FAIRFAX INDIA
HOLDINGS CORPORATION

3

INTERIM REPORT

For the nine months ended September 30, 2019

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

	Notes	September 30, 2019	December 31, 2018
Assets			
Cash and cash equivalents	6, 14	**5,906**	21,240
Restricted cash	6, 7	**25,045**	13,833
Loan	5, 6	**14,149**	—
Bonds	5, 6	**423,259**	576,386
Common stocks	5, 6	**2,237,278**	2,084,961
Total cash and investments		**2,705,637**	2,696,420
Interest receivable		—	7,039
Income taxes refundable		**2,886**	2,930
Other assets		**1,388**	668
Total assets		**2,709,911**	2,707,057
Liabilities			
Accounts payable and accrued liabilities		**958**	1,034
Payable for partly paid securities	5	—	29,827
Payable to related parties	12	**7,710**	8,827
Deferred income taxes	10	**39,116**	689
Income taxes payable		**1,540**	1,507
Borrowings	7	**595,841**	547,228
Total liabilities		**645,165**	589,112
Equity			
Common shareholders' equity	8	**2,064,746**	2,117,945
		2,709,911	2,707,057

See accompanying notes.

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

		Third quarter		First nine months	
	Notes	**2019**	2018	**2019**	2018
Income					
Interest	6	**200**	5,318	**4,153**	17,890
Dividends	6	**1,614**	1,411	**7,688**	7,986
Net realized gains (losses) on investments	6	**7,046**	(2)	**41,907**	(3,335)
Net change in unrealized gains on investments	6	**118,856**	136,234	**34,790**	138,115
Net foreign exchange losses	6	**(14,928)**	(25,909)	**(9,717)**	(55,068)
		112,788	117,052	**78,821**	105,588
Expenses					
Investment and advisory fees	12	**7,874**	8,771	**24,880**	25,257
General and administration expenses	13	**876**	1,170	**3,697**	3,277
Interest expense	7	**10,288**	9,427	**29,292**	19,379
		19,038	19,368	**57,869**	47,913
Earnings before income taxes		**93,750**	97,684	**20,952**	57,675
Provision for income taxes	10	**4,567**	3,504	**39,838**	4,317
Net earnings (loss)		**89,183**	94,180	**(18,886)**	53,358
Net earnings (loss) per share (basic and diluted)	9	**$ 0.58**	$ 0.61	**$ (0.12)**	$ 0.35
Shares outstanding (weighted average)	9	**152,631,481**	154,586,489	**152,662,758**	153,043,675

See accompanying notes.

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

	Third quarter		First nine months	
	2019	2018	**2019**	2018
Net earnings (loss)	**89,183**	94,180	**(18,886)**	53,358
Other comprehensive loss, net of income taxes				
Item that may be subsequently reclassified to net earnings (loss)				
Unrealized foreign currency translation losses, net of income taxes of nil (2018 - nil)	**(53,851)**	(119,852)	**(31,307)**	(269,657)
Other comprehensive loss, net of income taxes	**(53,851)**	(119,852)	**(31,307)**	(269,657)
Comprehensive income (loss)	**35,332**	(25,672)	**(50,193)**	(216,299)

See accompanying notes.

Consolidated Statements of Changes in Equity
for the nine months ended September 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	**—**	**—**	**—**	**(18,886)**	**—**	**(18,886)**
Other comprehensive loss:						
Unrealized foreign currency translation losses	**—**	**—**	**—**	**—**	**(31,307)**	**(31,307)**
Purchases for cancellation (note 8)	**(2,421)**	**—**	**—**	**(577)**	**—**	**(2,998)**
Purchases and amortization	**—**	**—**	**(8)**	**—**	**—**	**(8)**
Balance as of September 30, 2019	**1,295,005**	**300,000**	**(101)**	**665,379**	**(195,537)**	**2,064,746**

	Subordinate voting shares	Multiple voting shares	Share-based payments, net	Retained earnings	Accumulated other comprehensive income (loss)	Common shareholders' equity
Balance as of January 1, 2018	1,206,512	300,000	(64)	597,105	28,911	2,132,464
Net earnings for the period	—	—	—	53,358	—	53,358
Other comprehensive loss:						
Unrealized foreign currency translation losses	—	—	—	—	(269,657)	(269,657)
Issuance of shares	114,437	—	—	—	—	114,437
Purchases for cancellation (note 8)	(10,877)	—	—	(5,302)	—	(16,179)
Purchases and amortization	—	—	(46)	—	—	(46)
Balance as of September 30, 2018	1,310,072	300,000	(110)	645,161	(240,746)	2,014,377

See accompanying notes.

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

		Third quarter		First nine months	
	Notes	**2019**	2018	**2019**	2018
Operating activities					
Net earnings (loss)		**89,183**	94,180	**(18,886)**	53,358
Items not affecting cash and cash equivalents:					
Net bond premium amortization		**1**	68	**42**	321
Deferred income taxes	10	**4,333**	2,178	**38,846**	2,178
Amortization of share-based payment awards		**20**	20	**76**	58
Net realized (gains) losses on investments	6	**(7,046)**	2	**(41,907)**	3,335
Net change in unrealized gains on investments	6	**(118,856)**	(136,234)	**(34,790)**	(138,115)
Net foreign exchange losses	6	**14,928**	25,909	**9,717**	55,068
Net decrease (increase) in restricted cash in support of borrowings		**8,694**	5,307	**(11,212)**	(11,317)
Net sales (purchases) of short term investments		**2,052**	1,707	**(30)**	13,327
Purchases of investments	14	**(100,414)**	(89,114)	**(232,425)**	(180,504)
Sales of investments	14	**63,882**	—	**223,933**	72,750
Changes in operating assets and liabilities:					
Interest receivable		**308**	(3,272)	**7,008**	1,145
Payable to related parties		**(1,089)**	3,103	**(1,149)**	6,114
Income taxes payable		**224**	1,223	**43**	1,223
Other		**7,568**	3,649	**2,278**	(510)
Cash used in operating activities		**(36,212)**	(91,274)	**(58,456)**	(121,569)
Financing activities					
Borrowings:					
Proceeds	7	**—**	—	**50,000**	550,000
Issuance costs	7	**—**	—	**(5,545)**	(5,545)
Repayments	7	**—**	—	**—**	(400,000)
Subordinate voting shares:					
Purchases for cancellation	8	**—**	(16,179)	**(2,998)**	(16,179)
Cash provided by (used in) financing activities		**—**	(16,179)	**41,457**	128,276
Increase (decrease) in cash and cash equivalents		**(36,212)**	(107,453)	**(16,999)**	6,707
Cash and cash equivalents - beginning of period		**41,548**	125,284	**21,240**	13,244
Foreign currency translation		**570**	(1,512)	**1,665**	(3,632)
Cash and cash equivalents - end of period		**5,906**	16,319	**5,906**	16,319

See accompanying notes.

Index to Notes to Interim Consolidated Financial Statements

1. Business Operations

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

Fairfax Financial Holdings Limited ("Fairfax") is Fairfax India's ultimate parent and acts as its administrator. Fairfax is a holding company which, through its subsidiaries, is 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 nine months ended September 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 October 31, 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
The Annual Improvements amended IAS 12 *Income Taxes* to clarify that the income tax consequences (if any) of dividend distributions are recognized at the same time as the liability to pay those dividends, and that the income tax consequences are recorded in profit or loss, other comprehensive income, or in equity, according to where the past transactions or events that generated those distributable profits were recorded.

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 nine months ended September 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 third quarters of 2019 and 2018 were as follows:

	Third quarter												
	2019								2018				
	Balance as of July 1	**Purchases**	**IIFL Holdings Reorganization**	**Sales**	**Net realized gains (losses) on investments**	**Net change in unrealized gains (losses) on investments [1]**	**Net unrealized foreign currency translation gains (losses)**	**Balance as of September 30**	Balance as of July 1	Purchases	Net change in unrealized gains (losses) on investments [1]	Net unrealized foreign currency translation losses	Balance as of September 30
Public Indian Investments:													
Common stocks:													
IIFL Finance / IIFL Holdings	**172,281**	**—**	**—**	**—**	**—**	**(17,166)**	**(4,628)**	**150,487**	827,698	—	(211,922)	(29,626)	586,150
IIFL Wealth [2]	**—**	**—**	**193,284**	**—**	**—**	**22,701**	**(5,261)**	**210,724**	—	—	—	—	—
IIFL Securities [2]	**—**	**—**	**92,188**	**—**	**—**	**(53,510)**	**(1,833)**	**36,845**	—	—	—	—	—
Fairchem	**143,203**	**—**	**—**	**—**	**—**	**(4,015)**	**(3,603)**	**135,585**	101,895	—	3,222	(6,589)	98,528
5paisa [3]	**10,364**	**6,483**	**—**	**—**	**—**	**1,548**	**(212)**	**18,183**	15,813	—	(4,681)	(577)	10,555
Other	**119,503**	**—**	**—**	**(28,306)**	**4,623**	**(7,326)**	**(3,306)**	**85,188**	3,005	89,114	(8,937)	(2,368)	80,814
Total Public Indian Investments	**445,351**	**6,483**	**285,472**	**(28,306)**	**4,623**	**(57,768)**	**(18,843)**	**637,012**	948,411	89,114	(222,318)	(39,160)	776,047
Private Indian Investments:													
Loan - NCML Loan	**—**	**13,970**	**—**	**—**	**—**	**—**	**179**	**14,149**	—	—	—	—	—
Bonds - Sanmar bonds	**421,367**	**—**	**—**	**—**	**—**	**12,936**	**(11,044)**	**423,259**	321,218	—	68,258	(22,467)	367,009
Common stocks:													
BIAL	**750,578**	**—**	**—**	**—**	**—**	**188,112**	**(21,416)**	**917,274**	643,783	—	72,416	(40,473)	675,726
Sanmar	**220,867**	**—**	**—**	**—**	**—**	**(2,088)**	**(5,715)**	**213,064**	605	—	225,013	(16,764)	208,854
IIFL Wealth [2]	**193,284**	**—**	**(193,284)**	**—**	**—**	**—**	**—**	**—**	—	—	—	—	—
IIFL Securities [2]	**92,188**	**—**	**(92,188)**	**—**	**—**	**—**	**—**	**—**	—	—	—	—	—
NCML	**146,565**	**—**	**—**	**—**	**—**	**(18,536)**	**(3,648)**	**124,381**	170,049	—	(1,701)	(9,132)	159,216
CSB Bank	**176,273**	**—**	**—**	**(19)**	**(45)**	**(3)**	**(4,578)**	**171,628**	—	—	—	—	—
Seven Islands	**72,024**	**12,056**	**—**	**—**	**—**	**—**	**(1,737)**	**82,343**	—	—	—	—	—
Saurashtra	**28,767**	**—**	**—**	**—**	**—**	**546**	**(747)**	**28,566**	25,278	—	(1,720)	(1,275)	22,283
NSE	**55,892**	**—**	**—**	**—**	**—**	**2,223**	**(1,483)**	**56,632**	63,897	—	(3,655)	(2,181)	58,061
IH Fund	**6,414**	**—**	**—**	**(24)**	**—**	**155**	**(167)**	**6,378**	—	—	—	—	—
Derivatives - 5paisa forward derivative[3]	**6,440**	**—**	**—**	**(2,706)**	**2,767**	**(6,351)**	**(150)**	**—**	—	—	—	—	—
Total Private Indian Investments	**2,170,659**	**26,026**	**(285,472)**	**(2,749)**	**2,722**	**176,994**	**(50,506)**	**2,037,674**	1,224,830	—	358,611	(92,292)	1,491,149
Total Indian Investments	**2,616,010**	**32,509**	**—**	**(31,055)**	**7,345**	**119,226**	**(69,349)**	**2,674,686**	2,173,241	89,114	136,293	(131,452)	2,267,196

(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, with the exception of $6,351 of net change in unrealized losses recorded in the third quarter of 2019, related to the reversal of prior period unrealized gains recorded on the 5paisa forward derivative.

(2) Shares of IIFL Wealth and IIFL Securities were publicly listed on the NSE and BSE in September 2019, resulting in the transfer of these investments from Private Indian Investments to Public Indian Investments.

(3) On August 20, 2019 Fairfax India participated in the 5paisa rights offer and acquired 3,385,657 5paisa common shares for cash consideration of $3,777. As a result the company derecognized the 5paisa forward derivative with a carrying value of $2,706, recorded a realized gain of $2,767 and recorded its investment in 5paisa common shares at a fair value at that date of $6,483.

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

	First nine months												
	2019								2018				
	Balance as of January 1	Purchases	IIFL Holdings Reorganization	Sales	Net realized gains (losses) on investments	Net change in unrealized gains (losses) on investments [1]	Net unrealized foreign currency translation gains (losses)	Balance as of September 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 September 30
Public Indian Investments:													
Common stocks:													
IIFL Finance / IIFL Holdings [2]	613,458	—	(282,753)	—	36,112	(213,714)	(2,616)	150,487	888,485	—	(211,922)	(90,413)	586,150
IIFL Wealth [2]	—	—	191,443	—	—	22,701	(3,420)	210,724	—	—	—	—	—
IIFL Securities [2]	—	—	91,310	—	—	(53,510)	(955)	36,845	—	—	—	—	—
Fairchem	96,574	—	—	—	—	40,877	(1,866)	135,585	149,200	—	(35,481)	(15,191)	98,528
5paisa [3]	11,913	6,483	—	—	—	(113)	(100)	18,183	19,958	—	(7,581)	(1,822)	10,555
Other	98,180	—	—	(28,306)	4,623	12,594	(1,903)	85,188	—	94,090	(10,742)	(2,534)	80,814
Total Public Indian Investments	820,125	6,483	—	(28,306)	40,735	(191,165)	(10,860)	637,012	1,057,643	94,090	(265,726)	(109,960)	776,047
Private Indian Investments:													
Loan - NCML Loan	—	13,970	—	—	—	—	179	14,149	—	—	—	—	—
Bonds - Sanmar bonds	392,776	—	—	—	—	36,710	(6,227)	423,259	333,172	—	79,567	(45,730)	367,009
Common stocks:													
BIAL	704,077	—	—	—	—	226,045	(12,848)	917,274	608,288	67,391	83,265	(83,218)	675,726
Sanmar	217,170	—	—	—	—	(886)	(3,220)	213,064	556	—	225,104	(16,806)	208,854
NCML	165,380	—	—	—	—	(38,949)	(2,050)	124,381	179,054	—	1,684	(21,522)	159,216
CSB Bank	93,081	80,987	—	(19)	(45)	1,230	(3,606)	171,628	—	—	—	—	—
Seven Islands	—	83,823	—	—	—	—	(1,480)	82,343	—	—	—	—	—
Saurashtra	24,843	—	—	—	—	4,136	(413)	28,566	28,000	—	(2,562)	(3,155)	22,283
NSE	60,285	—	—	—	—	(2,787)	(866)	56,632	40,452	—	24,245	(6,636)	58,061
IH Fund	—	6,272	—	(24)	—	237	(107)	6,378	—	—	—	—	—
Derivatives - 5paisa forward derivative [3]	—	—	—	(2,706)	2,767	—	(61)	—	—	—	—	—	—
Total Private Indian Investments	1,657,612	185,052	—	(2,749)	2,722	225,736	(30,699)	2,037,674	1,189,522	67,391	411,303	(177,067)	1,491,149
Total Indian Investments	2,477,737	191,535	—	(31,055)	43,457	34,571	(41,559)	2,674,686	2,247,165	161,481	145,577	(287,027)	2,267,196

(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. The amount recorded in net realized gains on investments was $36,112 (all of which was recognized as unrealized gains on investments in prior periods).

(3) On August 20, 2019 Fairfax India participated in the 5paisa rights offer and acquired 3,385,657 5paisa common shares for cash consideration of $3,777. As a result the company derecognized the 5paisa forward derivative with a carrying value of $2,706, recorded a realized gain of $2,767 and recorded its investment in 5paisa common shares at a fair value at that date of $6,483.

__Public Indian Investments__

The fair values of Fairfax India's Public Indian Investments with shares 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 a retail investment brokerage, institutional equities, investment banking and financial product 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 closing 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 management and asset management 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 the company 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 the company recording $36,112 in net realized gains on investments (all of which was recognized as unrealized gains on investments in prior periods). The company had recorded unrealized losses on its investment in IIFL Holdings of $132,300 from January 1, 2019 up to the date of the IIFL Holdings Reorganization. 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 were listed on the BSE and NSE of India in September 2019. Additional details on the IIFL Holdings Reorganization, specific to IIFL Wealth and IIFL Securities, are disclosed later in note 5.

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 (including loans against property and small-to-medium enterprise loans, microfinance, construction and real estate finance) and capital market finance.

IIFL Finance has applied for an 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 issue approximately 75 million common shares of IIFL Finance to the minority shareholders of India Infoline in a share exchange. The merger transaction is expected to close in the fourth quarter of 2019, at which time Fairfax India's equity interest in IIFL Finance will be diluted to approximately 22%.

At September 30, 2019 the fair value of the company's investment in IIFL Finance was $150,487 comprised of 84,641,445 common shares representing a 26.5% equity interest (December 31, 2018 - 84,641,445 common shares and a 26.5% equity interest in IIFL Holdings). The changes in fair value of the company's investment in IIFL Finance for the third quarters and first nine months of 2019 and 2018 aggregated with IIFL Holdings are presented in the tables disclosed earlier in note 5.

Investment in IIFL Wealth Management Limited

IIFL Wealth is a publicly traded wealth management firm with principal lines of business in wealth management and asset management, headquartered in Mumbai, India. 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 May 31, 2019 of $191,443 (approximately 13.3 billion Indian rupees), which was determined based on a third party valuation.

The shares of IIFL Wealth were listed on the BSE and NSE of India on September 19, 2019.

At September 30, 2019 the fair value of the company's investment in IIFL Wealth was $210,724 (December 31, 2018 - nil) comprised of 12,091,635 common shares representing a 13.9% equity interest. The changes in fair value of the company's investment in IIFL Wealth for the third quarter and first nine months of 2019 are presented in the tables disclosed earlier in note 5.

Investment in IIFL Securities Limited

IIFL Securities is a publicly traded 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. IIFL Securities is headquartered in Mumbai, India.

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 closing 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). At May 31, 2019 the fair value of IIFL Securities was estimated based on the company's internal valuation model.

The shares of IIFL Securities were listed on the BSE and NSE of India on September 20, 2019.

At September 30, 2019 the fair value of the company's investment in IIFL Securities was $36,845 (December 31, 2018 - nil) comprised of 84,641,445 common shares representing a 26.5% equity interest. The changes in fair value of the company's investment in IIFL Securities for the third quarter and first nine months of 2019 are presented in the tables disclosed earlier in note 5.

Investment in Fairchem Speciality Limited

Fairchem Speciality Limited ("Fairchem") is a publicly traded, specialty chemical manufacturer located in Ahmedabad, India. Fairchem manufactures oleochemicals used in the paints, inks and adhesives industries, as well as intermediate nutraceutical and health products. Privi Organics Limited ("Privi"), a wholly-owned subsidiary of Fairchem, is a supplier of aroma chemicals to the fragrance industry and is located in Mumbai, India.

In March 2017, upon closing 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 businesses will spin out into a newly formed wholly-owned subsidiary Fairchem Organics Limited ("Fairchem Organics"), which was incorporated on March 27, 2019 in anticipation of the Fairchem Reorganization. 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. 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 will be listed on the BSE and NSE of India. The Fairchem Reorganization is anticipated to be completed in the second quarter of 2020 and shares of Fairchem Organics listed by the third quarter of 2020, subject to applicable regulatory approvals and customary closing conditions. Subsequent to the anticipated listing of Fairchem Organics, it is expected that the company will decrease its equity interest in Privi Speciality to 38.9% from its current 48.8% and increase its equity interest in Fairchem Organics to 66.7% from its current 48.8% through a series of transactions with Privi's founders.

At September 30, 2019 the fair value of the company's investment in Fairchem was $135,585 (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 third quarters and first nine months of 2019 and 2018 are presented in the tables disclosed earlier in note 5.

Investment in 5paisa Capital Limited

5paisa Capital Limited ("5paisa") is a publicly traded online financial services provider with a "do-it-yourself" investment brokerage model that allows customers to execute investment transactions for low brokerage fees. 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. 5paisa is headquartered in Mumbai, India.

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 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.

On May 29, 2019 5paisa announced a rights offer to existing shareholders whereby shareholders were given the right to participate on a pro rata basis in a common share issuance 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 common shares of 5paisa and as a result the company recorded a forward derivative asset ("5paisa forward derivative"). On August 20, 2019 Fairfax India participated in the 5paisa rights offer and acquired 3,385,657 5paisa common shares for cash consideration of $3,777. As a result the company derecognized the 5paisa forward derivative with a carrying value of $2,706, recorded a realized gain of $2,767 and recorded its investment in 5paisa common shares at a fair value at that date of $6,483.

At September 30, 2019 the fair value of the company's investment in 5paisa was $18,183 (December 31, 2018 - $11,913) comprised of 6,771,314 common shares representing a 26.6% equity interest (December 31, 2018 - 3,385,657 common shares representing a 26.6% equity interest). The changes in the fair value of the company's investments in 5paisa common shares and the 5paisa forward derivative for the third quarters and first nine 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. In the third quarter of 2019 the company partially sold an investment in Other Public Indian Investments for total net proceeds of $28,306, resulting in a realized gain of $4,623.

At September 30, 2019 the fair value of the company's investment in Other Public Indian Investments was $85,188 (December 31, 2018 - $98,180) and represented 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 third quarters and first nine 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 September 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 11.3% to 13.3% 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 September 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 2019 (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. In the third quarter of 2019 change in unrealized gains of $188,112 were primarily driven by an increase in expected growth in passenger traffic, resulting in higher projected earnings, partially offset by increased planned capital expenditures related to a Terminal 3 expansion. At September 30, 2019 the company's internal valuation model indicated that the fair value of the company's investment in BIAL was $917,274 (December 31, 2018 - $704,077). The changes in fair value of the company's investment in BIAL for the third quarters and first nine 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 Sanmar 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 $198,733 at period end exchange rates (approximately 14.1 billion Indian rupees) of the net proceeds received from the settlement of Sanmar bonds into 171,710 newly issued common shares of Sanmar, increasing the company's equity interest in Sanmar to 42.9% from 30.0% at September 30, 2019. The company will receive the remaining net proceeds in cash that had a value of approximately $225 million at September 30, 2019 based on the fair value of Sanmar bonds at that date of $423,259. This transaction is subject to customary closing conditions and third party consents, and was anticipated to close 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 September 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 6.6% (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 company-specific credit risk. At September 30, 2019 the company's internal valuation model indicated that the fair value of the company's investment in Sanmar bonds was $423,259 (December 31, 2018 - $392,776). The changes in fair value of the company's investment in Sanmar bonds for the third quarters and first nine months of 2019 and 2018 are presented in the tables disclosed earlier in note 5.

Sanmar Common Shares

At September 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 13.3% to 18.3% 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 September 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 September 30, 2019 the company's internal valuation model indicated that the fair value of the company's investment in Sanmar common shares was $213,064 (December 31, 2018 - $217,170). The changes in fair value of the company's investment in Sanmar common shares for the third quarters and first nine months of 2019 and 2018 are presented in the tables disclosed earlier in note 5.

Investment in National Collateral Management Services Limited

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

NCML Common Shares

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 September 30, 2019 the company estimated the fair value of its investment in NCML common shares using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 12.6% to 21.2% 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 September 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 September 30, 2019 the company's internal valuation model indicated that the fair value of the company's investment in NCML common shares was $124,381 (December 31, 2018 - $165,380). The changes in fair value of the company's investment in NCML common shares for the third quarters and first nine months of 2019 and 2018 are presented in the tables disclosed earlier in note 5.

NCML Loan

On September 17, 2019 the company invested an additional $13,970 (approximately 1.0 billion Indian rupees) in NCML to pre-fund an allotment of compulsorily convertible debentures ("CCDs"), which were subsequently issued by NCML to the company on October 1, 2019. The company recorded the pre-funded amount as an interest-free bridge loan maturing on October 1, 2019 upon NCML's issuance of the CCDs.

At September 30, 2019 given the short duration of the loan, its cost was determined to approximate fair value. The changes in fair value of the company's investment in NCML Loan for the third quarter and first nine months of 2019 are presented in the tables disclosed earlier in note 5.

Subsequent to September 30, 2019

On October 1, 2019 the company was issued 12.5% unsecured CCDs, due September 30, 2029. The company has the option to convert the CCDs into common shares of NCML at any time prior to the maturity date, at which time the conversion is compulsory, at a conversion price of 68.00 Indian rupees per common share.

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 417 branches and 290 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). Consideration was payable: (i) on initial closing for 25.0% of the common shares and 40.0% of the warrants; and (ii) within 12 months and 18 months of initial closing, upon request by CSB Bank, for the remaining 75.0% of the common shares and 60.0% of the warrants.

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) in common stocks within the consolidated balance sheet relating to 100.0% of the common shares and 40.0% of the warrants, and recorded $28,367 (approximately 2.1 billion Indian rupees) in payable for partly paid securities within 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) in common stocks ("Tranche 2") within the consolidated balance sheet.

On June 29, 2019 CSB Bank issued a capital call for the remaining consideration payable for 30.0% of the warrants ($40,440) ("Final Tranche") and 75.0% of the common shares ($30,167). The company recorded $40,440 (approximately 2.8 billion Indian rupees) in common stocks within the consolidated balance sheet, representing the Final Tranche of CSB Bank warrants, which were considered in-substance equity. On July 8, 2019 the company funded the capital call.

On August 7, 2019 the company exercised its CSB Bank warrants to acquire 66,430,846 common shares. No CSB warrants remain outstanding.

At September 30, 2019 the company estimated the fair value of its investment in CSB Bank using a discounted cash flow analysis, based on multi-year free cash flow projections with an assumed discount rate of 18.6% and a long term growth rate of 4.5%, and an option pricing model. At September 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. Common shares of CSB Bank 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 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 September 30, 2019 the company's internal valuation model indicated that the fair value of the company's investment in CSB Bank was $171,628 representing a 50.1% equity interest in CSB Bank.

At December 31, 2018 the initial transaction price for Tranche 1 was considered to approximate fair value as there had been no significant changes to CSB Bank's business, capital structure or 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 third quarter and first nine months of 2019 are presented in the tables disclosed earlier in note 5.

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 19 vessels with a total deadweight capacity of over 1.1 million tonnes, and its vessels are registered in India and operate as Indian owned and flagged vessels.

At September 30, 2019 Fairfax India had invested aggregate cash consideration of $83,823 (approximately 5.8 billion Indian rupees) for a 48.5% equity interest in Seven Islands through the following transactions: (i) on March 29, 2019 the company acquired a 41.4% equity interest in Seven Islands for cash consideration of $71,767 (approximately 4,972.0 million Indian rupees) through a direct subscription and secondary acquisition; and (ii) on September 11, 2019 the company acquired an additional 7.1% equity interest in Seven Islands for cash consideration of $12,056 (approximately 863.9 million Indian rupees).

At September 30, 2019 the average historical transaction price was considered to approximate fair value as there had been no significant changes to Seven Islands' business, capital structure or operating environment and the key assumptions in the company's acquisition valuation model continued to be valid. At September 30, 2019 the company's estimated fair value of its investment in Seven Islands was $82,343 (December 31, 2018 - nil). The changes in fair value of the company's investment in Seven Islands for the third quarter and first nine months of 2019 are presented in the tables disclosed earlier in note 5.

Subsequent to September 30, 2019

On October 24, 2019 the company acquired an additional 0.01% equity interest in Seven Islands for cash consideration of $26 (approximately 1.7 million Indian rupees).

Investment in Saurashtra Freight Private Limited

Saurashtra Freight Private Limited ("Saurashtra"), a private company headquartered in Mumbai, India, operates 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 and 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 September 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 assumed after-tax discount rates ranging from 15.0% to 15.2% 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 September 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 September 30, 2019 the company's internal valuation model indicated that the fair value of the company's investment in Saurashtra was $28,566 (December 31, 2018 - $24,843). The changes in fair value of the company's investment in Saurashtra for the third quarters and first nine 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 September 30, 2019 the company's estimated fair value of its investment in NSE of $56,632 (December 31, 2018 - $60,285) was based on recent third party transactions completed in the third quarter of 2019 (December 31, 2018 - fourth quarter of 2018). The changes in fair value of the company's investment in NSE for the third quarters and first nine 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 (approximately 1.7 billion Indian rupees) in the India Housing Fund ("IH 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 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 437.0 million Indian rupees) of the committed investment amount in IH Fund.

At September 30, 2019 the company estimated the fair value of its investment in IH Fund of $6,378 (December 31, 2018 - nil) based on the net asset value provided by the third party fund manager. The fair values of the underlying assets are determined using quoted prices 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 third quarter and first nine months of 2019 are presented in the tables disclosed earlier in note 5.

Subsequent to September 30, 2019

On October 10, 2019 IH Fund issued a capital call for 35.0% or $8,633 at period end exchange rates (approximately 611.8 million Indian rupees) of the committed investment amount to be paid on or before November 7, 2019. The remaining 40.0% or approximately $9,867 at period end exchange rates (approximately 699.3 million Indian rupees) is to be drawn down by December 31, 2019 (subject to a 12 month extension at the discretion of the investment manager).

6. Cash and Investments

Fair Value Disclosures

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

	September 30, 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	**5,906**	**—**	**—**	**5,906**	**419**	21,240	—	—	21,240	1,483
Restricted cash[1]	**25,045**	**—**	**—**	**25,045**	**1,775**	13,833	—	—	13,833	966
	30,951	**—**	**—**	**30,951**	**2,194**	35,073	—	—	35,073	2,449
Loan - NCML Loan	**—**	**—**	**14,149**	**14,149**	**1,003**	—	—	—	—	—
Bonds:										
Government of India[2]	**—**	**—**	**—**	**—**	**—**	—	88,997	—	88,997	6,213
Indian corporate[2]	**—**	**—**	**—**	**—**	**—**	—	94,613	—	94,613	6,605
Sanmar	**—**	**—**	**423,259**	**423,259**	**29,996**	—	—	392,776	392,776	27,422
	—	**—**	**423,259**	**423,259**	**29,996**	—	183,610	392,776	576,386	40,240
Common stocks:										
IIFL Finance / IIFL Holdings[3]	**150,487**	**—**	**—**	**150,487**	**10,665**	613,458	—	—	613,458	42,829
IIFL Wealth[3]	**210,724**	**—**	**—**	**210,724**	**14,934**	—	—	—	—	—
IIFL Securities[3]	**36,845**	**—**	**—**	**36,845**	**2,611**	—	—	—	—	—
Fairchem	**135,585**	**—**	**—**	**135,585**	**9,609**	96,574	—	—	96,574	6,742
5paisa	**18,183**	**—**	**—**	**18,183**	**1,289**	11,913	—	—	11,913	832
Other	**85,188**	**—**	**—**	**85,188**	**6,036**	98,180	—	—	98,180	6,855
BIAL	**—**	**—**	**917,274**	**917,274**	**65,006**	—	—	704,077	704,077	49,155
Sanmar	**—**	**—**	**213,064**	**213,064**	**15,100**	—	—	217,170	217,170	15,162
NCML	**—**	**—**	**124,381**	**124,381**	**8,815**	—	—	165,380	165,380	11,546
CSB Bank	**—**	**—**	**171,628**	**171,628**	**12,163**	—	—	93,081	93,081	6,498
Seven Islands	**—**	**—**	**82,343**	**82,343**	**5,836**	—	—	—	—	—
Saurashtra	**—**	**—**	**28,566**	**28,566**	**2,024**	—	—	24,843	24,843	1,734
NSE	**—**	**—**	**56,632**	**56,632**	**4,013**	—	—	60,285	60,285	4,209
IH Fund	**—**	**—**	**6,378**	**6,378**	**452**	—	—	—	—	—
	637,012	**—**	**1,600,266**	**2,237,278**	**158,553**	820,125	—	1,264,836	2,084,961	145,562
Total cash and investments	**667,963**	**—**	**2,037,674**	**2,705,637**	**191,746**	855,198	183,610	1,657,612	2,696,420	188,251
	24.7%	**—%**	**75.3%**	**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 December 31, 2018.

(3) On May 31, 2019 IIFL Holdings spun off IIFL Wealth and IIFL Securities in the IIFL Holdings Reorganization.

Transfers between fair value hierarchy levels are considered effective from the beginning of the reporting period in which the transfer is identified. During the first nine months of 2019 and 2018 there were no transfers of financial instruments between Level 1 and Level 2.

During the third quarter of 2019 as a result of the IIFL Holdings Reorganization and the subsequent listing of the shares of IIFL Wealth and IIFL Securities on the BSE and NSE of India, described in note 5, the investments in IIFL Wealth and IIFL Securities were transferred out of Level 3 and into Level 1 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 nine months of 2019 and 2018 was as follows:

	First nine months									
	2019						2018			
Indian rupees (in millions)	**Balance as of January 1**	**Purchases**	**Sales**	**Net realized gains (losses) on investments**	**Net change in unrealized gains (losses) on investments**	**Balance as of September 30**	Balance as of January 1	Purchases	Net change in unrealized gains (losses) on investments	Balance as of September 30
Loan - NCML Loan	**—**	**1,003**	**—**	**—**	**—**	**1,003**	—	—	—	—
Bonds - Sanmar bonds	**27,422**	**—**	**—**	**—**	**2,574**	**29,996**	21,266	—	5,339	26,605
Common stocks:										
BIAL	**49,155**	**—**	**—**	**—**	**15,851**	**65,006**	38,825	4,571	5,587	48,983
Sanmar	**15,162**	**—**	**—**	**—**	**(62)**	**15,100**	36	—	15,104	15,140
NCML	**11,546**	**—**	**—**	**—**	**(2,731)**	**8,815**	11,429	—	113	11,542
CSB Bank	**6,498**	**5,583**	**(1)**	**(3)**	**86**	**12,163**	—	—	—	—
Seven Islands	**—**	**5,836**	**—**	**—**	**—**	**5,836**	—	—	—	—
Saurashtra	**1,734**	**—**	**—**	**—**	**290**	**2,024**	1,787	—	(172)	1,615
NSE	**4,209**	**—**	**—**	**—**	**(196)**	**4,013**	2,582	—	1,627	4,209
IH Fund	**—**	**437**	**(2)**	**—**	**17**	**452**	—	—	—	—
Derivatives - 5paisa forward derivative	**—**	**—**	**(194)**	**194**	**—**	**—**	—	—	—	—
Total	**115,726**	**12,859**	**(197)**	**191**	**15,829**	**144,408**	75,925	4,571	27,598	108,094

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 September 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 the NCML Loan, Seven Islands, NSE, and IH Fund 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)(2)
Bonds: Sanmar	423,259	Discounted cash flow and option pricing model	Credit spread	6.6%	(13,813) / 14,657	(11,983) / 12,715
Common stocks:						
BIAL	917,274	Discounted cash flow	After-tax discount rate	11.3% to 13.3%	(115,570) / 132,280	(100,257) / 114,753
			Long term growth rate	3.5%	17,663 / (16,573)	15,323 / (14,377)
Sanmar	213,064	Discounted cash flow	After-tax discount rate	13.3% to 18.3%	(31,053) / 33,790	(26,939) / 29,313
			Long term growth rate	3.0% to 4.0%	8,403 / (8,057)	7,289 / (6,990)
NCML	124,381	Discounted cash flow	After-tax discount rate	12.6% to 21.2%	(15,524) / 17,325	(13,467) / 15,029
			Long term growth rate	2.4% to 6.0%	4,725 / (4,473)	4,099 / (3,880)
CSB Bank	171,628	Discounted cash flow and option pricing model	Discount rate	18.6%	(8,728) / 9,567	(7,572) / 8,299
			Long term growth rate	4.5%	3,021 / (2,789)	2,621 / (2,419)
			Historical share price volatility	24.8% to 38.3%	(2,790) / 2,935	(2,420) / 2,546
Saurashtra	28,566	Discounted cash flow	After-tax discount rate	15.0% to 15.2%	(746) / 816	(647) / 708
			Long term growth rate	4.0% to 5.0%	385 / (278)	334 / (241)

(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), discount rate (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.

(2) For the purpose of this sensitivity analysis, the hypothetical $ change effect on net earnings includes an income tax impact that is calculated using the company's marginal tax rate. Actual income tax expense (recovery) may differ significantly when earnings (losses) are realized.

Fixed Income Maturity Profile

Bonds are summarized by their earliest contractual maturity date in the table that follows. Actual maturities may differ from maturities shown below due to the existence of call and put features. At September 30, 2019 bonds containing call features represented $423,259 (December 31, 2018 - $392,776) of the total fair value of bonds. At September 30, 2019 and December 31, 2018 there were no bonds containing put features.

	September 30, 2019		December 31, 2018	
	Amortized cost	**Fair value**	Amortized cost	Fair value
Due in 1 year or less	**294,039**	**437,408**	284,114	392,776
Due after 1 year through 5 years	**—**	**—**	2,830	2,803
Due after 5 years through 10 years	**—**	**—**	155,035	156,262
Due after 10 years	**—**	**—**	25,965	24,545
	294,039	**437,408**	467,944	576,386

Investment Income

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

Interest and dividends

	Third quarter		**First nine months**	
	2019	2018	**2019**	2018
Interest:				
Cash and cash equivalents	**179**	274	**551**	302
Short term investments	**1**	57	**54**	180
Bonds(1)	**20**	4,987	**3,548**	17,408
	200	5,318	**4,153**	17,890
Dividends: Common stocks	**1,614**	1,411	**7,688**	7,986

(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)

	Third 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	**1**	**—**	**1**	(2)	—	(2)
Bonds	**(300)**	**12,566** (1)	**12,266**	—	68,199 (1)	68,199
Common stocks	**4,578** (2)	**112,641** (2)	**117,219**	—	68,035 (2)	68,035
Derivatives	**2,767** (2)	**(6,351)** (2)	**(3,584)**	—	—	—
	7,046	**118,856**	**125,902**	(2)	136,234	136,232
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	**753**	**—**	**753**	4,651	—	4,651
Investments	**—**	**—**	**—**	197	637	834
Borrowings	**—**	**(15,570)**	**(15,570)**	—	(31,656)	(31,656)
Other	**(111)**	**—**	**(111)**	262	—	262
	642	**(15,570)**	**(14,928)**	5,110	(31,019)	(25,909)

(1) In the third quarter of 2019, primarily comprised of unrealized gains from Sanmar bonds of $12,936 (2018 - $68,258).
(2) Refer to note 5 for a summary of changes in the fair value of the company's Public and Private Indian Investments during the third quarters of 2019 and 2018.

	First nine 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	**71**	**—**	**71**	(2)	—	(2)
Bonds	**(1,621)**	**36,929** (1)	**35,308**	(3,333)	72,105 (1)	68,772
Common stocks	**40,690** (2)(3)	**(2,139)** (2)(3)	**38,551**	—	66,010 (2)	66,010
Derivatives	**2,767** (2)	**—**	**2,767**	—	—	—
	41,907	**34,790**	**76,697**	(3,335)	138,115	134,780
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	**160**	**—**	**160**	5,607	—	5,607
Investments	**(102)**	**—**	**(102)**	(332)	2,328	1,996
Borrowings	**—**	**(9,436)**	**(9,436)**	(25,407) (4)	(34,330) (4)	(59,737)
Other	**(339)**	**—**	**(339)**	(2,934)	—	(2,934)
	(281)	**(9,436)**	**(9,717)**	(23,066)	(32,002)	(55,068)

(1) In the first nine months of 2019, primarily comprised of unrealized gains from Sanmar bonds ($36,710). In the first nine months of 2018, comprised of unrealized gains from Sanmar bonds ($79,567), partially offset by unrealized losses from Government of India bonds ($3,990) and Indian corporate bonds ($3,472).

(2) Refer to note 5 for a summary of changes in the fair value of the company's Public and Private Indian Investments during the first nine months of 2019 and 2018.

(3) On May 31, 2019 IIFL Holdings spun off IIFL Wealth and IIFL Securities in the IIFL Holdings Reorganization. The amount recorded in net realized gains on investments was $36,112 (all of which was recognized as unrealized gains on investments in prior periods).

(4) In the first nine months of 2018 net realized foreign exchange loss of $25,407 related to the extinguishment of the $400.0 million term loan, and the net change in unrealized loss of $34,330 was comprised of a reversal of the prior year unrealized foreign exchange gain of $4,527 on the $400.0 million term loan and unrealized foreign exchange loss of $29,803 on the $550.0 million term loan (see note 7).

7. Borrowings

	September 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**	**545,841**	**550,000**	550,000	547,228	550,000
Revolving Credit Facility, floating rate	**50,000**	**50,000**	**50,000**	—	—	—
	600,000	**595,841**	**600,000**	550,000	547,228	550,000

(1) Principal net of unamortized issue costs.

(2) Principal approximated fair value at September 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 September 30, 2019 the amended $550.0 million term loan was recognized net of unamortized issuance costs of $4,159 (issue costs of $5,545 less amortization of $1,386) (December 31, 2018 - $2,772 (issue costs of $5,545 less amortization of $2,773)) and recorded in borrowings within 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 within 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 September 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"). The Revolving Credit Facility was fully drawn on June 28, 2019 and the proceeds were used 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 third quarter and first nine months of 2019 interest expense of $10,288 and $29,292 (2018 - $9,427 and $19,379) was comprised of coupon payments of $8,901 and $25,133 (2018 - $8,041 and $17,993) and the amortization of issuance costs of $1,387 and $4,159 (2018 - $1,386 in both periods).

8. Common Shareholders' Equity

Common stock

The number of shares outstanding was as follows:

	First nine 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)**	(1,033,420)
Subordinate voting shares - September 30	**122,631,481**	124,062,896
Multiple voting shares - beginning and end of period	**30,000,000**	30,000,000
Common shares effectively outstanding - September 30	**152,631,481**	154,062,896

Purchase of Shares

During the first nine months of 2019, under the terms of the normal course issuer bid, the company purchased for cancellation 230,053 subordinate voting shares (2018 - 1,033,420) for a net cost of $2,998 (2018 - $16,179), of which $577 was charged to retained earnings (2018 - $5,302).

9. Net Earnings per Share

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

	Third quarter		First nine months	
	2019	2018	**2019**	2018
Net earnings (loss) – basic and diluted	**89,183**	94,180	**(18,886)**	53,358
Weighted average common shares outstanding – basic and diluted	**152,631,481**	154,586,489	**152,662,758**	153,043,675
Net earnings (loss) per common share – basic and diluted	**$ 0.58**	$ 0.61	**$ (0.12)**	$ 0.35

10. Income Taxes

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

	Third quarter		First nine months	
	2019	2018	**2019**	2018
Current income tax:				
Current year expense	**234**	821	**992**	1,634
Adjustment to prior years' income taxes	**—**	505	**—**	505
	234	1,326	**992**	2,139
Deferred income tax:				
Origination and reversal of temporary differences	**4,333**	2,179	**38,846**	2,095
Adjustments to prior years' deferred income taxes	**—**	(1)	**—**	83
	4,333	2,178	**38,846**	2,178
Provision for income taxes	**4,567**	3,504	**39,838**	4,317

A significant portion of the company's earnings before income taxes may be earned 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 third quarter and first nine months of 2019 deferred income tax of $4,333 and $38,846 related to $3,448 and $29,186 of potential capital gains tax in India on any future dispositions of investments in equity shares and $885 and $9,660 of income taxes in India and Mauritius related to interest income earned on the Sanmar bonds.

The deferred income tax on potential capital gains tax in India on any future dispositions of investments in equity shares of $3,448 recorded in the third quarter of 2019 primarily related to unrealized gains on the company's investment in BIAL attributable to equity shares acquired subsequent to April 1, 2017. The deferred income tax on potential capital gains tax in India on any future dispositions of investments in equity shares of $29,186 recorded in the first nine months of 2019 primarily related to unrealized gains on the company's investment in IIFL Wealth, which was a result of the IIFL Holdings Reorganization. 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 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 $885 and $9,660 in the third quarter and first nine months of 2019 related to Sanmar bonds.

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

	Third quarter						
	2019				2018		
	Canada	**Mauritius**		**Total**	Canada	Mauritius	Total
Earnings (loss) before income taxes	**(25,123)**	**118,873**	(1)	**93,750**	(36,945)	134,629	97,684
Provision for income taxes	**—**	**4,567**		**4,567**	—	3,504	3,504
Net earnings (loss)	**(25,123)**	**114,306**		**89,183**	(36,945)	131,125	94,180

	First nine months						
	2019				2018		
	Canada	**Mauritius**		**Total**	Canada	Mauritius	Total
Earnings (loss) before income taxes	**(37,709)**	**58,661**	(2)	**20,952**	(74,575)	132,250	57,675
Provision for income taxes	**—**	**39,838**		**39,838**	—	4,317	4,317
Net earnings (loss)	**(37,709)**	**18,823**		**(18,886)**	(74,575)	127,933	53,358

(1) Includes $3,448 of potential capital gains tax in India (primarily related to unrealized gains on BIAL attributable to equity shares acquired subsequent to April 1, 2017) and $571 of tax on taxable interest income in India (related to the redemption premium feature in the Sanmar bonds).
(2) Includes $29,186 of potential capital gains tax in India (primarily related to unrealized gains on IIFL Wealth resulting from the IIFL Holdings Reorganization) and $6,234 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 third quarter and first nine months of 2019 compared to the third quarter and first nine months of 2018 primarily related to a decrease in foreign exchange losses on borrowings, partially offset by increased interest expense. The decrease in earnings before income taxes in Mauritius in the third quarter and first nine months of 2019 compared to the third quarter and first nine months of 2018 primarily reflected a decrease in net unrealized gains on investments (principally related to decreased net unrealized gains on the company's Private Indian Investments, partially offset by decreased net unrealized losses on the company's Public Indian Investments) and decreased interest income on bonds.

A reconciliation of the provision for 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 nine months ended September 30 are summarized in the following table:

	Third quarter		First nine months	
	2019	2018	**2019**	2018
Canadian statutory income tax rate	**26.5%**	26.5%	**26.5%**	26.5%
Provision for income taxes at the Canadian statutory income tax rate	**24,843**	25,886	**5,552**	15,284
Tax rate differential on income earned outside of Canada	**(29,409)**	(43,586)	**19,336**	(40,798)
Provision relating to prior years	**—**	504	**—**	588
Change in unrecorded tax benefit of losses and temporary differences	**5,283**	13,651	**13,107**	15,016
Foreign exchange effect	**3,845**	7,044	**1,823**	14,212
Other including permanent differences	**5**	5	**20**	15
Provision for income taxes	**4,567**	3,504	**39,838**	4,317

The tax rate differential on income earned outside of Canada of $29,409 in the third quarter of 2019 principally reflected the impact of net investment income taxed in India and Mauritius at lower rates. The tax rate differential on income earned outside of Canada of $19,336 in the first nine months of 2019 principally reflected deferred income tax on unrealized gains on IIFL Wealth resulting from 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 income earned outside of Canada of $43,586 and $40,798 in the third quarter and first nine months of 2018 principally reflected the impact of net investment income taxed in India and Mauritius at lower rates.

The change in unrecorded tax benefit of losses and temporary differences of $5,283 and $13,107 in the third quarter and first nine months of 2019 principally reflected changes in unrecorded deferred tax assets incurred related to foreign accrual property losses of $2,076 and $4,957 with respect to the company's wholly-owned subsidiaries and net operating loss carryforwards in Canada of $3,282 and $8,225 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 $13,651 and $15,016 in the third quarter and first nine months of 2018 principally reflected changes in unrecorded deferred tax assets incurred related to foreign accrual property losses of $10,909 and $9,564 with respect to the company's wholly-owned subsidiaries, and net operating loss carryforwards in Canada of $2,742 and $5,492 that were not recorded by the company as the related pre-tax losses did not meet the recognition criteria under IFRS. At September 30, 2019 deferred tax assets in Canada of $58,726 (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 $3,845 and $1,823 in the third quarter and first nine months of 2019 (2018 - $7,044 and $14,212) principally reflected the impact of fluctuations in the value of the Canadian dollar relative to the U.S. dollar and the Indian rupee as the company computes its corporate tax liability in Canadian dollars pursuant to the requirements of Canadian tax authorities, whereas the functional currency of the company and its Mauritius subsidiaries is the Indian rupee.

11. Financial Risk Management

Overview

There were no significant changes in the types of the company's risk exposures or the processes used by the company for managing those risk exposures at September 30, 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 September 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 September 30, 2019 compared to December 31, 2018.

The company's exposure to interest rate risk decreased in the first nine months of 2019 primarily reflecting the net sale of Government of India and Indian corporate bonds to fund the company's investments in the common shares of Seven Islands, CSB Bank, 5paisa and IH Fund, partially offset by unrealized gains on 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).

	September 30, 2019			December 31, 2018		
	Fair value of fixed income portfolio (1)	**Hypothetical $ change effect on net earnings (2)**	**Hypothetical % change in fair value**	Fair value of fixed income portfolio	Hypothetical $ change effect on net earnings (2)	Hypothetical % change in fair value
Change in interest rates						
200 basis point increase	**410,016**	**(23,763)**	**(6.3)%**	527,897	(39,695)	(8.4)%
100 basis point increase	**423,451**	**(12,108)**	**(3.2)%**	551,843	(20,112)	(4.3)%
No change	**437,408**	**—**	**—**	576,386	—	—
100 basis point decrease	**451,911**	**12,581**	**3.3 %**	603,940	22,421	4.8 %
200 basis point decrease	**466,983**	**25,656**	**6.8 %**	632,299	45,534	9.7 %

(1) NCML Loan is not expected to fluctuate from hypothetical shifts in interest rates given its short duration.

(2) For the purpose of this sensitivity analysis, the hypothetical $ change effect on net earnings includes an income tax impact that is calculated using the company's marginal tax rate. Actual income tax expense (recovery) may differ significantly when earnings (losses) are realized.

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 September 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 $2,237,278 at September 30, 2019 primarily as a result of the company's investments in the common shares of Seven Islands, CSB Bank and IH Fund (Level 3 investments in the fair value hierarchy) and 5paisa (Level 1 investment 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, IIFL Wealth 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 and IIFL Securities, Level 1 investments 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 and investments in debt instruments. There were no significant changes to the company's exposure to credit risk (except as set out in the discussion which follows) or the framework used to monitor, evaluate and manage credit risk at September 30, 2019 compared to December 31, 2018.

Cash and Cash Equivalents

At September 30, 2019 the company's cash and cash equivalents of $5,906 (December 31, 2018 - $21,240) were primarily held by its wholly-owned subsidiaries in major financial institutions (principally in high credit-quality 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.

Investments in Debt Instruments

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

At September 30, 2019 the company's debt instruments were all considered to be subject to credit risk with a fair value of $437,408 (December 31, 2018 - $576,386), representing 16.2% (December 31, 2018 - 21.4%) of the total cash and investments portfolio. There were no significant changes to the credit ratings of the company's fixed income portfolio at September 30, 2019 compared to December 31, 2018.

The company's exposure to credit risk from its investment in fixed income securities decreased at September 30, 2019 compared to December 31, 2018 primarily reflecting the net sale of Government of India and Indian corporate bonds to fund the company's investments in the common shares of Seven Islands, CSB Bank, 5paisa and IH Fund, partially offset by unrealized gains on Sanmar bonds and an investment in the NCML Loan. Except as described above, there were no other significant changes to the composition of the company's fixed income portfolio classified according to each security's respective issuer credit rating at September 30, 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 September 30, 2019 compared to December 31, 2018.

The undeployed cash and investments at September 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 remaining investment commitments for IH Fund, investment and advisory fees, general and administration expenses and potentially corporate income taxes. The company expects to continue to receive 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 September 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 September 30, 2019 represented 98.9% (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 September 30, 2019 and December 31, 2018 are summarized by the issuer's primary industry sector in the table below:

	September 30, 2019	December 31, 2018
Infrastructure	**917,274**	704,077
Commercial and industrial	**910,438**	871,900
Financial services	**736,065**	876,917
Ports and shipping	**110,909**	24,843
	2,674,686	2,477,737

During the first nine months of 2019 the company's concentration risk in the infrastructure sector increased primarily due to unrealized gains on the company's investment in BIAL. The company's concentration risk in the commercial and industrial sector increased primarily due to unrealized gains on the company's investments in Fairchem and Sanmar bonds, and an investment in the NCML Loan, partially offset by unrealized losses on the company's investment in NCML common shares. The company's concentration risk in the financial services sector decreased primarily due to unrealized losses on the company's investments in IIFL Finance and IIFL Securities, and partial sale of an investment in Other Public Indian Investments, partially offset by the impact of the IIFL Holdings Reorganization, an investment in 5paisa, and unrealized gains on the company's investments in IIFL Wealth, IH Fund and CSB Bank. The company's concentration risk in the ports and shipping sector increased primarily due to the company's investment in Seven Islands as well as unrealized gains on the company's investment in Saurashtra.

The company will not make an Indian Investment if, after giving effect to such investment, the total invested amount of such investment would exceed 20.0% of the company's total assets at the time of the investment; provided, however, that the company is permitted to complete up to two Indian Investments where, after giving effect to each such investment, the total invested amount of each such investment would be less than or equal to 25.0% of the company's total assets (the "Investment Concentration Restriction"). The company's investment limit for an Indian Investment in accordance with the Investment Concentration Restriction modestly increased at September 30, 2019 from December 31, 2018 principally as a result of proceeds received from the Revolving Credit Facility, net gains on investments, dividends and interest income, partially offset by unrealized foreign currency translation losses, 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 September 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 $2,660,587 at September 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 $2,064,746 at September 30, 2019 from $2,117,945 at December 31, 2018 primarily reflecting unrealized foreign currency translation losses of $31,307 and a net loss of $18,886 in the first nine 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 1 year 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. The Revolving Credit Facility was fully drawn on June 28, 2019 and the proceeds were used 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:

	September 30, 2019	December 31, 2018
Investment and advisory fees	**7,676**	8,796
Other	**34**	31
	7,710	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 the first calculation period ended 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 September 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 $13.53 at September 30, 2019 was lower than the high water mark per share at that date of $14.49. At September 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 nine 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 third quarter and first nine months of 2019 were $7,874 and $24,880 (2018 - $8,771 and $25,257).

Fairfax's Voting Rights and Equity Interest

At September 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 September 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 nine months ended September 30 were comprised as follows:

	Third quarter		**First nine months**	
	2019	2018	**2019**	2018
Audit, legal and tax professional fees	**368**	491	**1,707**	1,520
Salaries and employee benefit expenses	**202**	197	**771**	725
Administrative expenses	**143**	83	**951**	446
Other	**163**	399	**268**	586
	876	1,170	**3,697**	3,277

14. Supplementary Cash Flow Information

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

	September 30, 2019	December 31, 2018
Cash and term deposits with banks	**4,906**	21,240
U.S. treasury bills	**1,000**	—
	5,906	21,240

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

	Third quarter		**First nine months**	
	2019	2018	**2019**	2018
Purchases of investments				
Loan	**(13,970)**	—	**(13,970)**	—
Bonds	**—**	—	**(13,425)**	(3,022)
Common stocks	**(86,444)**	(89,114)	**(205,030)**	(177,482)
	(100,414)	(89,114)	**(232,425)**	(180,504)
Sales of investments				
Bonds	**35,533**	—	**195,584**	72,750
Common stocks	**28,349**	—	**28,349**	—
	63,882	—	**223,933**	72,750
Net interest and dividends received (paid)				
Interest received	**509**	2,141	**11,230**	19,388
Dividends received	**1,614**	1,411	**7,688**	7,986
Interest paid on borrowings	**(8,856)**	(5,299)	**(26,333)**	(17,993)
	(6,733)	(1,747)	**(7,415)**	9,381
Income taxes paid	**6**	103	**936**	916

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

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

(1) Readers of the Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should review the notes to the interim consolidated financial statements for the three and nine months ended September 30, 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 nine months ended September 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 September 30, 2019 was $13.53 compared to $13.86 at December 31, 2018 representing a decrease in the first nine months of 2019 of 2.4%, primarily reflecting unrealized foreign currency translation losses of $31,307 and a net loss of $18,886 (primarily related to provision for income taxes, interest expense and investment and advisory fees, partially offset by net realized gains on investments and net change in unrealized gains on investments).

The following narrative sets out the company’s key business developments in the first nine 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"). The Revolving Credit Facility was fully drawn on June 28, 2019 and the proceeds were used 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 nine months ended September 30, 2019.

Indian Investments

Full descriptions of the Indian Investments committed to and acquired in the third quarter and first nine 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 October 2019, the Indian economy will continue to grow at 6.1% in the financial year 2019-20 and 7.0% 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. has commenced 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.

Tax Reform

On September 20, 2019 the Finance Minister Nirmala Sitharaman announced significant cuts to domestic corporate tax rates, along with certain other tax relief measures. Key measures included a decrease in the base corporate tax rate from 30.0% to 22.0%, with the effective tax rate (after surcharges and cess) of 34.9% falling to 25.2% effective April 1, 2019. Indian firms that do not receive incentives or exemptions will see their effective tax rate cut from 34.9% to 25.2%. Companies with incentives or exemptions can elect to fully utilize available tax credits first, before electing to transition to the new lower corporate tax rate.

Overall, a broader positive impact is expected in stimulating economic growth by improving investor sentiment, encouraging more FDI as a result of increased tax competitiveness, and increasing corporate profits.

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 modestly increased at September 30, 2019 from December 31, 2018 principally as a result of proceeds received from the Revolving Credit Facility, net gains on investments, dividends and interest income, partially offset by unrealized foreign currency translation losses, 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 September 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 Finance Limited (formerly 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:

		September 30, 2019				December 31, 2018			
	Dates 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%**	**—**	**150,487**	**150,487**	26.5%	256,976	613,458	356,482
IIFL Wealth [1]	May 2019	**13.9%**	**191,443**	**210,724**	**19,281**	—	—	—	—
IIFL Securities [1]	May 2019	**26.5%**	**91,310**	**36,845**	**(54,465)**	—	—	—	—
Fairchem	February and August 2016	**48.8%**	**74,384**	**135,585**	**61,201**	48.8%	74,384	96,574	22,190
5paisa	October 2017 and August 2019	**26.6%**	**26,241**	**18,183**	**(8,058)**	26.6%	19,758	11,913	(7,845)
Other	March 2018 and August 2018	**< 1.0%**	**69,862**	**85,188**	**15,326**	< 1.0%	94,090	98,180	4,090
			453,240	**637,012**	**183,772**		445,208	820,125	374,917
Private Indian Investments:									
Loan - NCML Loan	September 2019	**—**	**13,970**	**14,149**	**179**	—	—	—	—
Bonds - Sanmar bonds	April and September 2016	**—**	**299,000**	**423,259**	**124,259**	—	299,000	392,776	93,776
Common stocks:									
BIAL [2]	March 2017, July 2017 and May 2018	**54.0%**	**652,982**	**917,274**	**264,292**	54.0%	652,982	704,077	51,095
Sanmar	April 2016	**30.0%**	**1,000**	**213,064**	**212,064**	30.0%	1,000	217,170	216,170
NCML	August 2015 and August 2017	**89.5%**	**174,318**	**124,381**	**(49,937)**	89.5%	174,318	165,380	(8,938)
CSB Bank	October 2018, March and June 2019	**50.1%**	**169,447**	**171,628**	**2,181**	36.4%	88,524	93,081	4,557
Seven Islands	March and September 2019	**48.5%**	**83,823**	**82,343**	**(1,480)**	—	—	—	—
Saurashtra	February 2017	**51.0%**	**30,018**	**28,566**	**(1,452)**	51.0%	30,018	24,843	(5,175)
NSE	July 2016	**1.0%**	**26,783**	**56,632**	**29,849**	1.0%	26,783	60,285	33,502
IH Fund	January 2019	**—**	**6,247**	**6,378**	**131**	—	—	—	—
			1,457,588	**2,037,674**	**580,086**		1,272,625	1,657,612	384,987
Total Indian Investments			**1,910,828**	**2,674,686**	**763,858**		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 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.

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

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

	Third quarter												
	2019								2018				
	Balance as of July 1	Purchases	IIFL Holdings Reorganization	Sales	Net realized gains (losses) on investments	Net change in unrealized gains (losses) on investments	Net unrealized foreign currency translation gains (losses)	Balance as of September 30	Balance as of July 1	Purchases	Net change in unrealized gains (losses) on investments	Net unrealized foreign currency translation losses	Balance as of September 30
Public Indian Investments:													
Common stocks:													
IIFL Finance / IIFL Holdings	172,281	—	—	—	—	(17,166)	(4,628)	150,487	827,698	—	(211,922)	(29,626)	586,150
IIFL Wealth [(1)]	—	—	193,284	—	—	22,701	(5,261)	210,724	—	—	—	—	—
IIFL Securities [(1)]	—	—	92,188	—	—	(53,510)	(1,833)	36,845	—	—	—	—	—
Fairchem	143,203	—	—	—	—	(4,015)	(3,603)	135,585	101,895	—	3,222	(6,589)	98,528
5paisa [(2)]	10,364	6,483	—	—	—	1,548	(212)	18,183	15,813	—	(4,681)	(577)	10,555
Other	119,503	—	—	(28,306)	4,623	(7,326)	(3,306)	85,188	3,005	89,114	(8,937)	(2,368)	80,814
Total Public Indian Investments	445,351	6,483	285,472	(28,306)	4,623	(57,768)	(18,843)	637,012	948,411	89,114	(222,318)	(39,160)	776,047
Private Indian Investments:													
Loan - NCML Loan	—	13,970	—	—	—	—	179	14,149	—	—	—	—	—
Bonds - Sanmar bonds	421,367	—	—	—	—	12,936	(11,044)	423,259	321,218	—	68,258	(22,467)	367,009
Common stocks:													
BIAL	750,578	—	—	—	—	188,112	(21,416)	917,274	643,783	—	72,416	(40,473)	675,726
Sanmar	220,867	—	—	—	—	(2,088)	(5,715)	213,064	605	—	225,013	(16,764)	208,854
IIFL Wealth [(1)]	193,284	—	(193,284)	—	—	—	—	—	—	—	—	—	—
IIFL Securities [(1)]	92,188	—	(92,188)	—	—	—	—	—	—	—	—	—	—
NCML	146,565	—	—	—	—	(18,536)	(3,648)	124,381	170,049	—	(1,701)	(9,132)	159,216
CSB Bank	176,273	—	—	(19)	(45)	(3)	(4,578)	171,628	—	—	—	—	—
Seven Islands	72,024	12,056	—	—	—	—	(1,737)	82,343	—	—	—	—	—
Saurashtra	28,767	—	—	—	—	546	(747)	28,566	25,278	—	(1,720)	(1,275)	22,283
NSE	55,892	—	—	—	—	2,223	(1,483)	56,632	63,897	—	(3,655)	(2,181)	58,061
IH Fund	6,414	—	—	(24)	—	155	(167)	6,378	—	—	—	—	—
Derivatives - 5paisa forward derivative [(2)]	6,440	—	—	(2,706)	2,767	(6,351)	(150)	—	—	—	—	—	—
Total Private Indian Investments	2,170,659	26,026	(285,472)	(2,749)	2,722	176,994	(50,506)	2,037,674	1,224,830	—	358,611	(92,292)	1,491,149
Total Indian Investments	2,616,010	32,509	—	(31,055)	7,345	119,226	(69,349)	2,674,686	2,173,241	89,114	136,293	(131,452)	2,267,196

(1) Shares of IIFL Wealth and IIFL Securities were publicly listed on the NSE and BSE in September 2019, resulting in the transfer of these investments from Private Indian Investments to Public Indian Investments.

(2) On August 20, 2019 Fairfax India participated in the 5paisa rights offer and acquired 3,385,657 5paisa common shares for cash consideration of $3,777. As a result the company derecognized the 5paisa forward derivative with a carrying value of $2,706, recorded a realized gain of $2,767 and recorded its investment in 5paisa common shares at a fair value at that date of $6,483.

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

	First nine months												
	2019								2018				
	Balance as of January 1	**Purchases**	**IIFL Holdings Reorganization**	**Sales**	**Net realized gains (losses) on investments**	**Net change in unrealized gains (losses) on investments**	**Net unrealized foreign currency translation gains (losses)**	**Balance as of September 30**	Balance as of January 1	Purchases	Net change in unrealized gains (losses) on investments	Net unrealized foreign currency translation losses	Balance as of September 30
Public Indian Investments:													
Common stocks:													
IIFL Finance / IIFL Holdings (1)	**613,458**	**—**	**(282,753)**	**—**	**36,112**	**(213,714)**	**(2,616)**	**150,487**	888,485	—	(211,922)	(90,413)	586,150
IIFL Wealth (1)	**—**	**—**	**191,443**	**—**	**—**	**22,701**	**(3,420)**	**210,724**	—	—	—	—	—
IIFL Securities (1)	**—**	**—**	**91,310**	**—**	**—**	**(53,510)**	**(955)**	**36,845**	—	—	—	—	—
Fairchem	**96,574**	**—**	**—**	**—**	**—**	**40,877**	**(1,866)**	**135,585**	149,200	—	(35,481)	(15,191)	98,528
5paisa (2)	**11,913**	**6,483**	**—**	**—**	**—**	**(113)**	**(100)**	**18,183**	19,958	—	(7,581)	(1,822)	10,555
Other	**98,180**	**—**	**—**	**(28,306)**	**4,623**	**12,594**	**(1,903)**	**85,188**	—	94,090	(10,742)	(2,534)	80,814
Total Public Indian Investments	**820,125**	**6,483**	**—**	**(28,306)**	**40,735**	**(191,165)**	**(10,860)**	**637,012**	1,057,643	94,090	(265,726)	(109,960)	776,047
Private Indian Investments:													
Loan - NCML Loan	**—**	**13,970**	**—**	**—**	**—**	**—**	**179**	**14,149**	—	—	—	—	—
Bonds - Sanmar bonds	**392,776**	**—**	**—**	**—**	**—**	**36,710**	**(6,227)**	**423,259**	333,172	—	79,567	(45,730)	367,009
Common stocks:													
BIAL	**704,077**	**—**	**—**	**—**	**—**	**226,045**	**(12,848)**	**917,274**	608,288	67,391	83,265	(83,218)	675,726
Sanmar	**217,170**	**—**	**—**	**—**	**—**	**(886)**	**(3,220)**	**213,064**	556	—	225,104	(16,806)	208,854
NCML	**165,380**	**—**	**—**	**—**	**—**	**(38,949)**	**(2,050)**	**124,381**	179,054	—	1,684	(21,522)	159,216
CSB Bank	**93,081**	**80,987**	**—**	**(19)**	**(45)**	**1,230**	**(3,606)**	**171,628**	—	—	—	—	—
Seven Islands	**—**	**83,823**	**—**	**—**	**—**	**—**	**(1,480)**	**82,343**	—	—	—	—	—
Saurashtra	**24,843**	**—**	**—**	**—**	**—**	**4,136**	**(413)**	**28,566**	28,000	—	(2,562)	(3,155)	22,283
NSE	**60,285**	**—**	**—**	**—**	**—**	**(2,787)**	**(866)**	**56,632**	40,452	—	24,245	(6,636)	58,061
IH Fund	**—**	**6,272**	**—**	**(24)**	**—**	**237**	**(107)**	**6,378**	—	—	—	—	—
Derivatives - 5paisa forward derivative (2)	**—**	**—**	**—**	**(2,706)**	**2,767**	**—**	**(61)**	**—**	—	—	—	—	—
Total Private Indian Investments	**1,657,612**	**185,052**	**—**	**(2,749)**	**2,722**	**225,736**	**(30,699)**	**2,037,674**	1,189,522	67,391	411,303	(177,067)	1,491,149
Total Indian Investments	**2,477,737**	**191,535**	**—**	**(31,055)**	**43,457**	**34,571**	**(41,559)**	**2,674,686**	2,247,165	161,481	145,577	(287,027)	2,267,196

(1) On May 31, 2019 IIFL Holdings spun off IIFL Wealth and IIFL Securities in the IIFL Holdings Reorganization. The amount recorded in net realized gains on investments was $36,112 (all of which was recognized as unrealized gains on investments in prior periods).

(2) On August 20, 2019 Fairfax India participated in the 5paisa rights offer and acquired 3,385,657 5paisa common shares for cash consideration of $3,777. As a result the company derecognized the 5paisa forward derivative with a carrying value of $2,706, recorded a realized gain of $2,767 and recorded its investment in 5paisa common shares at a fair value at that date of $6,483.

Public Indian Investments

The fair values of Fairfax India's Public Indian Investments with shares 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 a retail investment brokerage, institutional equities, investment banking and financial product 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 closing 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 management and asset management 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 the company 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 the company recording $36,112 in net realized gains on investments (all of which was recognized as unrealized gains on investments in prior periods). The company had recorded unrealized losses on its investment in IIFL Holdings of $132,300 from January 1, 2019 up to the date of the IIFL Holdings Reorganization. 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 were listed on the BSE and NSE of India in September 2019.

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 (including loans against property and small-to-medium enterprise loans, microfinance, construction and real estate finance) and capital market finance.

Transaction Description

At September 30, 2019 the company held 84,641,445 common shares of IIFL Finance representing a 26.5% equity interest (December 31, 2018 - 84,641,445 common shares and a 26.5% equity interest in IIFL Holdings). Fairfax had made an investment in IIFL Holdings prior to Fairfax India's investment and in that capacity was able to recommend the appointment of one board representative out of the eight-member board of directors. At September 30, 2019 the company did not have any representation on the board of IIFL Finance other than the board member appointed by Fairfax.

IIFL Finance has applied for an NBFC license with the RBI and once obtained it will merge with its subsidiary, India Infoline. Concurrent with the merger, IIFL Finance will issue approximately 75 million common shares of IIFL Finance to the minority shareholders of India Infoline in a share exchange. The merger transaction is expected to close in the fourth quarter of 2019, at which time Fairfax India's equity interest in IIFL Finance will be diluted to approximately 22%.

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 September 30, 2019 IIFL Finance had the largest presence amongst retail focused NBFCs with 2,309 branches across 25 states in India.

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 of affordable home loans, small 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.

Valuation and Interim Consolidated Financial Statement Impact

At September 30, 2019 the fair value of the company's investment in IIFL Finance was $150,487 with the changes in fair value for the third quarters and first nine 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 35.4% from 195.00 Indian rupees per share at May 31, 2019 to 126.00 Indian rupees per share at September 30, 2019.

The third quarter and first nine 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).

Summarized Financial Information of IIFL Finance (formerly IIFL Holdings)

IIFL Finance's fiscal year ends on March 31. Summarized below are IIFL Finance's (formerly IIFL Holdings) balance sheets at June 30, 2019 and March 31, 2019.

Balance Sheets
(unaudited - US$ thousands)

	June 30, 2019 (1)	March 31, 2019 (1)(2)
Financial assets	**4,319,383**	4,673,444
Non-financial assets	**151,084**	125,558
Financial liabilities	**3,780,160**	4,141,621
Non-financial liabilities	**31,234**	26,920
Shareholders' equity	**659,073**	630,461

(1) The net assets of IIFL Finance were translated at June 30, 2019 at $1 U.S dollar = 69.03 Indian rupees and at 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.
(2) The summarized financial information has been presented for IIFL Finance, the remaining company after the IIFL Holdings Reorganization.

Financial assets decreased primarily as a result of a decrease in receivables and developer and construction finance and capital market loans. IIFL Finance's asset quality remains stable with gross and net non-performing assets at 2.0% and 0.8% of IIFL Finance's loans at June 30, 2019. Non-financial assets increased primarily as a result of an increase in property, plant and equipment. Financial liabilities decreased due to a decrease in debt securities. Non-financial liabilities moderately increased due to increases in provisions and other non-financial liabilities.

Summarized below are IIFL Finance's (formerly IIFL Holdings) 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)(2)
Revenue	**173,822**	175,774
Earnings before income taxes	**36,789**	44,697
Net earnings	**25,058**	28,992

(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.
(2) The summarized financial information has been presented for IIFL Finance, the remaining company after the IIFL Holdings Reorganization.

IIFL Finance's revenues in U.S. dollars decreased primarily as a result of the weakening of the Indian rupee relative to the U.S. dollar, partially offset by growth in volume and profit margins from high quality assets. Earnings before income taxes and net earnings decreased primarily because of increases in operating expenses and loan losses and provisions.

Investment in IIFL Wealth Management Limited

Business Overview

IIFL Wealth is a publicly traded wealth management firm with principal lines of business in wealth management and asset management, headquartered in Mumbai, India. 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 May 31, 2019 of $191,443 (approximately 13.3 billion Indian rupees), which was determined based on a third party valuation.

The shares of IIFL Wealth were listed on the BSE and NSE of India on September 19, 2019.

At September 30, 2019 the company held 12,091,635 common shares of IIFL Wealth representing a 13.9% equity interest. At September 30, 2019 the company did not have any representation on the board of IIFL Wealth.

Key Business Drivers, Events and Risks

IIFL Wealth provides its clients with investment management services with the aim to generate steady inflation plus 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 26 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.

IIFL Wealth recently launched a pure fee for advice model called 'IIFL One' that institutionalizes a range of investment options for clients under a competitive and transparent fee structure. The model redefines client engagement in India's wealth management industry in terms of its approach to transparent conduct, open disclosures and fiduciary advice. IIFL Wealth will endeavour, over the course of the next few years, to grow this model where fees are charged on the entire portfolio, into the dominant part of the overall business as opposed to the current broker/dealer distribution model where commissions are earned on a transaction by transaction basis. They aim to evolve into a predictable, revenue led, asset under management driven organization, different from an industry dominated by product promotion and distribution.

In its 2020 fiscal year, IIFL Wealth changed its income model to recognize the majority of its distribution income on an annuity basis, moving away from the upfront income model that was previously followed. While this change will lead to a more stable annual recurring revenue model in the coming years, it will impact IIFL Wealth's financial results in the short term.

Valuation and Interim Consolidated Financial Statement Impact

At September 30, 2019 the fair value of the company's investment in IIFL Wealth was $210,724 (December 31, 2018 - nil) with the changes in fair value for the third quarter and first nine months of 2019 presented in the tables at the outset of the Indian Investments section of this MD&A. Following the listing of shares of IIFL Wealth the share price decreased by 2.8% from 1,270.50 Indian rupees per share at September 19, 2019 to 1,235.05 Indian rupees per share at September 30, 2019.

Investment in IIFL Securities Limited

Business Overview

IIFL Securities is a publicly traded 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. IIFL Securities is headquartered in Mumbai, India.

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 closing 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). At May 31, 2019 the fair value of IIFL Securities was estimated based on the company's internal valuation model.

The shares of IIFL Securities were listed on the BSE and NSE of India on September 20, 2019.

At September 30, 2019 the company held 84,641,445 common shares of IIFL Securities representing a 26.5% equity interest. At September 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 provide a comprehensive range of financial products and services that cater to a diverse customer base. IIFL Securities is a key player in both retail and institutional segments.

IIFL Securities has a presence in approximately 2,500 locations, covering branches and business partners in over 500 cities in India along with a strong digital presence backed by cutting edge technology. IIFL Securities' mobile applications, IIFL Markets and IIFL Mutual Funds, are widely used and highly rated. Mobile trading constitutes approximately 52% of the total number of retail trading clients and contributes to 39% of brokerage revenue. IIFL Securities recently launched a mobile office solution called Advisor Anytime Anywhere which empowers aspiring entrepreneurs in the capital markets and enhances their ability to reach investors in smaller towns and cities. The investment banking business closed six transactions in the first half of the 2020 fiscal year across the capital markets and advisory business segments, despite volatile market conditions, and has a number of transactions in the pipeline.

Valuation and Interim Consolidated Financial Statement Impact

At September 30, 2019 the fair value of the company's investment in IIFL Securities was $36,845 (December 31, 2018 - nil) with the changes in fair value for the third quarter and first nine months of 2019 presented in the tables at the outset of the Indian Investments section of this MD&A. Following the listing of shares of IIFL Securities the share price decreased by 27.4% from 42.50 Indian rupees per share at September 20, 2019 to 30.85 Indian rupees per share at September 30, 2019.

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 neutraceutical 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 closing 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 September 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 animal 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 acid oils) used in its manufacturing processes which may impact its ability to meet the higher demand for linoleic and soya fatty acids.

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 September 30, 2019 Privi had received partial settlement on its insurance claim of approximately $15 million (1,068.0 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 of which the balance is expected to be received by March 2020. Privi anticipates reaching full manufacturing capacity by January 2020.

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 businesses will spin out into a newly formed wholly-owned subsidiary Fairchem Organics Limited ("Fairchem Organics"), which was incorporated on March 27, 2019 in anticipation of the Fairchem Reorganization. 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. 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 will be listed on the BSE and NSE of India. The Fairchem Reorganization is anticipated to be completed in the second quarter of 2020 and shares of Fairchem Organics listed by the third quarter of 2020, subject to applicable regulatory approvals and customary closing conditions. Subsequent to the anticipated listing of Fairchem Organics, it is expected that the company will decrease its equity interest in Privi Speciality to 38.9% from its current 48.8% and increase its equity interest in Fairchem Organics to 66.7% from its current 48.8% through a series of transactions with Privi's founders.

Valuation and Interim Consolidated Financial Statement Impact

At September 30, 2019 the fair value of the company's investment in Fairchem was $135,585 (December 31, 2018 - $96,574) with the changes in fair value for the third quarters and first nine 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 42.5% to 504.50 Indian rupees per share at September 30, 2019 from 354.00 Indian rupees per share at December 31, 2018.

Investment in 5paisa Capital Limited

Business Overview

5paisa Capital Limited ("5paisa") is a publicly traded online financial services provider with a "do-it-yourself" investment brokerage model that allows customers to execute investment transactions for low brokerage fees. 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. 5paisa is headquartered in Mumbai, India.

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 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.

On May 29, 2019 5paisa announced a rights offer to existing shareholders whereby shareholders were given the right to participate on a pro rata basis in a common share issuance 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 common shares of 5paisa and as a result the company recorded a forward derivative asset ("5paisa forward derivative"). On August 20, 2019 Fairfax India participated in the 5paisa rights offer and acquired 3,385,657 5paisa common shares for cash consideration of $3,777. As a result the company derecognized the 5paisa forward derivative with a carrying value of $2,706, recorded a realized gain of $2,767 and recorded its investment in 5paisa common shares at a fair value at that date of $6,483.

At September 30, 2019 the company held 6,771,314 common shares of 5paisa representing a 26.6% equity interest (December 31, 2018 - 3,385,657 common shares representing a 26.6% equity interest).

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 and from anywhere. As the only publicly listed broker in India to offer low cost flat fee trades of 10.00 Indian rupees per transaction, 5paisa has become the fastest growing discount broker in India within a short span of two years.

At September 30, 2019 the 5paisa mobile application had reached over 3.5 million downloads (December 31, 2018 - over 2 million downloads).

Valuation and Interim Consolidated Financial Statement Impact

At September 30, 2019 the fair value of the company's investment in 5paisa was $18,183 (December 31, 2018 - $11,913) with the changes in fair value for the third quarters and first nine 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 22.5% from 245.65 Indian rupees per share at December 31, 2018 to 190.30 Indian rupees per share at September 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. In the third quarter of 2019 the company partially sold an investment in Other Public Indian Investments for total net proceeds of $28,306, resulting in a realized gain of $4,623.

At September 30, 2019 the fair value of the company's investment in Other Public Indian Investments was $85,188 (December 31, 2018 - $98,180) and represented 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 third quarters and first nine 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 a 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 25.0 million passengers during the first nine months of 2019 representing growth in overall traffic of 5.7% compared to the first nine months of 2018.

Plans to expand the capacity of the airport are underway, including constructing a second runway and an additional terminal building ("Terminal 2"), and expanding the related infrastructure. In 2017 design approvals for Terminal 2 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 will add capacity for another 20 million passengers per annum. The combined capacity of the existing terminal and Terminal 2 will be approximately 73 million passengers per annum.

On August 6, 2019 in connection with the construction of Terminal 2 and expansion of the related infrastructure, BIAL raised approximately $1.4 billion at period end exchange rates (approximately 102.1 billion Indian rupees) through a syndicate of banks, including State Bank of India and Axis Bank. Amounts are to be drawn down based on funding requirements throughout the project and is to be repaid over 10 years, with payments starting one year subsequent to completion of the project.

On August 27, 2019 BIAL successfully completed a test flight on the second runway. Operations on the second runway are planned to commence on December 5, 2019.

In September 2019 BIAL finalized and adopted a strategy to further expand capacity to meet expected growth in passenger traffic over the next 20 years, which includes the construction of a third terminal building ("Terminal 3") and related infrastructure. BIAL has secured adequate space for this expansion. Total capacity for Terminal 3 is expected to be approximately 19 million passengers per annum. The combined capacity of the existing terminal, Terminal 2 and Terminal 3 is expected to be approximately 92 million passengers per annum.

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 17, 2019 Jet Airways, one of India's leading airlines based in Mumbai, 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 March 28, 2020, allowing domestic airlines time to review their schedule and increase capacity. At September 30, 2019 approximately 52% of the domestic flight slots at KIAB previously operated by Jet Airways have been allocated to major domestic airlines of which 94% has been utilized.

BIAL is currently in the process of evaluating the potential impacts of the Tax Reform as discussed in the Business Developments section under the heading Operating Environment of this MD&A.

Valuation and Interim Consolidated Financial Statement Impact

At September 30, 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 11.3% to 13.3% 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 September 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 2019 (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 September 30, 2019 the company's internal valuation model indicated that the fair value of the company's investment in BIAL was $917,274 (December 31, 2018 - $704,077) with the changes in fair value for the third quarters and first nine months of 2019 and 2018 presented in the tables at the outset of the Indian Investments section of this MD&A. In the third quarter and first nine months of 2019 net change in unrealized gains of $188,112 and $226,045 were primarily driven by an increase in expected growth in passenger traffic over the next 20 years, resulting in higher projected earnings, partially offset by increased planned capital expenditures related to the Terminal 3 expansion as described in the Key Business Drivers, Events and Risks section.

BIAL's Summarized Financial Information

BIAL's fiscal year ends on March 31. Summarized below are BIAL'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	**71,450**	115,655
Non-current assets	**911,709**	834,588
Current liabilities	**117,229**	93,497
Non-current liabilities	**420,847**	433,982
Shareholders' equity	**445,083**	422,764

(1) The net assets of BIAL were translated at June 30, 2019 at $1 U.S dollar = 69.03 Indian rupees and at 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 decreased primarily due to decreased bank deposits with maturities greater than three months where debt proceeds were deployed 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 of 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 decreased primarily due to the amortization of a government grant recognized as a deferred revenue as a result of the ten-year deferral of the repayment to the Government of Karnataka on an interest free loan.

Summarized below are BIAL'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	**54,155**	65,404
Earnings before income taxes	**20,170**	10,017
Net earnings	**19,307**	10,271

(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.

The decrease in revenue is primarily a result of a decrease in aeronautical revenue based on the 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 for the three months ended June 30, 2018 were impacted by the revision of the useful lives of 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). The increase in earnings before income taxes and net earnings was partially offset by the decrease in revenue as noted above and an increase in employee costs.

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 Sanmar 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 $198,733 at period end exchange rates (approximately 14.1 billion Indian rupees) of the net proceeds received from the settlement of Sanmar bonds into 171,710 newly issued common shares of Sanmar, increasing the company's equity interest in Sanmar to 42.9% from 30.0% at September 30, 2019. The company will receive the remaining net proceeds in cash that had a value of approximately $225 million at September 30, 2019 based on the fair value of Sanmar bonds at that date of $423,259. This transaction is subject to customary closing conditions and third party consents, and was anticipated to close 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.

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 and the three months ended June 30, 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. EDC prices have since reverted back to normal levels. 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.

As part of the Union Budget of India (2019-20) presented on July 5, 2019, import duties for PVC will increase from 7.5% to 10.0%, deterring foreign competition in India, and for EDC will decrease from 2.0% to nil, resulting in lower costs of raw materials. These changes, as well as the Tax Reform as discussed in the Business Developments section under the heading Operating Environment of this MD&A, will positively impact Sanmar's profitability going forward.

Valuation and Interim Consolidated Financial Statement Impact

Sanmar Bonds

At September 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 6.6% (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 company-specific credit risk. At September 30, 2019 the company's internal valuation model indicated that the fair value of the company's investment in Sanmar bonds was $423,259 (December 31, 2018 - $392,776) with the changes in fair value for the third quarters and first nine months of 2019 and 2018 presented in the tables at the outset of the Indian Investments section of this MD&A. At September 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 $12,936 and $36,710 in the third quarter and first nine months of 2019 approximated a 13.0% yield in the fair value of the bonds.

Sanmar Common Shares

At September 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 13.3% to 18.3% 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 September 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 September 30, 2019 the company's internal valuation model indicated that the fair value of the company's investment in Sanmar common shares was $213,064 (December 31, 2018 - $217,170) with the changes in fair value for the third quarters and first nine 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

Sanmar's fiscal year ends on March 31. Summarized below are Sanmar'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	**210,192**	201,707
Non-current assets	**1,887,060**	1,884,763
Current liabilities	**613,988**	542,389
Non-current liabilities	**1,563,189**	1,545,159
Shareholders' equity (deficit)	**(79,925)**	(1,078)

(1) The net assets of Sanmar were translated at June 30, 2019 at $1 U.S dollar = 69.03 Indian rupees and at 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 and non-current assets in U.S. dollars increased primarily attributable to the strengthening of the Indian rupee relative to the U.S. dollar during the three months ended June 30, 2019. The increase in non-current assets was partially offset by an increase in depreciation of property, plant and equipment. Current and non-current liabilities in U.S. dollars increased primarily due to the strengthening of the Indian rupee relative to the U.S. dollar during the three months ended June 30, 2019 and an increase in interest accrued on borrowings. Current liabilities also increased as a result of increased trade payables related to increased raw material prices as described in the Key Business Drivers, Events and Risks section.

Summarized below are Sanmar'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	**187,925**	169,683
Loss before income taxes	**(73,663)**	(11,584)
Net loss	**(79,514)**	(17,721)

(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 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 the 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 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

NCML Common Shares

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).

NCML Loan

On September 17, 2019 the company invested an additional $13,970 (approximately 1.0 billion Indian rupees) in NCML to pre-fund an allotment of compulsorily convertible debentures ("CCDs"), which were subsequently issued by NCML to the company on October 1, 2019. The company recorded the pre-funded amount as an interest-free bridge loan maturing on October 1, 2019 upon NCML's issuance of the CCDs.

Subsequent to September 30, 2019

On October 1, 2019 the company was issued 12.5% unsecured CCDs, due September 30, 2029. The company has the option to convert the CCDs into common shares of NCML at any time prior to the maturity date, at which time the conversion is compulsory, at a conversion price of 68.00 Indian rupees per common share.

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 the second half of 2021.

Valuation and Interim Consolidated Financial Statement Impact

NCML Common Shares

At September 30, 2019 the company estimated the fair value of its investment in NCML common shares using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 12.6% to 21.2% 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 September 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 September 30, 2019 the company's internal valuation model indicated that the fair value of the company's investment in NCML common shares was $124,381 (December 31, 2018 - $165,380) with the changes in fair value for the third quarters and first nine months of 2019 and 2018 presented in the tables at the outset of the Indian Investments section of this MD&A. In the third quarter and first nine months of 2019 the net change in unrealized losses on investments of $18,536 and $38,949 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 Loan

At September 30, 2019 given the short duration of the loan, its cost was determined to approximate fair value. The changes in fair value of the company's investment in NCML Loan for the third quarter and first nine months of 2019 presented in the tables at the outset of the Indian Investments section of this MD&A.

NCML's Summarized Financial Information

NCML's fiscal year ends on March 31. Summarized below are NCML's balance sheets at September 30, 2019 and March 31, 2019.

Balance Sheets
(unaudited - US$ thousands)

	September 30, 2019 (1)	March 31, 2019(1)
Current assets	**108,667**	145,965
Non-current assets	**118,274**	110,789
Current liabilities	**95,163**	124,477
Non-current liabilities	**24,450**	22,636
Shareholders' equity	**107,328**	109,641

(1) The net assets of NCML were translated at September 30, 2019 at $1 U.S. dollar = 70.87 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 decreased primarily reflecting lower inventory in the supply chain management segment and a decrease in advances at NCML's NBFC due to a tighter credit environment in India. Non-current assets increased principally due to land acquisitions for the silo projects. Current liabilities decreased primarily due to decreases in short term loans and borrowings at NCML's NBFC, partially offset by the NCML Loan by Fairfax India discussed earlier in the Transaction Description section. Non-current liabilities modestly increased as a result of increased long term borrowings to fund the silo projects.

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

Statements of Earnings
(unaudited - US$ thousands)

	Six months ended September 30, 2019(1)	Six months ended September 30, 2018(1)
Revenue	**75,031**	110,910
Earnings (loss) before income taxes	**(629)**	1,705
Net earnings	**—**	1,578

(1) Amounts for the six months ended September 30, 2019 and 2018 were translated into US$ using the average exchange rates of $1 U.S. dollar = 69.96 Indian rupees and $1 U.S. dollar = 68.51 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, which encountered 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, 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 417 branches and 290 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). Consideration was payable: (i) on initial closing for 25.0% of the common shares and 40.0% of the warrants; and (ii) within 12 months and 18 months of initial closing, upon request by CSB Bank, for the remaining 75.0% of the common shares and 60.0% of the warrants.

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) in common stocks within the consolidated balance sheet relating to 100.0% of the common shares and 40.0% of the warrants, and recorded $28,367 (approximately 2.1 billion Indian rupees) in payable for partly paid securities within 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) in common stocks ("Tranche 2") within the consolidated balance sheet.

On June 29, 2019 CSB Bank issued a capital call for the remaining consideration payable for 30.0% of the warrants ($40,440) ("Final Tranche") and 75.0% of the common shares ($30,167). The company recorded $40,440 (approximately 2.8 billion Indian rupees) in common stocks within the consolidated balance sheet, representing the Final Tranche of CSB Bank warrants, which were considered in-substance equity. On July 8, 2019 the company funded the capital call.

On August 7, 2019 the company exercised its CSB Bank warrants to acquire 66,430,846 common shares. No CSB warrants remain outstanding.

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 or as notified by the RBI from time to time. 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 fourth quarter of 2019.

CSB Bank is currently in the process of evaluating the potential impacts of the Tax Reform as discussed in the Business Developments section under the heading Operating Environment of this MD&A.

Valuation and Interim Consolidated Financial Statement Impact

At September 30, 2019 the company estimated the fair value of its investment in CSB Bank using a discounted cash flow analysis, based on multi-year free cash flow projections with an assumed discount rate of 18.6% and a long term growth rate of 4.5%, and an option pricing model. At September 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. Common shares of CSB Bank 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 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 September 30, 2019 the company's internal valuation model indicated that the fair value of the company's investment in CSB Bank was $171,628 representing a 50.1% equity interest in CSB Bank.

At December 31, 2018 the initial transaction price for Tranche 1 was considered to approximate fair value as there had been no significant changes to CSB Bank's business, capital structure or 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 third quarter and first nine months of 2019 are presented in the tables at the outset of the Indian Investments section of this MD&A.

CSB Bank's Summarized Financial Information

As CSB Bank is currently in the IPO process as described in the Key Business Drivers, Events and Risks section, CSB Bank's balance sheet at June 30, 2019 and statements of earnings for the three months ended June 30, 2019 have not been made available to the company.

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 19 vessels with a total deadweight capacity of over 1.1 million tonnes, and its vessels are registered in India and operate as Indian owned and flagged vessels.

Transaction Description

At September 30, 2019 Fairfax India had invested aggregate cash consideration of $83,823 (approximately 5.8 billion Indian rupees) for a 48.5% equity interest in Seven Islands through the following transactions: (i) on March 29, 2019 the company acquired a 41.4% equity interest in Seven Islands for cash consideration of $71,767 (approximately 4,972.0 million Indian rupees) through a direct subscription and secondary acquisition; and (ii) on September 11, 2019 the company acquired an additional 7.1% equity interest in Seven Islands for cash consideration of $12,056 (approximately 863.9 million Indian rupees).

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

Subsequent to September 30, 2019

On October 24, 2019 the company acquired an additional 0.01% equity interest in Seven Islands for cash consideration of $26 (approximately 1.7 million Indian rupees).

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 primarily 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 the 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 U.S. dollars, 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 September 30, 2019

Subsequent to September 30, 2019 Seven Islands acquired one medium range vessel and is in the process of acquiring another medium range tanker and selling one older small vessel from their fleet, for net cash consideration of approximately $1.5 million. Upon completion of these transactions, Seven Islands will own 20 vessels with a total deadweight capacity of just under approximately 1.2 million tonnes. These transactions support Seven Islands' business model with the new vessel capacity already being supported by the successful addition of a new overseas customer who utilized the vessels on voyage charters.

Valuation and Interim Consolidated Financial Statement Impact

At September 30, 2019 the average historical transaction price was considered to approximate fair value as there had been no significant changes to Seven Islands' business, capital structure or operating environment and the key assumptions in the company's acquisition valuation model continued to be valid. At September 30, 2019 the company's estimated fair value of its investment in Seven Islands was $82,343 (December 31, 2018 - nil) with the changes in fair value for the third quarter and first nine months of 2019 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, operates 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 and 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 third quarter of 2019 handled 26,650 TEUs implying an annualized capacity utilization of approximately 59% (third quarter of 2018 - 23,383 TEUs implying an annualized capacity utilization of approximately 52%). Saurashtra had the second largest market share for imports at approximately 14% (December 31, 2018 - highest market share at approximately 15%), and had the largest market share for exports at approximately 16% (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 with a 15% market share for their second quarter ended September 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.

In its second quarter of 2019, Saurashtra experienced a 15% growth in year-over-year export volumes and a 13% growth in year-over-year import volumes. Saurashtra is continuing to actively pursue additional volumes through offering comprehensive packages to shipping lines, including providing value added storage services.

Valuation and Interim Consolidated Financial Statement Impact

At September 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 assumed after-tax discount rates ranging from 15.0% to 15.2% 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 September 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 September 30, 2019 the company's internal valuation model indicated that the fair value of the company's investment in Saurashtra was $28,566 (December 31, 2018 -$24,843) with the changes in fair value for the third quarters and first nine 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 93% market share in the equity trading segment, a 100% market share in the equity derivatives trading segment and a 61% and 45% 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 set for November 27, 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 September 30, 2019 the company's estimated fair value of its investment in NSE of $56,632 (December 31, 2018 - $60,285) was based on recent third party transactions completed in the third quarter of 2019 (December 31, 2018 - fourth quarter of 2018). The changes in fair value of the company's investment in NSE for the third quarters and first nine 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 September 30, 2019 IH Fund had raised capital commitments of more than $300 million and had invested approximately $75 million in six real estate sector investments. Subsequent to September 30, 2019 IH Fund had invested an additional approximately $38 million in a new real estate sector investment.

Transaction Description

On December 24, 2018 the company entered into an agreement whereby it committed to invest $25,000 (approximately 1.7 billion Indian rupees) in IH Fund. On January 7, 2019 the company invested 25.0% or $6,272 (approximately 437.0 million Indian rupees) of the committed investment amount in IH Fund.

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

Subsequent to September 30, 2019

On October 10, 2019 IH Fund issued a capital call for 35.0% or $8,633 at period end exchange rates (approximately 611.8 million Indian rupees) of the committed investment amount to be paid on or before November 7, 2019. The remaining 40.0% or approximately $9,867 at period end exchange rates (approximately 699.3 million Indian rupees) is to be drawn down by December 31, 2019 (subject to a 12 month extension at the discretion of the investment manager).

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 developed a host of initiatives to boost the housing sector and the government continues 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 September 30, 2019 the company estimated the fair value of its investment in IH Fund of $6,378 (December 31, 2018 - nil) based on the net asset value provided by the third party fund manager. The fair values of the underlying assets are determined using quoted prices 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 third quarter and first nine 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 nine months ended September 30 are shown in the following table:

	Third quarter		First nine months	
	2019	2018	**2019**	2018
Income				
Interest	**200**	5,318	**4,153**	17,890
Dividends	**1,614**	1,411	**7,688**	7,986
Net realized gains (losses) on investments	**7,046**	(2)	**41,907**	(3,335)
Net change in unrealized gains on investments	**118,856**	136,234	**34,790**	138,115
Net foreign exchange losses	**(14,928)**	(25,909)	**(9,717)**	(55,068)
	112,788	117,052	**78,821**	105,588
Expenses				
Investment and advisory fees	**7,874**	8,771	**24,880**	25,257
General and administration expenses	**876**	1,170	**3,697**	3,277
Interest expense	**10,288**	9,427	**29,292**	19,379
	19,038	19,368	**57,869**	47,913
Earnings before income taxes	**93,750**	97,684	**20,952**	57,675
Provision for income taxes	**4,567**	3,504	**39,838**	4,317
Net earnings (loss)	**89,183**	94,180	**(18,886)**	53,358
Net earnings (loss) per share (basic and diluted)	**$ 0.58**	$ 0.61	**$ (0.12)**	$ 0.35

Total income of $112,788 in the third quarter of 2019 decreased from $117,052 in the third quarter of 2018 principally due to decreased net change in unrealized gains on investments (discussed below) and interest income, partially offset by decreased foreign exchange losses and increased net realized gains on investments (primarily related to partial sales of an investment in Other Public Indian Investments). The net change in unrealized gains on investments of $118,856 in the third quarter of 2019 was principally comprised of unrealized gains in the company's investments in BIAL ($188,112), IIFL Wealth ($22,701), and Sanmar bonds ($12,936), partially offset by unrealized losses on the company's investments in IIFL Securities ($53,510), NCML ($18,536) and IIFL Finance ($17,166). The net change in unrealized gains on investments of $136,234 in the third quarter of 2018 was principally comprised of unrealized gains on the company's investments in Sanmar common shares ($225,013), BIAL ($72,416) and Sanmar bonds ($68,258), partially offset by unrealized losses on the company's investment in IIFL Holdings ($211,922). Interest income of $200 in the third quarter of 2019 decreased from $5,318 in the third quarter of 2018 principally as a result of the sale of Government of India and Indian corporate bonds to fund the company's investments in Seven Islands, CSB Bank, the NCML Loan, 5paisa, and IH Fund. Dividend income of $1,614 and $1,411 in the third quarters of 2019 and 2018 primarily related to dividends received from the company's investments in Fairchem, NSE and Other Public Indian Investments.

Total income of $78,821 in the first nine months of 2019 decreased from $105,588 in the first nine months of 2018 principally as a result of decreased net change in unrealized gains on investments (discussed below) and interest income, partially offset by decreased foreign exchange losses and increased net realized gains on investments (primarily related to the IIFL Holdings Reorganization). The net change in unrealized gains on investments of $34,790 in the first nine months of 2019 was principally comprised of unrealized gains in the company's investments in BIAL ($226,045), Fairchem ($40,877), Sanmar bonds ($36,710) and IIFL Wealth ($22,701), partially offset by unrealized losses in the company's investments in IIFL Finance/IIFL Holdings ($213,714), IIFL Securities ($53,510) and NCML common shares ($38,949). The net change in unrealized gains on investments of $138,115 in the first nine months of 2018 was principally comprised of unrealized gains in the company's investments in Sanmar common shares ($225,104), BIAL ($83,265), Sanmar bonds ($79,567) and NSE ($24,245), partially offset by unrealized losses in the company's investments in IIFL Holdings ($211,922) and Fairchem ($35,481). Interest income of $4,153 in the first nine months of 2019 decreased from $17,890 in the first nine months of 2018 principally as a result of the sale of Government of India and Indian corporate bonds to fund the company's investments in Seven Islands, CSB Bank, the NCML Loan, 5paisa, and IH Fund. Dividend income of $7,688 and $7,986 in the first nine 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 third quarters and first nine months of 2019 and 2018 were comprised as follows:

	Third 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	**1**	**—**	**1**	(2)	—	(2)
Bonds	**(300)**	**12,566** [1]	**12,266**	—	68,199 [1]	68,199
Common stocks	**4,578** [2]	**112,641** [2]	**117,219**	—	68,035 [2]	68,035
Derivatives	**2,767** [2]	**(6,351)** [2]	**(3,584)**	—	—	—
	7,046	**118,856**	**125,902**	(2)	136,234	136,232
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	**753**	**—**	**753**	4,651	—	4,651
Investments	**—**	**—**	**—**	197	637	834
Borrowings	**—**	**(15,570)**	**(15,570)**	—	(31,656)	(31,656)
Other	**(111)**	**—**	**(111)**	262	—	262
	642	**(15,570)**	**(14,928)**	5,110	(31,019)	(25,909)

(1) In the third quarter of 2019, primarily comprised of unrealized gains from Sanmar bonds of $12,936 (2018 - $68,258).

(2) Refer to the Indian Investments section of this MD&A for a summary of changes in the fair value of the company's Public and Private Indian Investments during the third quarters of 2019 and 2018.

	First nine 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	**71**	**—**	**71**	(2)	—	(2)
Bonds	**(1,621)**	**36,929** [1]	**35,308**	(3,333)	72,105 [1]	68,772
Common stocks	**40,690** [2][3]	**(2,139)** [2][3]	**38,551**	—	66,010 [2]	66,010
Derivatives	**2,767** [2]	**—**	**2,767**	—	—	—
	41,907	**34,790**	**76,697**	(3,335)	138,115	134,780
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	**160**	**—**	**160**	5,607	—	5,607
Investments	**(102)**	**—**	**(102)**	(332)	2,328	1,996
Borrowings	**—**	**(9,436)**	**(9,436)**	(25,407) [4]	(34,330) [4]	(59,737)
Other	**(339)**	**—**	**(339)**	(2,934)	—	(2,934)
	(281)	**(9,436)**	**(9,717)**	(23,066)	(32,002)	(55,068)

(1) In the first nine months of 2019, primarily comprised of unrealized gains from Sanmar bonds ($36,710). In the first nine months of 2018, comprised of unrealized gains from Sanmar bonds ($79,567), partially offset by unrealized losses from Government of India bonds ($3,990) and Indian corporate bonds ($3,472).

(2) Refer to the Indian Investments section of this MD&A for a summary of changes in the fair value of the company's Public and Private Indian Investments during the first nine months of 2019 and 2018.

(3) On May 31, 2019 IIFL Holdings spun off IIFL Wealth and IIFL Securities in the IIFL Holdings Reorganization. The amount recorded in net realized gains on investments was $36,112 (all of which was recognized as unrealized gains on investments in prior periods).

(4) In the first nine months of 2018 net realized foreign exchange loss of $25,407 related to the extinguishment of the $400.0 million term loan, and the net change in unrealized loss of $34,330 was comprised of a reversal of the prior year unrealized foreign exchange gain of $4,527 on the $400.0 million term loan and unrealized foreign exchange loss of $29,803 on the $550.0 million term loan.

Total expenses of $19,038 in the third quarter of 2019 remained consistent with total expenses of $19,368 in the third quarter of 2018.

Total expenses of $47,913 in the first nine months of 2018 increased to $57,869 in the first nine months of 2019 primarily related to increased interest expense (including amortization of issuance costs) related to the borrowings.

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 nine months of 2019 the company determined that the majority of its assets were invested in Indian Investments, which are considered deployed capital. For the third quarter and first nine months of 2019 the investment and advisory fees recorded in the consolidated statements of earnings were $7,874 and $24,880 (2018 - $8,771 and $25,257).

The provision for income taxes of $4,567 in the third quarter of 2019 differed from the provision for income taxes that would be determined by applying the company's Canadian statutory income tax rate of 26.5% to the company's earnings before income taxes primarily as a result of the tax rate differential on income earned outside of Canada, partially offset by change in unrecorded tax benefit of losses and temporary differences, and foreign exchange fluctuations.

The provision for income taxes of $39,838 in the first nine months of 2019 differed from the provision for income taxes that would be determined by applying the company's Canadian statutory income tax rate of 26.5% to the company's earnings before income taxes primarily as a result of the tax rate differential on income earned outside of Canada (including the deferred income taxes recorded on the IIFL Holdings Reorganization (related to spin off of IIFL Wealth) and on the redemption premium feature in the Sanmar bonds), change in unrecorded tax benefit of losses and temporary differences, and foreign exchange fluctuations.

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

The company reported net earnings of $89,183 (net earnings of $0.58 per basic and diluted share) in the third quarter of 2019 compared to net earnings of $94,180 (net earnings of $0.61 per basic share and diluted share) in the third quarter of 2018. The quarter-over-quarter decrease in net earnings primarily reflected decreased net unrealized gains on investments and interest income, increased provision for income taxes and interest expense, partially offset by decreased net foreign exchange losses and increased net realized gains on investments. The company reported a net loss of $18,886 (a net loss of $0.12 per basic and diluted share) in the first nine months of 2019 compared to net earnings of $53,358 (net earnings of $0.35 per basic share and diluted share) in the first nine months of 2018. The year-over-year decrease in net earnings primarily reflected decreased net unrealized gains on investments, increased provision for income taxes, decreased interest income and increased interest expense, partially offset by decreased net foreign exchange losses and increased net realized gains on investments.

Consolidated Balance Sheet Summary

The assets and liabilities reflected on the company's consolidated balance sheet at September 30, 2019 were primarily impacted by the $50,000 Revolving Credit Facility fully drawn on June 28, 2019, settlement of the payable for partly paid securities of CSB Bank on July 8, 2019, net unrealized gains on investments, the sale of Government of India and Indian corporate bonds to fund the company's investments in Seven Islands, CSB Bank, the NCML Loan, 5paisa and IH Fund, and the recognition of deferred tax liabilities primarily as a result of potential capital gains tax in India on any future dispositions of investments in equity shares.

Total Assets

Total assets at September 30, 2019 of $2,709,911 (December 31, 2018 - $2,707,057) were principally comprised as follows:

Total cash and investments increased to $2,705,637 at September 30, 2019 from $2,696,420 at December 31, 2018. The company's cash and investments composition was as follows:

Cash and cash equivalents decreased to $5,906 at September 30, 2019 from $21,240 at December 31, 2018 principally reflecting cash used in purchases of Indian Investments.

Restricted cash of $25,045 at September 30, 2019 (December 31, 2018 - $13,833) related to requirements under the borrowings for the company to set aside cash to fund interest payments.

Loan, Bonds, and Common Stocks - The company is actively seeking investment opportunities in India and will continue to redirect capital from its cash and cash equivalents, short term investments, and bond portfolio into Indian Investments as and when those opportunities are identified. For more information about recent Indian Investments, see the Indian Investments section of this MD&A. For more information on the company's total cash and investment holdings of $2,705,637 at September 30, 2019 (December 31, 2018 - $2,696,420) see note 6 (Cash and Investments) to the interim consolidated financial statements for the three and nine months ended September 30, 2019.

Interest receivable decreased to nil at September 30, 2019 from $7,039 at December 31, 2018 as a result of the sale of Government of India and Indian corporate bonds.

Other assets increased to $1,388 at September 30, 2019 from $668 at December 31, 2018 primarily reflecting prepaid interest expense of $1,200 related to the borrowings.

Total Liabilities

Total liabilities at September 30, 2019 of $645,165 (December 31, 2018 - $589,112) were principally comprised as follows:

Payable for partly paid securities of CSB Bank was settled on July 8, 2019.

Payable to related parties of $7,710 at September 30, 2019 (December 31, 2018 - $8,827) primarily related to investment and advisory fees payable to Fairfax.

Deferred income taxes increased to $39,116 at September 30, 2019 from $689 at December 31, 2018 primarily as a result of deferred tax liabilities recorded on unrealized gains from IIFL Wealth, which resulted from the May 31, 2019 IIFL Holdings Reorganization, unrealized gains from BIAL, and income accrued from the redemption premium feature of Sanmar bonds.

Borrowings increased to $595,841 at September 30, 2019 from $547,228 at December 31, 2018 primarily related to the $50,000 drawn from the Revolving Credit Facility and unamortized issuance costs of $4,159 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 nine months ended September 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 September 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 nine months ended September 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 nine months ended September 30, 2019.

Book Value per Share

Common shareholders' equity at September 30, 2019 was $2,064,746 (December 31, 2018 - $2,117,945). The book value per share at September 30, 2019 was $13.53 compared to $13.86 at December 31, 2018 representing a decrease in the first nine months of 2019 of 2.4%, primarily reflecting unrealized foreign currency translation losses of $31,307 and a net loss of $18,886 (primarily related to provision for income taxes, interest expense and investment and advisory fees, partially offset by net realized gains on investments and net change in unrealized gains on investments).

	September 30, 2019	December 31, 2018
Common shareholders' equity	**2,064,746**	2,117,945
Number of common shares effectively outstanding	**152,631,481**	152,861,534
Book value per share	**$13.53**	$13.86

During the first nine months of 2019, under the terms of the normal course issuer bid, the company purchased for cancellation 230,053 subordinate voting shares (2018 - 1,033,420) for a net cost of $2,998 (2018 - $16,179), of which $577 was charged to retained earnings (2018 - $5,302).

Liquidity

The undeployed cash and investments at September 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 remaining investment commitments for IH Fund, investment and advisory fees, general and administration expenses and potentially corporate income taxes. The company expects to continue to receive 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 nine months of 2019 (with comparisons to the first nine months of 2018) of major components of the statements of cash flows are presented in the following table:

	First nine months	
	2019	2018
Operating activities		
Cash used in operating activities before the undernoted	**(38,722)**	(15,825)
Increase in restricted cash in support of borrowings	**(11,212)**	(11,317)
Net (purchases) sales of short term investments	**(30)**	13,327
Purchases of investments	**(232,425)**	(180,504)
Sales of investments	**223,933**	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)**	(16,179)
Increase (decrease) in cash and cash equivalents during the period	**(16,999)**	6,707

Cash used in operating activities before the undernoted is comprised of net earnings (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 $38,722 in the first nine months of 2019 increased from cash used in operating activities before the undernoted of $15,825 in the first nine months of 2018, with the change principally reflecting decreased interest and dividend income and increased interest paid on the borrowings.

Increase in restricted cash in support of borrowings of $11,212 and $11,317 in the first nine 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 nine months ended September 30, 2019 for additional details. Net sales of short term investments of $13,327 in the first nine 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 offer in January 2018 and to repurchase for cancellation subordinate voting shares of the company. Purchases of investments of $232,425 in the first nine months of 2019 primarily related to the company's investments in Seven Islands, CSB Bank, the NCML Loan, 5paisa and IH Fund, and purchases of Government of India bonds. Purchases of investments of $180,504 in the first nine months of 2018 primarily related to investments in Other Public Indian Investments, the additional 6.0% investment in BIAL, and purchases of Indian corporate bonds. Sales of investments of $223,933 and $72,750 in the first nine months of 2019 and 2018 related to the sales of Government of India bonds to partially finance the investments in the Indian Investments noted above, and in the first nine months of 2019 also included sales of Indian corporate bonds and the partial sale of an investment in Other Public Indian Investments. Refer to note 14 (Supplementary Cash Flow Information) to the interim consolidated financial statements for the three and nine months ended September 30, 2019 for details of purchases and sales of investments.

Net proceeds from borrowings of $44,455 in the first nine 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 nine months of 2018 related to the completion on June 28, 2018 of the $550.0 million term loan (net of issuance costs of $5,545), and the extinguishment of the $400.0 million term loan. Purchases of subordinate voting shares for cancellation of $2,998 in the first nine months of 2019 (2018 - $16,179) related to the company's purchases of 230,053 subordinate voting shares (2018 - 1,033,420) 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. The Revolving Credit Facility was fully drawn on June 28, 2019 and the proceeds were used 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 October 10, 2019 IH Fund issued a capital call for 35.0% or $8,633 at period end exchange rates (approximately 611.8 million Indian rupees) of the committed investment amount to be paid on or before November 7, 2019. The remaining 40.0% or approximately $9,867 at period end exchange rates (approximately 699.3 million Indian rupees) is to be drawn down by December 31, 2019 (subject to a 12 month extension at the discretion of the investment manager).

Under the terms of the Investment Advisory Agreement (defined in note 12 (Related Party Transactions) to the interim consolidated financial statements for the three and nine months ended September 30, 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 third quarter and first nine months of 2019 were $7,874 and $24,880 (2018 - $8,771 and $25,257).

At September 30, 2019 the company determined that there was no performance fee accrual (December 31, 2018 – nil) as the book value per share of $13.53 at September 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 nine months ended September 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 nine months ended September 30, 2019.

Other

Quarterly Data (unaudited)

US$ thousands, except per share amounts	**September 30, 2019**	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017
Income (loss)	**112,788**	(5,480)	(28,487)	60,930	117,052	(55,589)	44,125	130,037
Expenses	**19,038**	19,064	19,767	18,972	19,368	13,647	14,898	41,585
Provision for (recovery of) income taxes	**4,567**	30,940	4,331	(1,116)	3,504	411	402	387
Net earnings (loss)	**89,183**	(55,484)	(52,585)	43,074	94,180	(69,647)	28,825	88,065
Net earnings (loss) per share	**$ 0.58**	$ (0.36)	$ (0.34)	$ 0.28	$ 0.61	$ (0.45)	$ 0.19	$ 0.60
Net earnings (loss) per diluted share	**$ 0.58**	$ (0.36)	$ (0.34)	$ 0.28	$ 0.61	$ (0.45)	$ 0.19	$ 0.57

Indian rupees and in millions, except per share amounts [(1)]	**September 30, 2019**	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017
Income (loss)	**7,905**	(370)	(2,007)	4,289	7,838	(3,593)	2,840	8,416
Expenses	**1,340**	1,325	1,393	1,354	1,340	916	959	2,695
Provision for (recovery of) income taxes	**324**	2,164	305	(71)	236	27	26	25
Net earnings (loss)	**6,241**	(3,859)	(3,705)	3,006	6,262	(4,536)	1,855	5,696
Net earnings (loss) per share	**40.89**	(25.29)	(24.27)	19.61	40.50	(29.25)	12.42	38.63
Net earnings (loss) per diluted share	**40.89**	(25.29)	(24.27)	19.61	40.50	(29.25)	12.42	36.73

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

Income continues to be primarily comprised of net change in unrealized gains (losses) on investments, and interest and dividend income. Income was significantly impacted in the third quarter and first nine months of 2019 by the net change in unrealized gains on the company's Indian Investments (principally unrealized gains in the company's investments in BIAL, Fairchem, Sanmar bonds and IIFL Wealth, partially offset by unrealized losses in the company's investments in IIFL Finance (formerly IIFL Holdings), IIFL Securities, and NCML), 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.

FAIRFAX INDIA
HOLDINGS CORPORATION