis assumes variations within a reasonably possible range determined by the company based on an analysis of the return on various equity indexes, management's knowledge of the Indian equity markets and the potential impact of changes in interest rates. This sensitivity analysis excludes the company's investment in NSE as the company determined that there were no significant unobservable inputs suited for a sensitivity analysis.

Investments	**Fair value of investment**	**Valuation technique**	**Significant unobservable inputs**	**Significant unobservable inputs used in the internal valuation models**	**Hypothetical $ change effect on fair value measurement (1)**	**Hypothetical $ change effect on net earnings (loss) (1)**
Bonds: Sanmar	367,009	Discounted cash flow and option pricing model	Credit spread	4.7%	16,071 / (15,581)	11,812 / (11,452)
Common Stocks:						
BIAL	675,726	Discounted cash flow	After-tax discount rate	11.1% to 12.5%	110,088 / (82,501)	95,501 / (71,570)
			Long term growth rate	3.5%	10,892 / (10,197)	9,449 / (8,846)
NCML	159,216	Discounted cash flow	After-tax discount rate	12.2% to 22.1%	27,022 / (23,403)	23,422 / (20,302)
			Long term growth rate	2.4% to 6.0%	8,720 / (8,110)	7,565 / (7,035)
Sanmar	208,854	Discounted cash flow	After-tax discount rate	13.4% to 16.6%	33,418 / (30,489)	28,990 / (26,449)
			Long term growth rate	3.0% to 4.0%	7,914 / (7,565)	6,865 / (6,563)
Saurashtra	22,283	Discounted cash flow	After-tax discount rate	15.7% to 16.4%	751 / (690)	651 / (599)
			Long term growth rate	4.0% to 5.0%	227 / (218)	197 / (189)

(1) The impact on the internal valuation models from changes in significant unobservable inputs deemed to be subject to the most judgment and estimates disclosed in the table above shows the hypothetical increase (decrease) in net earnings or a decrease (increase) in a net loss. Changes in the after-tax discount rates (50 basis points), long term growth rates (25 basis points), and credit spreads (100 basis points), each in isolation, would hypothetically change the fair value of the company's investments as noted in the table above. Generally, an increase (decrease) in long term growth rates, or a decrease (increase) in after-tax discount rates or credit spreads, would result in a higher (lower) fair value of the company's Private Indian Investments classified as Level 3 in the fair value hierarchy.

Fixed Income Maturity Profile

Bonds are summarized by their earliest contractual maturity date in the table that follows. Actual maturities may differ from maturities shown below due to the existence of call and put features. At September 30, 2018 bonds containing call features represented $367,009 (December 31, 2017 - $333,172) of the total fair value of bonds. At September 30, 2018 and December 31, 2017 there were no bonds containing put features.

	September 30, 2018		December 31, 2017	
	Amortized cost	**Fair value**	Amortized cost	Fair value
Due in 1 year or less	**273,630**	**367,009**	310,767	333,172
Due after 1 year through 5 years	**2,722**	**2,710**	—	—
Due after 5 years through 10 years	**226,466**	**217,839**	337,414	334,457
Due after 10 years	**25,029**	**22,505**	28,498	26,623
	527,847	**610,063**	676,679	694,252

Investment Income

An analysis of investment income for the three and nine months ended September 30 is summarized in the tables that follow:

Interest and dividends

	Third quarter		**First nine months**	
	2018	2017	**2018**	2017
Interest:				
Cash and cash equivalents	**274**	122	**302**	345
Short term investments	**57**	—	**180**	74
Bonds	**4,987**	5,939	**17,408**	14,641
	5,318	6,061	**17,890**	15,060
Dividends: Common stocks	**1,411**	3,463	**7,986**	8,088

Net gains (losses) on investments and net foreign exchange gains (losses)

	Third quarter					
	2018			2017		
	Net realized gains (losses)	**Net change in unrealized gains (losses)**	**Net gains (losses)**	Net realized losses	Net change in unrealized gains (losses) and other costs	Net gains (losses)
Net gains (losses) on investments:						
Short term investments	**(2)**	**—**	**(2)**	—	—	—
Bonds	**—**	**68,199** (1)	**68,199**	—	4,308 (1)	4,308
Common stocks	**—**	**68,035** (2)	**68,035**	—	(74,087) (2)	(74,087)
	(2)	**136,234**	**136,232**	—	(69,779)	(69,779)
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	**4,651**	**—**	**4,651**	(485)	—	(485)
Investments	**197**	**637**	**834**	—	(49)	(49)
Term loans	**—**	**(31,656)**	**(31,656)**	—	(4,677)	(4,677)
Other	**262**	**—**	**262**	(989)	—	(989)
	5,110	**(31,019)**	**(25,909)**	(1,474)	(4,726)	(6,200)

(1) In the third quarter of 2018, principally comprised of unrealized gains from Sanmar bonds ($68,258). In the third quarter of 2017, comprised of unrealized gains from Sanmar bonds ($6,783), partially offset by unrealized losses from Government of India bonds ($1,820) and Indian corporate bonds ($655).

(2) Refer to note 5 for a summary of changes in the fair value of the company's Public and Private Indian Investments during the third quarters of 2018 and 2017.

	First nine months					
	2018			2017		
	Net realized gains (losses)	**Net change in unrealized gains (losses)**	**Net gains (losses)**	Net realized gains (losses)	Net change in unrealized gains (losses) and other costs	Net gains (losses)
Net gains (losses) on investments:						
Short term investments	**(2)**	**—**	**(2)**	—	—	—
Bonds	**(3,333)**	**72,105** (1)	**68,772**	1,195	4,312 (1)	5,507
Common stocks	**—**	**66,010** (2)	**66,010**	—	474,192 (2)	474,192
	(3,335)	**138,115**	**134,780**	1,195	478,504	479,699
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	**5,607**	**—**	**5,607**	(26,684) (4)	—	(26,684)
Investments	**(332)**	**2,328**	**1,996**	(1,046)	(176)	(1,222)
Term loans	**(25,407)** (3)	**(34,330)** (3)	**(59,737)**	9,812 (3)	(4,677)	5,135
Other	**(2,934)**	**—**	**(2,934)**	(443)	—	(443)
	(23,066)	**(32,002)**	**(55,068)**	(18,361)	(4,853)	(23,214)

(1) In the first nine months of 2018, comprised of unrealized gains from Sanmar bonds ($79,567), partially offset by unrealized losses from Indian corporate bonds ($3,472) and Government of India bonds ($3,990). In the first nine months of 2017, comprised of unrealized gains from Sanmar bonds ($11,756), partially offset by unrealized losses from Indian corporate bonds ($1,106) and Government of India bonds ($6,338).

(2) Refer to note 5 for a summary of changes in the fair value of the company's Public and Private Indian Investments during the first nine months of 2018 and 2017.

(3) In the first nine months of 2018 net realized foreign exchange loss of $25,407 related to the extinguishment of the $400.0 million term loan, and the net change in unrealized loss of $34,330 was comprised of the reversal of the prior year unrealized foreign exchange gain of $4,527 on the $400.0 million term loan and unrealized foreign exchange loss of $29,803 on the $550.0 million term loan. In the first nine months of 2017 net realized foreign exchange gain of $9,812 related to the early settlement of a 2 year secured term loan with a principal amount of $225,000 on March 31, 2017.

(4) Primarily related to the U.S. dollar net proceeds received from the secondary offerings completed in January 2017 that were held in U.S. dollar denominated cash equivalents until the funds were partially deployed to acquire the 38.0% equity interest in BIAL.

7. Term Loans

	September 30, 2018			December 31, 2017		
	Principal	**Carrying value**	**Fair value(1)**	Principal	Carrying value	Fair value(1)
Secured Term Loans:						
1 Year Term Loan, floating rate due June 28, 2019	**550,000**	**545,841**	**550,000**	—	—	—
1 Year Term Loan, floating rate due July 10, 2018	**—**	**—**	**—**	400,000	400,000	400,000
	550,000	**545,841**	**550,000**	400,000	400,000	400,000

(1) Principal approximated fair value at September 30, 2018 and December 31, 2017.

Term Loans

On June 28, 2018 the company completed a $550,000 principal amount, 1 year secured term loan, with an option to extend for an additional year ("$550.0 million term loan"), with a syndicate led by a Canadian bank, which amended and restated the existing 1 year secured term loan with a principal amount of $400,000 ("$400.0 million term loan"). The $550.0 million term loan bears interest at a rate of LIBOR plus 350 basis points. At September 30, 2018 the $550.0 million term loan was recognized net of unamortized issue costs of $4,159 (issue costs of $5,545 less amortization of $1,386) (December 31, 2017 - nil) and recorded in term loans on the consolidated balance sheet. The issue costs are amortized over one year and recorded in interest expense in the consolidated statement of earnings. During the third quarter of 2018 the company used a portion of the incremental net proceeds received from the $550.0 million term loan to acquire common shares in an Other Public Indian Investment of $89,114 (see note 5).

On July 11, 2017 the company had entered into an agreement with a Canadian bank for the $400.0 million term loan bearing interest at a rate of LIBOR plus 325 to 375 basis points. On July 13, 2017 the company used a portion of the net proceeds from the $400.0 million term loan to complete the additional 10.0% investment in BIAL of $200,093 and participate in the NCML rights issue (see note 5). Upon completion of the $550.0 million term loan, the $400.0 million term loan was accounted for as an extinguishment of debt with nil related to the release of unamortized issue costs.

Under the terms of the $550.0 million term loan, the company is required to maintain a debt service reserve account to fund the term loan interest payments. The cash held in the debt service reserve account is classified as restricted cash on the consolidated balance sheets. The $550.0 million term loan includes a financial covenant that requires the company to maintain common shareholders' equity of not less than $1.5 billion, increased from $1.3 billion financial covenant in the $400.0 million term loan. At September 30, 2018 the company was in compliance with the $550.0 million term loan financial covenant.

Interest Expense

In the third quarter and first nine months of 2018 interest expense of $9,427 and $19,379 was comprised of interest expense of $8,041 and $17,993, and the amortization of the issuance costs of $1,386 in both periods on the $550.0 million term loan.

In the third quarter and first nine months of 2017 interest expense of $7,598 and $10,839 was comprised of interest expense of $4,576 and $6,589, issue costs of $3,022 in both periods on the $400.0 million term loan, and the release of unamortized issue costs on a 2 year secured term loan with a principal amount of $225,000 of nil and $1,228 on extinguishment of that term loan.

8. Common Shareholders' Equity

Common stock

The number of shares outstanding was as follows:

	2018	2017
Subordinate voting shares - January 1	**117,432,631**	74,881,031
Issuances of shares	**7,663,685**	42,553,500
Purchases for cancellation	**(1,033,420)**	—
Subordinate voting shares - September 30	**124,062,896**	117,434,531
Multiple voting shares - beginning and end of period	**30,000,000**	30,000,000
Common shares effectively outstanding - September 30	**154,062,896**	147,434,531

Capital transactions

On March 9, 2018 the company issued 7,663,685 subordinate voting shares to Fairfax to settle the performance fee payable of $114,437 for the first calculation period (three year period ending on December 31, 2017). Under the terms of the Investment Advisory Agreement (defined in note 12), settlement of the performance fee was through the issuance of subordinate voting shares, calculated based on the performance fee payable at December 31, 2017 of $114,437 divided by the volume-weighted average trading price of the company's subordinate voting shares for the 10 trading days prior to and including the last day of the calculation period (''VWAP'') of $14.93. Refer to note 12 for additional details on the settlement of the December 31, 2017 performance fee payable.

Repurchase of Shares

During the first nine months of 2018, under the terms of the normal course issuer bid, the company repurchased for cancellation 1,033,420 subordinate voting shares (2017 - nil) for a net cost of $16,179 (2017 - nil), of which $5,302 was charged to retained earnings (2017 - nil).

9. Net Earnings per Share

Net earnings (loss) per share is calculated in the following tables based on the weighted average common shares outstanding:

	Third quarter		**First nine months**	
	2018	2017	**2018**	2017
Net earnings (loss) – basic and diluted	**94,180**	(53,154)	**53,358**	364,444
Weighted average common shares outstanding – basic	**154,586,489**	147,434,531	**153,043,675**	145,564,047
Contingently issuable subordinate voting shares	**—**	—	**—**	4,660,459
Weighted average common shares outstanding – diluted	**154,586,489**	147,434,531	**153,043,675**	150,224,506
Net earnings (loss) per common share – basic	**$ 0.61**	$ (0.36)	**$ 0.35**	$ 2.50
Net earnings (loss) per common share – diluted	**$ 0.61**	$ (0.36)	**$ 0.35**	$ 2.43

At September 30, 2018 there were no contingently issuable subordinate voting shares to Fairfax relating to a performance fee payable for the second calculation period (September 30, 2017 - 4,660,459 related to the first calculation period). The performance fee for the second calculation period is assessed quarterly and relates to the three-year period from January 1, 2018 to December 31, 2020. Under the terms of the Investment Advisory Agreement (defined in note 12), if a performance fee is payable for period ending on December 31, 2020, settlement of the performance fee will take place in subordinate voting shares of the company if the market price per share is less than two times the then book value per share. The number of subordinate voting shares issued would be calculated based on the VWAP. Refer to note 12 for further details on the contingently issuable subordinate voting shares in the event that a performance fee is determined to be payable.

Contingently issuable subordinate voting shares of 4,660,459 were not included in the calculation of net loss per diluted share for the third quarter of 2017 as inclusion of these shares would be anti-dilutive.

10. Income Taxes

The company's provision for (recovery of) income taxes for the three and nine months ended September 30 are summarized in the following table:

	Third quarter		First nine months	
	2018	2017	**2018**	2017
Current income tax:				
Current year expense (recovery)	**821**	(2,907)	**1,634**	(2,159)
Adjustment to prior years' income taxes	**505**	(14)	**505**	(646)
	1,326	(2,921)	**2,139**	(2,805)
Deferred income tax:				
Origination and reversal of temporary differences	**2,179**	(1,190)	**2,095**	—
Adjustments to prior years' deferred income taxes	**(1)**	—	**83**	—
	2,178	(1,190)	**2,178**	—
Provision for (recovery of) income taxes	**3,504**	(4,111)	**4,317**	(2,805)

A significant portion of the company's earnings (loss) before income taxes is earned (incurred) outside of Canada. The statutory income tax rates for jurisdictions outside of Canada generally differ from the Canadian statutory income tax rate (and may be significantly higher or lower).

During the second quarter of 2016, India and Mauritius amended their double income tax treaty ("India-Mauritius tax treaty"). As a result, capital gains realized by Mauritius residents on dispositions of shares of Indian companies acquired on or after April 1, 2017 and disposed of on or before March 31, 2019 will be subject to tax in India at half of the India domestic tax rate. Capital gains realized by Mauritius residents on dispositions of shares of Indian companies acquired on or after April 1, 2017 and disposed of after March 31, 2019 will be subject to tax in India at the full India domestic tax rate. Capital gains realized by Mauritius residents on dispositions of shares of Indian companies acquired prior to April 1, 2017 remain exempt from capital gains tax in India.

On March 29, 2018 India enacted the Finance Act 2018 which repealed, with effect from April 1, 2018, the long term capital gains tax exemption which was available in respect of transfers of equity shares of Indian companies on which Securities Transaction Tax was paid at the time of acquisition and transfer of such shares. As a result, long term capital gains realized on such transfers will generally be taxed at a rate of 10.0%. However, grandfathering of the long term capital gains exemption in respect of any accrued gain on such shares held as of January 31, 2018 will generally be available to the extent of the accrued gain as of January 31, 2018. Capital gains realized by a tax resident of Mauritius on a transfer of equity shares of an Indian company which were acquired prior to April 1, 2017 will continue to be exempt from capital gains tax in India by virtue of the India-Mauritius tax treaty, notwithstanding the repeal of the long term capital gains tax exemption under Indian domestic law. In addition, a long term capital gain realized by a Mauritius tax resident on shares acquired on or after April 1, 2017, and sold prior to March 31, 2019, will continue to be taxed at the rate of 50.0% of the prevailing domestic Indian capital gains tax rate by virtue of the India-Mauritius tax treaty. At September 30, 2018 the company evaluated the potential impact of the application of capital gains tax in India on any future dispositions of investments in equity shares held by FIH Mauritius and FIH Private and concluded that there are currently no Indian capital gains tax implications. The company will continue to evaluate the potential impact of the Indian capital gains tax as it relates to any future dispositions of investments in equity shares of its Public Indian Investments.

On July 31, 2018 Mauritius enacted the Finance (Miscellaneous Provision) Act (the "Mauritius Finance Act") which abolishes, with effect from January 1, 2019, the deemed Foreign Tax Credit ("FTC") regime available to Category 1 Global Business License companies (held by both FIH Mauritius and FIH Private). In place of the deemed FTC, the Mauritius Finance Act introduces an 80% exemption regime on foreign source income including certain foreign dividends and foreign source interest. The 80% exemption is available upon meeting predefined substance requirements issued by the Financial Services Commission. The company evaluated the potential impact of the Mauritius Finance Act and concluded that it will not have a material impact to the company.

The company's earnings (loss) before income taxes by jurisdiction and the associated provision for (recovery of) income taxes for the three and nine months ended September 30 are summarized in the following table:

	Third quarter					
	2018			2017		
	Canada	**Mauritius**	**Total**	Canada	Mauritius	Total
Earnings (loss) before income taxes	**(36,945)**	**134,629**	**97,684**	(12,094)	(45,171)	(57,265)
Provision for (recovery of) income taxes	**—**	**3,504**	**3,504**	(4,148)	37	(4,111)
Net earnings (loss)	**(36,945)**	**131,125**	**94,180**	(7,946)	(45,208)	(53,154)

	First nine months					
	2018			2017		
	Canada	**Mauritius**	**Total**	Canada	Mauritius	Total
Earnings (loss) before income taxes	**(74,575)**	**132,250**	**57,675**	(30,464)	392,103	361,639
Provision for (recovery of) income taxes	**—**	**4,317**	**4,317**	(2,866)	61	(2,805)
Net earnings (loss)	**(74,575)**	**127,933**	**53,358**	(27,598)	392,042	364,444

The increase in pre-tax losses in Canada in the third quarter and first nine months of 2018 compared to the third quarter and first nine months of 2017 principally related to increased realized foreign exchange losses related to the extinguishment of the term loans, and increased unrealized foreign exchange losses related to the $550.0 million term loan, increased interest expense, partially offset by decreased unrealized foreign exchange losses related to cash and cash equivalents and performance fee. The increase in pre-tax profitability in Mauritius in the third quarter of 2018 compared to the third quarter of 2017 primarily reflected increased net change in unrealized gains on investments (principally related to increased unrealized gains from the company's Private Indian Investments), partially offset by a recovery of performance fee in the third quarter of 2017 and increased investment and advisory fees. The decrease in pre-tax profitability in Mauritius in the first nine months of 2018 compared to the first nine months of 2017 primarily reflected decreased net change in unrealized gains on investments (principally related to lower unrealized gains from the company's Public Indian Investments) and increased investment and advisory fees, partially offset by decreased performance fee.

A reconciliation of the provision for (recovery of) income taxes calculated at the Canadian statutory income tax rate to the provision for (recovery of) income taxes at the effective tax rate in the interim consolidated financial statements for the three and nine months ended September 30 are summarized in the following table:

	Third quarter		**First nine months**	
	2018	2017	**2018**	2017
Canadian statutory income tax rate	**26.5%**	26.5%	**26.5%**	26.5%
Provision for (recovery of) income taxes at the Canadian statutory income tax rate	**25,886**	(15,176)	**15,284**	95,834
Tax rate differential on (income earned) losses incurred outside of Canada	**(43,586)**	15,239	**(40,798)**	(123,989)
Provision (recovery) relating to prior years	**504**	(14)	**588**	(646)
Change in unrecorded tax benefit of losses and temporary differences	**13,651**	(3,915)	**15,016**	20,091
Foreign exchange effect	**7,044**	(245)	**14,212**	5,905
Other including permanent differences	**5**	—	**15**	—
Provision for (recovery of) income taxes	**3,504**	(4,111)	**4,317**	(2,805)

The tax rate differential on income earned outside of Canada of $43,586 and $40,798 in the third quarter and first nine months of 2018 (2017 - losses incurred of $15,239 and income earned of $123,989) principally reflected the impact of net investment income taxed in India and Mauritius at lower rates.

The change in unrecorded tax benefit of losses and temporary differences of $13,651 and $15,016 in the third quarter and first nine months of 2018 principally reflected changes in unrecorded deferred tax assets incurred related to foreign accrual property losses of $10,909 and $9,564 with respect to the company's wholly-owned subsidiaries, and net operating loss carryforwards in Canada of $2,742 and $5,492 that were not recorded by the company as the related pre-tax losses did not meet the recognition criteria under IFRS. The change in unrecorded tax benefit of losses and temporary differences of $3,915 in the third quarter of 2017 principally reflected net utilized foreign accrual property losses of $6,084 with respect to the company's wholly-owned subsidiaries and other temporary timing differences of $1,834, partially offset by changes in net operating loss carryforwards in Canada of $4,003. The change in unrecorded tax benefit of losses and temporary differences of $20,091 in the first nine months of 2017 principally reflected changes in unrecorded deferred tax assets incurred related to foreign accrual property losses of $17,923 with respect to the company's wholly-owned subsidiaries and net operating loss carryforwards in Canada of $4,003, partially offset by other temporary timing differences of $1,835. At September 30, 2018 deferred tax assets in Canada of $53,876 (December 31, 2017 - $38,860) were not recorded as it was considered not probable that those losses could be utilized by the company.

Foreign exchange effect of $7,044 and $14,212 in the third quarter and first nine months of 2018 (2017 - $245 and $5,905) principally reflected the impact of fluctuations in the value of the Canadian dollar relative to the U.S. dollar and the Indian rupee as the company computes its corporate tax liability in Canadian dollars pursuant to the requirements of Canadian tax authorities, whereas the functional currency of the company and its Mauritius subsidiaries is the Indian rupee.

11. Financial Risk Management

Overview

There were no significant changes in the types of the company's risk exposures or the processes used by the company for managing those risk exposures at September 30, 2018 compared to those identified at December 31, 2017, and disclosed in the company's annual consolidated financial statements for the year ended December 31, 2017, except as discussed below.

Market Risk

Market risk (comprised of foreign currency risk, interest rate risk and other price risk) is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The company is exposed to market risk principally in its investing activities and to the extent that those activities expose the company to foreign currency risk. The valuation of the company's investment portfolio is largely dependent on the underlying performance of the companies within the portfolio, but may also be affected, along with other financial statement items, by fluctuations in interest rates, foreign currency exchange rates and market prices.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument or another asset or liability will fluctuate because of changes in exchange rates and as a result, could produce an adverse effect on net earnings and common shareholders' equity when measured in Indian rupees, the company's functional currency. The company's net earnings and common shareholders' equity may also be significantly affected by foreign currency translation movements as the majority of its net assets and net earnings are denominated in a currency other than the company's U.S. dollar presentation currency. The company has not hedged its foreign currency risk.

The company's net foreign currency exposure on balances denominated in currencies other than the Indian rupee (expressed in U.S. dollars) are primarily comprised as follows:

	September 30, 2018					December 31, 2017				
	Cash and cash equivalents	**Short term investments**	**Term loans**	**Payable to related parties**	**Net exposure**	Cash and cash equivalents	Short term investments	Term loans	Payable to related parties	Net exposure
U.S. dollars	**35,716** (1)	**13,894**	**(545,841)**	**(8,115)**	**(504,346)**	19,389 (1)	27,481	(400,000)	(122,791)	(475,921)
All other currencies	**2,518**	**—**	**—**	**(29)**	**2,489**	4,453	—	—	(35)	4,418
Total	**38,234**	**13,894**	**(545,841)**	**(8,144)**	**(501,857)**	23,842	27,481	(400,000)	(122,826)	(471,503)

(1) At September 30, 2018 cash and cash equivalents included restricted cash of $21,915 (December 31, 2017 - $10,598) to fund the term loan interest payments.

The table above shows the company's net exposure to the U.S. dollar and all other currencies, other than the Indian rupee. If the Indian rupee appreciated by 5.0% against the U.S. dollar and all other currencies, the effect on pre-tax earnings and net earnings would be a hypothetical increase of $25,093 and $18,443 (December 31, 2017 - $23,575 and $17,328). Certain shortcomings are inherent in the method of analysis presented, including the assumption that the 5.0% appreciation of the Indian rupee occurred with all other variables held constant.

The company's net liability exposure to the U.S. dollar increased at September 30, 2018 compared to December 31, 2017 primarily as a result of the increase in term loans, partially offset by the settlement of the performance fee payable on March 9, 2018.

Interest Rate Risk

Interest rate risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Typically, as interest rates rise, the fair value of fixed income investments decline and, conversely, as interest rates decline, the fair value of fixed income investments rise. In each case, the longer the maturity of the financial instrument, the greater the consequence of a change in interest rates. The company's interest rate risk management strategy is to position its fixed income portfolio based on its view of future interest rates and the yield curve, balanced with liquidity requirements. General economic conditions, political conditions and many other factors can also adversely affect the bond markets and, consequently, the value of fixed income securities held. Interest rate movements in India may affect the company's common shareholders' equity and net earnings. The Portfolio Advisor and Fairfax actively monitor interest rates in India and the potential impact changes in interest rates may have on the company's investment portfolio. There were no significant changes to the company's framework used to monitor, evaluate and manage interest rate risk at September 30, 2018 compared to December 31, 2017.

The company's exposure to interest rate risk decreased in the first nine months of 2018 primarily reflecting the sale of Government of India bonds to finance the additional 6.0% equity interest acquired in BIAL and unrealized foreign currency translation losses, partially offset by the unrealized appreciation in Sanmar bonds. The table that follows displays the potential impact of changes in interest rates on the company's fixed income portfolio based on parallel 200 basis point shifts up and down, in 100 basis point increments. This analysis was performed on each individual security, with the hypothetical effect on net earnings.

	September 30, 2018			December 31, 2017		
	Fair value of fixed income portfolio	**Hypothetical $ change effect on net earnings**	**Hypothetical % change in fair value**	Fair value of fixed income portfolio	Hypothetical $ change effect on net earnings	Hypothetical % change in fair value
Change in interest rates						
200 basis point increase	**556,329**	**(39,495)**	**(8.8)%**	625,972	(50,186)	(9.8)%
100 basis point increase	**582,816**	**(20,026)**	**(4.5)%**	659,444	(25,584)	(5.0)%
No change	**610,063**	**—**	**—**	694,252	—	—
100 basis point decrease	**640,631**	**22,467**	**5.0 %**	733,247	28,661	5.6 %
200 basis point decrease	**672,199**	**45,670**	**10.2 %**	773,950	58,578	11.5 %

Certain shortcomings are inherent in the method of analysis presented above. Computations of the prospective effects of hypothetical interest rate changes are based on numerous assumptions, including the maintenance of the level and composition of fixed income securities at the indicated date, and should not be relied on as indicative of future results. Actual values may differ from the projections presented should market conditions vary from assumptions used in the calculation of the fair value of individual securities; such variations include non-parallel shifts in the term structure of interest rates and a change in individual issuer credit spreads.

Market Price Fluctuations

Market price fluctuation is the risk that the fair value or future cash flows of an equity investment will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign currency risk), whether those changes are caused by factors specific to the individual investment or its issuer, or other factors affecting all similar investments in the market. The company's exposure to equity price risk through its equity instruments at September 30, 2018 compared to December 31, 2017 are described below.

The company holds significant equity investments. The market value and the liquidity of these investments are volatile and may vary dramatically either up or down in short periods, and their ultimate value will therefore only be known over a period of time or on disposition.

The company's exposure to market price risk decreased during the first nine months of 2018 primarily as a result of unrealized depreciation in the Public Indian Investments (principally IIFL and Fairchem), partially offset by the additional 6.0% equity interest acquired in BIAL (Level 3 investment in the fair value hierarchy), investments in Other Public Indian Investments, and unrealized appreciation in Sanmar, BIAL and NSE (Level 3 investments in the fair value hierarchy). Refer to note 6 for the potential impact on net earnings of various combinations of changes in significant unobservable inputs in the company's internal valuation models for the company's investments classified as Level 3 in the fair value hierarchy.

The following table illustrates the potential impact on pre-tax earnings (loss) and net earnings (loss) of a 10.0% change in the fair value of the company's equity investments classified as Level 1 in the fair value hierarchy (IIFL, Fairchem, 5paisa, and Other Public Indian Investments).

	September 30, 2018		December 31, 2017	
Change in Indian equity markets	**+10.0%**	**-10.0%**	+10.0%	-10.0%
Level 1 equity investments, fair value at period end	**776,047**	**776,047**	1,057,643	1,057,643
Hypothetical $ change effect on pre-tax earnings (loss)	**77,605**	**(77,605)**	105,764	(105,764)
Hypothetical $ change effect on net earnings (loss)	**66,251**	**(66,251)**	91,750	(91,750)

Credit Risk

Credit risk is the risk of loss resulting from the failure of a counterparty to honour its financial obligations to the company. Credit risk arises predominantly with respect to cash and cash equivalents, short term investments and investments in debt instruments. There were no significant changes to the company's exposure to credit risk (except as set out in the discussion which follows) or the framework used to monitor, evaluate and manage credit risk at September 30, 2018 compared to December 31, 2017.

Cash and Cash Equivalents, and Short Term Investments

At September 30, 2018 the company's cash and cash equivalents of $16,319 (December 31, 2017 - $13,244) were primarily held at the holding company in major financial institutions (principally in high credit-quality Canadian financial institutions). The company monitors risks associated with cash and cash equivalents, and short term investments by regularly reviewing the financial strength and creditworthiness of these financial institutions.

At September 30, 2018 the company's short term investments in U.S. treasury bills of $13,894 (December 31, 2017 - $27,481) were rated Aaa by Moody's Investors Service, Inc. ("Moody's") and AA+ by Standard & Poor's Financial Services LLC ("S&P").

Investments in Debt Instruments

The company's risk management strategy for debt instruments is to invest primarily in high credit quality issuers and to limit the amount of credit exposure with respect to any one corporate issuer. While the company reviews third party credit ratings, it also carries out its own analysis and does not delegate the credit decision to rating agencies. The company endeavours to limit credit exposure by monitoring fixed income portfolio limits on individual corporate issuers and limits based on credit quality.

At September 30, 2018 the company's debt instruments were all considered to be subject to credit risk with a fair value of $610,063 (December 31, 2017 - $694,252), representing 23.8% (December 31, 2017 - 26.1%) of the total cash and investments portfolio.

The composition of the company's fixed income portfolio is presented in the table below:

	September 30, 2018		December 31, 2017	
	Fair value	**Rating**	Fair value	Rating
Government of India bonds[(1)]	**153,977**	**Baa2/BBB-**	259,356	Baa2/BBB-
Indian corporate bonds[(2)]	**89,077**	**AAA**	101,724	AAA
Sanmar bonds[(3)]	**367,009**	**BBB-**	333,172	BBB-
Total bonds	**610,063**		694,252	

(1) Rated Baa2 by Moody's and BBB- by S&P.

(2) Primarily all Indian Corporate bonds are rated AAA by subsidiaries of a Designated Rating Organization ("DRO"), being DBRS Limited, S&P, Fitch Inc. and Moody's, or subsidiaries or affiliates of a DRO.

(3) Rated BBB- by Brickwork Ratings, an Indian rating agency.

The company's exposure to credit risk from its investment in fixed income securities decreased at September 30, 2018 compared to December 31, 2017 primarily reflecting the sale of Government of India bonds to finance the additional 6.0% equity interest acquired in BIAL and unrealized foreign currency translation losses, partially offset by the unrealized appreciation in Sanmar bonds. Except as described above, there were no other significant changes to the composition of the company's fixed income portfolio classified according to each security's respective issuer credit rating at September 30, 2018 compared to December 31, 2017.

Income Taxes Refundable

At September 30, 2018 income taxes refundable of $1,596 (December 31, 2017 - $3,098) primarily related to income taxes owed from Canadian tax authorities.

Liquidity Risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. There were no significant changes to the company's exposure to liquidity risk (except as set out in the discussion below) or the framework used to monitor, evaluate and manage liquidity risk at September 30, 2018 compared to December 31, 2017.

The company believes that undeployed cash and investments at September 30, 2018 provides adequate liquidity to meet the company's remaining known significant commitments in 2018, which are principally comprised of the investment in CSB (on October 19, 2018 of the approximately $165 million commitment $60,157 had been completed), investment and advisory fees, general and administration expenses and potentially corporate income taxes. The company expects to continue to receive investment income on its holdings of fixed income securities and dividends from its equity investments to supplement its cash and cash equivalents. Accordingly. the company has adequate working capital to support its operations.

The performance fee payable to Fairfax for the first calculation period (ending on December 31, 2017) was settled on March 9, 2018 by the company issuing 7,663,685 subordinate voting shares to Fairfax. Refer to note 12 for additional details on the settlement of the December 31, 2017 performance fee payable.

Concentration Risk

The company's cash and investments are primarily concentrated in India and in Indian businesses or businesses with customers, suppliers or business primarily conducted in, or dependent on, India. The market value of the company's investments, the income generated by the company and the company's performance will be particularly sensitive to changes in the economic condition, interest rates, and regulatory environment in India. Adverse changes to the economic condition, interest rates or regulatory environment in India may have a material adverse effect on the company's business, cash flows, financial condition and net earnings.

The company's total cash and investments composition by the issuer's country of domicile was as follows:

	September 30, 2018					December 31, 2017				
	India	**U.S.**	**Canada**	**Other**	**Total**	India	U.S.	Canada	Other	Total
Cash and cash equivalents	**—**	**10,194**	**3,793**	**2,332**	**16,319**	—	—	9,934	3,310	13,244
Restricted cash	**—**	**—**	**21,915**	**—**	**21,915**	—	—	10,598	—	10,598
Short term investments - U.S. treasury bills	**—**	**13,894**	**—**	**—**	**13,894**	—	27,481	—	—	27,481
Bonds:										
Government of India	**153,977**	**—**	**—**	**—**	**153,977**	259,356	—	—	—	259,356
Indian corporate	**89,077**	**—**	**—**	**—**	**89,077**	101,724	—	—	—	101,724
Sanmar	**367,009**	**—**	**—**	**—**	**367,009**	333,172	—	—	—	333,172
	610,063	**—**	**—**	**—**	**610,063**	694,252	—	—	—	694,252
Common stocks:										
IIFL	**586,150**	**—**	**—**	**—**	**586,150**	888,485	—	—	—	888,485
Fairchem	**98,528**	**—**	**—**	**—**	**98,528**	149,200	—	—	—	149,200
5paisa	**10,555**	**—**	**—**	**—**	**10,555**	19,958	—	—	—	19,958
Other	**80,814**	**—**	**—**	**—**	**80,814**	—	—	—	—	—
BIAL	**675,726**	**—**	**—**	**—**	**675,726**	608,288	—	—	—	608,288
NCML	**159,216**	**—**	**—**	**—**	**159,216**	179,054	—	—	—	179,054
Sanmar	**208,854**	**—**	**—**	**—**	**208,854**	556	—	—	—	556
Saurashtra	**22,283**	**—**	**—**	**—**	**22,283**	28,000	—	—	—	28,000
NSE	**58,061**	**—**	**—**	**—**	**58,061**	40,452	—	—	—	40,452
	1,900,187	**—**	**—**	**—**	**1,900,187**	1,913,993	—	—	—	1,913,993
Total cash and investments	**2,510,250**	**24,088**	**25,708**	**2,332**	**2,562,378**	2,608,245	27,481	20,532	3,310	2,659,568

The company's holdings of Public and Private Indian Investments (see note 5) at September 30, 2018 and December 31, 2017 are summarized by the issuer's primary sector in the table below:

	September 30, 2018	December 31, 2017
Financial services	**735,580**	948,895
Infrastructure	**675,726**	608,288
Commercial and industrial	**855,890**	689,982
	2,267,196	2,247,165

During the first nine months of 2018 the company's concentration risk in the financial services sector decreased primarily due to the unrealized depreciation in IIFL, partially offset by the investments in Other Public Indian Investments and unrealized appreciation in NSE, while the company's concentration risk in the infrastructure sector increased primarily due to the unrealized appreciation and the additional 6.0% equity interest acquired in BIAL, and the company's concentration risk in the commercial and industrial sector increased due to unrealized appreciation in Sanmar (both common shares and bonds), partially offset by unrealized depreciation in Fairchem and Saurashtra.

The company will not make an Indian Investment if, after giving effect to such investment, the total invested amount of such investment would exceed 20.0% of the company's total assets at the time of the investment; provided, however, that the company is permitted to complete up to two Indian Investments where, after giving effect to each such investment, the total invested amount of each such investment would be less than or equal to 25.0% of the company's total assets (the "Investment Concentration Restriction"). The company's Investment Concentration Restriction decreased at September 30, 2018 from December 31, 2017 principally as a result of unrealized foreign currency translation losses and the settlement of the payable for rights issue, partially offset by the incremental net proceeds received on the $550.0 million term loan and net change in unrealized gains on investments. Indian Investments may be financed through equity or debt offerings as part of the company's objective to reduce its cost of capital and provide returns to common shareholders. At September 30, 2018 the company determined that it was in compliance with the Investment Concentration Restriction.

Capital Management

The company's objectives when managing capital are to protect its lenders, to safeguard its ability to continue as a going concern in order to provide returns for common shareholders, and to maintain an optimal capital structure to reduce the cost of capital. The company will seek attractive risk-adjusted returns, but will at all times seek downside protection and attempt to minimize the loss of capital. Total capital (comprised of the term loans and common shareholders' equity) increased from $2,532,464 at December 31, 2017 to $2,560,218 at September 30, 2018, principally reflecting a net increase in term loans, partially offset by a decrease in common shareholders' equity, as described below.

On June 28, 2018 the company amended and restated the existing $400.0 million term loan with the $550.0 million term loan bearing interest at a rate of LIBOR plus 350 basis points, which includes an option for the company to extend the $550.0 million term loan for an additional year. On July 11, 2017 the company had entered into an agreement with a Canadian bank for the $400.0 million term loan. On July 13, 2017 the company used a portion of the net proceeds from the $400.0 million term loan to complete the additional 10.0% investment in BIAL of $200,093 and participate in the NCML rights issue. During the third quarter of 2018 the company used a portion of the incremental net proceeds received from the $550.0 million term loan to acquire common shares in an Other Public Indian Investment of $89,114. The $550.0 million term loan includes a financial covenant that requires the company to maintain common shareholders' equity of not less than $1.5 billion, increased from $1.3 billion financial covenant in the $400.0 million term loan. At September 30, 2018 the company was in compliance with the $550.0 million term loan financial covenant.

Common shareholders' equity decreased to $2,014,377 at September 30, 2018 from $2,132,464 at December 31, 2017 primarily reflecting unrealized foreign currency losses ($269,657) in the first nine months of 2018, partially offset by the issuance of subordinate voting shares to Fairfax to settle the December 31, 2017 performance fee payable ($114,437) and net earnings ($53,358).

12. Related Party Transactions

Payable to Related Parties

The company's payable to related parties was comprised as follows:

	September 30, 2018	December 31, 2017
Performance fee	**—**	114,437
Investment and advisory fees	**8,115**	8,293
Other	**29**	96
	8,144	122,826

Investment Advisory Agreement

The company and its subsidiaries have entered into an agreement with Fairfax and the Portfolio Advisor to provide administration and investment advisory services to the company (the "Investment Advisory Agreement"). As compensation for the provision of these services, the company pays an investment and advisory fee, and if applicable, a performance fee. Such fees are determined with reference to the company's common shareholders' equity.

Performance Fee

First Calculation Period

On March 9, 2018 the company issued 7,663,685 subordinate voting shares to Fairfax calculated as the performance fee payable at December 31, 2017 of $114,437 divided by the VWAP of $14.93. Under the terms of the Investment Advisory Agreement, settlement of the performance fee will take place in subordinate voting shares of the company if the market price per share is less than two times the then book value per share. In accordance with the Investment Advisory Agreement, the number of subordinate voting shares issued was calculated based on the VWAP of $14.93. The issuance of these subordinate voting shares increased Fairfax's equity interest in Fairfax India from 30.2% at December 31, 2017 to 33.6% at March 9, 2018.

Second Calculation Period

The period from January 1, 2018 to December 31, 2020 (the "second calculation period") will be the next consecutive three-year period after December 31, 2017 for which a performance fee, if applicable, will be accrued. The performance fee for the second calculation period will be calculated as 20% of any increase in the book value per share at the end of period (before factoring in the impact of the performance fee for the second calculation period) above a 5% per annum increase over the higher of: (i) the hurdle per share, which is the amount of common shareholders' equity per share at any time which must be achieved before any performance fee would be payable; or, (ii) the then book value per share at the end of the first calculation period (December 31, 2017), adjusted to reflect the issuance of subordinate voting shares on March 9, 2018 to settle the first calculation period performance fee, referred to as the "high water mark per share". Under the Investment Advisory Agreement, the performance fee, if applicable, will be paid within 30 days after the company issues its annual audited consolidated financial statements for the year ended December 31, 2020, in subordinate voting shares of the company unless the market prices per share of those shares is more than two times the then book value per share, in which event Fairfax may elect to receive that fee in cash. The number of subordinate voting shares to be issued will be calculated based on the VWAP in respect of which the performance fee is paid.

The company determined that no performance fee was payable, related to the second calculation period, at September 30, 2018 (December 31, 2017 - $114,437 related to the first calculation period) as the book value per share of $13.08 at September 30, 2018 was lower than the high water mark per share at that date of $14.49. For the third quarter and first nine months of 2018 the performance fee recorded in the consolidated statements of earnings was nil and nil (2017 - recovery of performance fee of $22,627 and performance fee of $84,334). At September 30, 2018 there were no contingently issuable subordinate voting shares relating to the second calculation period performance fee payable to Fairfax.

Investment and Advisory Fee

The investment and advisory fee is calculated and payable quarterly as 0.5% of the value of undeployed capital and 1.5% of the company's common shareholders' equity less the value of undeployed capital. For the first nine months of 2018 the company determined that the majority of its assets were invested in Indian Investments, which are considered deployed capital. The investment and advisory fees recorded in the consolidated statements of earnings for the third quarter and first nine months of 2018 were $8,771 and $25,257 (2017 - $5,059 and $19,303).

Management Compensation

Pursuant to the Investment Advisory Agreement, Fairfax is required to provide a Chief Executive Officer, a Chief Financial Officer and a Corporate Secretary to the company. For so long as the Investment Advisory Agreement remains in effect, all compensation payable to the Chief Executive Officer, the Chief Financial Officer and the Corporate Secretary of the company will be borne by Fairfax.

13. General and Administration Expenses

General and administration expenses for the three and nine months ended September 30 were comprised as follows:

	Third quarter		**First nine months**	
	2018	2017	**2018**	2017
Audit, legal and tax professional fees	**491**	261	**1,520**	1,695
Salaries and employee benefit expenses	**197**	151	**725**	680
Administrative expenses	**83**	268	**446**	803
Other	**399**	100	**586**	340
	1,170	780	**3,277**	3,518

14. Supplementary Cash Flow Information

Cash and cash equivalents were included in the consolidated balance sheets and statements of cash flows as follows:

	September 30, 2018	December 31, 2017
Cash and balances with banks	**6,125**	13,244
U.S. treasury bills	**10,194**	—
	16,319	13,244

Details of certain cash flows included in the consolidated statements of cash flows for the three and nine months ended September 30 were as follows:

	Third quarter		First nine months	
	2018	2017	**2018**	2017
(a) Purchases of investments classified as FVTPL				
Bonds	**—**	(161,107)	**(3,022)**	(186,301)
Common stocks	**(89,114)**	(135,492)	**(177,482)**	(626,183)
	(89,114)	(296,599)	**(180,504)**	(812,484)
(b) Sales of investments classified as FVTPL				
Bonds	**—**	—	**72,750**	51,933
Common stocks	**—**	—	**—**	26,525
	—	—	**72,750**	78,458
(c) Net interest and dividends received (paid)				
Interest received	**2,141**	—	**19,388**	13,424
Dividends received	**1,411**	3,463	**7,986**	8,088
Interest paid on term loans	**(5,299)**	(4,576)	**(17,993)**	(6,046)
	(1,747)	(1,113)	**9,381**	15,466
(d) Income taxes received (paid)	**(103)**	8,571	**(916)**	7,415

Index to Management's Discussion and Analysis of Financial Condition and Results of Operations

Notes to Management's Discussion and Analysis of Financial Condition and Results of Operations

(1) Readers of the Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should review the notes to the interim consolidated financial statements for the three and nine months ended September 30, 2018, and the company's 2017 Annual Report.

(2) Unless otherwise noted, consolidated financial information of the company within this MD&A is derived from the consolidated financial statements of the company prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard 34 *Interim Financial Reporting*, and is presented in U.S. dollars with the Indian rupee as the functional currency of the company and its consolidated subsidiaries.

(3) The MD&A contains references to book value per share. On any date, book value per share is calculated as common shareholders' equity at the end of the period, determined in accordance with IFRS, divided by the total number of common shares of the company outstanding on that date. Book value per share is a key performance measure of the company and is closely monitored as it is used to calculate the performance fee payable, if any, to Fairfax Financial Holdings Limited ("Fairfax").

(4) Throughout this MD&A, the term "Indian Investments" refers to deployed capital invested in Public and Private Indian Investments as disclosed in note 5 (Indian Investments) to the interim consolidated financial statements for the three and nine months ended September 30, 2018.

Business Developments

Overview

Fairfax is Fairfax India's ultimate parent and acts as its administrator. Fairfax is a holding company which, through its subsidiaries, is principally engaged in property and casualty insurance and reinsurance and the associated investment management. Hamblin Watsa Investment Counsel Ltd. (the "Portfolio Advisor"), a wholly-owned subsidiary of Fairfax and registered portfolio manager in the province of Ontario, is the portfolio advisor of the company and its consolidated subsidiaries, responsible to source and advise with respect to all investments. Fairfax India's subordinate voting shares trade on the Toronto Stock Exchange ("TSX") under the symbol FIH.U. The multiple voting shares of the company are not traded.

The book value per share at September 30, 2018 was $13.08 compared to $14.46 at December 31, 2017 representing a decrease in the first nine months of 2018 of 9.5%, primarily reflecting unrealized foreign currency translation losses of $269,657, partially offset by net earnings of $53,358 (principally related to net change in unrealized gains on investments, partially offset by net foreign exchange losses, investment and advisory fees and interest expense).

Capital Transactions

On June 28, 2018 the company completed a $550,000 principal amount, 1 year secured term loan, with an option to extend for an additional year ("$550.0 million term loan"), with a syndicate led by a Canadian bank, which amended and restated the existing 1 year secured term loan with a principal amount of $400,000 ("$400.0 million term loan"). The $550.0 million term loan bears interest at a rate of LIBOR plus 350 basis points. During the third quarter of 2018 the company used a portion of the incremental net proceeds received from the $550.0 million term loan to acquire common shares in an Other Public Indian Investment of $89,114. On July 11, 2017 the company had entered into an agreement with a Canadian bank for the $400.0 million term loan. On July 13, 2017 the company used a portion of the net proceeds from the $400.0 million term loan to complete the additional 10.0% investment in BIAL of $200,093 and participate in the NCML rights issue.

On March 9, 2018 the company issued 7,663,685 subordinate voting shares to Fairfax to settle the performance fee payable of $114,437 for the first calculation period (three year period ending on December 31, 2017). Under the terms of the Investment Advisory Agreement (defined in note 12 (Related Party Transactions) to the interim consolidated financial statements for the three and nine months ended September 30, 2018), settlement of the performance fee was through the issuance of subordinate voting shares, calculated based on the performance fee payable at December 31, 2017 of $114,437 divided by the volume-weighted average trading price of the company's subordinate voting shares for the 10 trading days prior to and including the last day of the calculation period (''VWAP'') of $14.93. The issuance of these subordinate voting shares increased Fairfax's equity interest in Fairfax India from 30.2% at December 31, 2017 to 33.6% at March 9, 2018.

Indian Investments

Full descriptions of the Indian Investments committed to and acquired in the first nine months of 2018 are provided in the Indian Investments section of this MD&A.

Operating Environment

Overview

India has emerged as the fastest growing major economy in the world according to the Central Statistics Organization and the International Monetary Fund. According to the International Monetary Fund, the Indian economy will continue to grow more than 7% in the financial year 2018-19. The improvement in India's economic fundamentals has accelerated in the recent years with the combined impact of strong government reforms and the Reserve Bank of India's ("RBI") inflation focus supported by favourable global commodity prices.

Decline in Indian Market Indices and Foreign Exchange Rate

During the third quarter of 2018 India experienced significant decline in its market indices due to sell-off of Indian equities. The Indian rupee, which until the end of 2017 remained strong while other emerging market currencies weakened, has also declined to a historical low foreign exchange rate against the U.S. dollar. The key events that triggered the equity market and currency decline were: (i) rising oil prices which drove India's account deficit; (ii) rising interest rates that resulted in global bond sell-off; and (iii) domestic liquidity scare from foreign investor sell-off and default by a large non-banking finance company ("NBFC"). These series of events led to significant declines in market indices at the end of the third quarter of 2018. This negative impact can be seen through the decline in fair value of certain company's Public Indian Investments, and unrealized foreign currency translation losses as the majority of the company's net assets and net earnings are denominated in the Indian rupees, a currency other than the company's U.S. dollar presentation currency.

Union Budget for Fiscal Year 2018-19

On March 29, 2018 India enacted the Finance Act 2018 which repealed, with effect from April 1, 2018, the long term capital gains tax exemption which was available in respect of transfers of equity shares of Indian companies on which Securities Transaction Tax was paid at the time of acquisition and transfer of such shares. As a result, long term capital gains realized on such transfers will generally be taxed at a rate of 10.0%. However, grandfathering of the long term capital gains exemption in respect of any accrued gain on such shares held as of January 31, 2018 will generally be available to the extent of the accrued gain as of January 31, 2018. Capital gains realized by a tax resident of Mauritius on a transfer of equity shares of an Indian company which were acquired prior to April 1, 2017 will continue to be exempt from capital gains tax in India by virtue of the India-Mauritius tax treaty, notwithstanding the repeal of the long term capital gains tax exemption under Indian domestic law. In addition, a long term capital gain realized by a Mauritius tax resident on shares acquired on or after April 1, 2017, and sold prior to March 31, 2019, will continue to be taxed at the rate of 50.0% of the prevailing domestic Indian capital gains tax rate by virtue of the India-Mauritius tax treaty. At September 30, 2018 the company evaluated the potential impact of the application of capital gains tax in India on any future dispositions of investments in equity shares held by FIH Mauritius Investments Ltd ("FIH Mauritius") and FIH Private Investments Ltd ("FIH Private"), wholly-owned subsidiaries of the company, and concluded that there are currently no Indian capital gains tax implications. The company will continue to evaluate the potential impact of the Indian capital gains tax as it relates to any future dispositions of investments in equity shares of its Public Indian Investments.

The Mauritius Finance Act 2018

On July 31, 2018 Mauritius enacted the Finance (Miscellaneous Provision) Act (the "Mauritius Finance Act") which abolishes, with effect from January 1, 2019, the deemed Foreign Tax Credit ("FTC") regime available to Category 1 Global Business License companies (held by both FIH Mauritius and FIH Private). In place of the deemed FTC, the Mauritius Finance Act introduces an 80% exemption regime on foreign source income including certain foreign dividends and foreign source interest. The 80% exemption is available upon meeting predefined substance requirements issued by the Financial Services Commission. The company evaluated the potential impact of the Mauritius Finance Act and concluded that it will not have a material impact to the company.

Business Objectives

Investment Objective

Fairfax India is an investment holding company whose objective is to achieve long term capital appreciation, while preserving capital, by investing in public and private equity securities and debt instruments in India and Indian businesses or other businesses with customers, suppliers or business primarily conducted in, or dependent on, India ("Indian Investments"). The company makes all or substantially all of its investments either directly or through one of its wholly-owned subsidiaries, FIH Mauritius and FIH Private.

Investment Strategy

The company invests in businesses that are expected to benefit from India's pro-business political environment, its growing middle class and its demographic trends that are likely to underpin strong growth for several years. Sectors of the Indian economy that the company believes will benefit most from such trends include infrastructure, financial institutions, consumer services, retail and exports. The company is not limited to investing solely in these sectors and intends to invest in other sectors as and when opportunities arise.

The company utilizes, and expects to benefit significantly from, the experience and expertise of Fairfax and the Portfolio Advisor.

The company employs a conservative, fundamental value-based approach to identifying and investing in high quality public and private Indian businesses. This approach is designed to compound book value per share over the long term. The company will seek attractive risk-adjusted returns, but will at all times seek downside protection and attempt to minimize the loss of capital.

Investment Restrictions

The company will not make an Indian Investment if, after giving effect to such investment, the total invested amount of such investment would exceed 20.0% of the company's total assets at the time of the investment; provided, however, that the company is permitted to complete up to two Indian Investments where, after giving effect to each such investment, the total invested amount of each such investment would be less than or equal to 25.0% of the company's total assets (the "Investment Concentration Restriction"). The company's Investment Concentration Restriction decreased at September 30, 2018 from December 31, 2017 principally as a result of unrealized foreign currency translation losses and the settlement of the payable for rights issue, partially offset by the incremental net proceeds received on the $550.0 million term loan and net change in unrealized gains on investments.

The company intends to continue to make multiple different investments as part of its prudent investment strategy. Indian Investments may be financed through equity or debt offerings as part of the company's objective to reduce its cost of capital and provide returns to common shareholders. At September 30, 2018 the company determined that it was in compliance with the Investment Concentration Restriction.

Indian Investments

Cautionary Statement Regarding Financial Information of Significant Indian Investments

Fairfax India has agreed to voluntarily provide within the MD&A, summarized financial information prepared in accordance with IFRS for all of its Indian Investments for which it had previously filed a business acquisition report in accordance with section 8.2 of *National Instrument 51-102 Continuous Disclosure Obligations.* National Collateral Management Services Limited, IIFL Holdings Limited, Sanmar Chemicals Group and Bangalore International Airport Limited (collectively, "Significant Indian Investments"), the company's Significant Indian Investments for which it had previously filed business acquisition reports, previously prepared their financial statements in accordance with Indian Generally Accepted Accounting Principles ("Indian GAAP"). Effective April 1, 2017 the company's Significant Indian Investments have adopted Indian Accounting Standards ("Ind AS"). Ind AS are based on and substantially converged with IFRS as issued by the IASB. Fairfax India is limited with respect to the amount of independent verification it is able to perform on the Significant Indian Investments' financial statements. The unaudited summarized financial information contained in this MD&A was prepared exclusively for Fairfax India. Such unaudited financial information is the responsibility of the respective managements and has been prepared by them using recognition, measurement and presentation principles consistent with IFRS as issued by the IASB, and provided to the company in Indian rupees.

The company's Significant Indian Investments' fiscal years each end on March 31. Summarized financial information of the company's Significant Indian Investments has generally been provided for the periods subsequent to the company's investment and to the extent that the most recent interim financial information is available to the company's management.

Significant Indian Investments' summarized financial information should be read in conjunction with Fairfax India's historical consolidated financial statements including the notes thereto and the related MD&A as well as Fairfax India's other public filings.

Fairfax India has no knowledge that would indicate that the Significant Indian Investments' summarized financial information contained herein requires material modifications. However, readers are cautioned that the Significant Indian Investments' summarized financial information contained in the MD&A may not be appropriate for their purposes.

Summary of Indian Investments

The table below provides a summary of the company's Indian Investments:

		September 30, 2018				December 31, 2017			
	Date Acquired	Ownership %	Cost	Fair value	Net change	Ownership %	Cost	Fair value	Net change
Public Indian Investments:									
IIFL	December 2015 and February 2017	26.5%	256,976	586,150	329,174	26.6%	256,976	888,485	631,509
Fairchem	February and August 2016	48.8%	74,384	98,528	24,144	48.8%	74,384	149,200	74,816
5paisa	October 2017	26.6%	19,758	10,555	(9,203)	26.6%	19,758	19,958	200
Other (1)	March 2018 and August 2018	< 1.0%	94,090	80,814	(13,276)	—	—	—	—
			445,208	776,047	330,839		351,118	1,057,643	706,525
Private Indian Investments:									
BIAL (2)	March 2017, July 2017 and May 2018	54.0%	652,982	675,726	22,744	48.0%	585,591	608,288	22,697
NCML	August 2015 and August 2017	89.5%	174,318	159,216	(15,102)	89.5%	174,318	179,054	4,736
Sanmar	April 2016	30.0%	1,000	208,854	207,854	30.0%	1,000	556	(444)
Sanmar Bonds	April and September 2016	—	299,000	367,009	68,009	—	299,000	333,172	34,172
Saurashtra	February 2017	51.0%	30,018	22,283	(7,735)	51.0%	30,018	28,000	(2,018)
NSE	July 2016	1.0%	26,783	58,061	31,278	1.0%	26,783	40,452	13,669
			1,184,101	1,491,149	307,048		1,116,710	1,189,522	72,812
Total Indian Investments			1,629,309	2,267,196	637,887		1,467,828	2,247,165	779,337

(1) On March 21, 2018 Fairfax India participated in an initial public offering ("IPO") of a common stock Indian Investment which on April 4, 2018 was listed on the BSE and NSE of India. In August 2018 Fairfax India purchased a common stock Indian Investment that is listed on the BSE and NSE of India, and the New York Stock Exchange ("NYSE").

(2) Cost and net change includes $74,202 (approximately 4.8 billion Indian rupees) of cash consideration paid attributable to the costs incurred to acquire the additional 10.0% equity interest in BIAL in July 2017.

Summary of Changes in the Fair Value of the Company's Indian Investments

A summary of changes in the fair value of the company's Public and Private Indian Investments for the third quarters of 2018 and 2017 were as follows:

	Third quarter												
	Public Indian Investments					Private Indian Investments							
	Common stocks					Bonds	Common stocks						
	IIFL	Fairchem	5paisa	Other	Total	Sanmar	BIAL	NCML	Sanmar	Saurashtra	NSE	Total	Total Indian Investments
Balance as of July 1, 2018	**827,698**	**101,895**	**15,813**	**3,005**	**948,411**	**321,218**	**643,783**	**170,049**	**605**	**25,278**	**63,897**	**1,224,830**	**2,173,241**
Purchases	**—**	**—**	**—**	**89,114**	**89,114**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**89,114**
Net change in unrealized gains (losses) on investments	**(211,922)**	**3,222**	**(4,681)**	**(8,937)**	**(222,318)**	**68,258**	**72,416**	**(1,701)**	**225,013**	**(1,720)**	**(3,655)**	**358,611**	**136,293**
Net unrealized foreign currency translation losses	**(29,626)**	**(6,589)**	**(577)**	**(2,368)**	**(39,160)**	**(22,467)**	**(40,473)**	**(9,132)**	**(16,764)**	**(1,275)**	**(2,181)**	**(92,292)**	**(131,452)**
Balance as of September 30, 2018	**586,150**	**98,528**	**10,555**	**80,814**	**776,047**	**367,009**	**675,726**	**159,216**	**208,854**	**22,283**	**58,061**	**1,491,149**	**2,267,196**
Balance as of July 1, 2017	792,890	138,490	—	—	931,380	319,103	467,940	156,233	219	31,127	35,796	1,010,418	1,941,798
Purchases	—	—	—	—	—	—	200,093 [(1)]	25,602	—	—	—	225,695	225,695
Net change in unrealized gains (losses) on investments and other costs	5,682	(24,267)	—	—	(18,585)	6,783	(67,717) [(1)]	4,119	609	3,109	4,378	(48,719)	(67,304)
Net unrealized foreign currency translation losses	(11,375)	(1,644)	—	—	(13,019)	(3,381)	(7,926)	(2,314)	(2)	(331)	(438)	(14,392)	(27,411)
Balance as of September 30, 2017	787,197	112,579	—	—	899,776	322,505	592,390	183,640	826	33,905	39,736	1,173,002	2,072,778

(1) On July 13, 2017 the company completed an additional 10.0% equity investment in BIAL for cash consideration of $200,093 (12.9 billion Indian rupees). The cash consideration paid for the additional 10.0% equity interest in BIAL exceeded the estimated fair value of those additional shares acquired, as a result $74,202 (approximately 4.8 billion Indian rupees) of the cash consideration paid was attributable to the costs incurred and has been included in the table above in purchases and was recorded in net change in unrealized gains (losses) on investments and other costs included in the consolidated statements of earnings in the interim consolidated financial statements for the for the three and nine months ended September 30, 2017.

A summary of changes in the fair value of the company's Public and Private Indian Investments for the first nine months of 2018 and 2017 were as follows:

	First nine months													
	Public Indian Investments					Private Indian Investments								
	Common stocks					Bonds	Common stocks							
	IIFL	Fairchem	5paisa	Other	Total	Sanmar	BIAL	NCML	Sanmar	Saurashtra	NSE	Privi	Total	Total Indian Investments
Balance as of January 1, 2018	**888,485**	**149,200**	**19,958**	**—**	**1,057,643**	**333,172**	**608,288**	**179,054**	**556**	**28,000**	**40,452**	**—**	**1,189,522**	**2,247,165**
Purchases	**—**	**—**	**—**	**94,090**	**94,090**	**—**	**67,391**	**—**	**—**	**—**	**—**	**—**	**67,391**	**161,481**
Net change in unrealized gains (losses) on investments	**(211,922)**	**(35,481)**	**(7,581)**	**(10,742)**	**(265,726)**	**79,567**	**83,265**	**1,684**	**225,104**	**(2,562)**	**24,245**	**—**	**411,303**	**145,577**
Net unrealized foreign currency translation losses	**(90,413)**	**(15,191)**	**(1,822)**	**(2,534)**	**(109,960)**	**(45,730)**	**(83,218)**	**(21,522)**	**(16,806)**	**(3,155)**	**(6,636)**	**—**	**(177,067)**	**(287,027)**
Balance as of September 30, 2018	**586,150**	**98,528**	**10,555**	**80,814**	**776,047**	**367,009**	**675,726**	**159,216**	**208,854**	**22,283**	**58,061**	**—**	**1,491,149**	**2,267,196**
Balance as of January 1, 2017	265,951	45,488	—	—	311,439	299,093	—	146,586	440	—	26,504	54,315	526,938	838,377
Purchases	75,175	—	—	—	75,175	—	585,591 (2)	25,602	—	30,018	—	—	641,211	716,386
Transfer due to Merger (1)	—	54,315	—	—	54,315	—	—	—	—	—	—	(54,315)	(54,315)	—
Net change in unrealized gains on investments and other costs	434,292	8,896	—	—	443,188	11,756	8,879 (2)	6,398	370	3,139	12,218	—	42,760	485,948
Net unrealized foreign currency translation gains (losses)	11,779	3,880	—	—	15,659	11,656	(2,080)	5,054	16	748	1,014	—	16,408	32,067
Balance as of September 30, 2017	787,197	112,579	—	—	899,776	322,505	592,390	183,640	826	33,905	39,736	—	1,173,002	2,072,778

(1) The merger of Fairchem and Privi resulted in the reallocation of the investment in Privi from Private Indian Investments to the Public Indian Investment in Fairchem.
(2) On July 13, 2017 the company completed an additional 10.0% equity investment in BIAL for cash consideration of $200,093 (12.9 billion Indian rupees). The cash consideration paid for the additional 10.0% equity interest in BIAL exceeded the estimated fair value of those additional shares acquired, as a result $74,202 (approximately 4.8 billion Indian rupees) of the cash consideration paid was attributable to the costs incurred and has been included in the table above in purchases and was recorded in net change in unrealized gains (losses) on investments and other costs included in the consolidated statements of earnings in the interim consolidated financial statements for the three and nine months ended September 30, 2017.

Public Indian Investments

The fair values of Fairfax India's Public Indian Investments, whose shares are listed on both the BSE (formerly known as Bombay Stock Exchange Limited) and the National Stock Exchange of India ("NSE of India"), are determined using the bid prices of those investments (without adjustments or discounts) at the balance sheet date.

Investment in IIFL Holdings Limited

Business Overview

IIFL Holdings Limited ("IIFL") was incorporated in 1995 and is a publicly traded, diversified financial services holding company located in Mumbai, India with principal lines of business in wealth management, capital markets and other activities (comprised of retail investment brokerage, institutional equities, investment banking and financial products distribution) and a non-banking finance company ("NBFC"). IIFL serves over 5 million customers from 2,500 service locations and over 1,600 branches across India. It also has an international presence, with offices in Toronto, New York, London, Geneva, Singapore, Hong Kong, Dubai and Mauritius.

Transaction Description

In December 2015 and February 2017 the company acquired 84,641,445 common shares of IIFL (representing a 26.9% equity interest) for aggregate cash consideration of $276,734 (approximately 18.5 billion Indian rupees). In October 2017 IIFL spun-off its wholly-owned subsidiary 5Paisa Digital Undertaking through the formation of a new public company, 5paisa Capital Limited ("5paisa") in a non-cash transaction. The distribution of 5paisa to IIFL shareholders was characterized as a return of capital which resulted in Fairfax India recording the initial cost of its investment in 5paisa at its fair value of $19,758 with a corresponding amount recorded as a reduction of the cost of the company's investment in IIFL. Additional details on the 5paisa spin-off transaction are disclosed under the sub-heading Investment in 5paisa Capital Limited within the Public Indian Investments section of this MD&A.

At September 30, 2018 the company held an aggregate of 84,641,445 common shares of IIFL representing a 26.5% equity interest (December 31, 2017 - 26.6%).

Key Business Drivers, Events and Risks

IIFL's key business drivers relate to its ability to grow and penetrate the financial services industry in India, particularly in the areas of lending and wealth management.

On January 31, 2018 IIFL's board of directors approved a draft plan to reorganize IIFL into three listed entities (the "reorganization") consisting of IIFL Finance (currently known as IIFL Holdings Limited comprised of the loans and mortgages businesses), IIFL Wealth (comprised of the wealth, asset management and alternative investment fund businesses) and IIFL Securities (comprised of all other IIFL businesses including investment brokerage, distribution and investment banking). Shareholders of IIFL will receive seven common shares of IIFL Securities and one common share of IIFL Wealth for every seven IIFL shares held. IIFL Holdings Limited will be renamed IIFL Finance, and shares of IIFL Finance, IIFL Wealth and IIFL Securities will be listed on the BSE and NSE of India. The reorganization is anticipated to be completed in the fourth quarter of 2018 to early 2019, subject to customary closing conditions and applicable regulatory approvals.

IIFL Finance

IIFL Finance continues to achieve volume and grow net earnings in its NBFC, driven primarily by small-ticket home loans, small-to-medium enterprise loans ("SME loans"), and microfinance loans. Despite the pressures from increased funding costs in the current interest rate environment, net interest margin has been protected through achieving increased yields from the NBFC's asset under management by repricing current outstanding loans and raising interest rates on new loans. Asset quality remains stable with gross and net non-performing assets maintaining its historical low levels compared to the overall loan portfolio. During the three months ended June 30, 2018 IIFL Finance raised approximately $45 million at current exchange rates (approximately 3.3 billion Indian rupees) in debt financing from CDC Group Plc, a development finance institution owned by the Government of the United Kingdom, for the purpose of growing its loans and mortgages portfolio.

IIFL Wealth

IIFL Wealth has maintained robust growth in its assets under management with services offered in advisory, wealth structuring solutions, asset management, and onshore and offshore distribution services; it has also become India's largest wealth manager of alternative investment funds, with presence in nine major global financial hubs across 23 locations in India and around the world. IIFL Wealth's NBFC focuses on capital market related lending to its high net worth clients. During the three months ended June 30, 2018 IIFL wealth raised approximately $103 million at current exchange rates (approximately 7.5 billion Indian rupees) through equity issuances to institutional investors, with the intent of using the additional capital to fund business operations and for continued expansion.

IIFL Securities

IIFL Securities offers equity, commodities, and currency brokerage services within both retail and institutional segments of the capital markets. In addition to a wide network of retail branches, franchisees, sub-brokers, and research provided for over 500 companies, IIFL Securities has benefited from digitization with the IIFL Markets and IIFL Mutual Fund mobile applications reaching 1,940,000 and 360,000 downloads at June 30, 2018 (34% of brokerage services are provided through the mobile platform). The investment banking business has continued its strong performance, closing six transactions within the three months ended June 30, 2018 and has a number of transactions in the pipeline.

Impact of Operating Environment

The market price decline of the NBFC sector in India was caused by the headwinds as discussed in the Business Developments section under the heading Operating Environment of this MD&A. The impact on NBFCs is more prevalent than in other sectors due to the default on debt obligations by a large NBFC, Infrastructure Leasing & Financial Services Limited, which had significant amounts owed to banks and mutual funds. As a result of this default, banks and mutual funds have been resistant to lend to other NBFCs, causing an asset-liability mismatch for companies and tighter liquidity throughout the sector.

Subsequent to September 30, 2018

On October 4, 2018 IIFL provided an update on the liquidity status of India Infoline Finance Limited, a NBFC that forms a material subsidiary of IIFL. Liquidity and risk management best practices used by the company have protected its core operations, especially during times of tightening liquidity in the operating environment, which included: (i) positive mismatch of assets-liabilities (a surplus of net cash inflow); (ii) business projections to support liquidity planning; (iii) margin of safety for short-term shocks by holding liquid investments (government securities, fixed deposits, undrawn bank credit lines etc.); (iv) diversified debt instruments and sources of funding; and (v) monitoring and mitigation of interest rate risks in a rising rate environment (as exhibited by net interest margin stability). Business cash flow projections for the period up to March 31, 2019 show that the company is well positioned with a modestly elevated level of liquidity available by the end of the year, due to the factors discussed.

Valuation and Interim Consolidated Financial Statement Impact

At September 30, 2018 the fair value of the company's investment in IIFL was $586,150 (December 31, 2017 - $888,485) with the changes in fair value for the third quarters and first nine months of 2018 and 2017 presented in the tables at the outset of the Indian Investments section of this MD&A. IIFL's share price decreased by 25.1% from 670.00 Indian rupees per share at December 31, 2017 to 502.00 Indian rupees per share at September 30, 2018. The decrease in IIFL's share price is largely contributed to declines in market indices, particularly in the NBFC sector, as discussed earlier.

For the third quarter and first nine months of 2018 the consolidated statements of earnings included dividend income earned from the investment in IIFL of nil and $6,575 (2017 - nil and $4,625).

IIFL's Summarized Financial Information

The company's fiscal year ends on December 31 and IIFL's fiscal year ends on March 31. Summarized below are IIFL's balance sheets at June 30, 2018 and March 31, 2018.

Balance Sheets
(**unaudited - US$ thousands**)

	June 30, 2018(1)	March 31, 2018(1)
Current assets	**3,120,877**	3,434,481
Non-current assets	**3,481,930**	3,788,659
Current liabilities	**3,151,896**	3,681,390
Non-current liabilities	**2,393,631**	2,524,647
Shareholders' equity	**1,057,280**	1,017,103

(1) The net assets of IIFL were translated at June 30, 2018 at $1 U.S dollar = 68.52 and at March 31, 2018 at $1 U.S. dollar = 65.22 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

Current assets and non-current assets decreased primarily as a result of the weakening of the Indian rupee relative to the U.S. dollar during the three months ended June 30, 2018, partially offset by the continued growth in asset under management particularly with small-ticket home loans, SME loans, and microfinance loans as discussed earlier in the Key Business Drivers, Events and Risks section. IIFL Finance's asset quality remains stable with gross and net non-performing assets at 2.0% and 0.9% of IIFL Finance's loans at June 30, 2018. Current liabilities and non-current liabilities decreased primarily as a result of the weakening of the Indian rupee relative to the U.S. dollar during the three months ended June 30, 2018 and scheduled loan repayments, partially offset by the increased debt raised in IIFL Finance despite the tightening of availability of funds as a result of factors disclosed earlier in the Business Developments section under the heading Operating Environment of this MD&A.

Summarized below are IIFL's statements of earnings for the three months ended June 30, 2018 and 2017.

Statements of Earnings
(**unaudited - US$ thousands**)

	Three-months ended June 30, 2018 (1)	Three-months ended June 30,2017 (1)
Revenue	**269,673**	231,694
Earnings before income taxes	**76,538**	60,460
Net earnings	**51,437**	40,255

(1) Amounts for the three months ended June 30, 2018 and 2017 were translated into US$ using the average exchange rates of $1 U.S. dollar = 66.98 Indian rupees and $1 U.S. dollar = 64.47 Indian rupees prevailing during those periods.

IIFL's revenue and net earnings increased due to growth in each of IIFL's lines of businesses reflecting growth in volume of high quality assets under management and profit improvements driven by loans and mortgages business for small-ticket home loans, SME loans and microfinance loans as disclosed earlier. Commercial vehicle and gold loans also reported strong revenue growth in the period. Profits improved in the quarter largely due to increase in net interest margin in the IIFL Finance's line of business despite average cost of borrowings increasing over the period. Positive traction has been exhibited in credit demand and quality, with optimistic prospects for both IIFL Wealth's and IIFL Securities' lines of businesses for the remainder of the fiscal year. IIFL's management continues its strategy to focus on the product lines that have driven high growth in the recent periods to further scale and expand these businesses.

Investment in Fairchem Speciality Limited

Business Overview

In March 2017 Fairchem Speciality Limited ("Fairchem") and Privi Organics Limited ("Privi") were merged with the surviving entity continuing as Fairchem (the "Merger") and with no changes to management of the underlying companies.

Fairchem

Fairchem was incorporated in 1985 and publicly listed its shares on the BSE in 1995 and NSE of India in 2015. Fairchem is a specialty chemical manufacturer located in Ahmedabad, India. Fairchem manufactures oleochemicals used in the paints, inks and adhesives industries, as well as intermediate nutraceutical and health products. It has developed an in-house technology that uses machinery designed and manufactured by leading European companies to physically separate and convert waste generated during the production of soya, sunflower, corn and cotton oils into valuable nutraceutical and fatty acids.

Privi

Privi, founded in 1992, is a supplier of aroma chemicals to the fragrance industry and is located in Mumbai, India. Privi's world-class products are the result of its very strong research and development team that has proven expertise in developing new products, customizing aromas per customer specifications, scaling up products from basic research to commercial scale, and designing process improvements to drive quality and cost optimization.

Transaction Description

In February 2016 Fairfax India acquired a 44.7% equity interest in Fairchem for cash consideration of $19,409 (approximately 1.3 billion Indian rupees) and in August 2016 acquired a 50.8% equity interest in Privi for cash consideration of $54,975 (approximately 3.7 billion Indian rupees). In March 2017 Fairchem and Privi were merged with the surviving entity continuing as Fairchem.

On September 5, 2018 Fairchem converted all outstanding compulsorily convertible preference shares ("CCPS") into common shares of Fairchem.

At September 30, 2018 the company held 19,046,078 common shares, representing a 48.8% equity interest in Fairchem (December 31, 2017 - 48.8% equity interest on a fully diluted basis (or a 48.7% equity interest excluding the impact of the CCPS)).

Key Business Drivers, Events and Risks

Fairchem's key business drivers relate to the success of its oleochemicals business and vertical integration into value added products, such as fatty acids and natural vitamin E. As environmental concerns increase, the demand for sustainable and biodegradable oleochemicals used in lubricants, paper printing, paints and coatings, and animals feed industries has been experiencing strong growth in recent years.

India is the one of the largest consumers of soft oils which provides Fairchem with a competitive advantage by having easy access to the raw materials that it uses in its manufacturing processes. The close proximity to raw materials available in Asia (India, Malaysia and Indonesia) has resulted in a shift of oleochemical production away from the U.S. and Europe. Lower cost of raw materials and efficient manufacturing processes have provided Fairchem with certain competitive advantages in comparison to its global peers. Fairchem has a strong market presence for some of its products, with little or no direct competition, and is considered to produce a superior quality product in comparison to its competitors in China. Fairchem faces some exposure to limited availability of raw materials (primarily soya oils) which are used in its manufacturing processes which may impact its ability to meet higher demand.

Privi’s key business drivers relate to its ability to: (i) develop, manufacture and supply additional (newer) aroma chemicals to existing customers; (ii) create value added products from the by-products of manufacturing aroma chemicals; and (iii) strengthen margins by increasing vertical integration capacities.

On April 26, 2018 a fire broke out at one of Privi’s aromatic manufacturing chemical plants located in Mahad, India. The fire was serious in nature but was isolated to one section of the plant and resulted in no casualties. On May 25, 2018 in a record amount of time, Privi was able to commence operations in the unaffected portion of the plant and began to refurbish the operations impacted by the fire, anticipating they will reach full capacity within nine to twelve months. Privi continues to work with its insurance company as they undertake an assessment of the damages and work on finalizing the insurance claim that is in progress. On October 11, 2018 Privi received partial settlement on their insurance claim of approximately $4.1 million at current exchange rates (300 million Indian rupees).

Valuation and Interim Consolidated Financial Statement Impact

At September 30, 2018 the fair value of the company's investment in Fairchem common shares was $98,528. At December 31, 2017 the fair value of the company's investment in Fairchem was $149,200 comprised of common shares (fair value of $143,413) and CCPS (fair value of $5,787). The fair value of the company's investment in Fairchem at September 30, 2018 and December 31, 2017 was determined by multiplying the bid price of the publicly traded Fairchem shares by the number of Fairchem shares owned by the company (inclusive of the common shares and CCPS converted on September 5, 2018). The changes in fair value of the company's investment in Fairchem for the third quarters and first nine months of 2018 and 2017 are presented in the tables at the outset of the Indian Investments section of this MD&A. Fairchem's share price decreased by 25.0% from 500.00 Indian rupees per share at December 31, 2017 to 375.00 Indian rupees per share at September 30, 2018. Fairchem's share price remained relatively consistent in comparison to 366.55 Indian rupees per share at June 30, 2018 and was not negatively impacted by the decline in the Indian market indices at the end of the third quarter of 2018.

For the third quarter and first nine months of 2018 the consolidated statements of earnings included dividend income earned from the investment in Fairchem of $409 in both periods (2017 - $281 in both periods).

Investment in 5paisa Capital Limited

Business Overview

5paisa Capital Limited ("5paisa") is a publicly traded online financial services provider with a do-it-yourself based investment brokerage model where the customer can execute investment transactions for a low brokerage fee. 5paisa is engaged in providing an online technology platform through Internet terminals and mobile applications for trading securities on the BSE and the NSE of India.

Transaction Description

In October 2017 IIFL spun-off its wholly-owned subsidiary 5Paisa Digital Undertaking through the formation of a new public company, 5paisa Capital Limited, listed on the BSE and the NSE of India effective November 16, 2017. This non-cash transaction resulted in Fairfax India receiving one new common share of 5paisa for every 25 common shares of IIFL held for a total of 3,385,657 common shares of 5paisa with a fair value of $19,758. The distribution of 5paisa to IIFL shareholders was characterized as a return of capital which resulted in Fairfax India recording the initial cost of its investment in 5paisa at its fair value of $19,758 with a corresponding amount recorded as a reduction of the cost of the company's investment in IIFL.

At September 30, 2018 the company held an aggregate of 3,385,657 common shares of 5paisa representing a 26.6% equity interest (December 31, 2017 - 26.6%).

Key Business Drivers, Events and Risks

5paisa's key business driver relates to its ability to provide a digital method of trading in securities, which is emerging as a new segment with the potential to achieve critical mass and grow in the near future with the spread of the Internet, mobile penetration, telecommunication and data services throughout India. 5paisa's ability to acquire, service and grow the new emerging do-it-yourself customer segment provides its customers with lower costs for various financial products, enabling investors to invest seamlessly, on their own, from anywhere in the world.

At September 30, 2018 the 5paisa Mobile Application had reached over 1,800,000 downloads with a sustained 4 star rating on Google Playstore (March 31, 2018 - over 900,000 downloads).

Valuation and Interim Consolidated Financial Statement Impact

At September 30, 2018 the fair value of the company's investment in 5paisa was $10,555 (December 31, 2017 - $19,958) with the changes in fair value for the third quarter and first nine months of 2018 presented in the tables at the outset of the Indian Investments section of this MD&A. 5paisa's share price decreased by 39.9% from 376.25 Indian rupees per share at December 31, 2017 to 226.00 Indian rupees per share at September 30, 2018. The decrease in 5paisa's share price is largely contributed to declines in market indices as discussed in the Business Developments section under the heading Operating Environment of this MD&A.

Investment in Other Public Indian Investments

During the third quarter and first nine months of 2018, the company acquired common shares of public companies in the financial services sector, listed on both the BSE and the NSE of India ("Other Public Indian Investments") for aggregate cash consideration of $89,114 and $94,090. At September 30, 2018 the fair value of the company's investment in Other Public Indian Investments was $80,814 (December 31, 2017 - nil) and represents less than 1.0% equity interest in each of the public companies. The changes in fair value of the company's investment in Other Public Indian Investments for the third quarter and first nine months of 2018 are presented in the tables at the outset of the Indian Investments section of this MD&A.

Private Indian Investments

Cautionary Statement Regarding the Valuation of Private Indian Investments

In the absence of an active market for the company's Private Indian Investments, fair values for these investments are determined by management using industry acceptable valuation methodologies after considering the history and nature of the business, operating results and financial conditions, outlook and prospects, general economic, industry and market conditions, contractual rights relating to the investment, public market comparables (if available) and, where applicable, other pertinent considerations. The process of valuing investments for which no active market exists is inevitably based on inherent uncertainties and the resulting values may differ from values that would have been used had an active market existed. The amounts at which the company's Private Indian Investments could be disposed of may differ from the fair values assigned and those differences may be material.

Investment in Bangalore International Airport Limited

Business Overview

Bangalore International Airport Limited ("BIAL"), is a private company located in Bengaluru, India. BIAL, under a concession agreement with the Government of India until the year 2038 (with the right to extend the agreement for an additional 30 years), has the exclusive rights to carry out the development, design, financing, construction, commissioning, maintenance, operation and management of the Kempegowda International Airport Bengaluru (“KIAB”) through a public-private partnership (the "concession agreement"). KIAB is the first greenfield airport in India built to the highest level of international standards through a public-private partnership. BIAL's principal lines of business are aeronautical and non-aeronautical revenue from the airport, and other non-airport related revenue which includes the five-star hotel operated under the Taj brand and real estate monetization.

Transaction Description

During 2017 Fairfax India had invested aggregate cash consideration of $585,591 (approximately 38.1 billion Indian rupees) (inclusive of $74,202 of costs incurred, approximately 4.8 billion Indian rupees) for a 48.0% equity interest in BIAL through the following transactions: (i) March 24, 2017 the company acquired a 38.0% equity interest in BIAL for cash consideration of $385,498 (approximately 25.2 billion Indian rupees); and (ii) July 13, 2017 acquired an additional 10.0% equity interest in BIAL for cash consideration of $200,093 (12.9 billion Indian rupees) which the company determined included $74,202 of consideration in excess of the fair value of those additional shares acquired.

On May 16, 2018 Fairfax India acquired an additional 6.0% equity interest in BIAL from Siemens Project Ventures GmbH ("Siemens") for cash consideration of $67,391 (approximately 4.6 billion Indian rupees). Upon completion of this transaction, the company had invested aggregate cash consideration of $652,982 (approximately 42.7 billion Indian rupees) (inclusive of $74,202 of costs incurred, approximately 4.8 billion Indian rupees) for a 54.0% equity interest in BIAL.

Key Business Drivers, Events and Risks

KIAB is the busiest airport in South India, the third largest in the country, and was rated the fastest growing airport globally during 2017 by FlightGlobal, an international aviation data and analytics company. The airport handled approximately 23.7 million passengers during the nine months ended September 30, 2018 representing growth in overall traffic of 31.2% compared to the nine months ended September 30, 2017.

Plans are under execution to expand the capacity of the airport, which include constructing a second runway and an additional terminal building, and expanding the related infrastructure. Land preparation and construction for the second runway are underway, with estimated completion by September 2019. Design approvals for the additional terminal building commenced in 2017 and will be constructed in two phases; the first phase will have the capacity to handle 25 million passengers per annum (estimated to be operational by March 31, 2021), while the second phase of the project will add capacity for another 20 million passengers per annum. The combined capacity of the existing and additional terminal will be approximately 65 million passengers per annum. On September 29, 2018 BIAL awarded the construction contract for the first phase of the additional terminal building to Larsen & Toubro Limited, a company involved in the construction of BIAL's existing airport infrastructure.

On August 31, 2018 the Airports Economic Regulatory Authority of India ("AERA") issued the Final Tariff order for the 2nd Control Period ("2nd CP Final Order") which ends on March 31, 2021. The 2nd CP Final Order included several favourable positions for BIAL, including capital expenditures being justified and secured AERA's approval prior to awarding contracts, which puts BIAL in a confident position to undertake their capacity expansion program as previously mentioned. Aeronautical revenue for BIAL will also increase in the future control periods due to favourable ruling over the calculation of certain tariffs, including User Development Fees.

On January 20, 2005, subsequently amended on June 20, 2006, BIAL had entered into a State Support Agreement for the development, construction, operation and maintenance of the airport with the Government of Karnataka, whereby the Government of Karnataka, subject to other terms, would make available to BIAL over the project period, approximately $45.9 million at current exchange rates (approximately 3.3 billion Indian rupees) in the form of an interest free loan. The proceeds from the interest free loan were to be used exclusively to finance the existing airport infrastructure and were due for repayment in twenty equal half-yearly installments commencing April 30, 2018. On June 29, 2018 the Government of Karnataka approved a 10 year deferral on repayment of the interest free loan, and amended the loan to enable BIAL to utilize the funds towards the airport capacity expansion projects, as described above.

On August 4, 2017 BIAL announced that KIAB would become the first airport in the country to have a helicopter taxi service. Services commenced on March 5, 2018, initially operating between KIAB and Electronics City (one of India's largest electronic industrial parks and an information technology hub in Bengaluru, India).

On February 27, 2018 BIAL was awarded second place for the 2017 Best Airport Service Quality ("ASQ") by size by the Airports Council International ("ACI"). The annual ASQ awards recognize and rewards the best airports in the world according to ACI's ASQ Passenger Satisfaction Survey, the world's benchmark measure of airport excellence, representing the highest possible accolade for airport operators. On July 21, 2018 BIAL scored the highest rating (4.67 out of 5) amongst participating international airports in the first ever ASQ Arrival Survey. The ASQ Arrival Survey focused on the experience of arriving passengers and measured passengers' views on five key areas that were comprised of disembarkation, immigration, baggage claim, customs and airport infrastructure. ACI is the only global trade representative of international airports.

Valuation and Interim Consolidated Financial Statement Impact

At September 30, 2018 the company estimated the fair value of its investment in BIAL using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 11.1% to 12.5% and a long term growth rate of 3.5% (December 31, 2017 - 10.4% to 11.7% and 3.0%, respectively) for BIAL's two business units and the estimated fair value of the monetizable leasehold land (approximately 460 acres) based on third party valuations with an assumed 20.0% discount factor (December 31, 2017 - 20.0%) for the leasehold nature of the asset. Free cash flow projections were based on EBITDA estimates derived from financial information for BIAL's two business units prepared in the third quarter of 2018 by BIAL's management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which BIAL operates. At September 30, 2018 the company's internal valuation model indicated that the fair value of the company's investment in BIAL was $675,726 (December 31, 2017 - $608,288) with the changes in fair value of the company's investment in BIAL for the third quarters and first nine months of 2018 and 2017 presented in the tables at the outset of the Indian Investments section of this MD&A. The net change in unrealized gains on investments of $72,416 and $83,265 from the company's investment in BIAL for the third quarter and first nine months of 2018 were primarily driven by a decrease in projected capital expenditures in the discounted cash flow analysis relating to the justification of costs in line with the 2nd CP Final Order and an increase in aeronautical revenue projected in future periods. The costs incurred of $74,202 were recorded in net change in unrealized gains (losses) on investments and other costs in the interim consolidated financial statements for the three and nine months ended September 30, 2017.

For the third quarter and first nine months of 2018 the consolidated statements of earnings included dividend income earned from the investment in BIAL of nil in both periods (2017 - $2,241 in both periods).

BIAL's Summarized Financial Information

The company's fiscal year ends on December 31 and BIAL's fiscal year ends on March 31. Summarized below are BIAL's balance sheets at June 30, 2018 and March 31, 2018.

Balance Sheets
(unaudited - US$ thousands)

	June 30, 2018(1)	March 31, 2018(1)
Current assets	**170,255**	147,942
Non-current assets	**673,327**	718,517
Current liabilities	**73,079**	73,195
Non-current liabilities	**402,452**	417,315
Shareholders' equity	**368,051**	375,949

(1) The net assets of BIAL were translated at June 30, 2018 at $1 U.S dollar = 68.52 and at March 31, 2018 at $1 U.S. dollar = 65.22 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

Current assets increased primarily due to increased bank deposits with original maturity greater than 3 months. Non-current assets decreased principally as a result of a one-time depreciation expense recorded in the current period from revision of the useful lives of property, plant, and equipment as discussed below, partially offset by ongoing capital expenditures required to expand the capacity of the airport as described in the Key Business Drivers, Events and Risks section. Current liabilities and non-current liabilities decreased primarily as a result of the weakening of the Indian rupee relative to the U.S. dollar during the three months ended June 30, 2018.

Summarized below are BIAL's statements of earnings for the three months ended June 30, 2018 and 2017.

Statements of Earnings
(unaudited - US$ thousands)

	Three months ended June 30, 2018(1)	Three months ended June 30, 2017(1)
Revenue	**65,404**	56,724
Earnings before income taxes	**10,017**	22,801
Net earnings	**10,271**	22,925

(1) Amounts for the three months ended June 30, 2018 and 2017 were translated into US$ using the average exchange rates of $1 U.S. dollar = 66.98 Indian rupees and $1 U.S. dollar = 64.47 Indian rupees prevailing during those periods.

The increase in revenue was primarily driven by both aeronautical and non-aeronautical revenue as a result of increased domestic and international passenger traffic. Earnings before income taxes decreased primarily driven by the revision of the useful lives on property, plant, and equipment, which was effective on April 1, 2018 resulting in a one-time depreciation expense of approximately $22.2 million (1.5 billion Indian rupees) recorded during the three months ended June 30, 2018, partially offset by lower interest expense and the increase in revenues as noted above. Net earnings decreased as a result of the decreases described above, partially offset by a deferred income tax recovery related to the tax effect on the revised depreciation rates.

Investment in National Collateral Management Services Limited

Business Overview

National Collateral Management Services Limited ("NCML"), a private company, is a leading private agricultural commodities company located in Gurugram, India operating for over 14 years in the agriculture value chain and offering end-to-end solutions in grain procurement, testing, storage and collateral management. NCML was promoted by a consortium of banks, cooperatives and the National Commodity and Derivatives Exchange Limited (“NCDEX”) in 2004 as a warehousing and collateral management company to support commodity trading on NCDEX and has since evolved into a significant player in India. NCML's principal lines of business are warehousing and collateral management, supply chain management, non-banking finance company ("NBFC"), and the silo projects.

Transaction Description

In the third quarter of 2015 and August 2017 Fairfax India acquired an 89.5% equity interest in NCML for cash consideration of $174,318 (approximately 11.3 billion Indian rupees). The payable for rights issue at December 31, 2017 related to Fairfax India's participation in NCML's rights issue that was settled in January 2018.

Key Business Drivers, Events and Risks

NCML's key business drivers relate to its ability to achieve long term modernization of its grain storage facilities, the development of its NBFC, the expansion of its supply chain management line of business, and the successful construction of the silos under the concession agreement.

The silo projects, which are expected to be completed by early 2019, will be financed through debt and common equity. The silo projects are comprised of 11 silos that will be constructed under a design, build, finance, own and operate model and 2 silos that will be constructed under a design, build, finance, operate and transfer model, with all 13 silos being constructed for the exclusive use by the Food Corporation of India.

Recent events in India have negatively impacted the NBFC sector with tighter liquidity and risk of rise in cost of funding which may impact NCML's NBFC line of business, as discussed in the Business Developments section under the heading Operating Environment of this MD&A.

Valuation and Interim Consolidated Financial Statement Impact

At September 30, 2018 the company estimated the fair value of its investment in NCML using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 12.2% to 22.1% and long term growth rates ranging from 2.4% to 6.0% (December 31, 2017 - 12.0% to 19.9% and 2.4% to 6.0%, respectively). Free cash flow projections were based on EBITDA estimates derived from financial information for NCML's business units prepared in the third quarter of 2018 by NCML's management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which NCML operates. At September 30, 2018 the company's internal valuation model indicated that the fair value of the company's investment in NCML was $159,216 (December 31, 2017 - $179,054) with the changes in fair value of the company's investment in NCML for the third quarters and first nine months of 2018 and 2017 presented in the tables at the outset of the Indian Investments section of this MD&A. The net change in unrealized losses of $1,701 from the company's investment in NCML for the third quarter of 2018 is primarily due to a risk reduction strategy in the collateral management line of business that reduced its projected cash flows used in the discounted cash flow analysis. The net change in unrealized gains of $1,684 from the company's investment in NCML for the first nine months of 2018 was primarily related to the increased growth in NCML's supply chain management line of business, partially offset by the decrease in collateral management line of business previously discussed.

NCML's Summarized Financial Information

The company's fiscal year ends on December 31 and NCML's fiscal year ends on March 31. Summarized below are NCML's balance sheets at September 30, 2018 and March 31, 2018.

Balance Sheets
(*unaudited - US$ thousands**)***

	September 30, 2018 [(1)]	March 31, 2018[(1)]
Current assets	**128,576**	199,657
Non-current assets	**95,508**	93,057
Current liabilities	**101,432**	155,776
Non-current liabilities	**19,226**	23,909
Shareholders' equity	**103,426**	113,029

(1) The net assets of NCML were translated at September 30, 2018 at $1 U.S. dollar = 72.49 Indian rupees and at March 31, 2018 at $1 U.S. dollar = 65.22 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

Current assets decreased primarily reflecting lower advances in the NBFC line of business and decreased trade receivables as a result of improved collection processes. Non-current assets modestly increased principally related to increases in property, plant and equipment as a result of land acquisitions for the silo projects. Current liabilities decreased primarily reflecting decreases in short term loans and borrowings by the NBFC line of business from tighter liquidity in the market, partially offset by increased working capital levels in the supply chain management line of business. Non-current liabilities decreased as a result of scheduled repayments on loans and borrowings.

Summarized below are NCML's statements of earnings for the six months ended September 30, 2018 and 2017.

Statements of Earnings
(**unaudited - US$ thousands**)

	Six months ended September 30, 2018(1)	Six months ended September 30, 2017(1)
Revenue	**110,910**	91,286
Earnings before income taxes	**1,705**	1,284
Net earnings	**1,578**	3,051

(1) Amounts for the six months ended September 30, 2018 and 2017 were translated into US$ using the average exchange rates of $1 U.S. dollar = 68.51 Indian rupees and $1 U.S. dollar = 64.38 Indian rupees prevailing during those periods.

Revenue increased primarily reflecting growth in the supply chain management and warehousing lines of business as a result of a strong monsoon season, partially offset by a decrease in the collateral management line of business due to NCML's management decision to exit higher risk segments that have been negatively impacting the quality of the commodities. Earnings before income taxes increased principally as a result of decreased interest expense from short-term borrowings by the NBFC line of business from tighter liquidity in the market and a one-time charge for impairment of certain receivables in the comparable period. Net earnings decreased primarily as a result of a deferred income tax recovery in the comparable period, partially offset by the increase in earnings before income taxes as noted above.

Investment in Sanmar Chemicals Group

Business Overview

Sanmar Chemicals Group ("Sanmar"), a private company, is one of the largest suspension polyvinyl chloride ("PVC") manufacturers in India, headquartered in Chennai, India with an operational presence in India and Egypt. Sanmar has an installed capacity of approximately 366,000 metric tons per annum in India and has completed its expansion of PVC capacity in Egypt from 200,000 metric tons per annum to 400,000 metric tons per annum in September 2018, resulting in a total PVC capacity of over 766,000 metric tons per annum. As part of its expansion project in Egypt, a calcium chloride facility with capacity of approximately 130,000 metric tonnes per annum has also been commissioned.

Sanmar's principal lines of business consist of: Chemplast, the second largest suspension PVC manufacturer and the largest specialty PVC manufacturer in India; Sanmar Egypt*,* the largest Indian investor in Egypt’s chemical business and the largest caustic soda, calcium chloride and PVC manufacturer in Egypt; Specialty Chemicals*,* a business engaged in the manufacturing and marketing of phytochemicals and organic chemicals; and Kem One Chemplast, a partnership that will manufacture chlorinated polyvinyl chloride ("CPVC") in India.

Transaction Description

In April 2016 Fairfax India invested $250,000 in Sanmar comprised of $1,000 in common shares (representing a 30.0% equity interest) and $249,000 in bonds, and in September 2016 invested an additional $50,000 in Sanmar bonds. Both tranches of Sanmar bonds mature on April 22, 2023 (7 years from the date of issuance of the first tranche), subject to earlier redemption at the option of Sanmar under certain circumstances. In lieu of cash, the coupon payment on the bond is payable in kind in the form of additional Sanmar bonds over the life of the financial instrument. A redemption premium may also be payable in kind to the company.

On September 17, 2018 the company announced that it had entered into an agreement with Sanmar to which the $299,000 in Sanmar bonds will be settled for proceeds equal to, at the date of cancellation, the bonds' principal amount plus an effective annual interest rate of 13.0%. The company will invest $194,289 at current exchange rates (approximately 14.1 billion Indian rupees) of the net proceeds received from the settlement of the Sanmar bonds into 171,710 newly issued common shares of Sanmar, increasing the company's equity interest in Sanmar to 42.9% from 30.0% at September 30, 2018. The company will receive the remaining proceeds in cash. This transaction is subject to customary closing conditions and third party consents, and is expected to be completed in the first half of 2019.

Key Business Drivers, Events and Risks

India continues to be a PVC deficit market with approximately 50% of the demand being met through imports. Egypt and Turkey, which are manufacturing hubs for exports to Europe, currently have a demand gap for PVC of approximately 1,000 kilotons per annum which is being met by imports from the U.S. and Asia. Global PVC demand is projected to grow at a compound annual growth rate between 3.5% to 4.0% outpacing the growth of supply over the next 10 years and India is expected to become a bigger market than North America by 2025. In addition due to environmental regulations, China is expected to decrease production capacity of PVC thereby increasing demand and improving prices globally.

Chemplast and Kem One (the second largest producer of PVC in Europe) have entered into an agreement to establish Kem One Chemplast, an equal joint venture that will manufacture CPVC. The joint venture and new facility will be established at a coastal location in Karaikal, Puducherry, India. The project will utilize the technology of Kem One and have a capacity to manufacture 20,000 tonnes per annum of CPVC resins and will also manufacture CPVC compounds. On May 2, 2017 approval from the Government of India's Ministry of Environment, Forest and Climate Change was received, allowing the joint venture to commence construction of the new facility. The project is projected to be operational by 2022 with full operational capacity in 2024.

CPVC is used as a raw material to produce pipes and fittings for supplying water that are required to have a high resistance to heat, pressure and chemicals. More recently in India, there has been a switch from metal pipes to CPVC pipes in building construction combined with an overall increase in construction demand. The Kem One Chemplast joint venture is well positioned to benefit from the rapidly growing demand for CPVC in India that is currently being met through imports.

Sanmar's key business drivers related to its ability to execute its plan to increase PVC manufacturing capacity in Egypt and India that should align with the growing demand for PVC in North Africa, Middle East and India and to improve the overall capacity utilization at all of its PVC production facilities. With the successful implementation and commissioning of Sanmar's expansion projects at Sanmar Egypt in September 2018, the implementation risk associated with these projects has significantly decreased. Profitability is expected to improve significantly with the commissioning of the new capacity at Sanmar Egypt. With the ability to refinance its existing debt and to realize increased demand for its products, Sanmar has plans to add several new expansion capital projects in Chemplast which will result in additional capacity for various products of approximately 420,000 tonnes per annum, with commissioning dates projected prior to 2024.

Valuation and Interim Consolidated Financial Statement Impact

Sanmar Common Shares

At September 30, 2018 the company estimated the fair value of its investment in Sanmar common shares using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 13.4% to 16.6% and long term growth rates ranging from 3.0% to 4.0% (December 31, 2017 - 15.2% to 19.5% and 2.0% to 3.6%, respectively). Free cash flow projections were based on EBITDA estimates derived from financial information for Sanmar's four business units (with additional financial information and analysis completed for Chemplast's underlying business units involved in new capital projects) prepared in the third quarter of 2018 by Sanmar's management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which Sanmar operates. In the third quarter of 2018 Fairfax India recorded unrealized gains of $225,013 on its investment in Sanmar common shares primarily as a result of: (i) positive operational developments at Sanmar Egypt (successful completion of its increased capacities in Egypt) and Chemplast (will benefit from the completion of new capital projects); (ii) continued strong demand for PVC and related products in India, Europe, the Middle East and North Africa; and (iii) the decrease in the after-tax discount rates (principally related to the decreased risk at Sanmar Egypt as a result of the completion of its capital expenditure project to increase capacity). At September 30, 2018 the company's internal valuation model indicated that the fair value of the company's investment in Sanmar common shares was $208,854 (December 31, 2017 - $556) with the changes in fair value for the third quarters and first nine months of 2018 and 2017 presented in the tables at the outset of the Indian Investments section of this MD&A. The net change in unrealized gains on investments of $225,013 and $225,104 from the company's investment in Sanmar common shares for the third quarter and first nine months of 2018 was primarily driven by increased projected cash flows used in the discounted cash flow analysis and decreases in the after-tax discount rates from factors disclosed earlier.

Sanmar Bonds

At September 30, 2018 the company estimated the fair value of its investment in Sanmar bonds using an industry accepted discounted cash flow and option pricing model that incorporated Sanmar's estimated credit spread of 4.7% (December 31, 2017 - 8.2%) and assumptions related to certain redemption options embedded in the bonds. The estimated credit spread was based on the credit spreads of a peer group of comparable companies adjusted for credit risk specific to Sanmar. In the third quarter of 2018 Fairfax India recorded unrealized gains of $68,258 on its investment in Sanmar bonds primarily relating to a decrease in the estimated credit spread used in the internal valuation model as a result of factors disclosed earlier under the Sanmar Common Shares heading which increased the company's estimated enterprise value for Sanmar. At September 30, 2018 the company's internal valuation model indicated that the fair value of the company's investment in Sanmar bonds was $367,009 (December 31, 2017 - $333,172) with the changes in fair value for the third quarters and first nine months of 2018 and 2017 presented in the tables at the outset of the Indian Investments section of this MD&A. At September 30, 2018 Sanmar bonds were reaffirmed and rated BBB- (December 31, 2017 - BBB-) with a stable outlook by Brickwork Ratings, an Indian rating agency. The net change in unrealized gains on investments of $68,258 and $79,567 from the company's investment in Sanmar bonds for the third quarter and first nine months of 2018 was primarily driven by the decrease in Sanmar's estimated credit spread from factors disclosed earlier.

Sanmar's Summarized Financial Information

The company's fiscal year ends on December 31 and Sanmar's fiscal year ends on March 31. Summarized below are Sanmar's balance sheets at June 30, 2018 and March 31, 2018.

Balance Sheets
(*unaudited - US$ thousands****)***

	June 30, 2018[(1)]	March 31, 2018[(1)]
Current assets	**237,335**	247,396
Non-current assets	**1,398,045**	1,386,776
Current liabilities	**511,114**	516,316
Non-current liabilities	**1,387,725**	1,386,152
Shareholders' deficit	**(263,459)**	(268,296)

(1) The net assets of Sanmar were translated at June 30, 2018 at $1 U.S dollar = 68.52 and at March 31, 2018 at $1 U.S. dollar = 65.22 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

Current assets and current liabilities modestly decreased primarily as a result of the weakening of the Indian rupee relative to the U.S. dollar during the three months ended June 30, 2018. Non-current assets increased primarily reflecting additional capital expenditures made in connection with the Phase 2 expansion at Sanmar Egypt. Non-current liabilities increased primarily reflecting an increase in long term loans and borrowings to fund the Phase 2 expansion at Sanmar Egypt.

Summarized below are Sanmar's statements of earnings for the three months ended June 30, 2018 and 2017.

Statements of Earnings
(*unaudited - US$ thousands****)***

	Three months ended June 30, 2018[(1)]	Three months ended June 30, 2017[(1)]
Revenue	**169,683**	164,525
Loss before income taxes	**(11,854)**	(18,908)
Net loss	**(17,721)**	(23,840)

(1) Amounts for the three months ended June 30, 2018 and 2017 were translated into US$ using the average exchange rates of $1 U.S. dollar = 66.98 Indian rupees and $1 U.S. dollar = 64.47 Indian rupees prevailing during those periods.

Revenue increased primarily reflecting increased sales volumes at Chemplast as a result of improved demand for PVC favourably impacting prices. Loss before income taxes and net loss decreased primarily reflecting improved margins, partially offset by an increase in interest expense as a result of increased in borrowings at Sanmar Egypt.

Investment in Saurashtra Freight Private Limited

Business Overview

Saurashtra Freight Private Limited ("Saurashtra"), a private company headquartered in Mumbai, India, runs one of the largest container freight stations at Mundra port (Gujarat). Services provided by Saurashtra's container freight station includes transportation of containers to and from the port, stuffing/ destuffing of containers, cargo storage, transportation of cargo to the end customer, and the storage, maintenance and repair of empty containers. In the third quarter of 2017 Saurashtra commenced operations in a new line of business, Fairfreight Lines, that focuses on new services for container shipping, offering integrated logistic solutions to its customers by providing containers, which are leased by Saurashtra, to importers and exporters to transport cargo.

Transaction Description

In February 2017 Fairfax India acquired a 51.0% equity interest in Saurashtra for cash consideration of $30,018 (approximately 2.0 billion Indian rupees).

Key Business Drivers, Events and Risks

Saurashtra has the annual capacity to handle 180,000 standard twenty-foot (shipping container) equivalent units ("TEUs") and in the third quarter of 2018 handled 23,383 TEUs, implying a capacity utilization of approximately 52% and growth of approximately 8% over the comparable period in the prior year. Saurashtra had the highest market share for imports at approximately 15% (increase from 14% at March 31, 2018) and were fourth in exports at approximately 13% (modest decline from 15% at March 31, 2018) for the third quarter of 2018 at Mundra port in India, remaining the largest container freight stations ("CFS") at that port in terms of total throughput.

The CFS industry is highly fragmented with 13 CFS at Mundra port. Many of these CFS are inefficient and operating below capacity providing Saurashtra with the opportunity to benefit from industry consolidation.

Rising oil prices due to factors as discussed in the Business Developments section under the heading Operating Environment of this MD&A negatively impacted Saurashtra's operating margins during the third quarter of 2018, with the increase in diesel prices being the largest contributor to the increase in operating expenses from the comparable period in the prior year.

Valuation and Interim Consolidated Financial Statement Impact

At September 30, 2018 the company estimated the fair value of its investment in Saurashtra using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 15.7% to 16.4% and long term growth rates ranging from 4.0% to 5.0% (December 31, 2017 - 14.6% to 14.7% and 4.0% to 5.0%, respectively). Free cash flow projections were based on EBITDA estimates derived from financial information for Saurashtra's two business units prepared in the third quarter of 2018 by Saurashtra's management. The discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which Saurashtra operates. At September 30, 2018 the company's internal valuation model indicated that the fair value of the company's investment in Saurashtra was $22,283 (December 31, 2017 - $28,000) with the changes in fair value for the third quarters and first nine months of 2018 and 2017 presented in the tables at the outset of the Indian Investments section of this MD&A. The net change in unrealized losses of $1,720 and $2,562 from the company's investment in Saurashtra for the third quarter and first nine months of 2018 was primarily driven by lower than projected growth in Saurashtra's CFS line of business as a result of increased pricing competition on services relating to imports, partially offset by decreased capital expenditures in the projected periods for Fairfreight Lines, as the business unit plans to continue its leasing model for containers.

Investment in National Stock Exchange of India Limited

Business Overview

National Stock Exchange of India Limited ("NSE"), a private company located in Mumbai, India, operates India's largest stock exchange. In addition to providing a platform for exchange-traded financial products in India, NSE's flagship index, Nifty50, is used extensively by investors in India and around the world as a barometer of the Indian capital markets.

Transaction Description

In the third quarter of 2016 Fairfax India acquired a 1.0% equity interest in NSE for cash consideration of $26,783 (approximately 1.8 billion Indian rupees).

Key Business Drivers, Events and Risks

India has two main stock exchanges where the majority of its trading takes place, the BSE and the NSE of India. Although most significant firms in India are listed on both the BSE and the NSE of India, NSE enjoys a dominant market share position including an 90% market share in the equity trading segment, a 100% market share in the equity derivatives trading segment and a 56% and 39% market share in the foreign exchange futures and options markets, respectively.

On December 28, 2016 NSE filed a draft prospectus with SEBI in connection with its proposed initial public offering ("IPO"). Certain matters requiring resolution have delayed the IPO process, and as a result completion of the IPO is anticipated in late 2019. NSE will also seek to file for an overseas listing subsequent to closing of the IPO. NSE has appointed Citibank, JM Financial, Kotak Mahindra and Morgan Stanley as lead investment banks to manage the IPO.

On October 12, 2018, subsequent to receiving approval from SEBI, NSE launched a new commodities derivatives trading segment. NSE will focus on derivatives trading in non-agricultural commodities in the initial phase, followed by agricultural commodities subject to SEBI approval.

Valuation and Interim Consolidated Financial Statement Impact

At September 30, 2018 the company's estimated fair value of its investment in NSE of $58,061 was based on a recent third party transaction completed in the third quarter of 2018, and corroborated by the company through independent confirmation. At December 31, 2017 the estimated fair value of the company's investment in NSE was based on an internal market approach valuation model. The model referenced the earnings multiple of a peer group of comparable companies that had a median earnings multiple of 26.2 times, that when applied to NSE's earnings resulted in a fair value at December 31, 2017 of $40,452. The changes in fair value for the third quarters and first nine months of 2018 and 2017 are presented in the tables at the outset of the Indian Investments section of this MD&A. The net change in unrealized losses on investments of $3,655 for the third quarter of 2018 reflected the decrease in fair value in the company's investment in NSE based on the recent third party transaction completed at a fair value of 840.00 Indian rupees per share compared to 873.74 Indian rupees per share at June 30, 2018. The net change in unrealized gains on investments of $24,245 for the first nine months of 2018 reflected the increase in fair value in the company's investment in NSE based on the recent third party transaction completed at a fair value of 840.00 Indian rupees per share compared to 515.31 Indian rupees per share at December 31, 2017 based on the internal market approach valuation model.

For the third quarter and first nine months of 2018 the consolidated statements of earnings included dividend income earned from the investment in NSE of $579 in both periods (2017 - $941 in both periods).

Investment in The Catholic Syrian Bank Limited

The Catholic Syrian Bank Limited ("CSB"), a private company headquartered in Thrissur, India, was established in 1920 and is a full-service bank offering neighborhood banking, non-resident Indian services, small-to-medium enterprise and wholesale banking services through 421 branches and 264 automated teller machines across India.

Subsequent to September 30, 2018

On October 19, 2018 the company invested $60,157 (approximately 4.4 billion Indian rupees) in securities of CSB, comprised of 19.8 million common shares for $9,456 (approximately 0.7 billion Indian rupees), and warrants to purchase 66.5 million common shares for $50,701 (approximately 3.7 billion Indian rupees). The consideration paid at closing represented 25.0% and 40.0% of the consideration payable for the common shares and warrants respectively. The balance of the consideration payable to CSB of approximately $104 million at the exchange rate at that date (approximately 7.7 billion Indian rupees) is payable as follows: (i) within 12 months for the remaining consideration payable on the common shares (approximately $28 million, 2.1 billion Indian rupees), upon request by CSB; and (ii) within 18 months for the remaining consideration payable on the warrants (approximately $76 million, 5.6 billion Indian rupees), payable in one or more tranches either upon request by CSB or at the option of Fairfax India. Following the payment of the remaining consideration on the common shares and warrants, Fairfax India will have invested approximately $165 million (approximately 12.1 billion Indian rupees) and will own a 51.0% equity interest in CSB on a fully diluted basis.

Results of Operations

Fairfax India's consolidated statements of earnings for the three and nine months ended September 30 are shown in the following table:

	Third quarter		First nine months	
	2018	2017	**2018**	2017
Income				
Interest	**5,318**	6,061	**17,890**	15,060
Dividends	**1,411**	3,463	**7,986**	8,088
Net realized gains (losses) on investments	**(2)**	—	**(3,335)**	1,195
Net change in unrealized gains (losses) on investments and other costs	**136,234**	(69,779)	**138,115**	478,504
Net foreign exchange losses	**(25,909)**	(6,200)	**(55,068)**	(23,214)
	117,052	(66,455)	**105,588**	479,633
Expenses				
Investment and advisory fees	**8,771**	5,059	**25,257**	19,303
Performance fee	**—**	(22,627)	**—**	84,334
General and administration expenses	**1,170**	780	**3,277**	3,518
Interest expense	**9,427**	7,598	**19,379**	10,839
	19,368	(9,190)	**47,913**	117,994
Earnings (loss) before income taxes	**97,684**	(57,265)	**57,675**	361,639
Provision for (recovery of) income taxes	**3,504**	(4,111)	**4,317**	(2,805)
Net earnings (loss)	**94,180**	(53,154)	**53,358**	364,444
Net earnings (loss) per share	**$ 0.61**	$ (0.36)	**$ 0.35**	$ 2.50
Net earnings (loss) per diluted share	**$ 0.61**	$ (0.36)	**$ 0.35**	$ 2.43

Total loss from income of $66,455 in the third quarter of 2017 increased to income of $117,052 in the third quarter of 2018 principally as a result of increased net change in unrealized gains on investments (discussed below), partially offset by an increase in net foreign exchange losses (primarily as a result of the weakening of the Indian rupee relative to the U.S. dollar during the third quarter of 2018). The net change in unrealized gains on investments of $136,234 in the third quarter of 2018 was principally comprised of appreciation in the company's investments in Sanmar common stock ($225,013), BIAL ($72,416) and Sanmar bonds ($68,258), partially offset by depreciation in the company's investments in IIFL ($211,922). The net change in unrealized losses on investments and other costs of $69,779 in the third quarter of 2017 was principally comprised of depreciation in the company's common stock investments in BIAL ($67,717 inclusive of the $74,202 costs incurred to acquire the additional 10.0% equity interest) and Fairchem ($24,267), partially offset by appreciation in Sanmar bonds ($6,783), IIFL ($5,682), NSE ($4,378) and NCML ($4,119). Interest income of $5,318 in the third quarter of 2018 decreased from $6,061 in the third quarter of 2017 principally as a result of the partial sale of Government of India bonds and the weakening of the Indian rupee relative to the U.S. dollar during the first nine months of 2018, partially offset by interest earned from cash equivalent securities. Dividend income of $1,411 in the third quarter of 2018 related to dividends received from the company's investments in NSE, Fairchem and Other Public Indian Investments compared to dividend income of $3,463 in the third quarter of 2017 related to dividends received from the company's investments in BIAL, NSE, and Fairchem.

Total income of $479,633 in the first nine months of 2017 decreased to $105,588 in the first nine months of 2018 principally as a result of decreased net change in unrealized gains on investments and other costs (discussed below) and an increase in net foreign exchange losses (primarily as a result of the weakening of the Indian rupee relative to the U.S. dollar during the first nine months of 2018). The net change in unrealized gains on investments of $138,115 in the first nine months of 2018 was principally comprised of appreciation in the company's investments in Sanmar common stock

($225,104), BIAL ($83,265), Sanmar bonds ($79,567) and NSE ($24,245), partially offset by depreciation in IIFL ($211,922) and Fairchem ($35,481). The net change in unrealized gains on investments and other costs of $478,504 in the first nine months of 2017 was principally comprised of the appreciation in the company's investments in IIFL ($434,292), NSE ($12,218), Sanmar bonds ($11,756), Fairchem ($8,896) and BIAL ($8,879, net of the $74,202 costs incurred to acquire the additional 10.0% equity interest). Interest income of $17,890 in the first nine months of 2018 increased from $15,060 in the first nine months of 2017 principally as a result of higher income earned from Government of India bonds due to timing of purchases in the prior year and interest earned from cash equivalent securities, partially offset by the impact of the weakening of the Indian rupee relative to the U.S. dollar during the first nine months of 2018. Dividend income of $7,986 in the first nine months of 2018 related to dividends received from the company's investments in IIFL, NSE, Fairchem, and Other Public Indian Investments compared to dividend income of $8,088 in the first nine months of 2017 related to dividends received from the company's investments in IIFL, BIAL, NSE, and Fairchem.

Net gains (losses) on investments and net foreign exchange gains (losses) for the third quarters and first nine months of 2018 and 2017 were comprised as follows:

	Third quarter					
	2018			2017		
	Net realized gains (losses)	**Net change in unrealized gains (losses)**	**Net gains (losses)**	Net realized losses	Net change in unrealized gains (losses) and other costs	Net gains (losses)
Net gains (losses) on investments:						
Short term investments	**(2)**	**—**	**(2)**	—	—	—
Bonds	**—**	**68,199** (1)	**68,199**	—	4,308 (1)	4,308
Common stocks	**—**	**68,035** (2)	**68,035**	—	(74,087) (2)	(74,087)
	(2)	**136,234**	**136,232**	—	(69,779)	(69,779)
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	**4,651**	**—**	**4,651**	(485)	—	(485)
Investments	**197**	**637**	**834**	—	(49)	(49)
Term loans	**—**	**(31,656)**	**(31,656)**	—	(4,677)	(4,677)
Other	**262**	**—**	**262**	(989)	—	(989)
	5,110	**(31,019)**	**(25,909)**	(1,474)	(4,726)	(6,200)

(1) In the third quarter of 2018, principally comprised of unrealized gains from Sanmar bonds ($68,258). In the third quarter of 2017, comprised of unrealized gains from Sanmar bonds ($6,783), partially offset by unrealized losses from Government of India bonds ($1,820) and Indian corporate bonds ($655).

(2) Refer to the Indian Investments section of this MD&A for a summary of changes in the fair value of the company's Public and Private Indian Investments during the third quarters of 2018 and 2017.

	First nine months					
	2018			2017		
	Net realized gains (losses)	**Net change in unrealized gains (losses)**	**Net gains (losses)**	Net realized gains (losses)	Net change in unrealized gains (losses) and other costs	Net gains (losses)
Net gains (losses) on investments:						
Short term investments	**(2)**	**—**	**(2)**	—	—	—
Bonds	**(3,333)**	**72,105** (1)	**68,772**	1,195	4,312 (1)	5,507
Common stocks	**—**	**66,010** (2)	**66,010**	—	474,192 (2)	474,192
	(3,335)	**138,115**	**134,780**	1,195	478,504	479,699
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	**5,607**	**—**	**5,607**	(26,684) (4)	—	(26,684)
Investments	**(332)**	**2,328**	**1,996**	(1,046)	(176)	(1,222)
Term loans	**(25,407)** (3)	**(34,330)** (3)	**(59,737)**	9,812 (3)	(4,677)	5,135
Other	**(2,934)**	**—**	**(2,934)**	(443)	—	(443)
	(23,066)	**(32,002)**	**(55,068)**	(18,361)	(4,853)	(23,214)

(1) In the first nine months of 2018, comprised of unrealized gains from Sanmar bonds ($79,567), partially offset by unrealized losses from Indian corporate bonds ($3,472) and Government of India bonds ($3,990). In the first nine months of 2017, comprised of unrealized gains from Sanmar bonds ($11,756), partially offset by unrealized losses from Indian corporate bonds ($1,106) and Government of India bonds ($6,338).

(2) Refer to the Indian Investments section of this MD&A for a summary of changes in the fair value of the company's Public and Private Indian Investments during the first nine months of 2018 and 2017.

(3) In the first nine months of 2018 net realized foreign exchange loss of $25,407 related to the extinguishment of the $400.0 million term loan, and the net change in unrealized loss of $34,330 was comprised of the reversal of the prior year unrealized foreign exchange gain of $4,527 on the $400.0 million term loan and unrealized foreign exchange loss of $29,803 on the $550.0 million term loan. In the first nine months of 2017 net realized foreign exchange gain of $9,812 related to the early settlement of a 2 year secured term loan with a principal amount of $225,000 on March 31, 2017.

(4) Primarily related to the U.S. dollar net proceeds received from the secondary offerings completed in January 2017 that were held in U.S. dollar denominated cash equivalents until the funds were partially deployed to acquire the 38.0% equity interest in BIAL.

Total expenses increased from a recovery of $9,190 in the third quarter of 2017 to total expenses of $19,368 in the third quarter of 2018 primarily related to a recovery of performance fee of $22,627 in the third quarter of 2017 (common shareholders' equity decreased in the period, resulting in a lower performance fee payable at September 30, 2017), increased interest expense (including amortization of issue costs related to the $550.0 million term loan entered into on June 28, 2018) and increased in investment and advisory fees (principally as a result of the increased holdings of Indian Investments).

Total expenses decreased from $117,994 in the first nine months of 2017 to $47,913 in the first nine months of 2018 primarily related to the company determining that no performance fee accrual was payable at September 30, 2018 compared to $84,334 in the first nine months of 2017, partially offset by increased interest expense and increased in investment and advisory fees (principally as a result of the increased holdings of Indian Investments).

The investment and advisory fee is calculated and payable quarterly as 0.5% of the value of undeployed capital and 1.5% of the company's common shareholders' equity less the value of undeployed capital. For the first nine months of 2018 the company determined that the majority of its assets were invested in Indian Investments, which are considered deployed capital. For the third quarter and first nine months of 2018, the investment and advisory fees recorded in the consolidated statements of earnings were $8,771 and $25,257 (2017 - $5,059 and $19,303).

The provision for income taxes of $3,504 and $4,317 in the third quarter and first nine months of 2018 differed from the provision for income taxes that would be determined by applying the company's Canadian statutory income tax rate of 26.5% to the company's earnings before income taxes primarily as a result of the change in unrecorded tax benefit of losses and temporary differences, and foreign exchange fluctuations, partially offset by tax rate differential on income earned outside of Canada.

The recovery of income taxes of $4,111 in the third quarter of 2017 differed from the provision for income taxes that would be determined by applying the company's Canadian statutory income tax rate of 26.5% to the company's loss before income taxes primarily as a result of unrecorded benefit of losses in Canada, partially offset by the tax rate differential on losses incurred outside of Canada. The recovery of income taxes of $2,805 in the first nine months of 2017 differed from the provision for income taxes that would be determined by applying the company's Canadian statutory income tax rate of 26.5% to the company's earnings before income taxes primarily as a result of tax rate differential on income earned outside of Canada, partially offset by the change in unrecorded tax benefit of losses and temporary differences, and foreign exchange fluctuations.

The company reported net earnings of $94,180 (net earnings of $0.61 per basic and diluted share) in the third quarter of 2018 compared to a net loss of $53,154 (a net loss of $0.36 per basic share and diluted share) in the third quarter of 2017. The quarter-over-quarter increase in profitability primarily reflected increased net change in unrealized gains on investments, partially offset by a recovery of performance fee in the third quarter of 2017 and increased net foreign exchange losses. The company reported net earnings of $53,358 (net earnings of $0.35 per basic and diluted share) in the first nine months of 2018 compared to net earnings of $364,444 (net earnings of $2.50 per basic share and $2.43 per diluted share) in the first nine months of 2017. The year-over-year decrease in profitability primarily reflected decreased net change in unrealized gains on investments and other costs, increased net foreign exchange losses, investment and advisory fees and interest expense, partially offset decreased performance fee in the first nine months of 2018.

Consolidated Balance Sheet Summary

The assets and liabilities reflected on the company's consolidated balance sheet at September 30, 2018 were impacted by the settlement of the performance fee payable to Fairfax through the issuance of subordinate voting shares, completion and extinguishment of the $550.0 million and the $400.0 million term loans respectively, an additional investment in BIAL, investments in Other Public Indian Investments and Indian corporate bonds, the settlement of the payable for rights issue, repurchases of shares, the partial sale of Government of India bonds, unrealized gains (losses) on the company's Indian Investments and unrealized foreign currency translation losses.

Total Assets

Total assets at September 30, 2018 of $2,571,348 (December 31, 2017 - $2,672,221) were principally comprised as follows:

Total cash and investments decreased to $2,562,378 at September 30, 2018 from $2,659,568 at December 31, 2017. The company's cash and investments composition by the issuer's country of domicile was as follows:

	September 30, 2018					December 31, 2017				
	India	**U.S.**	**Canada**	**Other**	**Total**	India	U.S.	Canada	Other	Total
Cash and cash equivalents	**—**	**10,194**	**3,793**	**2,332**	**16,319**	—	—	9,934	3,310	13,244
Restricted cash	**—**	**—**	**21,915**	**—**	**21,915**	—	—	10,598	—	10,598
Short term investments - U.S. treasury bills	**—**	**13,894**	**—**	**—**	**13,894**	—	27,481	—	—	27,481
Bonds:										
Government of India	**153,977**	**—**	**—**	**—**	**153,977**	259,356	—	—	—	259,356
Indian corporate	**89,077**	**—**	**—**	**—**	**89,077**	101,724	—	—	—	101,724
Sanmar	**367,009**	**—**	**—**	**—**	**367,009**	333,172	—	—	—	333,172
	610,063	**—**	**—**	**—**	**610,063**	694,252	—	—	—	694,252
Common stocks:										
IIFL	**586,150**	**—**	**—**	**—**	**586,150**	888,485	—	—	—	888,485
Fairchem	**98,528**	**—**	**—**	**—**	**98,528**	149,200	—	—	—	149,200
5paisa	**10,555**	**—**	**—**	**—**	**10,555**	19,958	—	—	—	19,958
Other	**80,814**	**—**	**—**	**—**	**80,814**	—	—	—	—	—
BIAL	**675,726**	**—**	**—**	**—**	**675,726**	608,288	—	—	—	608,288
NCML	**159,216**	**—**	**—**	**—**	**159,216**	179,054	—	—	—	179,054
Sanmar	**208,854**	**—**	**—**	**—**	**208,854**	556	—	—	—	556
Saurashtra	**22,283**	**—**	**—**	**—**	**22,283**	28,000	—	—	—	28,000
NSE	**58,061**	**—**	**—**	**—**	**58,061**	40,452	—	—	—	40,452
	1,900,187	**—**	**—**	**—**	**1,900,187**	1,913,993	—	—	—	1,913,993
Total cash and investments	**2,510,250**	**24,088**	**25,708**	**2,332**	**2,562,378**	2,608,245	27,481	20,532	3,310	2,659,568

Cash and cash equivalents increased to $16,319 at September 30, 2018 from $13,244 at December 31, 2017 principally reflecting the incremental net proceeds received from the $550.0 million term loan and the partial sale of Government of India bonds, partially offset by the use of those funds to finance an additional investment in BIAL, investments in Other Public Indian Investments and Indian corporate bonds.

Restricted cash of $21,915 at September 30, 2018 and $10,598 at December 31, 2017 related to requirements under the $550.0 million and $400.0 million term loans respectively for the company to set aside cash to fund interest payments.

Short term investments decreased to $13,894 at September 30, 2018 from $27,481 at December 31, 2017 principally reflected sales of U.S treasury bills to settle the remaining payable on NCML's rights issue and fund the repurchases for cancellation of the subordinate voting shares of the company under the normal course issuer bid (see note 8 (Common Shareholders' Equity) to the interim consolidated financial statements for the three and nine months ended September 30, 2018).

Bonds and common stocks - The company is actively seeking investment opportunities in India and will continue to redirect capital from its cash and cash equivalents, short term investments and bond portfolio into Indian Investments as and when those opportunities are identified. For more information about recent Indian Investments, see the Indian Investments section of this MD&A. For more information on the company's total cash and investment holdings of $2,562,378 at September 30, 2018 (December 31, 2017 - $2,659,568) see note 6 (Cash and Investments) to the interim consolidated financial statements for the three and nine months ended September 30, 2018.

Interest receivable decreased to $7,236 at September 30, 2018 from $9,422 at December 31, 2017 primarily reflecting decreased interest receivable from Indian corporate bonds and Government of India bonds primarily as a result of the partial sale of Government of India bonds and the weakening of the Indian rupee relative to the U.S. dollar during the first nine months of 2018.

Total Liabilities

Total liabilities at September 30, 2018 of $556,971 (December 31, 2017 - $539,757) were principally comprised as follows:

Payable for rights issue was nil at September 30, 2018 due to settlement of the remaining payable on the NCML rights issue in January 2018.

Payable to related parties decreased to $8,144 at September 30, 2018 from $122,826 at December 31, 2017 principally reflecting the settlement of the performance fee payable (relating to the first calculation period ending on December 31, 2017) to Fairfax through the issuance of subordinate voting shares of the company.

Deferred income taxes of $2,016 at September 30, 2018 related to a deferred tax liability at FIH Private as a result of the increase in fair value of the company's investment in the Sanmar bonds.

Term loans increased to $545,841 at September 30, 2018 from $400,000 at December 31, 2017 related to the incremental net proceeds received from the $550.0 million term loan, net of unamortized issue costs of $4,159 (issue costs of $5,545 less amortization of $1,386). Refer to note 7 (Term Loans) to the interim consolidated financial statements for the three and nine months ended September 30, 2018.

Financial Risk Management

The primary goals of the company's financial risk management program are to ensure that the outcomes of activities involving elements of risk are consistent with the company's objectives and risk tolerance, while maintaining an appropriate balance between risk and reward and protecting the company's consolidated balance sheets from events that have the potential to materially impair its financial strength. There were no significant changes in the types of the company's risk exposures or the processes used by the company for managing those risk exposures at September 30, 2018 compared to those identified at December 31, 2017 and disclosed in the company's 2017 Annual Report, other than as outlined in note 11 (Financial Risk Management) to the interim consolidated financial statements for the three and nine months ended September 30, 2018.

Capital Resources and Management

For a detailed analysis, refer to note 11 (Financial Risk Management, under the heading Capital Management) to the interim consolidated financial statements for the three and nine months ended September 30, 2018.

Book Value per Share

Common shareholders' equity at September 30, 2018 was $2,014,377 (December 31, 2017 - $2,132,464). The book value per share at September 30, 2018 was $13.08 compared to $14.46 at December 31, 2017 representing a decrease in the first nine months of 2018 of 9.5%, primarily reflecting unrealized foreign currency translation losses of $269,657, partially offset by net earnings of $53,358 (principally related to net change in unrealized gains on investments, partially offset by net foreign exchange losses, investment and advisory fees and interest expense).

	September 30, 2018	December 31, 2017
Common shareholders' equity	**2,014,377**	2,132,464
Number of common shares effectively outstanding (1)	**154,062,896**	147,432,631
Book value per share	**$13.08**	$14.46

(1) On March 9, 2018 the company issued 7,663,685 subordinate voting shares to Fairfax calculated as the performance fee payable at December 31, 2017 of $114,437 divided by the VWAP of $14.93.

On October 3, 2018 the company announced that the TSX accepted a notice filed by Fairfax India of its intention to commence a normal course issuer bid for its subordinate voting shares by which it is authorized, until expiry of the bid on October 8, 2019, to acquire up to 3,500,000 subordinate voting shares representing at that date approximately 4.3% of the public float in respect of the subordinate voting shares. Decisions regarding any future repurchases will be based on market conditions, share price and other factors including opportunities to invest capital for growth. The Notice of Intention to Make a Normal Course Issuer Bid is available, without charge, by contacting the Corporate Secretary of the company.

During the first nine months of 2018, under the terms of the normal course issuer bid, the company repurchased for cancellation 1,033,420 subordinate voting shares (2017 - nil) for a net cost of $16,179 (2017 - nil), of which $5,302 was charged to retained earnings (2017 - nil).

Liquidity

The company believes that undeployed cash and investments at September 30, 2018 provides adequate liquidity to meet the company's remaining known significant commitments in 2018, which are principally comprised of the investment in CSB (on October 19, 2018 of the approximately $165 million commitment $60,157 had been completed), investment and advisory fees, general and administration expenses and potentially corporate income taxes. The company expects to continue to receive investment income on its holdings of fixed income securities and dividends from its equity investments to supplement its cash and cash equivalents. Accordingly. the company has adequate working capital to support its operations.

Refer to the Related Party Transactions section of this MD&A for details on the March 9, 2018 settlement of the performance fee through the issuance of subordinate voting shares to Fairfax.

Highlights in the first nine months of 2018 (with comparisons to the first nine months of 2017) of major components of the statements of cash flows are presented in the following table:

	First nine months	
	2018	2017
Operating activities		
Cash used in operating activities before the undernoted	**(15,825)**	(67,271)
Net sales of short term investments classified as FVTPL	**13,327**	27,011
Purchases of bonds and common stocks classified as FVTPL	**(180,504)**	(812,484) (1)
Sales of bonds and common stocks classified as FVTPL	**72,750**	78,458
Financing activities		
Net proceeds from the $550.0 million term loan	**544,455**	—
Net proceeds from the $400.0 million term loan	—	396,978
Repayment of the term loans	**(400,000)**	(225,000)
Net decrease (increase) in restricted cash in support of term loans	**(11,317)**	3,386
Issuance of subordinate voting shares, net of issuance costs	—	493,504
Purchases of subordinate voting shares for cancellation	**(16,179)**	—
Increase (decrease) in cash and cash equivalents during the period	**6,707**	(105,418)

(1) Excludes $74,202 cash consideration paid attributable to the costs incurred to purchase the additional 10.0% equity interest in BIAL (see note 5 *to the interim consolidated financial statements for the three and nine months ended September 30, 2018).*

Cash used in operating activities before the undernoted is comprised of net earnings adjusted for items not affecting cash and cash equivalents and changes in operating assets and liabilities. Cash used in operating activities before the undernoted of $15,825 in the first nine months of 2018 decreased from cash used in operating activities before the undernoted of $67,271 in the first nine months of 2017, with the change principally reflecting costs incurred to purchase the additional 10.0% equity interest in BIAL in the first nine months of 2017 and increased interest income, partially offset by increased investment and advisory fees paid to Fairfax and interest paid on the term loans, and lower income taxes received.

Net sales of short term investments classified as FVTPL of $13,327 in the first nine months of 2018 primarily related to net sales of U.S. treasury bills to settle the remaining payable on NCML's rights issue in January 2018 and to repurchase for cancellation subordinate voting shares of the company. Purchases of bonds and common stocks classified as FVTPL of $180,504 in the first nine months of 2018 primarily related to investments in Other Public Indian Investments, the additional 6.0% investment in BIAL, and purchases of Indian corporate bonds. Purchases of bonds and common stocks classified as FVTPL of $812,484 in the first nine months of 2017 primarily related to investments in BIAL and Saurashtra, additional investment in IIFL and NCML, and purchases of Government of India bonds. Sales of bonds and common stocks classified as FVTPL of $72,750 and $78,458 in the first nine months of 2018 and 2017 related to the sales of Government of India bonds to partially finance the acquisitions of the Indian Investments noted above, and in the first nine months of 2017 included the settlement of a receivable related to the pending settlement of sales of investment funds. Refer to note 14 (Supplementary Cash Flow Information) to the interim consolidated financial statements for the three and nine months ended September 30, 2018 for details of purchases and sales of investments classified as FVTPL.

Net proceeds from the term loan of $544,455 and repayment of the term loans of $400,000 in the first nine months of 2018 related to the completion on June 28, 2018 of the $550.0 million term loan, net of issuance costs of $5,545, and the extinguishment of the $400.0 million term loan, where the company used a portion of the incremental net proceeds received from the $550.0 million term loan to acquire common shares in an Other Public Indian Investment of $89,114 (see note 5 (Indian Investments) to the interim consolidated financial statements for the three and nine months ended September 30, 2018). Net proceeds from the term loan of $396,978 in the first nine months of 2017 related to the completion on July 11, 2017 of the $400.0 million term loan, net of issuance costs of $3,022, where the company used a portion of the net proceeds from the $400.0 million term loan to complete the additional 10.0% investment in BIAL and participate in the NCML rights issue. Repayment of the term loans of $225,000 in the first nine months of 2017 related to the early settlement of a 2 year secured term loan with a principal amount of $225,000 on March 31, 2017 upon completion of the secondary offerings completed in January 2017. Net increase in restricted cash in support of term loans of $11,317 in the first nine months of 2018 and net decrease in restricted cash in support of term loans of $3,386 related to the changes in the restricted cash accounts required to be maintained to fund interest payments on term loans. Refer to note 7 (Term Loans) to the interim consolidated financial statements for the three and nine months ended September 30, 2018 for additional details. Issuance of subordinate voting shares, net of issuance costs of $493,504 in the first nine months of 2017 reflected net proceeds received from the secondary offerings completed in January 2017. Purchases of subordinate voting shares for cancellation of $16,179 in the first nine months of 2018 related to the company's repurchases of 1,033,420 subordinate voting shares under the terms of the normal course issuer bids. Refer to note 8 (Common Shareholders' Equity) to the interim consolidated financial statements for the three and nine months ended September 30, 2018 for additional details.

Contractual Obligations

On June 28, 2018 the company amended and restated the existing $400.0 million term loan with the $550.0 million term loan that matures on June 28, 2019 which includes an option for the company to extend the term loan for an additional year.

On October 19, 2018 the company invested $60,157 (approximately 4.4 billion Indian rupees) in securities of CSB, comprised of 19.8 million common shares for $9,456 (approximately 0.7 billion Indian rupees), and warrants to purchase 66.5 million common shares for $50,701 (approximately 3.7 billion Indian rupees). The consideration paid at closing represented 25.0% and 40.0% of the consideration payable for the common shares and warrants respectively. The balance of the consideration payable to CSB of approximately $104 million at the exchange rate at that date (approximately 7.7 billion Indian rupees) is payable as follows: (i) within 12 months for the remaining consideration payable on the common shares (approximately $28 million, 2.1 billion Indian rupees), upon request by CSB; and (ii) within 18 months for the remaining consideration payable on the warrants (approximately $76 million, 5.6 billion Indian rupees), payable in one or more tranches either upon request by CSB or at the option of Fairfax India.

Under the terms of the Investment Advisory Agreement, the company and its subsidiaries are contractually obligated to pay Fairfax an investment and advisory fee and, if applicable, a performance fee. These fees will vary based on the company's common shareholders' equity and book value per share. The investment and advisory fees recorded in the consolidated statements of earnings for the third quarter and first nine months of 2018 were $8,771 and $25,257 (2017 - $5,059 and $19,303).

Refer to the Related Party Transactions section of this MD&A that follows for discussion on the performance fee accrued at December 31, 2017 (for the first calculation period) and settled on March 9, 2018. The company determined that no performance fee was payable at September 30, 2018 as the book value per share of $13.08 at September 30, 2018 was lower than the high water mark per share at that date of $14.49.

Related Party Transactions

Performance Fee Settlement

On March 9, 2018 the company issued 7,663,685 subordinate voting shares to Fairfax calculated as the performance fee payable at December 31, 2017 of $114,437 divided by the VWAP of $14.93. Under the terms of the Investment Advisory Agreement, settlement of the performance fee will take place in subordinate voting shares of the company if the market price per share is less than two times the then book value per share. In accordance with the Investment Advisory Agreement, the number of subordinate voting shares issued was calculated based on the VWAP of $14.93. The issuance of these subordinate voting shares increased Fairfax's equity interest in Fairfax India from 30.2% at December 31, 2017 to 33.6% at March 9, 2018.

For additional details on the company's related party transactions, see note 12 (Related Party Transactions) to the interim consolidated financial statements for the three and nine months ended September 30, 2018.

Other

Comparative Quarterly Data (unaudited)

US$ thousands, except per share amounts

	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016
Income (loss)	**117,052**	(55,589)	44,125	130,037	(66,455)	337,980	208,108	11,566
Expenses (recovery)	**19,368**	13,647	14,898	41,585	(9,190)	73,067	54,117	8,036
Provision for (recovery of) income taxes	**3,504**	411	402	387	(4,111)	(3,682)	4,988	1,106
Net earnings (loss)	**94,180**	(69,647)	28,825	88,065	(53,154)	268,595	149,003	2,424
Net earnings (loss) per share	**$ 0.61**	$ (0.45)	$ 0.19	$ 0.60	$ (0.36)	$ 1.82	$ 1.05	$ 0.02
Net earnings (loss) per diluted share	**$ 0.61**	$ (0.45)	$ 0.19	$ 0.57	$ (0.36)	$ 1.74	$ 1.03	$ 0.02

Indian rupees and in millions, except per share amounts (1)	**September 30, 2018**	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016
Income (loss)	**7,838**	(3,593)	2,840	8,416	(4,599)	21,937	13,929	784
Expenses (recovery)	**1,340**	916	959	2,695	(661)	4,731	3,622	541
Provision for (recovery of) income taxes	**236**	27	26	25	(269)	(248)	334	74
Net earnings (loss)	**6,261**	(4,536)	1,855	5,696	(3,669)	17,454	9,973	169
Net earnings (loss) per share	**40.50**	(29.25)	12.42	38.63	(24.89)	118.38	70.35	1.60
Net earnings (loss) per diluted share	**40.50**	(29.25)	12.42	36.73	(24.89)	113.21	68.64	1.60

(1) Presented in the company's functional currency.

Income continues to be primarily comprised of net change in unrealized gains (losses) on investments, and interest and dividend income. Income was significantly impacted in the third quarter of 2018 by the net change in unrealized gains on the company's Indian Investments (principally unrealized gains in the company's investments in Sanmar and BIAL, partially offset by unrealized losses in IIFL) and net foreign exchange losses, the timing of which are not predictable. Individual quarterly results have been (and may in the future be) affected by increased expenses impacted by the change in fair value of the company's Indian Investments which would result in a higher performance fee, if applicable, and investment and advisory fees.

Forward-Looking Statements

This interim report may contain forward-looking information within the meaning of applicable securities legislation. Forward-looking statements may relate to the company's or an Indian Investment's future outlook and anticipated events or results and may include statements regarding the financial position, business strategy, growth strategy, budgets, operations, financial results, taxes, dividends, plans and objectives of the company. Particularly, statements regarding future results, performance, achievements, prospects or opportunities of the company, an Indian Investment, or the Indian market are forward-looking statements. In some cases, forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate" or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might", "will" or "will be taken", "occur" or "be achieved".

Forward-looking statements are based on the opinions and estimates of the company as of the date of this interim report, and they are subject to known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking statements, including but not limited to the following factors: taxation of the company and its subsidiaries; substantial loss of capital; long-term nature of investment; limited number of investments; geographic concentration of investments; potential lack of diversification; financial market fluctuations; pace of completing investments; control or significant influence position risk; minority investments; ranking of company investments and structural subordination; follow-on investments; prepayments of debt investments; risks upon dispositions of investments; bridge financings; reliance on key personnel; effect of fees; performance fee could induce Fairfax to make speculative investments; operating and financial risks of investments; allocation of personnel; potential conflicts of interest; employee misconduct at the portfolio advisor could harm the company; valuation methodologies involve subjective judgments; lawsuits; foreign currency fluctuation; derivative risks; unknown merits and risks of future investments; resources could be wasted in researching investment opportunities that are not ultimately completed; investments may be made in foreign private businesses where information is unreliable or unavailable; illiquidity of investments; competitive market for investment opportunities; use of leverage; investing in leveraged businesses; regulation; investment and repatriation restrictions; aggregation restrictions; restrictions relating to debt securities; pricing guidelines; emerging markets; corporate disclosure, governance and regulatory requirements; legal and regulatory risks; volatility of the Indian securities markets; political, economic, social and other factors; governance issues risk; Indian tax law; changes in law; exposure to permanent establishment; enforcement of rights; smaller company risk; due diligence and conduct of potential investment entities; Asian economic risk; reliance on trading partners risk; natural disaster risks; government debt risk; and economic risk. Additional risks and uncertainties are described in the company's annual information form dated March 9, 2018 which is available on SEDAR at www.sedar.com and on the company's website at www.fairfaxindia.ca. These factors and assumptions are not intended to represent a complete list of the factors and assumptions that could affect the company. These factors and assumptions, however, should be considered carefully.

Although the company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The company does not undertake to update any forward-looking statements contained herein, except as required by applicable securities laws.

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