FAIRFAX INDIA
HOLDINGS CORPORATION

2

INTERIM REPORT

For the six months ended
June 30, 2019

Consolidated Balance Sheets
as at June 30, 2019 and December 31, 2018
(unaudited - US$ thousands)

	Notes	**June 30, 2019**	December 31, 2018
Assets			
Cash and cash equivalents	6, 14	**41,548**	21,240
Restricted cash	6, 7	**33,739**	13,833
Short term investments	6	**2,077**	—
Bonds	5, 6	**457,519**	576,386
Common stocks	5, 6	**2,188,203**	2,084,961
Derivatives	5, 6	**6,440**	—
Total cash and investments		**2,729,526**	2,696,420
Interest receivable		**325**	7,039
Income taxes refundable		**2,963**	2,930
Other assets		**8,893**	668
Total assets		**2,741,707**	2,707,057
Liabilities			
Accounts payable and accrued liabilities		**1,095**	1,034
Payable for partly paid securities	5	**70,607**	29,827
Payable to related parties	12	**9,109**	8,827
Deferred income taxes	10	**35,698**	689
Income taxes payable		**1,349**	1,507
Borrowings	7	**594,455**	547,228
Total liabilities		**712,313**	589,112
Equity			
Common shareholders' equity	8	**2,029,394**	2,117,945
		2,741,707	2,707,057

See accompanying notes.

Consolidated Statements of Earnings
for the three and six months ended June 30, 2019 and 2018
(unaudited - US$ thousands except per share amounts)

	Notes	Second quarter 2019	Second quarter 2018	First six months 2019	First six months 2018
Income					
Interest	6	**914**	5,809	**3,953**	12,572
Dividends	6	**68**	—	**6,074**	6,575
Net realized gains (losses) on investments	6	**36,163**	(3,348)	**34,861**	(3,333)
Net change in unrealized gains (losses) on investments	6	**(44,582)**	(39,468)	**(84,066)**	1,881
Net foreign exchange gains (losses)	6	**1,957**	(18,582)	**5,211**	(29,159)
		(5,480)	(55,589)	**(33,967)**	(11,464)
Expenses					
Investment and advisory fees	12	**8,717**	8,265	**17,006**	16,486
General and administration expenses	13	**1,412**	992	**2,821**	2,107
Interest expense	7	**8,935**	4,390	**19,004**	9,952
		19,064	13,647	**38,831**	28,545
Loss before income taxes		**(24,544)**	(69,236)	**(72,798)**	(40,009)
Provision for income taxes	10	**30,940**	411	**35,271**	813
Net loss		**(55,484)**	(69,647)	**(108,069)**	(40,822)
Net loss per share (basic and diluted)	9	**$ (0.36)**	$ (0.45)	**$ (0.71)**	$ (0.27)
Shares outstanding (weighted average)	9	**152,631,481**	155,096,316	**152,678,656**	152,259,482

See accompanying notes.

Consolidated Statements of Comprehensive Income
for the three and six months ended June 30, 2019 and 2018
(unaudited - US$ thousands)

	Second quarter		First six months	
	2019	2018	**2019**	2018
Net loss	**(55,484)**	(69,647)	**(108,069)**	(40,822)
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 (2018 - nil)	**7,021**	(103,735)	**22,544**	(149,805)
Other comprehensive income (loss), net of income taxes	**7,021**	(103,735)	**22,544**	(149,805)
Comprehensive loss	**(48,463)**	(173,382)	**(85,525)**	(190,627)

See accompanying notes.

Consolidated Statements of Changes in Equity
for the six months ended June 30, 2019 and 2018
(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, 2019	**1,297,426**	**300,000**	**(93)**	**684,842**	**(164,230)**	**2,117,945**
Net loss for the period	—	—	—	**(108,069)**	—	**(108,069)**
Other comprehensive income:						
Unrealized foreign currency translation gains	—	—	—	—	**22,544**	**22,544**
Purchases for cancellation (note 8)	**(2,421)**	—	—	**(577)**	—	**(2,998)**
Purchases and amortization	—	—	**(28)**	—	—	**(28)**
Balance as of June 30, 2019	**1,295,005**	**300,000**	**(121)**	**576,196**	**(141,686)**	**2,029,394**

	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 loss for the period	—	—	—	(40,822)	—	(40,822)
Other comprehensive loss:						
Unrealized foreign currency translation losses	—	—	—	—	(149,805)	(149,805)
Issuance of shares	114,437	—	—	—	—	114,437
Purchases and amortization	—	—	(66)	—	—	(66)
Balance as of June 30, 2018	1,320,949	300,000	(130)	556,283	(120,894)	2,056,208

See accompanying notes.

Consolidated Statements of Cash Flows
for the three and six months ended June 30, 2019 and 2018
(unaudited - US$ thousands)

	Notes	Second quarter 2019	Second quarter 2018	First six months 2019	First six months 2018
Operating activities					
Net loss		**(55,484)**	(69,647)	**(108,069)**	(40,822)
Items not affecting cash and cash equivalents:					
Net bond premium amortization		**10**	98	**41**	253
Deferred income taxes	10	**30,670**	—	**34,513**	—
Amortization of share-based payment awards		**40**	26	**56**	38
Net realized (gains) losses on investments	6	**(36,163)**	3,348	**(34,861)**	3,333
Net change in unrealized losses (gains) on investments	6	**44,582**	39,468	**84,066**	(1,881)
Net foreign exchange (gains) losses	6	**(1,957)**	18,582	**(5,211)**	29,159
Increase in restricted cash in support of borrowings		**(28,541)**	(22,186)	**(19,906)**	(16,624)
Net (purchases) sales of short term investments		**(2,082)**	—	**(2,082)**	11,620
Purchases of bonds and common stocks	14	**(13,425)**	(67,391)	**(132,011)**	(91,390)
Sales of bonds	14	**—**	67,296	**160,051**	72,750
Changes in operating assets and liabilities:					
Interest receivable		**1,164**	3,905	**6,700**	4,417
Payable to related parties		**255**	2,145	**(60)**	3,011
Income taxes payable		**(400)**	—	**(181)**	—
Other		**1,526**	(2,089)	**(5,290)**	(4,159)
Cash used in operating activities		**(59,805)**	(26,445)	**(22,244)**	(30,295)
Financing activities					
Borrowings:					
Proceeds	7	**50,000**	550,000	**50,000**	550,000
Issuance costs	7	**(5,545)**	(5,545)	**(5,545)**	(5,545)
Repayments	7	**—**	(400,000)	**—**	(400,000)
Subordinate voting shares:					
Purchases for cancellation	8	**—**	—	**(2,998)**	—
Cash provided by financing activities		**44,455**	144,455	**41,457**	144,455
Increase (decrease) in cash and cash equivalents		**(15,350)**	118,010	**19,213**	114,160
Cash and cash equivalents - beginning of period		**58,031**	10,564	**21,240**	13,244
Foreign currency translation		**(1,133)**	(3,290)	**1,095**	(2,120)
Cash and cash equivalents - end of period		**41,548**	125,284	**41,548**	125,284

See accompanying notes.

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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 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. Refer to note 12 for details on Fairfax's voting rights and 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 six months ended June 30, 2019 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, 2018, which have been prepared in accordance with IFRS as issued by the IASB.

These interim consolidated financial statements were approved for issue by the company's Board of Directors on August 1, 2019.

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, 2018, 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.

New accounting pronouncements adopted in 2019

The company adopted the following new standards and amendments, effective January 1, 2019. These changes were adopted in accordance with the applicable transitional provisions of each amendment, and did not have a significant impact on the company's consolidated financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments ("IFRIC 23")
IFRIC 23 clarifies how IAS 12 *Income Taxes* should be applied when there is uncertainty over income tax treatments.

IFRS Annual Improvements 2015-2017
These amendments clarify the requirements of four IFRS standards.

4. Critical Accounting Estimates and Judgments

In the preparation of the company's interim consolidated financial statements, management has made a number of critical 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, 2018.

5. Indian Investments

Throughout the company's interim consolidated financial statements for the three and six months ended June 30, 2019, 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 second quarters of 2019 and 2018 were as follows:

	Second quarter											
	2019							2018				
	Balance as of April 1	Purchases	IIFL Holdings Reorganization	Net realized gains on investments	Net change in unrealized gains (losses) on investments (1)	Net unrealized foreign currency translation gains (losses)	Balance as of June 30	Balance as of April 1	Purchases	Net change in unrealized gains (losses) on investments (1)	Net unrealized foreign currency translation losses	Balance as of June 30
Public Indian Investments:												
Common stocks:												
IIFL Finance / IIFL Holdings (2)	520,617	—	(282,753)	36,112	(100,576)	(1,119)	172,281	916,211	—	(47,338)	(41,175)	827,698
Fairchem	125,397	—	—	—	17,295	511	143,203	108,413	—	(607)	(5,911)	101,895
5paisa	11,583	—	—	—	(1,245)	26	10,364	17,341	—	(681)	(847)	15,813
Other	109,174	—	—	—	9,865	464	119,503	4,975	—	(1,805)	(165)	3,005
Total Public Indian Investments	766,771	—	(282,753)	36,112	(74,661)	(118)	445,351	1,046,940	—	(50,431)	(48,098)	948,411
Private Indian Investments:												
Bonds - Sanmar bonds	407,948	—	—	—	11,868	1,551	421,367	330,226	—	7,078	(16,086)	321,218
Common stocks:												
BIAL	715,483	—	—	—	32,115	2,980	750,578	597,924	67,391	8,175	(29,707)	643,783
Sanmar	219,208	—	—	—	863	796	220,867	426	—	211	(32)	605
IIFL Wealth (2)	—	—	191,443	—	—	1,841	193,284	—	—	—	—	—
IIFL Securities (2)	—	—	91,310	—	—	878	92,188	—	—	—	—	—
NCML	166,606	—	—	—	(20,351)	310	146,565	176,908	—	1,681	(8,540)	170,049
CSB Bank	134,102	40,440	—	—	1,233	498	176,273	—	—	—	—	—
Seven Islands	71,767	—	—	—	—	257	72,024	—	—	—	—	—
Saurashtra	26,168	—	—	—	2,477	122	28,767	26,774	—	(206)	(1,290)	25,278
NSE	60,755	—	—	—	(5,010)	147	55,892	67,123	—	—	(3,226)	63,897
IH Fund	6,198	—	—	—	191	25	6,414	—	—	—	—	—
Derivatives - 5paisa forward derivative	—	—	—	—	6,351	89	6,440	—	—	—	—	—
Total Private Indian Investments	1,808,235	40,440	282,753	—	29,737	9,494	2,170,659	1,199,381	67,391	16,939	(58,881)	1,224,830
Total Indian Investments	2,575,006	40,440	—	36,112	(44,924)	9,376	2,616,010	2,246,321	67,391	(33,492)	(106,979)	2,173,241

(1) All Private Indian Investments were 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.

(2) On May 31, 2019 IIFL Holdings spun off IIFL Wealth and IIFL Securities in the IIFL Holdings Reorganization. At June 30, 2019 IIFL Wealth and IIFL Securities had not yet completed certain required regulatory processes and as a result the shares of those companies were not listed on the BSE and NSE of India. The fair value of the company's investments in IIFL Wealth and IIFL Securities on the IIFL Holdings Reorganization date was considered to approximate fair value at June 30, 2019. The amount recorded in net realized gains on investments of $36,112 was fully offset by the reversal of unrealized gains on investments recorded in prior periods, and as a result had a nil impact on the company's consolidated statements of earnings, related to the IIFL Holdings Reorganization where IIFL Holdings spun off IIFL Wealth and IIFL Securities at fair values in excess of Fairfax India's cost basis of IIFL Holdings.

A summary of changes in the fair value of the company's Public and Private Indian Investments for the first six months of 2019 and 2018 were as follows:

	First six months											
	2019							2018				
	Balance as of January 1	**Purchases**	**IIFL Holdings Reorganization**	**Net realized gains on investments**	**Net change in unrealized gains (losses) on investments [(1)]**	**Net unrealized foreign currency translation gains**	**Balance as of June 30**	Balance as of January 1	Purchases	Net change in unrealized gains (losses) on investments [(1)]	Net unrealized foreign currency translation losses	Balance as of June 30
Public Indian Investments:												
Common stocks:												
IIFL Finance / IIFL Holdings [(2)]	**613,458**	**—**	**(282,753)**	**36,112**	**(196,548)**	**2,012**	**172,281**	888,485	—	—	(60,787)	827,698
Fairchem	**96,574**	**—**	**—**	**—**	**44,892**	**1,737**	**143,203**	149,200	—	(38,703)	(8,602)	101,895
5paisa	**11,913**	**—**	**—**	**—**	**(1,661)**	**112**	**10,364**	19,958	—	(2,900)	(1,245)	15,813
Other	**98,180**	**—**	**—**	**—**	**19,920**	**1,403**	**119,503**	—	4,976	(1,805)	(166)	3,005
Total Public Indian Investments	**820,125**	**—**	**(282,753)**	**36,112**	**(133,397)**	**5,264**	**445,351**	1,057,643	4,976	(43,408)	(70,800)	948,411
Private Indian Investments:												
Bonds - Sanmar bonds	**392,776**	**—**	**—**	**—**	**23,774**	**4,817**	**421,367**	333,172	—	11,309	(23,263)	321,218
Common stocks:												
BIAL	**704,077**	**—**	**—**	**—**	**37,933**	**8,568**	**750,578**	608,288	67,391	10,849	(42,745)	643,783
Sanmar	**217,170**	**—**	**—**	**—**	**1,202**	**2,495**	**220,867**	556	—	91	(42)	605
IIFL Wealth [(2)]	**—**	**—**	**191,443**	**—**	**—**	**1,841**	**193,284**	—	—	—	—	—
IIFL Securities [(2)]	**—**	**—**	**91,310**	**—**	**—**	**878**	**92,188**	—	—	—	—	—
NCML	**165,380**	**—**	**—**	**—**	**(20,413)**	**1,598**	**146,565**	179,054	—	3,385	(12,390)	170,049
CSB Bank	**93,081**	**80,987**	**—**	**—**	**1,233**	**972**	**176,273**	—	—	—	—	—
Seven Islands	**—**	**71,767**	**—**	**—**	**—**	**257**	**72,024**	—	—	—	—	—
Saurashtra	**24,843**	**—**	**—**	**—**	**3,590**	**334**	**28,767**	28,000	—	(842)	(1,880)	25,278
NSE	**60,285**	**—**	**—**	**—**	**(5,010)**	**617**	**55,892**	40,452	—	27,900	(4,455)	63,897
IH Fund	**—**	**6,272**	**—**	**—**	**82**	**60**	**6,414**	—	—	—	—	—
Derivatives - 5paisa forward derivative	**—**	**—**	**—**	**—**	**6,351**	**89**	**6,440**	—	—	—	—	—
Total Private Indian Investments	**1,657,612**	**159,026**	**282,753**	**—**	**48,742**	**22,526**	**2,170,659**	1,189,522	67,391	52,692	(84,775)	1,224,830
Total Indian Investments	**2,477,737**	**159,026**	**—**	**36,112**	**(84,655)**	**27,790**	**2,616,010**	2,247,165	72,367	9,284	(155,575)	2,173,241

(1) All Private Indian Investments were 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.

(2) On May 31, 2019 IIFL Holdings spun off IIFL Wealth and IIFL Securities in the IIFL Holdings Reorganization. At June 30, 2019 IIFL Wealth and IIFL Securities had not yet completed certain required regulatory processes and as a result the shares of those companies were not listed on the BSE and NSE of India. The fair value of the company's investments in IIFL Wealth and IIFL Securities on the IIFL Holdings Reorganization date was considered to approximate fair value at June 30, 2019. The amount recorded in net realized gains on investments of $36,112 was fully offset by the reversal of unrealized gains on investments recorded in prior periods, and as a result had a nil impact on the company's consolidated statements of earnings, related to the IIFL Holdings Reorganization where IIFL Holdings spun off IIFL Wealth and IIFL Securities at fair values in excess of Fairfax India's cost basis of IIFL Holdings.

Public Indian Investments

The fair values of Fairfax India's Public Indian Investments, whose shares are listed on both the BSE 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 Finance Limited

IIFL Holdings Limited

IIFL Holdings Limited ("IIFL Holdings") was 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 financial company.

In February 2017 and December 2015 the company acquired 84,641,445 common shares of IIFL Holdings (representing a 26.9% equity interest) for aggregate cash consideration of $276,734 (approximately 18.5 billion Indian rupees). In October 2017 IIFL Holdings spun off its wholly-owned subsidiary 5paisa Capital Limited (‘‘5paisa’’) which resulted in a reduction to the company's cost of its investment in IIFL Holdings by $19,758. Upon completion of this transaction the company had invested $256,976 for a 26.9% equity interest in IIFL Holdings.

On January 31, 2018 IIFL Holdings' board of directors approved a draft plan to reorganize IIFL Holdings into three listed entities. On May 31, 2019 IIFL Holdings spun off its wholly-owned subsidiary IIFL Securities Limited ("IIFL Securities", comprised of investment brokerage, distribution and investment banking businesses) and its 53.3% equity interest in its subsidiary IIFL Wealth Management Limited ("IIFL Wealth", comprised of the wealth, asset management and alternative investment fund businesses) in a non-cash transaction (the "IIFL Holdings Reorganization"). Shareholders of IIFL Holdings received seven common shares of IIFL Securities and one common share of IIFL Wealth for every seven IIFL Holdings common shares held. The distribution of new common shares to IIFL Holdings shareholders was characterized as a return of capital which resulted in Fairfax India recording the initial cost of its investments in IIFL Securities and IIFL Wealth at their estimated fair values at that date of $91,310 (approximately 6.4 billion Indian rupees) and $191,443 (approximately 13.3 billion Indian rupees). The fair values of IIFL Securities and IIFL Wealth exceeded Fairfax India's cost basis in IIFL Holdings resulting in $36,112 that was recorded in net realized gains on investments (all of which was recognized as unrealized gains on investments in prior periods). Upon completion of the spin off transactions, IIFL Holdings Limited was renamed IIFL Finance Limited ("IIFL Finance") and continued to trade on the BSE and NSE of India. The shares of IIFL Wealth and IIFL Securities are anticipated to be listed on the BSE and NSE of India in the third quarter of 2019, subject to applicable regulatory conditions. Additional details on the IIFL Holdings Reorganization, specific to IIFL Wealth and IIFL Securities, are disclosed later in note 5.

A summary of the IIFL Holdings Reorganization and the changes in fair value of the common shares of IIFL Holdings and IIFL Finance denominated in the company's functional currency of the Indian rupee and presentation currency of U.S. dollars for the first six months of 2019 were as follows:

		Indian rupees (in millions)	**US$** (in thousands)
IIFL Holdings:	Balance as of January 1, 2019	42,829	613,458
	Net change in unrealized losses on investments	(9,262)	(132,300) (1)
	Net unrealized foreign currency translation gains	—	497
	Balance as of May 30, 2019	33,567	481,655
	IIFL Wealth spun off as return of capital at fair value	(13,342)	(191,443)
	IIFL Securities spun off as return of capital at fair value	(6,363)	(91,310)
	Net realized gains on investments	2,527	36,112 (2)
	Net unrealized foreign currency translation gains	—	162
Renamed IIFL Finance:	Balance as of May 31, 2019	16,389	235,176
	Net change in unrealized losses on investments	(4,497)	(64,248) (1)
	Net unrealized foreign currency translation gains	—	1,353
	Balance as of June 30, 2019	11,892	172,281

(1) Changes in fair value of the company's investment in IIFL Holdings have been aggregated with the changes in fair value of the company's investment in IIFL Finance for the second quarter and first six months of 2019 and are presented in the tables disclosed earlier in note 5.

(2) Net realized gains on investments of $36,112 was fully offset by the reversal of unrealized gains on investments recorded in prior periods and as a result had a nil impact on the company's consolidated statements of earnings for the second quarter and first six months of 2019.

IIFL Finance Limited

IIFL Finance, comprised of a holding company and an 84.5% equity interest in India Infoline Finance Limited ("India Infoline", a non-banking financial company ("NBFC")), is a publicly traded, diversified financing company located in Mumbai, India that through its subsidiaries offers home loans, gold loans, business loans, small-to-medium enterprise loans, microfinance, construction and real estate finance, and capital market finance.

IIFL Finance has applied for a NBFC license with the Reserve Bank of India and once obtained it will merge with its subsidiary, India Infoline. Concurrent with the merger, IIFL Finance will complete a share exchange with the minority shareholders of India Infoline and will issue approximately 75 million common shares of IIFL Finance to the minority shareholders of India Infoline. Upon completion of this transaction Fairfax India's equity interest in IIFL Finance will be diluted to approximately 21%. This merger transaction is anticipated to be completed in the third quarter of 2019.

At June 30, 2019 the fair value of the company's investment in IIFL Finance was $172,281 comprised of 84,641,445 common shares representing a 26.5% equity interest (December 31, 2018 - 26.5% equity interest in IIFL Holdings).

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 March 2017, upon completion of the merger of Fairchem and Privi, the company had acquired a 48.8% equity interest in Fairchem for aggregate cash consideration of $74,384 (approximately 5.0 billion Indian rupees).

On May 22, 2019 Fairchem's board of directors approved a draft plan to reorganize Fairchem into two listed entities ("Fairchem Reorganization"). As part of the Fairchem Reorganization, the existing oleochemicals and neutraceuticals business will spin out into a newly formed wholly-owned subsidiary incorporated on March 27, 2019, Fairchem Organics Limited ("Fairchem Organics"). Privi will be amalgamated with the remaining Fairchem business and subsequently be renamed Privi Speciality Chemicals Limited ("Privi Speciality"). Existing shareholders of Fairchem will receive one new common share of Fairchem Organics for every three common shares held in Fairchem. Concurrent with the Fairchem Reorganization, it is proposed that Fairfax India will decrease its equity interest in Privi Speciality to 38.9% from its current 48.8% equity interest and increase its equity interest in Fairchem Organics to 66.7% from its current 48.8% equity interest by way of selling to and purchasing from the founders of Privi, respectively. Upon completion of this transaction, the shares of Privi Speciality will continue to trade on the BSE and NSE of India, and the shares of Fairchem Organics are anticipated to be listed on the BSE and NSE of India in the second quarter of 2020, subject to applicable regulatory conditions. The Fairchem Reorganization is anticipated to be completed in the first quarter of 2020, subject to shareholder and applicable regulatory approvals, and customary closing conditions.

At June 30, 2019 the fair value of the company's investment in Fairchem was $143,203 (December 31, 2018 - $96,574) comprised of 19,046,078 common shares representing a 48.8% equity interest (December 31, 2018 - 48.8%). The changes in fair value of the company's investment in Fairchem for the second quarters and first six months of 2019 and 2018 are presented in the tables disclosed earlier in note 5.

Investment in 5paisa Capital Limited (Common Shares)

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 primarily engaged in providing a technology platform through online and mobile applications for trading securities on the BSE and the NSE of India.

The company's investment in 5paisa is comprised of common shares and a forward derivative related to a rights offering announced on May 29, 2019. The forward derivative is classified as a Level 3 investment in the fair value hierarchy and is discussed in the Private Indian Investments section under the heading Investment in 5paisa Forward Derivative later in note 5.

In October 2017 IIFL Holdings 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. This non-cash transaction resulted in Fairfax India receiving one new common share of 5paisa for every 25 common shares of IIFL Holdings held for a total of 3,385,657 common shares of 5paisa with a fair value of $19,758.

At June 30, 2019 the fair value of the company's investment in 5paisa was $10,364 (December 31, 2018 - $11,913) comprised of 3,385,657 common shares representing a 26.6% equity interest (December 31, 2018 - 26.6%). The changes in fair value of the company's investment in 5paisa for the second quarters and first six months of 2019 and 2018 are presented in the tables disclosed earlier in note 5.

Investment in Other Public Indian Investments

During 2018 the company acquired common shares of public companies in the financial services sector of India, listed on both the BSE and the NSE of India (investment in "Other Public Indian Investments") for aggregate cash consideration of $94,090. At June 30, 2019 the fair value of the company's investment in Other Public Indian Investments was $119,503 (December 31, 2018 - $98,180) and represents less than 1.0% equity interest in each of the public Indian companies. The changes in fair value of the company's investment in Other Public Indian Investments for the second quarters and first six months of 2019 and 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. 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 and 2018 Fairfax India 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 through the following transactions: (i) in March 2017 the company acquired a 38.0% equity interest in BIAL for cash consideration of $385,498 (approximately 25.2 billion Indian rupees); (ii) in July

2017 the company 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; and (iii) in May 2018 the company acquired an additional 6.0% equity interest in BIAL for cash consideration of $67,391 (approximately 4.6 billion Indian rupees).

At June 30, 2019 the company estimated the fair value of its investment in BIAL using a discounted cash flow analysis for its two business units based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 11.2% to 12.3% and a long term growth rate of 3.5% (December 31, 2018 - 11.3% to 12.8%, and 3.5%, respectively), 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, 2018 - 20.0%) for the leasehold nature of the asset. At June 30, 2019 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 (December 31, 2018 - 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 June 30, 2019 the company's internal valuation model indicated that the fair value of the company's investment in BIAL was $750,578 (December 31, 2018 - $704,077). The changes in fair value of the company's investment in BIAL for the second quarters and first six months of 2019 and 2018 are presented in the tables disclosed earlier in note 5.

Investment in Sanmar Chemicals Group

Sanmar Chemicals Group ("Sanmar"), a private company headquartered in Chennai, India, is one of the largest suspension polyvinyl chloride ("PVC") manufacturers in 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 resulting in an effective annual interest rate of 13.0%.

On September 17, 2018 the company announced that it had entered into an agreement with Sanmar pursuant 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 $204,035 at period end 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 June 30, 2019. The company will receive the remaining net proceeds in cash that had a value of approximately $217 million at June 30, 2019 based on the fair value of the Sanmar bonds at that date of $421,367. This transaction is subject to customary closing conditions and third party consents, and was anticipated to be completed in the second quarter of 2019. Sanmar is continuing to work to satisfy various closing conditions precedent and it is now anticipated that the transaction will be completed in the fourth quarter of 2019.

Sanmar Bonds

At June 30, 2019 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 6.2% (December 31, 2018 - 5.6%) 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. At June 30, 2019 the company's internal valuation model indicated that the fair value of the company's investment in Sanmar bonds was $421,367 (December 31, 2018 - $392,776). The changes in fair value of the company's investment in Sanmar bonds for the second quarters and first six months of 2019 and 2018 are presented in the tables disclosed earlier in note 5.

Sanmar Common Shares

At June 30, 2019 the company estimated the fair value of its investment in Sanmar common shares using a discounted cash flow analysis for its four business units based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 13.0% to 17.1% and long term growth rates ranging from 3.0% to 4.0% (December 31, 2018 - 13.5% to 16.6%, and 3.0% to 4.0%, respectively). At June 30, 2019 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 second quarter of 2019 (December 31, 2018 - 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. At June 30, 2019 the company's internal valuation model indicated that the fair value of the company's investment in Sanmar common shares was $220,867 (December 31, 2018 - $217,170). The changes in fair value of the company's investment in Sanmar common shares for the second quarters and first six months of 2019 and 2018 are presented in the tables disclosed earlier in note 5.

Investment in IIFL Wealth Management Limited

IIFL Wealth, currently a private company headquartered in Mumbai, India, is a wealth management firm with principal lines of business in wealth management and asset management. The wealth management business serves the highly specialized needs of high net worth and ultra-high net worth individuals, affluent families, family offices and institutional clients through a comprehensive range of tailored wealth management solutions. The asset management business provides a diversified suite of alternative investment funds, portfolio management services and mutual funds that span public and private equities, fixed income securities and real estate.

On May 31, 2019 IIFL Holdings spun off its 53.3% equity interest in its subsidiary IIFL Wealth in a non-cash transaction that resulted in Fairfax India receiving one new common share of IIFL Wealth for every seven common shares of IIFL Holdings held. Upon completion of the IIFL Holdings Reorganization Fairfax India received 12,091,635 common shares of IIFL Wealth representing a 14.2% equity interest with an estimated fair value at that date of $191,443 (approximately 13.3 billion Indian rupees) which was determined based on a third party valuation. The distribution of new common shares of IIFL Wealth to IIFL Holdings shareholders was characterized as a return of capital which resulted in Fairfax India recording the initial cost of its investment in IIFL Wealth at its fair value at that date of $191,443 (approximately 13.3 billion Indian rupees).

At June 30, 2019 the shares of IIFL Wealth were not yet listed on the BSE and NSE of India. Listing is anticipated to be completed in the third quarter of 2019, subject to applicable regulatory conditions. As a result the company's investment in IIFL Wealth was categorized as a Level 3 investment in the fair value hierarchy at June 30, 2019.

The initial fair value determined for IIFL Wealth in the IIFL Holdings Reorganization was considered to approximate fair value at June 30, 2019 as there had been no significant changes to IIFL Wealth's business, capital structure and operating environment and the key assumptions in the third party valuation continued to be valid. At June 30, 2019 the fair value of the company's investment in IIFL Wealth was $193,284 (December 31, 2018 - nil) representing a 14.2% equity interest. The changes in fair value of the company's investment in IIFL Wealth for the second quarter and first six months of 2019 are presented in the tables disclosed earlier in note 5.

Investment in IIFL Securities Limited

IIFL Securities, currently a private company headquartered in Mumbai, India, is a leading investment advisory firm providing diversified financial services and products such as financial planning, equity, commodities and currency broking (both cash and derivatives), depository participant services, investment banking, portfolio management as well as distribution of mutual funds, bonds and other products.

On May 31, 2019 IIFL Holdings spun off its wholly-owned subsidiary IIFL Securities in a non-cash transaction that resulted in Fairfax India receiving one new common share of IIFL Securities for every one common share of IIFL Holdings held. Upon completion of the IIFL Holdings Reorganization Fairfax India received 84,641,445 common shares of IIFL Securities representing a 26.5% equity interest with an estimated fair value at that date of $91,310 (approximately 6.4 billion Indian rupees) which was estimated based on the company's internal valuation model. The distribution of new common shares of IIFL Securities to IIFL Holdings shareholders was characterized as a return of capital which resulted in Fairfax India recording the initial cost of its investment in IIFL Securities at its fair value at that date of $91,310 (approximately 6.4 billion Indian rupees).

At June 30, 2019 the shares of IIFL Securities were not yet listed on the BSE and NSE of India. Listing is anticipated to be completed in the third quarter of 2019, subject to applicable regulatory conditions. As a result the company's investment in IIFL Securities was categorized as a Level 3 investment in the fair value hierarchy at June 30, 2019.

The initial fair value determined for IIFL Securities in the IIFL Holdings Reorganization was considered to approximate fair value at June 30, 2019 as there had been no significant changes to IIFL Securities' business, capital structure and operating environment and the key assumptions in the company's internal valuation model continued to be valid. At June 30, 2019 the fair value of the company's investment in IIFL Securities was $92,188 (December 31, 2018 - nil) representing a 26.5% equity interest. The changes in fair value of the company's investment in IIFL Securities for the second quarter and first six months of 2019 are presented in the tables disclosed earlier in note 5.

Investment in National Collateral Management Services Limited

National Collateral Management Services Limited ("NCML"), a private company located in Gurugram, India, is an agricultural commodities company 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).

At June 30, 2019 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 9.8% to 21.4% and long term growth rates ranging from 2.4% to 6.0% (December 31, 2018 - 12.0% to 21.8%, and 2.4% to 6.0%, respectively). At June 30, 2019 free cash flow projections were based on EBITDA estimates derived from financial information for NCML's business units prepared in the second quarter of 2019 (December 31, 2018 - 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 June 30, 2019 the company's internal valuation model indicated that the fair value of the company's investment in NCML was $146,565 (December 31, 2018 - $165,380). The changes in fair value of the company's investment in NCML for the second quarters and first six months of 2019 and 2018 are presented in the tables disclosed earlier in note 5.

Investment in CSB Bank Limited

CSB Bank Limited ("CSB Bank", formerly known as The Catholic Syrian Bank Limited), a private company headquartered in Thrissur, India, was established in 1920 and is a full-service bank offering retail banking, non-resident Indian banking services, small-to-medium enterprise and wholesale banking services through 415 branches and 288 automated teller machines across India.

On February 20, 2018 the company entered into an agreement to acquire a 51.0% equity interest, on a fully diluted basis, in CSB Bank for $169,511 (approximately 12.1 billion Indian rupees). The company's investment in the securities of CSB Bank comprised of common shares and warrants (to purchase approximately 66.5 million common shares), were payable as follows: (i) consideration payable on initial closing for 25.0% of the common shares and 40.0% of the warrants; and, (ii) remaining 75.0% of the common shares payable within 12 months of the initial closing, upon request by CSB Bank, and 60.0% of the warrants payable within 18 months of the initial closing, in one or more tranches, either upon request by CSB Bank or at the option of Fairfax India.

On October 19, 2018 the company completed the initial investment in CSB Bank and on closing recorded $88,524 (approximately 6.5 billion Indian rupees) within common stocks on the consolidated balance sheet relating to 100.0% of the common shares and 40.0% of the warrants, and $28,367 (approximately 2.1 billion Indian rupees) recorded within payable for partly paid securities on the consolidated balance sheet relating to 75.0% of the consideration payable on the common shares ("Tranche 1").

On March 20, 2019 the company invested in an additional 30.0% of the warrants of CSB Bank and recorded $40,547 (approximately 2.8 billion Indian rupees) within common stocks ("Tranche 2") on the consolidated balance sheet.

On June 29, 2019 CSB Bank issued a capital call for the remaining 30.0% of the warrants and 75.0% of the consideration payable for the common shares. The company recorded $40,440 (approximately 2.8 billion Indian rupees) within common stocks and payable for partly paid securities on the consolidated balance sheet for the remaining 30.0% of warrants of CSB Bank ("Final Tranche").

CSB Bank Common Shares

At June 30, 2019 the company's investment in CSB Bank common shares with a cost of $169,511 was comprised of: (i) 19.8 million common shares that represented 100.0% of the common shares for $37,823 (approximately 2.8 billion Indian rupees) representing a 19.7% equity interest; and, (ii) 100.0% of the warrants to purchase 66.5 million common shares for $131,688 (approximately 9.3 billion Indian rupees) reflected as common shares as they had features of in-substance equity.

At June 30, 2019 the company estimated the fair value of its investment in CSB Bank common shares using a discounted cash flow analysis, based on multi-year free cash flow projections with an assumed after-tax discount rate of 18.6% and a long term growth rate of 4.5%, and an option pricing model. At June 30, 2019 free cash flow projections were based on pre-tax income estimates derived from financial information for CSB Bank prepared in the second quarter of 2019 by CSB Bank'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 CSB Bank operates. CSB Bank common shares held by the company are subject to certain selling restrictions for a specified period imposed by the Reserve Bank of India. A discount for lack of marketability has been applied to the fair value of CSB Bank common shares as determined by the discounted cash flow analysis where the discount was determined using an industry accepted option pricing model that incorporates historical share price volatility ranging from 24.8% to 38.3%. At June 30, 2019 the company's internal valuation model indicated that the fair value of the company's investment in CSB Bank was $176,273 (comprised of 100.0% of the common shares and 100.0% of the warrants), representing a 51.0% effective equity interest on a diluted basis in CSB Bank which included the warrants that are in-substance equity.

The initial transaction price for Tranche 1 was considered to approximate fair value at December 31, 2018 as there had been no significant changes to CSB Bank's business, capital structure and operating environment and the key assumptions in the company's acquisition valuation model continued to be valid. At December 31, 2018 the fair value of the company's investment in CSB Bank was $93,081 (comprised of 100.0% of the common shares and 40.0% of the warrants).

The changes in fair value of the company's investment in CSB Bank for the second quarter and first six months of 2019 are presented in the tables disclosed earlier in note 5.

Payable for partly paid securities of CSB Bank

The remaining consideration payable for 30.0% of the warrants ($40,440) and 75.0% of the common shares ($30,167) of $70,607 at period end exchange rates (approximately 4.9 billion Indian rupees) was paid on July 8, 2019 and recorded within payable for partly paid securities on the consolidated balance sheet at June 30, 2019.

Investment in Seven Islands Shipping Limited

Seven Islands Shipping Limited ("Seven Islands"), a private company headquartered in Mumbai, India, is the second largest private tanker shipping company in India and transports products along the Indian coast as well as in international waters. Seven Islands owns 17 vessels with a total deadweight capacity of approximately 1.1 million tonnes, and its vessels are registered in India and operate as Indian owned and flagged vessels.

On March 29, 2019 the company invested cash consideration of $71,767 (approximately 5.0 billion Indian rupees) for a 41.4% equity interest in Seven Islands.

The initial transaction price for the company's investment in Seven Islands was considered to approximate fair value at June 30, 2019 as there had been no significant changes to Seven Islands' business, capital structure and operating environment and the key assumptions in the company's acquisition valuation model continued to be valid. The changes in fair value of the company's investment in Seven Islands for the second quarter and first six months of 2019 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 ("CFS") at Mundra port (Gujarat). Services provided by Saurashtra's CFS 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. Saurashtra's subsidiary Fairfreight Lines 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 June 30, 2019 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 an assumed after-tax discount rate of 15.0% and long term growth rates ranging from 4.0% to 5.0% (December 31, 2018 - 15.6% to 16.0%, and 4.0% to 5.0%, respectively). At June 30, 2019 free cash flow projections were based on EBITDA estimates derived from financial information for Saurashtra's two business units prepared in the second quarter of 2019 (December 31, 2018 - fourth quarter of 2018) by Saurashtra'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 Saurashtra operates. At June 30, 2019 the company's internal valuation model indicated that the fair value of the company's investment in Saurashtra was $28,767 (December 31, 2018 - $24,843). The changes in fair value of the company's investment in Saurashtra for the second quarters and first six months of 2019 and 2018 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 June 30, 2019 the company's estimated fair value of its investment in NSE of $55,892 (December 31, 2018 - $60,285) was based on recent third party transactions completed in the second quarter of 2019 (December 31, 2018 - fourth quarter of 2018). The changes in fair value of the company's investment in NSE for the second quarters and first six months of 2019 and 2018 are presented in the tables disclosed earlier in note 5.

Investment in India Housing Fund

On December 24, 2018 the company entered into an agreement whereby it committed to invest $25,000 in the India Housing Fund ("IH Fund"). The investment in IH Fund will be denominated in the Indian rupee, and as such, the amounts to be paid will be converted from U.S. dollars to Indian rupees on each investment date. IH Fund is a closed-ended fund of IIFL Private Equity Fund (the "Trust") registered as a Category II Alternative Investment Fund ("AIF") under the Securities and Exchange Board of India ("SEBI") AIF Regulations. IH Fund is a fund incorporated to focus on investing in the real estate sector in India by investing in equity, debt and equity-linked instruments of real estate and construction companies involved in projects or ventures with expected growth potential.

On January 7, 2019 the company invested 25.0% or $6,272 (approximately 437 million Indian rupees) of the committed investment amount in IH Fund, with the remaining 75.0% or approximately $18.7 million to be drawn down within a 2 year period.

At June 30, 2019 the company estimated the fair value of its investment in IH Fund of $6,414 (December 31, 2018 - nil) based on the net asset value provided by the third party fund manager. The fair values are determined using quoted prices of the underlying assets for short term investments, and industry accepted valuation models for debt and equity instruments. The changes in fair value of the company's investment in IH Fund for the second quarter and first six months of 2019 are presented in the tables disclosed earlier in note 5.

Investment in 5paisa Forward Derivative

The company's investment in 5paisa is comprised of common shares and a forward derivative. The company's investment in 5paisa common shares is discussed in the Public Indian Investments section under the heading Investment in 5paisa Capital Limited (Common Shares) earlier in note 5.

On May 29, 2019 5paisa announced a rights offering to existing shareholders of 5paisa whereby the shareholders were invited to participate on a pro rata basis in a rights offer at a price of 80.00 Indian rupees per share ("5paisa Rights Offer"). In connection with the 5paisa Rights Offer, Fairfax India committed to participate and acquire 3,385,657 5paisa common shares for $3,924 (approximately 270.9 million Indian rupees) and as a result gave rise to a forward derivative asset ("5paisa forward derivative") that was recorded in derivatives on the consolidated balance sheet. The 5paisa Rights Offer is expected to close during the third quarter of 2019.

At June 30, 2019 the company estimated the fair value of its investment in the 5paisa forward derivative of $6,440 (December 31, 2018 - nil) based on the estimated forward price of 5paisa common shares at an estimated closing date compared to the rights offer price of 80.00 Indian rupees per share, which was multiplied by the number of common shares committed to in the 5paisa Rights Offer by Fairfax India. The changes in fair value of the company's investment in 5paisa forward derivative for the second quarter and first six months of 2019 are presented in the tables disclosed earlier in note 5.

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:

	June 30, 2019					December 31, 2018				
	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	**41,548**	**—**	**—**	**41,548**	**2,868**	21,240	—	—	21,240	1,483
Restricted cash[1]	**33,739**	**—**	**—**	**33,739**	**2,329**	13,833	—	—	13,833	966
	75,287	**—**	**—**	**75,287**	**5,197**	35,073	—	—	35,073	2,449
Short term investments - Indian treasury bills	**2,077**	**—**	**—**	**2,077**	**143**	—	—	—	—	—
Bonds:										
Government of India[2]	**—**	**14,918**	**—**	**14,918**	**1,030**	—	88,997	—	88,997	6,213
Indian corporate[2]	**—**	**21,234**	**—**	**21,234**	**1,466**	—	94,613	—	94,613	6,605
Sanmar	**—**	**—**	**421,367**	**421,367**	**29,086**	—	—	392,776	392,776	27,422
	—	**36,152**	**421,367**	**457,519**	**31,582**	—	183,610	392,776	576,386	40,240
Common stocks:										
IIFL Finance / IIFL Holdings[3]	**172,281**	**—**	**—**	**172,281**	**11,892**	613,458	—	—	613,458	42,829
Fairchem	**143,203**	**—**	**—**	**143,203**	**9,885**	96,574	—	—	96,574	6,742
5paisa	**10,364**	**—**	**—**	**10,364**	**715**	11,913	—	—	11,913	832
Other	**119,503**	**—**	**—**	**119,503**	**8,249**	98,180	—	—	98,180	6,855
BIAL	**—**	**—**	**750,578**	**750,578**	**51,811**	—	—	704,077	704,077	49,155
Sanmar	**—**	**—**	**220,867**	**220,867**	**15,246**	—	—	217,170	217,170	15,162
IIFL Wealth[3]	**—**	**—**	**193,284**	**193,284**	**13,342**	—	—	—	—	—
IIFL Securities[3]	**—**	**—**	**92,188**	**92,188**	**6,363**	—	—	—	—	—
NCML	**—**	**—**	**146,565**	**146,565**	**10,117**	—	—	165,380	165,380	11,546
CSB Bank	**—**	**—**	**176,273**	**176,273**	**12,168**	—	—	93,081	93,081	6,498
Seven Islands	**—**	**—**	**72,024**	**72,024**	**4,972**	—	—	—	—	—
Saurashtra	**—**	**—**	**28,767**	**28,767**	**1,986**	—	—	24,843	24,843	1,734
NSE	**—**	**—**	**55,892**	**55,892**	**3,858**	—	—	60,285	60,285	4,209
IH Fund	**—**	**—**	**6,414**	**6,414**	**442**	—	—	—	—	—
	445,351	**—**	**1,742,852**	**2,188,203**	**151,046**	820,125	—	1,264,836	2,084,961	145,562
Derivatives - 5paisa forward derivative	**—**	**—**	**6,440**	**6,440**	**445**	—	—	—	—	—
Total cash and investments	**522,715**	**36,152**	**2,170,659**	**2,729,526**	**188,413**	855,198	183,610	1,657,612	2,696,420	188,251
	19.2%	**1.3%**	**79.5%**	**100.0%**	**100.0%**	31.7%	6.8%	61.5%	100.0%	100.0%

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

(2) Priced based on information provided by independent pricing service providers at June 30, 2019 and December 31, 2018. There were no changes in valuation techniques for these securities during the first six months of 2019.

(3) On May 31, 2019 IIFL Holdings spun off IIFL Wealth and IIFL Securities in the IIFL Holdings Reorganization. At June 30, 2019 IIFL Wealth and IIFL Securities had not yet completed certain required regulatory processes and as a result the shares of those companies were not listed on the BSE and NSE of India. The fair value of the company's investments in IIFL Wealth and IIFL Securities on the IIFL Holdings Reorganization date was considered to approximate fair value at June 30, 2019. Refer to note 5 for additional details. At December 31, 2018 the fair value of $613,458 represented the fair value of the company's investment in IIFL Holdings.

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 six months of 2019 and 2018 there were no transfers of financial instruments between Level 1 and Level 2. During the first six months of 2019 as a result of the IIFL Holdings Reorganization, described in note 5, the company's investments in IIFL Wealth and IIFL Securities were classified as Level 3 in the fair value hierarchy.

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 six months of 2019 and 2018 was as follows:

	First six months								
	2019					2018			
Indian rupees (in millions)	**Balance as of January 1**	**Purchases**	**IIFL Holdings Reorganization**	**Net change in unrealized gains (losses) on investments**	**Balance as of June 30**	Balance as of January 1	Purchases	Net change in unrealized gains (losses) on investments	Balance as of June 30
Bonds - Sanmar bonds	**27,422**	**—**	**—**	**1,664**	**29,086**	21,266	—	742	22,008
Common stocks:									
BIAL	**49,155**	**—**	**—**	**2,656**	**51,811**	38,825	4,571	713	44,109
Sanmar	**15,162**	**—**	**—**	**84**	**15,246**	36	—	5	41
IIFL Wealth	**—**	**—**	**13,342**	**—**	**13,342**	—	—	—	—
IIFL Securities	**—**	**—**	**6,363**	**—**	**6,363**	—	—	—	—
NCML	**11,546**	**—**	**—**	**(1,429)**	**10,117**	11,429	—	222	11,651
CSB Bank	**6,498**	**5,583**	**—**	**87**	**12,168**	—	—	—	—
Seven Islands	**—**	**4,972**	**—**	**—**	**4,972**	—	—	—	—
Saurashtra	**1,734**	**—**	**—**	**252**	**1,986**	1,787	—	(55)	1,732
NSE	**4,209**	**—**	**—**	**(351)**	**3,858**	2,582	—	1,796	4,378
IH Fund	**—**	**437**	**—**	**5**	**442**	—	—	—	—
	88,304	**10,992**	**19,705**	**1,304**	**120,305**	54,659	4,571	2,681	61,911
Derivatives - 5paisa forward derivative	**—**	**—**	**—**	**445**	**445**	—	—	—	—
Total	**115,726**	**10,992**	**19,705**	**3,413**	**149,836**	75,925	4,571	3,423	83,919

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 related to unrealized gains (losses) on investments held at the end of the reporting periods.

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 in the fair value hierarchy at June 30, 2019. 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 investments in IIFL Wealth, IIFL Securities, Seven Islands, NSE, IH Fund and the 5paisa forward derivative 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** [(1)]
Bonds: Sanmar	$421,367	Discounted cash flow and option pricing model	Credit spread	6.2%	(15,051) / 15,307	(13,057) / 13,279
Common stocks:						
BIAL	$750,578	Discounted cash flow	After-tax discount rate	11.2% to 12.3%	(87,668) / 82,275	(76,052) / 71,374
			Long term growth rate	3.5%	11,656 / (10,925)	10,112 / (9,477)
Sanmar	$220,867	Discounted cash flow	After-tax discount rate	13.0% to 17.1%	(33,229) / 36,384	(28,826) / 31,563
			Long term growth rate	3.0% to 4.0%	9,192 / (8,787)	7,974 / (7,623)
NCML	$146,565	Discounted cash flow	After-tax discount rate	9.8% to 21.4%	(20,569) / 23,492	(17,844) / 20,379
			Long term growth rate	2.4% to 6.0%	6,374 / (5,970)	5,529 / (5,179)
CSB Bank	$176,273	Discounted cash flow and option pricing model	Discount rate	18.6%	(9,027) / 9,756	(7,831) / 8,463
			Long term growth rate	4.5%	3,035 / (2,930)	2,633 / (2,542)
			Historical share price volatility	24.8% to 38.3%	(2,932) / 2,947	(2,544) / 2,557
Saurashtra	$28,767	Discounted cash flow	After-tax discount rate	15.0%	(718) / 785	(623) / 681
			Long term growth rate	4.0% to 5.0%	353 / (253)	306 / (219)

(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. Changes in the after-tax discount rates (50 basis points), long term growth rates (25 basis points), credit spreads (100 basis points), and historical share price volatility (250 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, discount rate, credit spreads, and historical share price volatility 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 June 30, 2019 bonds containing call features represented $421,367 (December 31, 2018 - $392,776) of the total fair value of bonds. At June 30, 2019 and December 31, 2018 there were no bonds containing put features.

	June 30, 2019		December 31, 2018	
	Amortized cost	**Fair value**	Amortized cost	Fair value
Due in 1 year or less	**300,612**	**434,653**	284,114	392,776
Due after 1 year through 5 years	**—**	**—**	2,830	2,803
Due after 5 years through 10 years	**20,996**	**21,234**	155,035	156,262
Due after 10 years	**1,525**	**1,632**	25,965	24,545
	323,133	**457,519**	467,944	576,386

Investment Income

An analysis of investment income for the three and six months ended June 30 is summarized in the table that follows:

Interest and dividends

	Second quarter		**First six months**	
	2019	2018	**2019**	2018
Interest:				
Cash and cash equivalents	**181**	25	**372**	28
Short term investments	**53**	62	**53**	123
Bonds(1)	**680**	5,722	**3,528**	12,421
	914	5,809	**3,953**	12,572
Dividends: Common stocks	**68**	—	**6,074**	6,575

(1) Excludes Sanmar bonds as the estimated interest income is included in its fair value measurement.

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

	Second quarter					
	2019			2018		
	Net realized gains (losses)	**Net change in unrealized gains (losses)**	**Net gains (losses)**	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses)
Net gains (losses) on investments:						
Short term investments	**51**	**—**	**51**	—	—	—
Bonds	**—**	**12,210** (1)	**12,210**	(3,348)	1,102 (1)	(2,246)
Common stocks	**36,112** (3)	**(63,143)** (2)(3)	**(27,031)**	—	(40,570) (2)	(40,570)
Derivatives	**—**	**6,351**	**6,351**	—	—	—
	36,163	**(44,582)**	**(8,419)**	(3,348)	(39,468)	(42,816)
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	**89**	**—**	**89**	722	—	722
Investments	**(102)**	**—**	**(102)**	—	782	782
Borrowings	**—**	**1,941**	**1,941**	(25,407) (4)	5,990 (4)	(19,417)
Other	**29**	**—**	**29**	(669)	—	(669)
	16	**1,941**	**1,957**	(25,354)	6,772	(18,582)

(1) In the second quarter of 2019, comprised of unrealized gains from Sanmar bonds ($11,868), Indian corporate bonds ($219), and Government of India bonds ($123). In the second quarter of 2018, comprised of unrealized gains from Sanmar bonds ($7,078), partially offset by unrealized losses from Indian corporate bonds ($3,491) and Government of India bonds ($2,485).

(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 second quarters of 2019 and 2018.

(3) Realized gains on common stocks was fully offset by the reversal of unrealized gains on investments recorded in prior periods and as a result had a nil impact on the company's consolidated statements of earnings, related to the IIFL Holdings Reorganization where IIFL Holdings spun off IIFL Wealth and IIFL Securities at fair values in excess of Fairfax India's cost basis of IIFL Holdings.

(4) On June 28, 2018 the company amended, restated and replaced its existing $400.0 million term loan with a $550.0 million term loan and accounted for the transaction as an extinguishment of debt which resulted in a net foreign exchange realized loss of $25,407 related to the $400.0 million term loan. The net change in unrealized gain of $5,990 was comprised of the reversal of the prior quarter unrealized foreign exchange loss of $4,137 on the $400.0 million term loan and an unrealized foreign exchange gain of $1,853 on the $550.0 million term loan.

	First six months					
	2019			2018		
	Net realized gains (losses)	**Net change in unrealized gains (losses)**	**Net gains (losses)**	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses)
Net gains (losses) on investments:						
Short term investments	**70**	**—**	**70**	—	—	—
Bonds	**(1,321)**	**24,363** [1]	**23,042**	(3,333)	3,906 [1]	573
Common stocks	**36,112** [3]	**(114,780)** [2][3]	**(78,668)**	—	(2,025) [2]	(2,025)
Derivatives	**—**	**6,351**	**6,351**	—	—	—
	34,861	**(84,066)**	**(49,205)**	(3,333)	1,881	(1,452)
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	**(593)**	**—**	**(593)**	956	—	956
Investments	**(102)**	**—**	**(102)**	(529)	1,691	1,162
Borrowings	**—**	**6,134**	**6,134**	(25,407) [4]	(2,674) [4]	(28,081)
Other	**(228)**	**—**	**(228)**	(3,196)	—	(3,196)
	(923)	**6,134**	**5,211**	(28,176)	(983)	(29,159)

(1) In the first six months of 2019, comprised of unrealized gains from Sanmar bonds ($23,774) and Indian corporate bonds ($828), partially offset by unrealized losses from Government of India bonds ($239). In the first six months of 2018, comprised of unrealized gains from Sanmar bonds ($11,309), partially offset by unrealized losses from Government of India bonds ($4,047) and Indian corporate bonds ($3,356).

(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 six months of 2019 and 2018.

(3) Realized gains on common stocks was fully offset by the reversal of unrealized gains on investments recorded in prior periods and as a result had a nil impact on the company's consolidated statements of earnings, related to the IIFL Holdings Reorganization where IIFL Holdings spun off IIFL Wealth and IIFL Securities at fair values in excess of Fairfax India's cost basis of IIFL Holdings.

(4) In the first six months of 2018 net realized foreign exchange loss of $25,407 related to the $400.0 million term loan, and the net change in unrealized loss of $2,674 was comprised of the reversal of the prior year unrealized foreign exchange gain of $4,527 on the $400.0 million term loan, partially offset by an unrealized foreign exchange gain of $1,853 on the $550.0 million term loan.

7. Borrowings

	June 30, 2019			December 31, 2018		
	Principal	**Carrying value**[1]	**Fair value**[2]	Principal	Carrying value[1]	Fair value[2]
1 Year Secured Term Loan, floating rate due June 26, 2020	**550,000**	**544,455**	**550,000**	550,000	547,228	550,000
Revolving Credit Facility, floating rate	**50,000**	**50,000**	**50,000**	—	—	—
	600,000	**594,455**	**600,000**	550,000	547,228	550,000

(1) Principal net of unamortized issue costs.

(2) Principal approximated fair value at June 30, 2019 and December 31, 2018.

Secured Term Loan

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. On June 28, 2019 the company amended and restated the existing $550.0 million term loan by extending the maturity to June 26, 2020 while maintaining the option to extend for an additional year.

At June 30, 2019 the amended $550.0 million term loan was recognized net of unamortized issuance costs of $5,545 (December 31, 2018 - $2,772) and recorded in borrowings on the consolidated balance sheets. The issuance costs are amortized over the remaining life of the $550.0 million term loan and recorded in interest expense in the consolidated statements of earnings.

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. At June 30, 2019 the company was in compliance with the $550.0 million term loan financial covenant.

Revolving Credit Facility

Concurrent with amending and restating the $550.0 million term loan, the company entered into a $50,000, 1 year secured revolving credit facility with a Canadian bank bearing interest at a rate of LIBOR plus 350 basis points, with an option to extend for an additional year ("Revolving Credit Facility"). At June 30, 2019 the company had drawn $50,000 from the Revolving Credit Facility and used the proceeds to partially finance the settlement of the payable for partly paid securities on July 8, 2019 relating to the company's investment in CSB Bank and to fund the debt service reserve account.

Interest Expense

In the second quarter and first six months of 2019 interest expense of $8,935 and $19,004 (2018 - $4,390 and $9,952) was comprised of interest expense of $7,549 and $16,232 (2018 - $4,390 and $9,952) and the amortization of the issuance costs of $1,386 and $2,772 (2018 - nil in both periods).

8. Common Shareholders' Equity

Common stock

The number of shares outstanding was as follows:

	First six months	
	2019	2018
Subordinate voting shares - January 1	**122,861,534**	117,432,631
Issuances of shares	**—**	7,663,685
Purchases for cancellation	**(230,053)**	—
Subordinate voting shares - June 30	**122,631,481**	125,096,316
Multiple voting shares - beginning and end of period	**30,000,000**	30,000,000
Common shares effectively outstanding - June 30	**152,631,481**	155,096,316

Purchase of Shares

During the first six months of 2019, under the terms of the normal course issuer bid, the company purchased for cancellation 230,053 subordinate voting shares (2018 - nil) for a net cost of $2,998 (2018 - nil), of which $577 was charged to retained earnings (2018 - nil).

9. Net Earnings per Share

Net loss per common share is calculated in the following table based on the weighted average common shares outstanding:

	Second quarter		First six months	
	2019	2018	**2019**	2018
Net loss – basic and diluted	**(55,484)**	(69,647)	**(108,069)**	(40,822)
Weighted average common shares outstanding – basic and diluted	**152,631,481**	155,096,316	**152,678,656**	152,259,482
Net loss per common share – basic and diluted	**$ (0.36)**	$ (0.45)	**$ (0.71)**	$ (0.27)

10. Income Taxes

The company's provision for income taxes for the three and six months ended June 30 are summarized in the following table:

	Second quarter		First six months	
	2019	2018	**2019**	2018
Current income tax:				
Current year expense	**270**	411	**758**	813
Deferred income tax:				
Origination and reversal of temporary differences	**30,670**	(84)	**34,513**	(84)
Adjustments to prior years' deferred income taxes	**—**	84	**—**	84
	30,670	—	**34,513**	—
Provision for income taxes	**30,940**	411	**35,271**	813

A significant portion of the company's earnings (loss) before income taxes maybe earned or 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).

In the second quarter and first six months of 2019 deferred income tax of $30,670 and $34,513 related to $24,703 and $25,738 of potential capital gains tax in India on any future dispositions of investments in equity shares and $5,967 and $8,775 recorded on taxable interest income primarily in India for taxes related to the Sanmar bonds. At June 30, 2019 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 recorded the deferred income tax noted above of $24,703 and $25,738 in the second quarter and first six months of 2019 (2018 - nil in both periods) primarily related to unrealized gains resulting from the May 31, 2019 IIFL Holdings Reorganization and unrealized gains in Other Public Indian Investments acquired in 2018. 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 Indian Investments.

On April 2, 2019 FIH Mauritius received a ruling from the Mauritius Revenue Authority which concluded that the redemption premium feature in the Sanmar bonds represented taxable income and therefore was subject to tax in Mauritius. In addition, the company concluded the redemption premium feature will be taxable as interest income in India. As a result the company recorded deferred income tax of $5,967 and $8,775 in the second quarter and first six months of 2019 (2018 - nil) related to the Sanmar bonds.

The company's loss before income taxes by jurisdiction and the associated provision for income taxes for the three and six months ended June 30 are summarized in the following table:

	Second quarter					
	2019			2018		
	Canada	**Mauritius**	**Total**	Canada	Mauritius	Total
Loss before income taxes	**(7,740)**	**(16,804)**	**(24,544)**	(23,471)	(45,765)	(69,236)
Provision for income taxes	**—**	**30,940** (1)	**30,940**	—	411	411
Net loss	**(7,740)**	**(47,744)**	**(55,484)**	(23,471)	(46,176)	(69,647)

	First six months					
	2019			2018		
	Canada	**Mauritius**	**Total**	Canada	Mauritius	Total
Loss before income taxes	**(12,586)**	**(60,212)**	**(72,798)**	(37,630)	(2,379)	(40,009)
Provision for income taxes	**—**	**35,271** (1)	**35,271**	—	813	813
Net loss	**(12,586)**	**(95,483)**	**(108,069)**	(37,630)	(3,192)	(40,822)

(1) Includes $24,703 and $25,738 of potential capital gains tax in India (primarily related to the IIFL Holdings Reorganization) and $5,663 and $5,663 of taxable interest income in India (related to the redemption premium feature in the Sanmar bonds).

The decrease in loss before income taxes in Canada in the second quarter and first six months of 2019 compared to the second quarter and first six months of 2018 primarily related to unrealized foreign exchange gains related to the $550.0 million term loan during the second quarter and first six months of 2019 compared to realized foreign exchange losses related to the $400.0 million term loan during the second quarter and first six months of 2018, partially offset by increased interest expense. The decrease in loss before income taxes in Mauritius in the second quarter of 2019 compared to the second quarter of 2018 primarily reflected decreased net unrealized losses on investments (principally related to increased net unrealized gains on the company's Private Indian Investments and decreased net unrealized losses on the company's Public Indian Investments), partially offset by decreased interest income on bonds. The increase in loss before income taxes in Mauritius in the first six months of 2019 compared to the first six months of 2018 primarily related to increased net unrealized losses on investments (principally related to the company's Public Indian Investments and lower unrealized gains on the Private Indian Investments).

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

	Second quarter		First six months	
	2019	2018	**2019**	2018
Canadian statutory income tax rate	**26.5%**	26.5%	**26.5%**	26.5%
Recovery of income taxes at the Canadian statutory income tax rate	**(6,504)**	(18,347)	**(19,291)**	(10,602)
Tax rate differential on losses incurred outside of Canada	**32,703**	6,482	**48,745**	2,788
Provision relating to prior years	**—**	84	**—**	84
Change in unrecorded tax benefit of losses and temporary differences	**5,402**	7,297	**7,824**	1,365
Foreign exchange effect	**(672)**	4,885	**(2,022)**	7,168
Other including permanent differences	**11**	10	**15**	10
Provision for income taxes	**30,940**	411	**35,271**	813

The tax rate differential on losses incurred outside of Canada of $32,703 and $48,745 in the second quarter and first six months of 2019 principally reflected deferred income tax on unrealized gains related to the IIFL Holdings Reorganization and deferred income taxes related to the Sanmar bonds, partially offset by the impact of net investment income taxed in India and Mauritius at lower rates. The tax rate differential on losses incurred outside of Canada of $6,482 and $2,788 in the second quarter and first six months of 2018 principally reflected the impact of net investment losses taxed in India and Mauritius at lower rates.

The change in unrecorded tax benefit of losses and temporary differences of $5,402 and $7,824 in the second quarter and first six months of 2019 principally reflected changes in unrecorded deferred tax assets incurred related to foreign accrual property losses of $3,089 and $2,881 with respect to the company's wholly-owned subsidiaries and net operating loss carryforwards in Canada of $2,313 and $4,943 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 $7,297 in the second quarter of 2018 principally reflected changes in unrecorded deferred tax assets incurred related to foreign accrual property losses of $6,057 with respect to the company's wholly-owned subsidiaries and net operating loss carryforwards in Canada of $1,280. The change in unrecorded tax benefit of losses and temporary differences of $1,365 in the first six months of 2018 principally reflected changes in unrecorded deferred tax assets incurred related to net operating loss carryforwards in Canada of $2,750, partially offset by net utilized foreign accrual property losses of $1,345. At June 30, 2019 deferred tax assets in Canada of $53,445 (December 31, 2018 - $45,620) were not recorded as it was considered not probable that those losses could be utilized by the company.

Foreign exchange effect of $672 and $2,022 in the second quarter and first six months of 2019 (2018 - $4,885 and $7,168) 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 June 30, 2019 compared to those identified and disclosed in the company's annual consolidated financial statements for the year ended December 31, 2018.

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 cash flows of a financial instrument or another asset or liability will fluctuate because of changes in foreign exchange rates and 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. There were no significant changes to the company's framework used to monitor, evaluate and manage foreign currency risk at June 30, 2019 compared to December 31, 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 June 30, 2019 compared to December 31, 2018.

The company's exposure to interest rate risk decreased in the first six months of 2019 primarily reflecting the partial sale of Government of India and Indian corporate bonds to finance the company's investment in Seven Islands, Tranche 2 of the CSB Bank investment and the investment in IH Fund, partially offset by unrealized gains on the 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 (loss).

	June 30, 2019			December 31, 2018		
	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	**426,166**	**(26,910)**	**(6.9)%**	527,897	(39,695)	(8.4)%
100 basis point increase	**441,575**	**(13,690)**	**(3.5)%**	551,843	(20,112)	(4.3)%
No change	**457,519**	**—**	**—**	576,386	—	—
100 basis point decrease	**474,428**	**14,481**	**3.7 %**	603,940	22,421	4.8 %
200 basis point decrease	**491,950**	**29,498**	**7.5 %**	632,299	45,534	9.7 %

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 due to 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 investments at June 30, 2019 compared to December 31, 2018 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 increased from $2,084,961 at December 31, 2018 to $2,194,643 at June 30, 2019 primarily as a result of the company's investments in Seven Islands, Tranche 2 and Final Tranche in CSB Bank, and IH Fund (Level 3 investments in the fair value hierarchy), unrealized gains on the Private Indian Investments (principally BIAL, Level 3 investment in the fair value hierarchy), and unrealized gains on the Public Indian Investments (Fairchem and Other Public Indian Investments, Level 1 investments in the fair value hierarchy), partially offset by unrealized losses on the Public Indian Investments (principally IIFL Finance / IIFL Holdings, Level 1 investment in the fair value hierarchy), and unrealized losses on the Private Indian Investments (principally NCML, Level 3 investment in the fair value hierarchy). Refer to note 6 for the potential impact on net earnings (loss) 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.

Credit Risk

Credit risk is the risk of loss resulting from the failure of a counterparty to honour its financial obligations to the company, and arises predominantly from 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 June 30, 2019 compared to December 31, 2018.

Cash and Cash Equivalents, and Short Term Investments

At June 30, 2019 the company's cash and cash equivalents of $41,548 (December 31, 2018 - $21,240) 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 by regularly reviewing the financial strength and creditworthiness of these financial institutions. From these reviews, the company may transfer balances from financial institutions where it perceives heightened credit risk to others considered to be more stable.

At June 30, 2019 the company's short term investments in Indian treasury bills of $2,077 (December 31, 2018 - nil) were rated Baa2 by Moody's Investors Service, Inc. and BBB- by Standard & Poor's Financial Services LLC.

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 June 30, 2019 the company's debt instruments were all considered to be subject to credit risk with a fair value of $457,519 (December 31, 2018 - $576,386), representing 16.8% (December 31, 2018 - 21.4%) of the total cash and investments portfolio. There were no changes to the credit ratings of the company's fixed income portfolio at June 30, 2019 compared to December 31, 2018.

The company's exposure to credit risk from its investment in fixed income securities decreased at June 30, 2019 compared to December 31, 2018 primarily reflecting the partial sale of Government of India and Indian corporate bonds to finance the company's investment in Seven Islands, Tranche 2 of the CSB Bank investment and the investment in IH Fund, partially offset by unrealized gains on the 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 June 30, 2019 compared to December 31, 2018.

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. The company manages liquidity risk by maintaining sufficient liquid assets to enable settlement of financial commitments on their respective due dates. All accounts payable and accrued liabilities are due within three months, and income taxes payable, if any, must be remitted to the respective tax jurisdictions as they are due. 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 June 30, 2019 compared to December 31, 2018.

The undeployed cash and investments at June 30, 2019 along with the company's ability to sell a portion of its Public Indian Investments provides adequate liquidity to meet the company's remaining known significant commitments in 2019, which are principally comprised of the payable for partly paid securities related to the company's investment in CSB Bank (settled on July 8, 2019), the remaining investment commitments for IH Fund and the 5paisa Rights Offer, 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.

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. At June 30, 2019 and December 31, 2018 the company's total cash and investments composition by the issuer's country of domicile was primarily India, and at June 30, 2019 represented 97.2% (December 31, 2018 - 98.7%) of the total cash and investments portfolio.

The company's holdings of Public and Private Indian Investments (see note 5) at June 30, 2019 and December 31, 2018 are summarized by the issuer's primary industry sector in the table below:

	June 30, 2019	December 31, 2018
Commercial and industrial	**932,002**	871,900
Financial services	**832,639**	876,917
Infrastructure	**750,578**	704,077
Ports and shipping	**100,791**	24,843
	2,616,010	2,477,737

During the first six months of 2019 the company's concentration risk in the commercial and industrial sector increased primarily due to unrealized gains on the investments in Fairchem and Sanmar (both common shares and bonds), while the company's concentration risk in the financial services sector decreased primarily due to unrealized losses on the company's investments in IIFL Holdings and IIFL Finance, partially offset by the completion of Tranche 2 and the Final Tranche of the company's investment in CSB Bank, the investment in IH Fund, and unrealized gains on the investments in Other Public Indian Investments. The company's concentration risk in the infrastructure sector increased primarily due to unrealized gains on the company's investment in BIAL, and the company's concentration risk in the ports and shipping sector increased primarily due to the company's investment in Seven Islands.

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 limit for an Indian Investment in accordance with the Investment Concentration Restriction increased at June 30, 2019 from December 31, 2018 principally as a result of the proceeds received from the Revolving Credit Facility, dividends, interest income and net foreign exchange gains, partially offset by net unrealized losses on investments, interest expense, and investment and advisory fees. 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 June 30, 2019 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, and to maintain an optimal capital structure to reduce the cost of capital in order to optimize returns for common shareholders. 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 borrowings and common shareholders' equity) decreased to $2,623,849 at June 30, 2019 from $2,665,173 at December 31, 2018, principally reflecting a decrease in common shareholders' equity, partially offset by an increase in borrowings, as described below.

Common shareholders' equity decreased to $2,029,394 at June 30, 2019 from $2,117,945 at December 31, 2018 primarily reflecting a net loss of $108,069, partially offset by unrealized foreign currency gains of $22,544 in the first six months of 2019.

On June 28, 2019 the company amended and restated the existing $550.0 million term loan by extending the maturity to June 26, 2020 while maintaining the option to extend for an additional year. Concurrent with amending and restating the $550.0 million term loan, the company entered into a $50,000, 1 year secured Revolving Credit Facility with a Canadian bank bearing interest at a rate of LIBOR plus 350 basis points, with an option to extend for an additional year. At June 30, 2019 the company had drawn $50,000 from the Revolving Credit Facility and used the proceeds to partially finance the settlement of the payable for partly paid securities on July 8, 2019 relating to the company's investment in CSB Bank and to fund the debt service reserve account.

12. Related Party Transactions

Payable to Related Parties

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

	June 30, 2019	December 31, 2018
Investment and advisory fees	**8,979**	8,796
Other	**130**	31
	9,109	8,827

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 and its subsidiaries (the "Investment Advisory Agreement"). As compensation for the provision of these services, the company and its subsidiaries pay 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

Second Calculation Period

The period from January 1, 2018 to December 31, 2020 (the "second calculation period") is 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) 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 price 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 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 in respect of which the performance fee is paid.

At June 30, 2019 the company determined that there was no performance fee accrual related to the second calculation period (December 31, 2018 - nil) as the book value per share of $13.30 at June 30, 2019 was lower than the high water mark per share at that date of $14.49. At June 30, 2019 and December 31, 2018 there were no contingently issuable subordinate voting shares related to the second calculation period performance fee payable to Fairfax.

Investment and Advisory Fees

The investment and advisory fees are 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 six months of 2019 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 second quarter and first six months of 2019 were $8,717 and $17,006 (2018 - $8,265 and $16,486).

Fairfax's Voting Rights and Equity Interest

At June 30, 2019 and December 31, 2018 Fairfax, through its subsidiaries, owned 30,000,000 multiple voting shares and 21,558,422 subordinate voting shares of Fairfax India. At June 30, 2019 Fairfax's holdings of multiple and subordinate voting shares represented 93.8% of the voting rights and 33.8% of the equity interest in Fairfax India (December 31, 2018 - 93.8% and 33.7%).

13. General and Administration Expenses

General and administration expenses for the three and six months ended June 30 were comprised as follows:

	Second quarter		First six months	
	2019	2018	**2019**	2018
Audit, legal and tax professional fees	**495**	490	**1,339**	1,029
Salaries and employee benefit expenses	**217**	169	**569**	528
Administrative expenses	**651**	240	**808**	363
Other	**49**	93	**105**	187
	1,412	992	**2,821**	2,107

14. Supplementary Cash Flow Information

Cash and cash equivalents of $41,548 (December 31, 2018 - $21,240) included in the consolidated balance sheets and statements of cash flows were comprised of cash and term deposits with banks.

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

	Second quarter		First six months	
	2019	2018	**2019**	2018
Purchases of investments				
Bonds	**(13,425)**	—	**(13,425)**	(3,022)
Common stocks	**—**	(67,391)	**(118,586)**	(88,368)
	(13,425)	(67,391)	**(132,011)**	(91,390)
Sales of investments				
Bonds	**—**	67,296	**160,051**	72,750
Net interest and dividends received (paid)				
Interest received	**2,102**	9,814	**10,721**	17,247
Dividends received	**68**	—	**6,074**	6,575
Interest paid on borrowings	**(8,794)**	(7,132)	**(17,477)**	(12,694)
	(6,624)	2,682	**(682)**	11,128
Income taxes paid	**661**	411	**930**	813

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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 six months ended June 30, 2019 and the company's 2018 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 reporting period, determined in accordance with IFRS, divided by the total number of common shares of the company effectively 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, 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 six months ended June 30, 2019.

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 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 publicly traded.

The book value per share at June 30, 2019 was $13.30 compared to $13.86 at December 31, 2018 representing a decrease in the first six months of 2019 of 4.0%, primarily reflecting a net loss of $108,069 (principally related to unrealized losses on investments (primarily the company's investments in IIFL Holdings and IIFL Finance), provision for income taxes and interest expense, partially offset by net foreign exchange gains), partially offset by unrealized foreign currency translation gains of $22,544.

The following narrative sets out the company’s key business developments in the first six months of 2019.

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. On June 28, 2019 the company amended and restated the existing $550.0 million term loan by extending the maturity to June 26, 2020 while maintaining the option to extend for an additional year.

Concurrent with the $550.0 million term loan, the company entered into a $50,000, 1 year secured revolving credit facility with a Canadian bank bearing interest at a rate of LIBOR plus 350 basis points, with an option to extend for an additional year ("Revolving Credit Facility"). At June 30, 2019 the company had drawn $50,000 from the Revolving Credit Facility and used the proceeds to partially finance the settlement of the payable for partly paid securities on July 8, 2019 relating to the company's investment in CSB Bank Limited ("CSB Bank", formerly known as The Catholic Syrian Bank Limited) and to fund the debt service reserve account.

For further details refer to note 7 (Borrowings) to the interim consolidated financial statements for the three and six months ended June 30, 2019.

Indian Investments

Full descriptions of the Indian Investments committed to and acquired in the second quarter and first six months of 2019 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 ("IMF"), recovering from the impacts of demonetization and implementation of the Goods and Services Tax. According to the IMF in the World Economic Outlook Update published in July 2019, the Indian economy will continue to grow at 7.0% in the financial year 2019-20 and 7.2% in the financial year 2020-21. The improvement in India's economic fundamentals has accelerated in the recent years with the combined impact of strong government reforms, higher government spending on infrastructure development and the Reserve Bank of India's ("RBI") inflation focus supported by favourable global commodity prices.

Political Stability

The 2019 Indian general election was held in seven phases from April 11, 2019 to May 19, 2019, with the results declared on May 23, 2019. The National Democratic Alliance ("NDA"), led by Prime Minister Narendra Modi's Bharatiya Janata Party ("BJP"), swept to victory and Prime Minister Modi became the first Indian Prime Minister in history whose government was re-elected with both an increase in total percentage of votes along with a full majority. Prime Minister Modi's first term saw significant progress in terms of economic reforms that increased foreign direct investments ("FDI") and several key reforms including the implementation of a unified national tax system on goods and services tax, diesel price deregulation, raising sectoral foreign investment limits and certain labour reforms.

A second term for the NDA will imply: (i) broad policy continuity; (ii) focus on improving national security; and (iii) further progress in terms of economic reform. It is expected that the Indian economy will continue to make headway in liberalizing and opening it to more FDI. In addition, labour reforms are expected to address inflexible labour markets and rising unemployment. Negotiations to resolve the trade dispute with the U.S. will likely commence soon and will form an important role in further liberalizing the Indian economy. Overall, Prime Minister Modi's win is considered to be positive for the Indian economy and signals political stability for the next five years.

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 Investments Ltd ("FIH Mauritius") and FIH Private Investments Ltd ("FIH Private").

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 limit for an Indian Investment in accordance with the Investment Concentration Restriction increased at June 30, 2019 from December 31, 2018 principally as a result of the proceeds received from the Revolving Credit Facility, dividends, interest income and net foreign exchange gains, partially offset by net unrealized losses on investments, interest expense, and investment and advisory fees.

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 June 30, 2019 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, Bangalore International Airport Limited and CSB Bank (collectively, "Significant Indian Investments"), for which the company had previously filed business acquisition reports, prepare their financial statements in accordance with Indian Accounting Standards ("Ind AS"), with the exception of the financial statements of CSB Bank prepared in accordance with Indian Generally Accepted Accounting Principles ("Indian GAAP") as a result of the RBI's decision to defer implementation of Ind AS for scheduled commercial banks until further notice. 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 this 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:

		June 30, 2019				December 31, 2018			
	Date Acquired	**Ownership %**	**Cost**	**Fair value**	**Net change**	Ownership %	Cost	Fair value	Net change
Public Indian Investments:									
Common stocks:									
IIFL Finance / IIFL Holdings[(1)]	December 2015 and February 2017	**26.5%**	**—**	**172,281**	**172,281**	26.5%	256,976	613,458	356,482
Fairchem	February and August 2016	**48.8%**	**74,384**	**143,203**	**68,819**	48.8%	74,384	96,574	22,190
5paisa	October 2017	**26.6%**	**19,758**	**10,364**	**(9,394)**	26.6%	19,758	11,913	(7,845)
Other	March 2018 and August 2018	**< 1.0%**	**94,090**	**119,503**	**25,413**	< 1.0%	94,090	98,180	4,090
			188,232	**445,351**	**257,119**		445,208	820,125	374,917
Private Indian Investments:									
Bonds - Sanmar bonds	April and September 2016	**—**	**299,000**	**421,367**	**122,367**	—	299,000	392,776	93,776
Common stocks:									
BIAL [(2)]	March 2017, July 2017 and May 2018	**54.0%**	**652,982**	**750,578**	**97,596**	54.0%	652,982	704,077	51,095
Sanmar	April 2016	**30.0%**	**1,000**	**220,867**	**219,867**	30.0%	1,000	217,170	216,170
IIFL Wealth [(1)]	May 2019	**14.2%**	**191,443**	**193,284**	**1,841**	—	—	—	—
IIFL Securities [(1)]	May 2019	**26.5%**	**91,310**	**92,188**	**878**	—	—	—	—
NCML	August 2015 and August 2017	**89.5%**	**174,318**	**146,565**	**(27,753)**	89.5%	174,318	165,380	(8,938)
CSB Bank [(3)]	October 2018, March and June 2019	**51.0%**	**169,511**	**176,273**	**6,762**	36.4%	88,524	93,081	4,557
Seven Islands	March 2019	**41.4%**	**71,767**	**72,024**	**257**	—	—	—	—
Saurashtra	February 2017	**51.0%**	**30,018**	**28,767**	**(1,251)**	51.0%	30,018	24,843	(5,175)
NSE	July 2016	**1.0%**	**26,783**	**55,892**	**29,109**	1.0%	26,783	60,285	33,502
IH Fund	January 2019	**—**	**6,272**	**6,414**	**142**	—	—	—	—
Derivatives - 5paisa forward derivative	May 2019	**—**	**—**	**6,440**	**6,440**	—	—	—	—
			1,714,404	**2,170,659**	**456,255**		1,272,625	1,657,612	384,987
Total Indian Investments			**1,902,636**	**2,616,010**	**713,374**		1,717,833	2,477,737	759,904

(1) On May 31, 2019 IIFL Holdings spun off IIFL Wealth and IIFL Securities in the IIFL Holdings Reorganization. At June 30, 2019 IIFL Wealth and IIFL Securities had not yet completed certain required regulatory processes and as a result the shares of those companies were not listed on the BSE and NSE of India. The fair value of the company's investments in IIFL Wealth and IIFL Securities on the IIFL Holdings Reorganization date was considered to approximate fair value at June 30, 2019. At December 31, 2018 the fair value of $613,458 represented the fair value of the company's investment in IIFL Holdings.

(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.

(3) Comprised of: (i) 100.0% of the partly paid common shares ($37,823); and (ii) 100.0% of the partly paid warrants as they had features of in-substance equity ($131,688).

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 second quarters of 2019 and 2018 were as follows:

	Second quarter											
	2019							2018				
	Balance as of April 1	**Purchases**	**IIFL Holdings Reorganization**	**Net realized gains on investments**	**Net change in unrealized gains (losses) on investments**	**Net unrealized foreign currency translation gains (losses)**	**Balance as of June 30**	Balance as of April 1	Purchases	Net change in unrealized gains (losses) on investments	Net unrealized foreign currency translation losses	Balance as of June 30
Public Indian Investments:												
Common stocks:												
IIFL Finance / IIFL Holdings (1)	**520,617**	**—**	**(282,753)**	**36,112**	**(100,576)**	**(1,119)**	**172,281**	916,211	—	(47,338)	(41,175)	827,698
Fairchem	**125,397**	**—**	**—**	**—**	**17,295**	**511**	**143,203**	108,413	—	(607)	(5,911)	101,895
5paisa	**11,583**	**—**	**—**	**—**	**(1,245)**	**26**	**10,364**	17,341	—	(681)	(847)	15,813
Other	**109,174**	**—**	**—**	**—**	**9,865**	**464**	**119,503**	4,975	—	(1,805)	(165)	3,005
Total Public Indian Investments	**766,771**	**—**	**(282,753)**	**36,112**	**(74,661)**	**(118)**	**445,351**	1,046,940	—	(50,431)	(48,098)	948,411
Private Indian Investments:												
Bonds - Sanmar bonds	**407,948**	**—**	**—**	**—**	**11,868**	**1,551**	**421,367**	330,226	—	7,078	(16,086)	321,218
Common stocks:												
BIAL	**715,483**	**—**	**—**	**—**	**32,115**	**2,980**	**750,578**	597,924	67,391	8,175	(29,707)	643,783
Sanmar	**219,208**	**—**	**—**	**—**	**863**	**796**	**220,867**	426	—	211	(32)	605
IIFL Wealth (1)	**—**	**—**	**191,443**	**—**	**—**	**1,841**	**193,284**	—	—	—	—	—
IIFL Securities (1)	**—**	**—**	**91,310**	**—**	**—**	**878**	**92,188**	—	—	—	—	—
NCML	**166,606**	**—**	**—**	**—**	**(20,351)**	**310**	**146,565**	176,908	—	1,681	(8,540)	170,049
CSB Bank	**134,102**	**40,440**	**—**	**—**	**1,233**	**498**	**176,273**	—	—	—	—	—
Seven Islands	**71,767**	**—**	**—**	**—**	**—**	**257**	**72,024**	—	—	—	—	—
Saurashtra	**26,168**	**—**	**—**	**—**	**2,477**	**122**	**28,767**	26,774	—	(206)	(1,290)	25,278
NSE	**60,755**	**—**	**—**	**—**	**(5,010)**	**147**	**55,892**	67,123	—	—	(3,226)	63,897
IH Fund	**6,198**	**—**	**—**	**—**	**191**	**25**	**6,414**	—	—	—	—	—
Derivatives - 5paisa forward derivative	**—**	**—**	**—**	**—**	**6,351**	**89**	**6,440**	—	—	—	—	—
Total Private Indian Investments	**1,808,235**	**40,440**	**282,753**	**—**	**29,737**	**9,494**	**2,170,659**	1,199,381	67,391	16,939	(58,881)	1,224,830
Total Indian Investments	**2,575,006**	**40,440**	**—**	**36,112**	**(44,924)**	**9,376**	**2,616,010**	2,246,321	67,391	(33,492)	(106,979)	2,173,241

(1) On May 31, 2019 IIFL Holdings spun off IIFL Wealth and IIFL Securities in the IIFL Holdings Reorganization. At June 30, 2019 IIFL Wealth and IIFL Securities had not yet completed certain required regulatory processes and as a result the shares of those companies were not listed on the BSE and NSE of India. The fair value of the company's investments in IIFL Wealth and IIFL Securities on the IIFL Holdings Reorganization date was considered to approximate fair value at June 30, 2019. The amount recorded in net realized gains on investments of $36,112 was fully offset by the reversal of unrealized gains on investments recorded in prior periods, and as a result had a nil impact on the company's consolidated statements of earnings, related to the IIFL Holdings Reorganization where IIFL Holdings spun off IIFL Wealth and IIFL Securities at fair values in excess of Fairfax India's cost basis of IIFL Holdings.

A summary of changes in the fair value of the company's Public and Private Indian Investments for the first six months of 2019 and 2018 were as follows:

	First six months											
	2019							2018				
	Balance as of January 1	**Purchases**	**IIFL Holdings Reorganization**	**Net realized gains on investments**	**Net change in unrealized gains (losses) on investments**	**Net unrealized foreign currency translation gains**	**Balance as of June 30**	Balance as of January 1	Purchases	Net change in unrealized gains (losses) on investments	Net unrealized foreign currency translation losses	Balance as of June 30
Public Indian Investments:												
Common stocks:												
IIFL Finance / IIFL Holdings (1)	**613,458**	**—**	**(282,753)**	**36,112**	**(196,548)**	**2,012**	**172,281**	888,485	—	—	(60,787)	827,698
Fairchem	**96,574**	**—**	**—**	**—**	**44,892**	**1,737**	**143,203**	149,200	—	(38,703)	(8,602)	101,895
5paisa	**11,913**	**—**	**—**	**—**	**(1,661)**	**112**	**10,364**	19,958	—	(2,900)	(1,245)	15,813
Other	**98,180**	**—**	**—**	**—**	**19,920**	**1,403**	**119,503**	—	4,976	(1,805)	(166)	3,005
Total Public Indian Investments	**820,125**	**—**	**(282,753)**	**36,112**	**(133,397)**	**5,264**	**445,351**	1,057,643	4,976	(43,408)	(70,800)	948,411
Private Indian Investments:												
Bonds - Sanmar bonds	**392,776**	**—**	**—**	**—**	**23,774**	**4,817**	**421,367**	333,172	—	11,309	(23,263)	321,218
Common stocks:												
BIAL	**704,077**	**—**	**—**	**—**	**37,933**	**8,568**	**750,578**	608,288	67,391	10,849	(42,745)	643,783
Sanmar	**217,170**	**—**	**—**	**—**	**1,202**	**2,495**	**220,867**	556	—	91	(42)	605
IIFL Wealth (1)	**—**	**—**	**191,443**	**—**	**—**	**1,841**	**193,284**	—	—	—	—	—
IIFL Securities (1)	**—**	**—**	**91,310**	**—**	**—**	**878**	**92,188**	—	—	—	—	—
NCML	**165,380**	**—**	**—**	**—**	**(20,413)**	**1,598**	**146,565**	179,054	—	3,385	(12,390)	170,049
CSB Bank	**93,081**	**80,987**	**—**	**—**	**1,233**	**972**	**176,273**	—	—	—	—	—
Seven Islands	**—**	**71,767**	**—**	**—**	**—**	**257**	**72,024**	—	—	—	—	—
Saurashtra	**24,843**	**—**	**—**	**—**	**3,590**	**334**	**28,767**	28,000	—	(842)	(1,880)	25,278
NSE	**60,285**	**—**	**—**	**—**	**(5,010)**	**617**	**55,892**	40,452	—	27,900	(4,455)	63,897
IH Fund	**—**	**6,272**	**—**	**—**	**82**	**60**	**6,414**	—	—	—	—	—
Derivatives - 5paisa forward derivative	**—**	**—**	**—**	**—**	**6,351**	**89**	**6,440**	—	—	—	—	—
Total Private Indian Investments	**1,657,612**	**159,026**	**282,753**	**—**	**48,742**	**22,526**	**2,170,659**	1,189,522	67,391	52,692	(84,775)	1,224,830
Total Indian Investments	**2,477,737**	**159,026**	**—**	**36,112**	**(84,655)**	**27,790**	**2,616,010**	2,247,165	72,367	9,284	(155,575)	2,173,241

(1) On May 31, 2019 IIFL Holdings spun off IIFL Wealth and IIFL Securities in the IIFL Holdings Reorganization. At June 30, 2019 IIFL Wealth and IIFL Securities had not yet completed certain required regulatory processes and as a result the shares of those companies were not listed on the BSE and NSE of India. The fair value of the company's investments in IIFL Wealth and IIFL Securities on the IIFL Holdings Reorganization date was considered to approximate fair value at June 30, 2019. The amount recorded in net realized gains on investments of $36,112 was fully offset by the reversal of unrealized gains on investments recorded in prior periods, and as a result had a nil impact on the company's consolidated statements of earnings, related to the IIFL Holdings Reorganization where IIFL Holdings spun off IIFL Wealth and IIFL Securities at fair values in excess of Fairfax India's cost basis of IIFL Holdings.

Public Indian Investments

The fair values of Fairfax India's Public Indian Investments, whose shares are listed on both the BSE 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 Finance Limited

IIFL Holdings Limited

Business Overview

IIFL Holdings Limited ("IIFL Holdings") was 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 financial company.

Transaction Description

In February 2017 and December 2015 the company acquired 84,641,445 common shares of IIFL Holdings (representing a 26.9% equity interest) for aggregate cash consideration of $276,734 (approximately 18.5 billion Indian rupees). In October 2017 IIFL Holdings spun off its wholly-owned subsidiary 5paisa Capital Limited (‘‘5paisa’’) which resulted in a reduction to the company's cost of its investment in IIFL Holdings by $19,758. Upon completion of this transaction the company had invested $256,976 for a 26.9% equity interest in IIFL Holdings.

On January 31, 2018 IIFL Holdings' board of directors approved a draft plan to reorganize IIFL Holdings into three listed entities. On May 31, 2019 IIFL Holdings spun off its wholly-owned subsidiary IIFL Securities Limited ("IIFL Securities", comprised of investment brokerage, distribution and investment banking businesses) and its 53.3% equity interest in its subsidiary IIFL Wealth Management Limited ("IIFL Wealth", comprised of the wealth, asset management and alternative investment fund businesses) in a non-cash transaction (the "IIFL Holdings Reorganization"). Shareholders of IIFL Holdings received seven common shares of IIFL Securities and one common share of IIFL Wealth for every seven IIFL Holdings common shares held. The distribution of new common shares to IIFL Holdings shareholders was characterized as a return of capital which resulted in Fairfax India recording the initial cost of its investments in IIFL Securities and IIFL Wealth at their estimated fair values at that date of $91,310 (approximately 6.4 billion Indian rupees) and $191,443 (approximately 13.3 billion Indian rupees). The fair values of IIFL Securities and IIFL Wealth exceeded Fairfax India's cost basis in IIFL Holdings resulting in $36,112 that was recorded in net realized gains on investments (all of which was recognized as unrealized gains on investments in prior periods). Upon completion of the spin off transactions, IIFL Holdings Limited was renamed IIFL Finance Limited ("IIFL Finance") and continued to trade on the BSE and NSE of India. The shares of IIFL Wealth and IIFL Securities are anticipated to be listed on the BSE and NSE of India in the third quarter of 2019, subject to applicable regulatory conditions.

IIFL Finance Limited

Business Overview

IIFL Finance, comprised of a holding company and an 84.5% equity interest in India Infoline Finance Limited ("India Infoline", a non-banking financial company ("NBFC")), is a publicly traded, diversified financing company located in Mumbai, India that through its subsidiaries offers home loans, gold loans, business loans, small-to-medium enterprise loans, microfinance, construction and real estate finance, and capital market finance.

Transaction Description

At June 30, 2019 the company held an aggregate of 84,641,445 common shares of IIFL Finance representing a 26.5% equity interest (December 31, 2018 - 26.5% equity interest in IIFL Holdings).

IIFL Finance has applied for a NBFC license with the RBI and once obtained it will merge with its subsidiary, India Infoline. Concurrent with the merger, IIFL Finance will complete a share exchange with the minority shareholders of India Infoline and will issue approximately 75 million common shares of IIFL Finance to the minority shareholders of India Infoline. Upon completion of this transaction Fairfax India's equity interest in IIFL Finance will be diluted to approximately 21%. This merger transaction is anticipated to be completed in the third quarter of 2019.

Key Business Drivers, Events and Risks

IIFL Finance's key business drivers relate to its ability to continue to capitalize on its unique advantages of access to well-diversified sources of funds, maintaining a diversified asset portfolio with a strategic focus on households, and leveraging its vast physical network to provide a one-stop shop for financial products to its customers. At March 31, 2019 IIFL Finance had the largest presence amongst retail focused NBFCs with 1,947 branches across 25 states.

IIFL Finance is a pioneer in adoption of end-to-end digitization across processes and has shown the ability to leverage technology to streamline processes, reduce turnaround times and use data driven analytical models to help manage delinquencies.

IIFL Finance continues to achieve growth in volume and profit, driven primarily by core growth segments affordable home loans, small ticket business loans, gold 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 assets 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.

Fairfax had made an investment in IIFL Holdings prior to any investment completed by Fairfax India and in that capacity was able to recommend the appointment of one board representative out of the eight-member board of directors. At June 30, 2019 the company did not have any representation on the board of IIFL Finance other than the board member appointed by Fairfax.

Valuation and Interim Consolidated Financial Statement Impact

A summary of the IIFL Holdings Reorganization and the changes in fair value of the common shares of IIFL Holdings and IIFL Finance denominated in the company's functional currency of the Indian rupee and presentation currency of U.S. dollars for the first six months of 2019 were as follows:

		Indian rupees (in millions)	**US$** (in thousands)
IIFL Holdings:	Balance as of January 1, 2019	42,829	613,458
	Net change in unrealized losses on investments	(9,262)	(132,300) (1)
	Net unrealized foreign currency translation gains	—	497
	Balance as of May 30, 2019	33,567	481,655
	IIFL Wealth spun off as return of capital at fair value	(13,342)	(191,443)
	IIFL Securities spun off as return of capital at fair value	(6,363)	(91,310)
	Net realized gains on investments	2,527	36,112 (2)
	Net unrealized foreign currency translation gains	—	162
Renamed IIFL Finance:	Balance as of May 31, 2019	16,389	235,176
	Net change in unrealized losses on investments	(4,497)	(64,248) (1)
	Net unrealized foreign currency translation gains	—	1,353
	Balance as of June 30, 2019	11,892	172,281

(1) Changes in fair value of the company's investment in IIFL Holdings have been aggregated with the changes in fair value of the company's investment in IIFL Finance for the second quarter and first six months of 2019 and presented in the tables at the outset of the Indian Investments section of this MD&A.

(2) Net realized gains on investments of $36,112 was fully offset by the reversal of unrealized gains on investments recorded in prior periods and as a result had a nil impact on the company's consolidated statements of earnings for the second quarter and first six months of 2019.

At June 30, 2019 the fair value of the company's investment in IIFL Finance was $172,281 comprised of 84,641,445 common shares representing a 26.5% equity interest (December 31, 2018 - 26.5% equity interest in IIFL Holdings) with the changes in fair value for the second quarters and first six months of 2019 and 2018 aggregated with IIFL Holdings and presented in the tables at the outset of the Indian Investments section of this MD&A.

Prior to the IIFL Holdings Reorganization, IIFL Holdings' share price decreased by 21.6% from 506.00 Indian rupees per share at December 31, 2018 to 396.50 Indian rupees per share at May 30, 2019. Following the IIFL Holdings Reorganization, IIFL Finance's share price decreased by 27.9% from 195.00 Indian rupees per share at May 31, 2019 to 140.50 Indian rupees per share at June 30, 2019.

The second quarter and first six months of 2019 consolidated statements of earnings included dividend income earned from the company's investment in IIFL Holdings of nil and $6,006 (2018 - nil and $6,575).

IIFL Holdings' Summarized Financial Information

The company's fiscal year ends on December 31 and IIFL Holdings' fiscal year ends on March 31. As of August 1, 2019 IIFL Holdings had not yet publicly released its year ended March 31, 2019 annual consolidated financial statements that will be for the remaining company following the IIFL Holdings Reorganization, IIFL Finance. Refer to the company's interim report for the three months ended March 31, 2019, in the MD&A under Public Indian Investments section under the heading Investment in IIFL Holdings Limited for an analysis on IIFL Holdings' summarized financial information for the nine months ended December 31, 2018.

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 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, a wholly-owned subsidiary of Fairchem, was founded in 1992 and 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. Privi has four manufacturing facilities located in Mahad, Maharashtra and a manufacturing facility located in Jhagadia, Gujarat.

Transaction Description

In March 2017, upon completion of the merger of Fairchem and Privi, the company had acquired a 48.8% equity interest in Fairchem for aggregate cash consideration of $74,384 (approximately 5.0 billion Indian rupees).

At June 30, 2019 the company held 19,046,078 common shares, representing a 48.8% equity interest in Fairchem (December 31, 2018 - 48.8%).

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 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 international 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) used in its manufacturing processes which may impact its ability to meet the 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; (iii) strengthen margins by increasing vertical integration capacities; and (iv) offer a variety of aroma chemical products to sustain being recognized as a preferred supplier to the global fragrance market.

At June 30, 2019 Privi had received partial settlement on their insurance claim of approximately $12 million (818 million Indian rupees) in relation to its April 2018 manufacturing facilities fire. 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. Privi anticipates to reach full manufacturing capacity by the fourth quarter of 2019.

On May 22, 2019 Fairchem's board of directors approved a draft plan to reorganize Fairchem into two listed entities ("Fairchem Reorganization"). As part of the Fairchem Reorganization, the existing oleochemicals and neutraceuticals business will spin out into a newly formed wholly-owned subsidiary incorporated on March 27, 2019, Fairchem Organics Limited ("Fairchem Organics"). Privi will be amalgamated with the remaining Fairchem business and subsequently be renamed Privi Speciality Chemicals Limited ("Privi Speciality"). Existing shareholders of Fairchem will receive one new common share of Fairchem Organics for every three common shares held in Fairchem. Concurrent with the Fairchem Reorganization, it is proposed that Fairfax India will decrease its equity interest in Privi Speciality to 38.9% from its current 48.8% equity interest and increase its equity interest in Fairchem Organics to 66.7% from its current 48.8% equity interest by way of selling to and purchasing from the founders of Privi, respectively. Upon completion of this transaction, the shares of Privi Speciality will continue to trade on the BSE and NSE of India, and the shares of Fairchem Organics are anticipated to be listed on the BSE and NSE of India in the second quarter of 2020, subject to applicable regulatory conditions. The Fairchem Reorganization is anticipated to be completed in the first quarter of 2020, subject to shareholder and applicable regulatory approvals, and customary closing conditions.

Valuation and Interim Consolidated Financial Statement Impact

At June 30, 2019 the fair value of the company's investment in Fairchem was $143,203 (December 31, 2018 - $96,574) with the changes in fair value for the second quarters and first six months of 2019 and 2018 presented in the tables at the outset of the Indian Investments section of this MD&A. Fairchem's share price increased by 46.6% to 519.00 Indian rupees per share at June 30, 2019 from 354.00 Indian rupees per share at December 31, 2018.

Investment in 5paisa Capital Limited (Common Shares)

Business Overview

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 primarily engaged in providing a technology platform through online and mobile applications for trading securities on the BSE and the NSE of India.

The company's investment in 5paisa is comprised of common shares and a forward derivative. The forward derivative is discussed in the Private Indian Investments section under the heading Investment in 5paisa Forward Derivative later in this MD&A.

Transaction Description

In October 2017 IIFL Holdings 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. This non-cash transaction resulted in Fairfax India receiving one new common share of 5paisa for every 25 common shares of IIFL Holdings held for a total of 3,385,657 common shares of 5paisa with a fair value of $19,758.

At June 30, 2019 the company held an aggregate of 3,385,657 common shares of 5paisa representing a 26.6% equity interest (December 31, 2018 - 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. As the only publicly listed broker in India to offer low cost flat fee trades of 10 Indian rupees per transaction, 5paisa has become the fastest growing discount broker in India within a short span of two years.

At June 30, 2019 the 5paisa mobile application had reached over 3.1 million downloads (December 31, 2018 - over 2 million downloads).

Valuation and Interim Consolidated Financial Statement Impact

At June 30, 2019 the fair value of the company's investment in 5paisa was $10,364 (December 31, 2018 - $11,913) with the changes in fair value for the second quarters and first six months of 2019 and 2018 presented in the tables at the outset of the Indian Investments section of this MD&A. 5paisa's share price decreased by 14.0% from 245.65 Indian rupees per share at December 31, 2018 to 211.30 Indian rupees per share at June 30, 2019.

Investment in Other Public Indian Investments

During 2018 the company acquired common shares of public companies in the financial services sector of India, listed on both the BSE and the NSE of India (investment in "Other Public Indian Investments") for aggregate cash consideration of $94,090. At June 30, 2019 the fair value of the company's investment in Other Public Indian Investments was $119,503 (December 31, 2018 - $98,180) and represents less than 1.0% equity interest in each of the public Indian companies. The changes in fair value of the company's investment in Other Public Indian Investments for the second quarters and first six months of 2019 and 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 and 2018 Fairfax India 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 through the following transactions: (i) in March 2017 the company acquired a 38.0% equity interest in BIAL for cash consideration of $385,498 (approximately 25.2 billion Indian rupees); (ii) in July 2017 the company 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; and (iii) in May 2018 the company acquired an additional 6.0% equity interest in BIAL for cash consideration of $67,391 (approximately 4.6 billion Indian rupees).

Key Business Drivers, Events and Risks

KIAB is the busiest airport in South India, the third largest in the country, and was awarded the 'Best Regional Airport in India and Central Asia' during 2018 by Skytrax, a UK-based consultancy who conducts a global airport customer satisfaction survey. The airport handled approximately 16.9 million passengers during the first six months of 2019 representing growth in overall traffic of 8.8% compared to the first six months of 2018.

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 an estimated completion date by September 2019. In 2017 design approvals for the additional terminal building commenced and it 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 February 19, 2019 BIAL launched The Quad, an innovative retail, food and beverage plaza with an aim to deliver an international dining and retail experience to visitors, travelers and the people of Bengaluru.

On March 6, 2019 BIAL became the first airport in the world to win both a departures and an arrivals Airport Service Quality ("ASQ") award from Airports Council International ("ACI"). The ASQ recognizes those airports around the world that deliver the best customer experience in the opinion of their own passengers. The annual ASQ awards recognize and reward the best airports globally according to ACI's ASQ Passenger Satisfaction Survey, the world's benchmark that measures airport excellence, representing the highest possible accolade for an airport operator. ACI is the only global trade representative of international airports.

On April 4, 2019 the final tariff order for the second control period issued by Airport Economic Regulatory Authority of India ("AERA") was amended to provide an interim relief allowing BIAL to collect increased user development fees ("UDF") for a limited period of four months (April 16, 2019 to August 15, 2019). The additional UDF collected will be used for capital expenditure of the expansion projects as noted above, providing BIAL with the required cash flows for the implementation of those projects.

On April 17, 2019 Jet Airways, one of India's leading airlines based in Mumbai, temporarily suspended all flight operations for domestic and international flights as a result of the airline facing liquidity concerns pending potential investments from shareholders or debtors. Jet Airways was previously the second largest airline in India in terms of passenger market share. The suspension, along with recent Boeing 737 Max groundings, resulted in a significant capacity shortfall in the domestic Indian market in terms of available seats. The Ministry of Civil Aviation decided to allocate Jet Airways' domestic flight slots to other airlines effective May 1, 2019 to September 30, 2019 and over 34 domestic flight slots of the previously 66 slots operated daily by Jet Airways has been reallocated to other Indian domestic carriers. Additional domestic flight slot requests are expected to be made by other airlines over the next one to three months depending on their aircraft availability.

Valuation and Interim Consolidated Financial Statement Impact

At June 30, 2019 the company estimated the fair value of its investment in BIAL using a discounted cash flow analysis for its two business units based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 11.2% to 12.3% and a long term growth rate of 3.5% (December 31, 2018 - 11.3% to 12.8%, and 3.5%, respectively), 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, 2018 - 20.0%) for the leasehold nature of the asset. At June 30, 2019 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 (December 31, 2018 - 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 June 30, 2019 the company's internal valuation model indicated that the fair value of the company's investment in BIAL was $750,578 (December 31, 2018 - $704,077) with the changes in fair value of the company's investment in BIAL for the second quarters and first six months of 2019 and 2018 presented in the tables at the outset of the Indian Investments section of this MD&A. In the second quarter and first six months of 2019 the net change in unrealized gains on investments of $32,115 and $37,933 from the company's investment in BIAL was primarily driven by the passage of time as capital expenditures were incurred for the continued expansion of the capacity of the airport, partially offset by the increase in net debt to finance BIAL's various capital projects.

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 March 31, 2019 and 2018.

Balance Sheets
(US$ thousands)

	March 31, 2019(1)	March 31, 2018(1)
Current assets	**115,655**	147,942
Non-current assets	**834,588**	718,517
Current liabilities	**93,497**	73,195
Non-current liabilities	**433,982**	417,315
Shareholders' equity	**422,764**	375,949

(1) The net assets of BIAL were translated at March 31, 2019 at $1 U.S dollar = 69.28 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 due to decreased bank deposits with maturity greater than three months where proceeds were required to expand the capacity of the airport as described in the Key Business Drivers, Events and Risks section. Non-current assets increased principally as a result ongoing capital expenditure for BIAL's expansion projects. Current liabilities increased primarily as a result of increased accounts payable to vendors for capital assets. Non-current liabilities increased primarily due to recognition of deferred revenue as a result of the ten-year deferral of the repayment to the Government of Karnataka on an interest free loan, with the difference between the net present value of the loan and the loan principal accounted for as a government grant.

Summarized below are BIAL's statements of earnings for the years ended March 31, 2019 and 2018.

Statements of Earnings
(US$ thousands)

	Year ended March 31, 2019(1)	Year ended March 31, 2018(1)
Revenue	**217,247**	244,469
Earnings before income taxes	**68,198**	111,625
Net earnings	**68,370**	124,081

(1) Amounts for the years ended March 31, 2019 and 2018 were translated into US$ using the average exchange rates of $1 U.S. dollar = 69.87 Indian rupees and $1 U.S. dollar = 64.47 Indian rupees prevailing during those periods.

The decrease in revenue is primarily a result of the weakening of the Indian rupee relative to the U.S. dollar during the year ended March 31, 2019 and a decrease in aeronautical revenue based on final tariff order for the second control period issued by AERA effective September 16, 2018, partially offset by increased aeronautical and non-aeronautical revenue as a result of growth in domestic and international passenger traffic. Earnings before income taxes and net earnings decreased primarily driven by the decrease in revenue as noted above, and 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 year ended March 31, 2019, partially offset by lower interest expense.

Investment in Sanmar Chemicals Group

Business Overview

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

Sanmar's principal lines of business consist of: (i) Chemplast, the second largest suspension PVC manufacturer and the largest specialty PVC manufacturer in India; (ii) Sanmar Egypt*,* the largest Indian investor in Egypt's chemical business and the largest caustic soda, calcium chloride and PVC manufacturer in Egypt; (iii) Specialty Chemicals*,* a business engaged primarily in the manufacturing and marketing of organic chemicals; and (iv) Kem One Chemplast, a joint venture 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 resulting in an effective annual interest rate of 13.0%.

On September 17, 2018 the company announced that it had entered into an agreement with Sanmar pursuant 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 $204,035 at period end 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 June 30, 2019. The company will receive the remaining net proceeds in cash that had a value of approximately $217 million at June 30, 2019 based on the fair value of the Sanmar bonds at that date of $421,367. This transaction is subject to customary closing conditions and third party consents, and was anticipated to be completed in the second quarter of 2019. Sanmar is continuing to work to satisfy various closing conditions precedent and it is now anticipated that the transaction will be completed in the fourth quarter of 2019.

Key Business Drivers, Events and Risks

India continues to be a PVC deficit market with more than 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.

On May 2, 2017 approval from the Government of India's Ministry of Environment, Forest and Climate Change was received, allowing the Kem One Chemplast joint venture to commence construction of the new facility with a capacity to produce 20,000 metric tons per annum of CPVC. CPVC is a raw material used to produce pipes and fittings for water supply systems that are required to have a high resistance to heat, pressure and chemicals. Overall there has been an increase in demand for CPVC pipes from the growth in the construction sector in India and also more recently in India by the switch from metal to CPVC pipes in the building construction process. 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. The new facility is projected to be operational by 2022 and it is anticipated that it will reach full operational capacity in 2024.

Sanmar's key business drivers relate 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 those projects had significantly decreased. Profitability is expected to improve significantly with the commissioning of the new capacity at Sanmar Egypt. With the ability 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 metric tons per annum, with commissioning dates projected prior to 2024.

Sanmar's profitability during the year ended March 31, 2019 was negatively impacted by lower PVC margins as a result of recent unexpected spikes in the price of Ethylene Dichloride ("EDC"), a key raw material used in the production of PVC, caused by an alumina refinery plant shut down in Brazil that significantly decreased the supply of EDC in the international market. Sanmar's management believes the increase in EDC prices are temporary and will revert back to normal levels in the coming months. In addition, Sanmar Egypt experienced increased power and energy expenses as a result of new tariffs introduced by the Egyptian government effective July 2018. Sanmar's management has commenced review on certain aspects of its operations in an effort to reduce energy consumption.

Valuation and Interim Consolidated Financial Statement Impact

Sanmar Bonds

At June 30, 2019 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 6.2% (December 31, 2018 - 5.6%) 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. At June 30, 2019 the company's internal valuation model indicated that the fair value of the company's investment in Sanmar bonds was $421,367 (December 31, 2018 - $392,776) with the changes in fair value for the second quarters and first six months of 2019 and 2018 presented in the tables at the outset of the Indian Investments section of this MD&A. At June 30, 2019 and December 31, 2018 Sanmar bonds were rated BBB- with a stable outlook by Brickwork Ratings, an Indian rating agency. The net change in unrealized gains on investments of $11,868 and $23,774 from the company's investment in Sanmar bonds in the second quarter and first six months of 2019 approximated a 13.0% yield in the fair value of the bonds.

Sanmar Common Shares

At June 30, 2019 the company estimated the fair value of its investment in Sanmar common shares using a discounted cash flow analysis for its four business units based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 13.0% to 17.1% and long term growth rates ranging from 3.0% to 4.0% (December 31, 2018 - 13.5% to 16.6%, and 3.0% to 4.0%, respectively). At June 30, 2019 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 second quarter of 2019 (December 31, 2018 - 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. At June 30, 2019 the company's internal valuation model indicated that the fair value of the company's investment in Sanmar common shares was $220,867 (December 31, 2018 - $217,170) with the changes in fair value for the second quarters and first six months of 2019 and 2018 presented in the tables at the outset of the Indian Investments section of this MD&A.

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 March 31, 2019 and 2018.

Balance Sheets
(US$ thousands)

	March 31, 2019(1)	March 31, 2018(1)(2)
Current assets	**201,707**	247,003
Non-current assets	**1,884,763**	1,386,609
Current liabilities	**542,389**	515,567
Non-current liabilities	**1,545,159**	1,386,344
Shareholders' equity (deficit)	**(1,078)**	(268,299)

(1) The net assets of Sanmar were translated at March 31, 2019 at $1 U.S dollar = 69.28 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.

(2) Certain prior year comparative figures have been reclassified to be consistent with current year's presentation.

Current assets decreased and non-current assets increased primarily attributable to the capital expenditures made (and as a result, cash and cash equivalents used) in connection with the Phase 2 expansion at Sanmar Egypt. Non-current assets also increased as a result of a prospective change accounting treatment of property, plant and equipment from a cost model to revaluation model, resulting in an increase to property, plant and equipment and a corresponding recognition of a revaluation reserve within shareholders' equity. Current liabilities increased primarily reflecting increased trade payables in connection with the Phase 2 expansion at Sanmar Egypt. Non-current liabilities increased primarily due to an increase in deferred tax liabilities as a result of the revaluation of property, plant and equipment.

Summarized below are Sanmar's statements of earnings for the years ended March 31, 2019 and 2018.

Statements of Earnings
(US$ thousands)

	Year ended March 31, 2019(1)	Year ended March 31, 2018(1)(2)
Revenue	**706,042**	676,282
Loss before income taxes	**(119,881)**	(25,215)
Net loss	**(111,807)**	(53,587)

(1) Amounts for the years ended March 31, 2019 and 2018 were translated into US$ using the average exchange rates of $1 U.S. dollar = 69.87 Indian rupees and $1 U.S. dollar = 64.47 Indian rupees prevailing during those periods.

(2) Certain prior year comparative figures have been reclassified to be consistent with current year's presentation.

Revenue increased primarily reflecting increased sales volumes at Chemplast as a result of improved demand for PVC favourably impacting prices and the commencement of operations under Phase 2 expansion at Sanmar Egypt. Loss before income taxes and net loss increased primarily reflecting increases in key raw material prices (EDC) and tariffs on power at Sanmar Egypt as described in the Key Business Drivers, Events and Risks section, as well as higher interest expense as a result of increased borrowings at Sanmar Egypt, partially offset by increased revenue as noted above.

Investment in IIFL Wealth Management Limited

Business Overview

IIFL Wealth, currently a private company headquartered in Mumbai, India, is one of the fastest growing wealth management firms with principal lines of business in wealth management and asset management. The wealth management business serves the highly specialized needs of high net worth and ultra-high net worth individuals, affluent families, family offices and institutional clients through a comprehensive range of tailored wealth management solutions. The asset management business provides a diversified suite of alternative investment funds, portfolio management services and mutual funds that span public and private equities, fixed income securities and real estate.

Transaction Description

On May 31, 2019 IIFL Holdings spun off its 53.3% equity interest in its subsidiary IIFL Wealth in a non-cash transaction that resulted in Fairfax India receiving one new common share of IIFL Wealth for every seven common shares of IIFL Holdings held. Upon completion of the IIFL Holdings Reorganization Fairfax India received 12,091,635 common shares of IIFL Wealth representing a 14.2% equity interest with an estimated fair value at that date of $191,443 (approximately 13.3 billion Indian rupees) which was determined based on a third party valuation. The distribution of new common shares of IIFL Wealth to IIFL Holdings shareholders was characterized as a return of capital which resulted in Fairfax India recording the initial cost of its investment in IIFL Wealth at its fair value at that date of $191,443 (approximately 13.3 billion Indian rupees).

At June 30, 2019 the shares of IIFL Wealth were not yet listed on the BSE and NSE of India. Listing is anticipated to be completed in the third quarter of 2019, subject to applicable regulatory conditions.

At June 30, 2019 the company did not have any representation on the board of IIFL Wealth.

Key Business Drivers, Events and Risks

IIFL Wealth's key business drivers relate to its ability to continue to be a leading wealth manager in India, providing its clients with investment management services with the aim to generate steady returns from a diversified portfolio with the lowest possible volatility, along with additional services such as trust and estate planning, credit solutions and corporate advisory. IIFL Wealth has presence in 33 locations across 7 geographies and continues to be the largest fund manager of alternative investment funds in India.

India's wealthy are expected to increase their net assets through organic growth from their existing assets or from the sale of businesses (unlocking potential value through secondary sales). It is estimated that as of fiscal 2017 there were 160,600 ultra high net worth and high net worth households, which is projected to increase to approximately 330,400 households by fiscal 2021.

In the fourth quarter of 2018 IIFL Wealth launched IIFL One and will follow more of an advisory model as opposed to operating a broker dealer/ distribution model, whereby commissions are earned on the whole portfolio as opposed to on a transaction by transaction basis. As IIFL Wealth's clients change how they want their portfolios managed, the revenue mix from commissions and increased costs to support the technology will impact IIFL Wealth's financial results in the short term.

Valuation and Interim Consolidated Financial Statement Impact

The initial fair value determined for IIFL Wealth in the IIFL Holdings Reorganization was considered to approximate fair value at June 30, 2019 as there had been no significant changes to IIFL Wealth's business, capital structure and operating environment and the key assumptions in the third party valuation continued to be valid. At June 30, 2019 the fair value of the company's investment in IIFL Wealth was $193,284 (December 31, 2018 - nil) representing a 14.2% equity interest. The changes in fair value of the company's investment in IIFL Wealth for the second quarter and first six months of 2019 are presented in the tables at the outset of the Indian Investments section of this MD&A.

Investment in IIFL Securities Limited

Business Overview

IIFL Securities, currently a private company headquartered in Mumbai, India, is a leading investment advisory firm providing diversified financial services and products such as financial planning, equity, commodities and currency broking (both cash and derivatives), depository participant services, investment banking, portfolio management as well as distribution of mutual funds, bonds and other products.

Transaction Description

On May 31, 2019 IIFL Holdings spun off its wholly-owned subsidiary IIFL Securities in a non-cash transaction that resulted in Fairfax India receiving one new common share of IIFL Securities for every one common share of IIFL Holdings held. Upon completion of the IIFL Holdings Reorganization Fairfax India received 84,641,445 common shares of IIFL Securities representing a 26.5% equity interest with an estimated fair value at that date of $91,310 (approximately 6.4 billion Indian rupees) which was estimated based on the company's internal valuation model. The distribution of new common shares of IIFL Securities to IIFL Holdings shareholders was characterized as a return of capital which resulted in Fairfax India recording the initial cost of its investment in IIFL Securities at its fair value at that date of $91,310 (approximately 6.4 billion Indian rupees).

At June 30, 2019 the shares of IIFL Securities were not yet listed on the BSE and NSE of India. Listing is anticipated to be completed in the third quarter of 2019, subject to applicable regulatory conditions.

At June 30, 2019 the company did not have any representation on the board of IIFL Securities.

Key Business Drivers, Events and Risks

IIFL Securities' key business drivers relate to its ability to identify emerging trends in the capital markets sector in India and creating a diverse range of financial products and services. IIFL Securities is a key player in both retail and institutional segments with a wide network of retail branches, franchises and brokerages.

IIFL Securities has benefited from digitization with the IIFL Markets mobile application reaching approximately 2.7 million downloads at March 31, 2019 (approximately 52% of brokerage services are provided through the mobile platform). The investment banking business has continued its strong performance, closing 15 transactions within the year ended March 31, 2019 with a number of transactions in the pipeline, despite market volatility.

Valuation and Interim Consolidated Financial Statement Impact

The initial fair value determined for IIFL Securities in the IIFL Holdings Reorganization was considered to approximate fair value at June 30, 2019 as there had been no significant changes to IIFL Securities' business, capital structure and operating environment and the key assumptions in the company's internal valuation model continued to be valid. At June 30, 2019 the fair value of the company's investment in IIFL Securities was $92,188 (December 31, 2018 - nil) representing a 26.5% equity interest. The changes in fair value of the company's investment in IIFL Securities for the second quarter and first six months of 2019 are presented in the tables at the outset of the Indian Investments section of this MD&A.

Investment in National Collateral Management Services Limited

Business Overview

National Collateral Management Services Limited ("NCML"), a private company located in Gurugram, India, is a leading agricultural commodities company operating for over 15 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, 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).

At June 30, 2019 the company held an aggregate of 131,941,286 common shares of NCML representing an 89.5% equity interest (December 31, 2018 - 89.5%).

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 with the Food Corporation of India ("FCI").

The silo projects are comprised of 14 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 16 silos being constructed for the exclusive use by the FCI. The silo projects are expected to be substantially completed by early 2021.

Valuation and Interim Consolidated Financial Statement Impact

At June 30, 2019 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 9.8% to 21.4% and long term growth rates ranging from 2.4% to 6.0% (December 31, 2018 - 12.0% to 21.8%, and 2.4% to 6.0%, respectively). At June 30, 2019 free cash flow projections were based on EBITDA estimates derived from financial information for NCML's business units prepared in the second quarter of 2019 (December 31, 2018 - 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 June 30, 2019 the company's internal valuation model indicated that the fair value of the company's investment in NCML was $146,565 (December 31, 2018 - $165,380) with the changes in fair value of the company's investment in NCML for the second quarters and first six months of 2019 and 2018 presented in the tables at the outset of the Indian Investments section of this MD&A. In the second quarter and first six months of 2019 the net change in unrealized losses on investments of $20,351 and $20,413 from the company's investment in NCML primarily related to increased net debt to support working capital requirements and lower than projected growth in NCML's free cash flow projections used in the discounted cash flow analysis from the collateral management line of business related to the risk reduction strategy taken by NCML's management to exit higher risk segments that have been negatively performing.

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 June 30, 2019 and March 31, 2019.

Balance Sheets
(unaudited - US$ thousands)

	June 30, 2019 (1)	March 31, 2019(1)
Current assets	**148,635**	145,965
Non-current assets	**119,498**	110,789
Current liabilities	**136,743**	124,477
Non-current liabilities	**21,765**	22,636
Shareholders' equity	**109,625**	109,641

(1) The net assets of NCML were translated at June 30, 2019 at $1 U.S. dollar = 69.03 Indian rupees and March 31, 2019 at $1 U.S. dollar = 69.28 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

Current assets increased primarily reflecting higher inventory in the supply chain management segment and increase in advances at NCML's NBFC. Non-current assets increased principally related to land acquisitions for the silo projects. Current liabilities increased primarily reflecting increases in short term loans and borrowings at NCML's NBFC and working capital requirements. Non-current liabilities decreased as a result of scheduled repayments on loans and borrowings.

Summarized below are NCML's statements of earnings for the three months ended June 30, 2019 and 2018.

Statements of Earnings
(unaudited - US$ thousands)

	Three months ended June 30, 2019(1)	Three months ended June 30, 2018(1)
Revenue	**35,084**	46,837
Earnings (loss) before income taxes	**(1,565)**	1,476
Net earnings (loss)	**(682)**	1,425

(1) Amounts for the three months ended June 30, 2019 and 2018 were translated into US$ using the average exchange rates of $1 U.S. dollar = 69.56 Indian rupees and $1 U.S. dollar = 66.98 Indian rupees prevailing during those periods.

Revenue decreased primarily reflecting both the decline in the supply chain management line of business and NCML's NBFC encountering challenges in obtaining credit as a result of tightening liquidity in the market, resulting in higher cost of borrowings. Earnings before income taxes and net earnings decreased principally as a result of increased interest expense from increased short-term borrowings, lower assets under management in the collateral management segment and the decrease in revenue described above.

Investment in CSB Bank Limited

Business Overview

CSB Bank, a private company headquartered in Thrissur, India, was established in 1920 and is a full-service bank offering retail banking, non-resident Indian banking services, small-to-medium enterprise and wholesale banking services through 415 branches and 288 automated teller machines across India.

Transaction Description

On February 20, 2018 the company entered into an agreement to acquire a 51.0% equity interest, on a fully diluted basis, in CSB Bank for $169,511 (approximately 12.1 billion Indian rupees). The company's investment in the securities of CSB Bank comprised of common shares and warrants (to purchase approximately 66.5 million common shares), were payable as follows: (i) consideration payable on initial closing for 25.0% of the common shares and 40.0% of the warrants; and, (ii) remaining 75.0% of the common shares payable within 12 months of the initial closing, upon request by CSB Bank, and 60.0% of the warrants payable within 18 months of the initial closing, in one or more tranches, either upon request by CSB Bank or at the option of Fairfax India.

On October 19, 2018 the company completed the initial investment in CSB Bank and on closing recorded $88,524 (approximately 6.5 billion Indian rupees) within common stocks on the consolidated balance sheet relating to 100.0% of the common shares and 40.0% of the warrants, and $28,367 (approximately 2.1 billion Indian rupees) recorded within payable for partly paid securities on the consolidated balance sheet relating to 75.0% of the consideration payable on the common shares ("Tranche 1").

On March 20, 2019 the company invested in an additional 30.0% of the warrants of CSB Bank and recorded $40,547 (approximately 2.8 billion Indian rupees) within common stocks ("Tranche 2") on the consolidated balance sheet.

On June 29, 2019 CSB Bank issued a capital call for the remaining 30.0% of the warrants and 75.0% of the consideration payable for the common shares. The company recorded $40,440 (approximately 2.8 billion Indian rupees) within common stocks and payable for partly paid securities on the consolidated balance sheet for the remaining 30.0% of warrants of CSB Bank ("Final Tranche").

Key Business Drivers, Events and Risks

According to the RBI, India's banking sector is sufficiently capitalized and well-regulated. The increase in India's working population and growth in disposable income is anticipated to increase the demand for banking related services, particularly in rural banking locations. In addition, the Indian banking industry has evolved through technology innovations in digital payments systems, mobile and online banking. Despite this, during the financial year 2017-18 the banking system in India as a whole saw balance sheet stress, with deterioration in asset quality. The RBI has implemented asset quality reviews ensuring adequate provisioning of stressed assets and implemented a new framework for resolution of stressed assets. During the last quarter of financial year 2018-19 operating metrics of the Indian banking sector remained healthy with growth seen in both net interest income and operating income.

CSB Bank's key business drivers relate to its ability to provide financial services in India, particularly in the area of retail, SMEs, gold and corporate lending, and mobilize low cost deposits in the form of current accounts, savings accounts and non-resident Indian deposits. CSB Bank has recently taken various strategic initiatives, including attracting talent to its sales and marketing team, as well as creating specialized banking verticals in gold, two-wheeler vehicles, small-to-medium enterprise and wholesale banking. Non-performing assets ("NPA") are being addressed by CSB Bank through the creation of asset recovery branches to accelerate delinquent loan recovery, with the goal of effectively minimizing losses by improving the credit monitoring and risk management practices. In addition, CSB Bank continues to strive for increases in employee productivity and will invest in technology across its banking platforms, providing more efficient and cost effective services for its customers.

Banks in India are highly regulated by the RBI including specific regulations on shareholder voting rights, shareholdings and board representation. The voting rights of any one shareholder of banks in India are limited to 26.0% of available voting rights. In addition, the RBI stipulates ownership limits for shareholders of banks in India in the long run. Fairfax India is required to follow a dilution schedule for its ownership in CSB Bank whereby: (i) the company must acquire a minimum of 40.0% of the voting equity shares in CSB Bank within 5 years from closing Tranche 1; (ii) the company's shareholding in CSB Bank must be brought down to 30.0% of the voting equity shares within 10 years after closing Tranche 1; and (iii) the company's shareholding in CSB Bank must be brought down to 15.0% of the voting equity shares within 15 years after closing Tranche 1. In addition, the RBI has mandated that CSB Bank must list its shares on the BSE and NSE of India through an initial public offering ("IPO") anticipated to close in the third quarter of 2019.

Valuation and Interim Consolidated Financial Statement Impact

CSB Bank Common Shares

At June 30, 2019 the company's investment in CSB Bank common shares with a cost of $169,511 was comprised of: (i) 19.8 million common shares that represented 100.0% of the common shares for $37,823 (approximately 2.8 billion Indian rupees) representing a 19.7% equity interest; and, (ii) 100.0% of the warrants to purchase 66.5 million common shares for $131,688 (approximately 9.3 billion Indian rupees) reflected as common shares as they had features of in-substance equity.

At June 30, 2019 the company estimated the fair value of its investment in CSB Bank common shares using a discounted cash flow analysis, based on multi-year free cash flow projections with an assumed after-tax discount rate of 18.6% and a long term growth rate of 4.5%, and an option pricing model. At June 30, 2019 free cash flow projections were based on pre-tax income estimates derived from financial information for CSB Bank prepared in the second quarter of 2019 by CSB Bank'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 CSB Bank operates. CSB Bank common shares held by the company are subject to certain selling restrictions for a specified period imposed by the RBI as discussed above. A discount for lack of marketability has been applied to the fair value of CSB Bank common shares as determined by the discounted cash flow analysis where the discount was determined using an industry accepted option pricing model that incorporates historical share price volatility ranging from 24.8% to 38.3%. At June 30, 2019 the company's internal valuation model indicated that the fair value of the company's investment in CSB Bank was $176,273 (comprised of 100.0% of the common shares and 100.0% of the warrants), representing a 51.0% effective equity interest on a diluted basis in CSB Bank which included the warrants that are in-substance equity.

The initial transaction price for Tranche 1 was considered to approximate fair value at December 31, 2018 as there had been no significant changes to CSB Bank's business, capital structure and operating environment and the key assumptions in the company's acquisition valuation model continued to be valid. At December 31, 2018 the fair value of the company's investment in CSB Bank was $93,081 (comprised of 100.0% of the common shares and 40.0% of the warrants).

The changes in fair value of the company's investment in CSB Bank for the second quarter and first six months of 2019 are presented in the tables at the outset of the Indian Investments section of this MD&A.

Payable for partly paid securities of CSB Bank

The remaining consideration payable for 30.0% of the warrants and 75.0% of the common shares of $70,607 at period end exchange rates (approximately 4.9 billion Indian rupees) was paid on July 8, 2019 and recorded within payable for partly paid securities on the consolidated balance sheet at June 30, 2019.

CSB Bank's Summarized Financial Information

The company's fiscal year ends on December 31 and CSB Bank's fiscal year ends on March 31. Summarized below are CSB Bank's balance sheets at March 31, 2019 and 2018.

Balance Sheets
(US$ thousands)

	March 31, 2019(1)	March 31, 2018(1)
Financial assets	**2,261,730**	2,238,653
Non-financial assets	**172,668**	178,067
Financial liabilities	**2,193,729**	2,269,308
Non-financial liabilities	**41,019**	29,281
Shareholders' equity	**199,650**	118,131

(1) The net assets of CSB Bank were translated at March 31, 2019 at $1 U.S dollar = 69.28 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.

Financial assets increased primarily as a result of increased loans and advances to customers. Non-financial assets and financial liabilities decreased primarily as a result of the weakening of the Indian rupee relative to the U.S. dollar during the year ended March 31, 2019. Non-financial liabilities increased primarily as a result of increased provisions on NPA and employee benefits, including defined benefit plans.

Summarized below are CSB Bank's statements of earnings for the years ended March 31, 2019 and 2018.

Statements of Earnings
(US$ thousands)

	Year ended March 31, 2019(1)	Year ended March 31, 2018(1)
Revenue	**90,821**	91,340
Loss before income taxes	**(8,976)**	(16,418)
Net loss	**(6,070)**	(10,063)

(1) Amounts for the years ended March 31, 2019 and 2018 were translated into US$ using the average exchange rates of $1 U.S. dollar = 69.87 Indian rupees and $1 U.S. dollar = 64.47 Indian rupees prevailing during those periods.

Revenue decreased primarily as a result of the weakening of the Indian rupee relative to the U.S. dollar during the year ended March 31, 2019, partially offset by increased net interest margin. Loss before income taxes and net loss decreased primarily as a result of increased interest income and net interest margins as a result of improved credit deposit ratio and yields on investments and interest on Fairfax India's equity infusion.

Investment in Seven Islands Shipping Limited

Business Overview

Seven Islands Shipping Limited ("Seven Islands"), a private company headquartered in Mumbai, India, is the second largest private tanker shipping company in India and transports products along the Indian coast as well as in international waters. Seven Islands owns 17 vessels with a total deadweight capacity of approximately 1.1 million tonnes, and its vessels are registered in India and operate as Indian owned and flagged vessels.

Transaction Description

On March 29, 2019 the company invested cash consideration of $71,767 (approximately 5.0 billion Indian rupees) for a 41.4% equity interest in Seven Islands. The company's investment was completed through a direct subscription for newly issued shares of Seven Islands and a secondary acquisition of Seven Islands common shares from existing shareholders.

At June 30, 2019 the company had appointed one of the eight Seven Islands board members.

Key Business Drivers, Events and Risks

Seven Islands' key business drivers relate to its ability to acquire vessels from reputable vessel owners within the international market and to quickly deploy those vessels through charter contracts with India's largest oil companies. Seven Islands' business model is susceptible to overall shipping cycles and could be impacted by industry downturns in terms of lower rates and increased competition. However, Seven Islands operates mainly in the crude oil and oil products segment wherein, India has one of the fastest growing oil consumption rates. The demand for oil tanker vessels to import and transport crude oil and oil products has been steadily increasing, mitigating business deployment risk for oil tankers in India in comparison with other countries. In addition, India has witnessed a decline in fleet of other shipping companies, due to lower operational efficiencies, forming a gap that Seven Islands is currently positioned to fill.

India has experienced rising demand for crude oil as a result of increased energy consumption that is required to sustain its growth. According to a study conducted by S&P Global Platts, India's crude oil demand is expected to grow at 5% every year until 2020. The growth in demand for petroleum products is expected to increase at 6% per annum until 2020.

Seven Islands' revenues are denominated in the U.S. dollar, whereas a majority of expenses incurred are denominated in the Indian rupee. Seven Islands is also exposed to the fluctuations in the Indian rupee to the extent they acquire new vessels as the asset purchases are negotiated and settled in U.S. dollars.

The proceeds received from Fairfax India in the direct subscription transaction will be used by Seven Islands to expand its ocean-going fleet by acquiring additional vessels and for general corporate purposes.

Subsequent to June 30, 2019

Subsequent to June 30, 2019 Seven Islands acquired two medium range vessels and is in the process of selling one older vessel from their fleet, for net cash consideration of approximately $15.2 million. Upon completion of these transactions, Seven Islands will own 18 vessels with a total deadweight capacity of just under approximately 1.1 million tonnes. These transactions support Seven Islands' business model with the new vessel capacity already being supported by the successful addition of a new customer who utilized the vessels on voyage charters.

Valuation and Interim Consolidated Financial Statement Impact

The initial transaction price for the company's investment in Seven Islands was considered to approximate fair value at June 30, 2019 as there had been no significant changes to Seven Islands' business, capital structure and operating environment and the key assumptions in the company's acquisition valuation model continued to be valid. The changes in fair value of the company's investment in Seven Islands for the second quarter and first six months of 2019 are presented in the tables at the outset of the Indian Investments section of this MD&A.

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 ("CFS") at Mundra port (Gujarat). Services provided by Saurashtra's CFS 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. Saurashtra's subsidiary Fairfreight Lines 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 second quarter of 2019 handled 22,394 TEUs implying an annualized capacity utilization of approximately 50% (second quarter of 2018 - 26,323 TEUs implying an annualized capacity utilization of approximately 58%). Saurashtra had the fourth largest market share for imports at approximately 10% (December 31, 2018 - highest market share at approximately 15%), and had the largest market share for exports at approximately 15% (December 31, 2018 - approximately 12%) at Mundra port in India. Saurashtra remains as the largest container freight station at Mundra port in terms of total throughput achieved for their first quarter ended June 30, 2019.

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.

Saurashtra's operating margins and market share for imports during the first six months of 2019 were negatively impacted by decreased import volumes due to other CFSs offering higher incentives. Saurashtra is actively pursuing additional volumes through offering comprehensive packages to shipping lines, including providing value added storage services.

Valuation and Interim Consolidated Financial Statement Impact

At June 30, 2019 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 an assumed after-tax discount rate of 15.0% and long term growth rates ranging from 4.0% to 5.0% (December 31, 2018 - 15.6% to 16.0%, and 4.0% to 5.0%, respectively). At June 30, 2019 free cash flow projections were based on EBITDA estimates derived from financial information for Saurashtra's two business units prepared in the second quarter of 2019 (December 31, 2018 - fourth quarter of 2018) by Saurashtra'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 Saurashtra operates. At June 30, 2019 the company's internal valuation model indicated that the fair value of the company's investment in Saurashtra was $28,767 (December 31, 2018 -$24,843) with the changes in fair value for the second quarters and first six months of 2019 and 2018 presented in the tables at the outset of the Indian Investments section of this MD&A.

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 91% market share in the equity trading segment, a 100% market share in the equity derivatives trading segment and a 58% and 49% market share in the foreign exchange futures and options markets, respectively.

On December 28, 2016 NSE filed a draft prospectus with Securities and Exchange Board of India ("SEBI") in connection with its proposed IPO. In May 2017, SEBI issued show-cause notices to NSE prompting response on inquiries over certain broker members having access to co-location facilities at NSE thereby potentially gaining unfair trading advantages. On April 30, 2019 SEBI directed NSE to pay approximately $160 million (approximately 11 billion Indian rupees) in penalties and interest and barred NSE from raising funds through the capital market for a period of six months, after finding that it had failed to provide equal access to all trading members. In May 2019 NSE filed an appeal with the Securities Appellate Tribunal ("SAT") with a hearing planned in September 2019. As a result, completion of the IPO is anticipated in 2020 upon completion of the SAT ruling and subject to regulatory approval from SEBI. 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.

Valuation and Interim Consolidated Financial Statement Impact

At June 30, 2019 the company's estimated fair value of its investment in NSE of $55,892 (December 31, 2018 - $60,285) was based on recent third party transactions completed in the second quarter of 2019 (December 31, 2018 - fourth quarter of 2018). The changes in fair value of the company's investment in NSE for the second quarters and first six months of 2019 and 2018 are presented in the tables at the outset of the Indian Investments section of this MD&A.

Investment in India Housing Fund

Business Overview

India Housing Fund ("IH Fund") is a closed-ended fund of IIFL Private Equity Fund (the "Trust") registered as a Category II Alternative Investment Fund ("AIF") under the SEBI AIF Regulations. IH Fund is a fund incorporated to focus on investing in the real estate sector in India by investing in equity, debt and equity-linked instruments of real estate and construction companies involved in projects or ventures with expected growth potential.

At June 30, 2019 IH Fund had raised capital commitments of more than $300 million and had invested approximately $47 million in four real estate sector investments. Subsequent to June 30, 2019 IH fund had invested an additional approximately $18 million in new real estate sector investments.

Transaction Description

On December 24, 2018 the company entered into an agreement whereby it committed to invest $25,000 in IH Fund. The investment in IH Fund will be denominated in the Indian rupee, and as such, the amounts to be paid will be converted from U.S. dollars to Indian rupees on each investment date. On January 7, 2019 the company invested 25.0% or $6,272 (approximately 437 million Indian rupees) of the committed investment amount in IH Fund, with the remaining 75.0% or approximately $18.7 million to be drawn down within a 2 year period.

At June 30, 2019 the company had appointed one of the seven members of IH Fund's Investment Committee.

Key Business Drivers, Events and Risks

The Indian real estate industry is a key growth driver of the country's economy, with an expected value of approximately $180 billion by 2020. The industry is growing steadily and encompasses growth in both commercial and residential markets, contributing approximately 5% to 6% to India's GDP. It is estimated that the current state of the housing shortage is approximately 60 million housing units, and by 2022 India will need to develop approximately 110 million housing units. Cumulative investment of over $2 trillion (approximately 139 trillion Indian rupees) is required until 2022 to meet this growth.

The Government of India has come up with a host of initiatives to boost the housing sector and they continue to undertake various reforms to highlight its focus on affordable housing, such as: (i) interest rate subsidy on housing loans; (ii) 100% deduction in taxable income for qualified developers; (iii) ease of entry and exit for foreign direct investments; (iv) digitization of land records; and (v) establishment of the Real Estate (Regulation and Development Act), 2016 which seeks to protect home-buyers as well as help boost investments in the real estate industry.

The inherent demand and structural reforms initiated by the Government of India have laid the foundation for a healthier, growing industry. As real estate is a state subject in India's federal structure, regulations and approval regimes in place can be very dynamic and may impact the Indian real estate industry. As discussed in the Operating Environment section under heading Political Stability earlier in this MD&A, on May 23, 2019 the BJP, led by Prime Minister Modi, swept to victory with a full majority. As a result, it is anticipated that investors can look forward to a stable government and policy continuity for the next five years.

Valuation and Interim Consolidated Financial Statement Impact

At June 30, 2019 the company estimated the fair value of its investment in IH Fund of $6,414 (December 31, 2018 - nil) based on the net asset value provided by the third party fund manager. The fair values are determined using quoted prices of the underlying assets for short term investments, and industry accepted valuation models for debt and equity instruments. The changes in fair value of the company's investment in IH Fund for the second quarter and first six months of 2019 are presented in the tables at the outset of the Indian Investments section of this MD&A.

Investment in 5paisa Forward Derivative

The company's investment in 5paisa is comprised of common shares and a forward derivative. The company's investment in 5paisa common shares is discussed in the Public Indian Investments section under the heading Investment in 5paisa Capital Limited (Common Shares) earlier in this MD&A.

Transaction Description

On May 29, 2019 5paisa announced a rights offering to existing shareholders of 5paisa whereby the shareholders were invited to participate on a pro rata basis in a rights offer at a price of 80.00 Indian rupees per share ("5paisa Rights Offer"). In connection with the 5paisa Rights Offer, Fairfax India committed to participate and acquire 3,385,657 5paisa common shares for $3,924 (approximately 270.9 million Indian rupees) and as a result gave rise to a forward derivative asset ("5paisa forward derivative") that was recorded in derivatives on the consolidated balance sheet. The 5paisa Rights Offer is expected to close during the third quarter of 2019.

Valuation and Interim Consolidated Financial Statement Impact

At June 30, 2019 the company estimated the fair value of its investment in the 5paisa forward derivative of $6,440 (December 31, 2018 - nil) based on the estimated forward price of 5paisa common shares at an estimated closing date compared to the rights offer price of 80.00 Indian rupees per share, which was multiplied by the number of common shares committed to in the 5paisa Rights Offer by Fairfax India. The changes in fair value of the company's investment in 5paisa forward derivative for the second quarter and first six months of 2019 are presented in the tables at the outset of the Indian Investments section of this MD&A.

Results of Operations

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

	Second quarter		First six months	
	2019	2018	**2019**	2018
Income				
Interest	**914**	5,809	**3,953**	12,572
Dividends	**68**	—	**6,074**	6,575
Net realized gains (losses) on investments	**36,163**	(3,348)	**34,861**	(3,333)
Net change in unrealized gains (losses) on investments	**(44,582)**	(39,468)	**(84,066)**	1,881
Net foreign exchange gains (losses)	**1,957**	(18,582)	**5,211**	(29,159)
	(5,480)	(55,589)	**(33,967)**	(11,464)
Expenses				
Investment and advisory fees	**8,717**	8,265	**17,006**	16,486
General and administration expenses	**1,412**	992	**2,821**	2,107
Interest expense	**8,935**	4,390	**19,004**	9,952
	19,064	13,647	**38,831**	28,545
Loss before income taxes	**(24,544)**	(69,236)	**(72,798)**	(40,009)
Provision for income taxes	**30,940**	411	**35,271**	813
Net loss	**(55,484)**	(69,647)	**(108,069)**	(40,822)
Net loss per share (basic and diluted)	**$ (0.36)**	$ (0.45)	**$ (0.71)**	$ (0.27)

Total loss from income of $5,480 in the second quarter of 2019 decreased from $55,589 in the second quarter of 2018 principally as a result of increased net realized gains on investments (related to the IIFL Holdings Reorganization) and net foreign exchange gains (primarily as a result of the appreciation of the Indian rupee relative to the U.S. dollar during the second quarter of 2019), partially offset by increased net change in unrealized losses on investments (discussed below) and decreased interest income. The net change in unrealized losses on investments of $44,582 in the second quarter of 2019 was principally comprised of unrealized losses in the company's investments in IIFL Holdings and IIFL Finance (aggregate $100,576) and NCML ($20,351), partially offset by unrealized gains in the company's investments in BIAL ($32,115), Fairchem ($17,295), Sanmar bonds ($11,868), and Other Public Indian Investments ($9,865). The net change in unrealized losses on investments of $39,468 in the second quarter of 2018 was principally comprised of unrealized losses in the company's investment in IIFL Holdings ($47,338), partially offset by unrealized gains in the company's investments in BIAL ($8,175) and Sanmar bonds ($7,078). Interest income of $914 in the second quarter of 2019 decreased from $5,809 in the second quarter of 2018 principally as a result of the partial sale of Government of India and Indian corporate bonds where the net proceeds were used to finance the company's investments in Seven Islands, Tranche 1 and 2 of the investment in CSB Bank, and IH Fund.

Total loss from income $33,967 in the first six months of 2019 increased from $11,464 in the first six months of 2018 principally as a result of increased net change in unrealized losses on investments (discussed below) and decreased interest income, partially offset by increased net realized gains on investments (related to the IIFL Holdings Reorganization) and decreased net foreign exchange losses (primarily as a result of the appreciation of the Indian rupee relative to the U.S. dollar during the first six months of 2019). The net change in unrealized losses on investments of $84,066 in the first six months of 2019 was principally comprised of unrealized losses in the company's investments in IIFL Holdings and IIFL Finance (aggregate $196,548) and NCML ($20,413), partially offset by unrealized gains in the company's investments in Fairchem ($44,892), BIAL ($37,933), Sanmar bonds ($23,774) and Other Public Indian Investments ($19,920). The net change in unrealized gains on investments of $1,881 in the first six months of 2018 was principally comprised of unrealized gains in the company's investments in NSE ($27,900), Sanmar bonds ($11,309) and BIAL ($10,849), partially offset by unrealized losses in the company's investments in Fairchem ($38,703) and 5paisa ($2,900). Interest income of $3,953 in the first six months of 2019 decreased from $12,572 in the first six months of 2018 principally as a result of the partial sale of Government of India and Indian corporate bonds where the net proceeds were used to finance the company's investments in Seven Islands, Tranche 1 and 2 of the investment in CSB Bank, and IH Fund. Dividend income of $6,074 and $6,575 in the first six months of 2019 and 2018 primarily related to dividends received from the company's investment in IIFL Holdings.

Net gains (losses) on investments and net foreign exchange gains (losses) for the second quarters and first six months of 2019 and 2018 were comprised as follows:

	Second quarter					
	2019			2018		
	Net realized gains (losses)	**Net change in unrealized gains (losses)**	**Net gains (losses)**	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses)
Net gains (losses) on investments:						
Short term investments	**51**	**—**	**51**	—	—	—
Bonds	**—**	**12,210** [(1)]	**12,210**	(3,348)	1,102 [(1)]	(2,246)
Common stocks	**36,112** [(3)]	**(63,143)** [(2)(3)]	**(27,031)**	—	(40,570) [(2)]	(40,570)
Derivatives	**—**	**6,351**	**6,351**	—	—	—
	36,163	**(44,582)**	**(8,419)**	(3,348)	(39,468)	(42,816)
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	**89**	**—**	**89**	722	—	722
Investments	**(102)**	**—**	**(102)**	—	782	782
Borrowings	**—**	**1,941**	**1,941**	(25,407) [(4)]	5,990 [(4)]	(19,417)
Other	**29**	**—**	**29**	(669)	—	(669)
	16	**1,941**	**1,957**	(25,354)	6,772	(18,582)

(1) In the second quarter of 2019, comprised of unrealized gains from Sanmar bonds ($11,868), Indian corporate bonds ($219), and Government of India bonds ($123). In the second quarter of 2018, comprised of unrealized gains from Sanmar bonds ($7,078), partially offset by unrealized losses from Indian corporate bonds ($3,491) and Government of India bonds ($2,485).

(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 second quarters of 2019 and 2018.

(3) Realized gains on common stocks was fully offset by the reversal of unrealized gains on investments recorded in prior periods and as a result had a nil impact on the company's consolidated statements of earnings, related to the IIFL Holdings Reorganization where IIFL Holdings spun off IIFL Wealth and IIFL Securities at fair values in excess of Fairfax India's cost basis of IIFL Holdings.

(4) On June 28, 2018 the company amended, restated and replaced its existing $400.0 million term loan with a $550.0 million term loan and accounted for the transaction as an extinguishment of debt which resulted in a net foreign exchange realized loss of $25,407 related to the $400.0 million term loan. The net change in unrealized gain of $5,990 was comprised of the reversal of the prior quarter unrealized foreign exchange loss of $4,137 on the $400.0 million term loan and an unrealized foreign exchange gain of $1,853 on the $550.0 million term loan.

	First six months					
	2019			2018		
	Net realized gains (losses)	**Net change in unrealized gains (losses)**	**Net gains (losses)**	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses)
Net gains (losses) on investments:						
Short term investments	**70**	**—**	**70**	—	—	—
Bonds	**(1,321)**	**24,363** [(1)]	**23,042**	(3,333)	3,906 [(1)]	573
Common stocks	**36,112** [(3)]	**(114,780)** [(2)(3)]	**(78,668)**	—	(2,025) [(2)]	(2,025)
Derivatives	**—**	**6,351**	**6,351**	—	—	—
	34,861	**(84,066)**	**(49,205)**	(3,333)	1,881	(1,452)
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	**(593)**	**—**	**(593)**	956	—	956
Investments	**(102)**	**—**	**(102)**	(529)	1,691	1,162
Borrowings	**—**	**6,134**	**6,134**	(25,407) [(4)]	(2,674) [(4)]	(28,081)
Other	**(228)**	**—**	**(228)**	(3,196)	—	(3,196)
	(923)	**6,134**	**5,211**	(28,176)	(983)	(29,159)

(1) In the first six months of 2019, comprised of unrealized gains from Sanmar bonds ($23,774) and Indian corporate bonds ($828), partially offset by unrealized losses from Government of India bonds ($239). In the first six months of 2018, comprised of unrealized gains from Sanmar bonds ($11,309), partially offset by unrealized losses from Government of India bonds ($4,047) and Indian corporate bonds ($3,356).

(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 six months of 2019 and 2018.

(3) Realized gains on common stocks was fully offset by the reversal of unrealized gains on investments recorded in prior periods and as a result had a nil impact on the company's consolidated statements of earnings, related to the IIFL Holdings Reorganization where IIFL Holdings spun off IIFL Wealth and IIFL Securities at fair values in excess of Fairfax India's cost basis of IIFL Holdings.

(4) In the first six months of 2018 net realized foreign exchange loss of $25,407 related to the $400.0 million term loan, and the net change in unrealized loss of $2,674 was comprised of the reversal of the prior year unrealized foreign exchange gain of $4,527 on the $400.0 million term loan, partially offset by an unrealized foreign exchange gain of $1,853 on the $550.0 million term loan.

Total expenses increased from $13,647 and $28,545 in the second quarter and first six months of 2018 to total expenses of $19,064 and $38,831 in the second quarter and first six months of 2019 primarily related to increased interest expense (including amortization of issue costs) related to the $550.0 million term loan.

The investment and advisory fees are 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 six months of 2019 the company determined that the majority of its assets were invested in Indian Investments, which are considered deployed capital. For the second quarter and first six months of 2019 the investment and advisory fees recorded in the consolidated statements of earnings were $8,717 and $17,006 (2018 - $8,265 and $16,486).

The provision for income taxes of $30,940 and $35,271 in the second quarter and first six months of 2019 differed from the recovery for income taxes that would be determined by applying the company's Canadian statutory income tax rate of 26.5% to the company's losses before income taxes primarily as a result of the tax rate differential on losses incurred outside of Canada (including the deferred income taxes recorded on the IIFL Holdings Reorganization (related to spin off of IIFL Securities and IIFL Wealth) and on the redemption premium feature in the Sanmar bonds) and change in unrecorded tax benefit of losses and temporary differences, partially offset by foreign exchange fluctuations.

The provision for income taxes of $411 in the second quarter of 2018 differed from the recovery for income taxes that would be determined by applying the company's Canadian statutory income tax rate of 26.5% to the company's losses before income taxes primarily as a result of change in unrecorded tax benefit of losses and temporary differences, the tax rate differential on losses incurred outside of Canada and foreign exchange fluctuations. The provision for income taxes of $813 in the first six months of 2018 differed from the recovery for income taxes that would be determined by applying the company's Canadian statutory income tax rate of 26.5% to the company's losses before income taxes primarily as a result of foreign exchange fluctuations, the tax rate differential on losses incurred outside of Canada and change in unrecorded tax benefit of losses and temporary differences.

The company reported a net loss of $55,484 (a net loss of $0.36 per basic and diluted share) in the second quarter of 2019 compared to a net loss of $69,647 (a net loss of $0.45 per basic share and diluted share) in the second quarter of 2018. The quarter-over-quarter decrease in net loss primarily reflected decreased net unrealized losses on investments and increased net foreign exchange gains, partially offset by increased provision for income taxes, interest expense, and decreased interest income. The company reported a net loss of $108,069 (a net loss of $0.71 per basic and diluted share) in the first six months of 2019 compared to a net loss of $40,822 (a net loss of $0.27 per basic share and diluted share) in the first six months of 2018. The year-over-year increase in net loss primarily reflected increased net unrealized losses on investments, provision for income taxes and interest expense, and decreased interest income, partially offset by increased net foreign exchange gains.

Consolidated Balance Sheet Summary

The assets and liabilities reflected on the company's consolidated balance sheet at June 30, 2019 were impacted by the CSB Bank capital call received on June 29, 2019 for the remaining 30.0% of the CSB Bank warrants, the $50,000 Revolving Credit Facility fully drawn on June 28, 2019, the IIFL Holdings Reorganization on May 31, 2019, the 5paisa Rights Offer on May 29, 2019, and the partial sale of Government of India and Indian corporate bonds to finance the company's investments in Seven Islands, Tranche 2 of the investment in CSB Bank and IH Fund.

Total Assets

Total assets at June 30, 2019 of $2,741,707 (December 31, 2018 - $2,707,057) were principally comprised as follows:

Total cash and investments increased to $2,729,526 at June 30, 2019 from $2,696,420 at December 31, 2018. The company's cash and investments composition was as follows:

Cash and cash equivalents increased to $41,548 at June 30, 2019 from $21,240 at December 31, 2018 principally reflecting the undeployed net proceeds from the $50,000 Revolving Credit Facility and the partial sale of Government of India and Indian corporate bonds that were not deployed into Indian Investments.

Restricted cash of $33,739 at June 30, 2019 (December 31, 2018 - $13,833) related to requirements under the borrowings for the company to set aside cash to fund interest payments.

Short term investments of $2,077 at June 30, 2019 (December 31, 2018 - nil) related to a portion of the net proceeds from the partial sale of Government of India and Indian corporate bonds that were not deployed into Indian Investments, that were used to purchase Indian treasury bills.

Bonds, Common Stocks, and Derivatives - 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 $2,729,526 at June 30, 2019 (December 31, 2018 - $2,696,420) see note 6 (Cash and Investments) to the interim consolidated financial statements for the three and six months ended June 30, 2019.

Interest receivable decreased to $325 at June 30, 2019 from $7,039 at December 31, 2018 primarily reflecting decreased interest receivable from Indian corporate bonds and Government of India bonds as a result of the partial sale of Government of India and Indian corporate bonds noted above.

Other assets increased to $8,893 at June 30, 2019 from $668 at December 31, 2018 primarily reflecting refundable bid security that was required to be paid to the Airports Authority of India to participate in the greenfield airport bid process that occurred in the first quarter of 2019. The company was unsuccessful in the airport bid process and as a result the bid security will be returned to the company in the third quarter of 2019.

Total Liabilities

Total liabilities at June 30, 2019 of $712,313 (December 31, 2018 - $589,112) were principally comprised as follows:

Payable for partly paid securities increased to $70,607 at June 30, 2019 from $29,827 at December 31, 2018 primarily as a result of the capital call received on June 29, 2019 for the remaining 30.0% of the CSB Bank warrants. The payable for partly paid securities, which also included 75.0% of the CSB Bank common shares payable, was settled on July 8, 2019.

Payable to related parties of $9,109 at June 30, 2019 (December 31, 2018 - $8,827) primarily related to investment and advisory fees payable to Fairfax.

Deferred income taxes increased to $35,698 at June 30, 2019 from $689 at December 31, 2018 primarily as a result of deferred tax liabilities recorded on the IIFL Holdings Reorganization related to the spin off of IIFL Securities and IIFL Wealth, redemption premium feature of the Sanmar bonds, and an increase in the fair value of the company's investment in an Other Public Indian Investment.

Borrowings increased to $594,455 at June 30, 2019 from $547,228 at December 31, 2018 primarily related to the $50,000 drawn from the Revolving Credit Facility and issuance costs of $5,545 on the amended $550.0 million term loan presented net in borrowings. Refer to note 7 (Borrowings) to the interim consolidated financial statements for the three and six months ended June 30, 2019 for further discussion on the borrowings.

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 June 30, 2019 compared to those identified at December 31, 2018 and disclosed in the company's 2018 Annual Report, other than as outlined in note 11 (Financial Risk Management) to the interim consolidated financial statements for the three and six months ended June 30, 2019.

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 six months ended June 30, 2019.

Book Value per Share

Common shareholders' equity at June 30, 2019 was $2,029,394 (December 31, 2018 - $2,117,945). The book value per share at June 30, 2019 was $13.30 compared to $13.86 at December 31, 2018 representing a decrease in the first six months of 2019 of 4.0%, primarily reflecting a net loss of $108,069 (principally related to unrealized losses on investments (primarily the company's investments in IIFL Holdings and IIFL Finance), provision for income taxes and interest expense, partially offset by net foreign exchange gains), partially offset by unrealized foreign currency translation gains of $22,544.

	June 30, 2019	December 31, 2018
Common shareholders' equity	**2,029,394**	2,117,945
Number of common shares effectively outstanding	**152,631,481**	152,861,534
Book value per share	**$13.30**	$13.86

During the first six months of 2019, under the terms of the normal course issuer bid, the company purchased for cancellation 230,053 subordinate voting shares (2018 - nil) for a net cost of $2,998 (2018 - nil), of which $577 was charged to retained earnings (2018 - nil).

Liquidity

The undeployed cash and investments at June 30, 2019 along with the company's ability to sell a portion of its Public Indian Investments provides adequate liquidity to meet the company's remaining known significant commitments in 2019, which are principally comprised of the payable for partly paid securities related to the company's investment in CSB Bank (settled on July 8, 2019), the remaining investment commitments for IH Fund and the 5paisa Rights Offer, 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.

Highlights in the first six months of 2019 (with comparisons to the first six months of 2018) of major components of the statements of cash flows are presented in the following table:

	First six months	
	2019	2018
Operating activities		
Cash used in operating activities before the undernoted	**(28,296)**	(6,651)
Increase in restricted cash in support of borrowings	**(19,906)**	(16,624)
Net (purchases) sales of short term investments	**(2,082)**	11,620
Purchases of bonds and common stocks	**(132,011)**	(91,390)
Sales of bonds	**160,051**	72,750
Financing activities		
Net proceeds from borrowings	**44,455**	544,455
Repayment of the $400.0 million term loan	**—**	(400,000)
Purchases of subordinate voting shares for cancellation	**(2,998)**	—
Increase in cash and cash equivalents during the period	**19,213**	114,160

Cash used in operating activities before the undernoted is comprised of net loss 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 $28,296 in the first six months of 2019 increased from cash used in operating activities before the undernoted of $6,651 in the first six months of 2018, with the change principally reflecting increased interest paid on the borrowings, decreased interest and dividend income, and cash used to participate in the greenfield airport bid process.

Increase in restricted cash in support of borrowings of $19,906 and $16,624 in the first six months of 2019 and 2018 related to the changes in the restricted cash accounts required to be maintained to fund interest payments on borrowings. Refer to note 7 (Borrowings) to the interim consolidated financial statements for the three and six months ended June 30, 2019 for additional details. Net purchases of short term investments of $2,082 in the first six months of 2019 primarily related to purchases of Indian treasury bills. Net sales of short term investments of $11,620 in the first six months of 2018 primarily related to net sales of U.S. treasury bills where the net proceeds were used to settle the remaining payable on NCML's rights issue in January 2018. Purchases of bonds and common stocks of $132,011 in the first six months of 2019 primarily related to the company's investments in Seven Islands, Tranche 2 of the investment in CSB Bank and IH Fund, and purchases of Government of India bonds. Purchases of bonds and common stocks of $91,390 in the first six months of 2018 primarily related to the additional 6.0% investment in BIAL, purchases of Indian corporate bonds and investment in an Other Public Indian Investment. Sales of bonds of $160,051 and $72,750 in the first six months of 2019 and 2018 related to the partial sales of Government of India bonds to partially finance the investments in the Indian Investments noted above, and in the first six months of 2019 included partial sales of Indian corporate bonds. Refer to note 14 (Supplementary Cash Flow Information) to the interim consolidated financial statements for the three and six months ended June 30, 2019 for details of purchases and sales of investments.

Net proceeds from borrowings of $44,455 in the first six months of 2019 related to the net proceeds received from the funds borrowed from the Revolving Credit Facility (net of issuance costs of $5,545 on the amended $550.0 million term loan). Net proceeds from borrowings of $544,455 and repayment of the $400.0 million term loan in the first six 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. Purchases of subordinate voting shares for cancellation of $2,998 in the first six months of 2019 related to the company's purchases of 230,053 subordinate voting shares under the terms of the normal course issuer bid.

Contractual Obligations

On June 28, 2019 the company amended and restated the existing $550.0 million term loan by extending the maturity to June 26, 2020 while maintaining the option to extend for an additional year. Concurrent with the $550.0 million term loan, the company entered into a $50.0 million Revolving Credit Facility with a Canadian bank bearing interest at a rate of LIBOR plus 350 basis points, with an option to extend for an additional year. At June 30, 2019 the company had drawn $50,000 from the Revolving Credit Facility and used the proceeds to partially finance the settlement of the payable for partly paid securities on July 8, 2019 relating to the company's investment in CSB Bank and to fund the debt service reserve account.

On June 29, 2019 CSB Bank issued a capital call for the remaining 30.0% of the warrants ($40,440 (approximately 2.8 billion Indian rupees)) and 75.0% of the consideration payable on the common shares ($30,167 (approximately 2.1 billion Indian rupees)), that was recorded within payable for partly paid securities on the consolidated balance sheet at June 30, 2019 and subsequently settled on July 8, 2019.

On May 29, 2019 5paisa announced a rights offering to existing shareholders of 5paisa whereby the shareholders were invited to participate on a pro rata basis in a rights offer at a price of 80.00 Indian rupees per share. In connection with the 5paisa Rights Offer, Fairfax India was committed to participate and acquire 3,385,657 5paisa common shares for $3,924 (approximately 270.9 million Indian rupees) and as a result gave rise to a forward derivative asset ("5paisa forward derivative") that was recorded in derivatives on the consolidated balance sheet. The 5paisa Rights Offer is expected to close during the third quarter of2019.

On December 24, 2018 the company entered into an agreement whereby it committed to invest $25,000 in IH Fund. On January 7, 2019 the company invested 25.0% or $6,272 (approximately 437 million Indian rupees) of the committed investment amount in IH Fund, with the remaining 75.0% or approximately $18.7 million to be drawn down within a 2 year period.

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 six months ended June 30, 2019), 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 second quarter and first six months of 2019 were $8,717 and $17,006 (2018 - $8,265 and $16,486).

At June 30, 2019 the company determined that there was no performance fee accrual (December 31, 2018 – nil) as the book value per share of $13.30 at June 30, 2019 was lower than the high water mark per share at that date of $14.49. Refer to note 12 (Related Party Transactions) to the interim consolidated financial statements for the three and six months ended June 30, 2019 for discussion on the performance fee.

Related Party Transactions

The company's related party transactions are disclosed in note 12 (Related Party Transactions) to the interim consolidated financial statements for the three and six months ended June 30, 2019.

Other

Quarterly Data (unaudited)

US$ thousands, except per share amounts	**June 30, 2019**	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
Income (loss)	**(5,480)**	(28,487)	60,930	117,052	(55,589)	44,125	130,037	(66,455)
Expenses (recovery)	**19,064**	19,767	18,972	19,368	13,647	14,898	41,585	(9,190)
Provision for (recovery of) income taxes	**30,940**	4,331	(1,116)	3,504	411	402	387	(4,111)
Net earnings (loss)	**(55,484)**	(52,585)	43,074	94,180	(69,647)	28,825	88,065	(53,154)
Net earnings (loss) per share	**$ (0.36)**	$ (0.34)	$ 0.28	$ 0.61	$ (0.45)	$ 0.19	$ 0.60	$ (0.36)
Net earnings (loss) per diluted share	**$ (0.36)**	$ (0.34)	$ 0.28	$ 0.61	$ (0.45)	$ 0.19	$ 0.57	$ (0.36)

Indian rupees and in millions, except per share amounts [(1)]	**June 30, 2019**	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
Income (loss)	**(370)**	(2,007)	4,289	7,838	(3,593)	2,840	8,416	(4,599)
Expenses (recovery)	**1,325**	1,393	1,354	1,340	916	959	2,695	(661)
Provision for (recovery of) income taxes	**2,164**	305	(71)	236	27	26	25	(269)
Net earnings (loss)	**(3,859)**	(3,705)	3,006	6,262	(4,536)	1,855	5,696	(3,669)
Net earnings (loss) per share	**(25.29)**	(24.27)	19.61	40.50	(29.25)	12.42	38.63	(24.89)
Net earnings (loss) per diluted share	**(25.29)**	(24.27)	19.61	40.50	(29.25)	12.42	36.73	(24.89)

(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 second quarter and first six months of 2019 by the net change in unrealized losses on the company's Indian Investments (principally unrealized losses in the company's investments in IIFL Holdings and IIFL Finance, and NCML, partially offset by unrealized gains in the company's investments in BIAL, Fairchem, Sanmar bonds, and Other Public Indian Investments), 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 statements 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 our opinions and estimates 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: oil price risk; geographic concentration of investments; foreign currency fluctuation; volatility of the Indian securities markets; investments may be made in foreign private businesses where information is unreliable or unavailable; valuation methodologies involve subjective judgments; financial market fluctuations; pace of completing investments; minority investments; reliance on key personnel and risks associated with the Investment Advisory Agreement; lawsuits; use of leverage; significant ownership by Fairfax may adversely affect the market price of the subordinate voting shares; weather risk; taxation risks; emerging markets; economic risk; and trading price of common shares relative to book value per share risk. Additional risks and uncertainties are described in the company's annual information form dated March 8, 2019 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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