
FAIRFAX INDIA
HOLDINGS CORPORATION



INTERIM REPORT

For the six months ended
June 30, 2022

Consolidated Balance Sheets*as at June 30, 2022 and December 31, 2021**(unaudited - US\$ thousands)*

	Notes	June 30, 2022	December 31, 2021
Assets			
Cash and cash equivalents	6	17,318	30,376
Short term investments	6	—	6,151
Bonds	5, 6	192,163	214,468
Common stocks	5, 6	3,072,707	3,325,713
Derivatives	5, 6	17,783	—
Total cash and investments		<u>3,299,971</u>	<u>3,576,708</u>
Interest and dividends receivable		8,057	5,339
Income taxes refundable		994	1,056
Other assets		1,078	1,243
Total assets		<u>3,310,100</u>	<u>3,584,346</u>
Liabilities			
Accounts payable and accrued liabilities		946	866
Accrued interest expense	7, 11	8,611	8,611
Income taxes payable		180	—
Payable to related parties	11	40,572	95,002
Deferred income taxes		68,934	80,648
Borrowings	7, 11	497,045	496,785
Total liabilities		<u>616,288</u>	<u>681,912</u>
Equity			
Common shareholders' equity	8	2,573,688	2,774,792
Non-controlling interests		120,124	127,642
Total equity		<u>2,693,812</u>	<u>2,902,434</u>
		<u>3,310,100</u>	<u>3,584,346</u>

See accompanying notes.

Consolidated Statements of Earnings (Loss)
for the three and six months ended June 30, 2022 and 2021
(unaudited - US\$ thousands except per share amounts)

		Second quarter		First six months	
	Notes	2022	2021	2022	2021
Income					
Interest	6	2,711	1,239	5,033	1,875
Dividends	6	3,418	250	13,699	12,383
Net realized gains on investments	6	27,942	134,567	27,768	134,567
Net change in unrealized gains (losses) on investments	6	(117,576)	184,244	(47,724)	511,891
Net foreign exchange losses	6	(20,379)	(6,997)	(29,581)	(7,312)
		<u>(103,884)</u>	<u>313,303</u>	<u>(30,805)</u>	<u>653,404</u>
Expenses					
Investment and advisory fees	11	9,707	10,568	19,787	20,351
Performance fee (recovery)	11	(46,987)	43,404	(50,081)	99,527
General and administration expenses	12	1,361	925	3,223	2,398
Interest expense	7	6,381	6,740	12,761	15,754
		<u>(29,538)</u>	<u>61,637</u>	<u>(14,310)</u>	<u>138,030</u>
Earnings (loss) before income taxes		(74,346)	251,666	(16,495)	515,374
Provision for (recovery of) income taxes	9	(4,791)	26,772	(2,723)	35,054
Net earnings (loss)		<u>(69,555)</u>	<u>224,894</u>	<u>(13,772)</u>	<u>480,320</u>
Attributable to:					
Shareholders of Fairfax India		(69,710)	224,894	(13,748)	480,320
Non-controlling interests		155	—	(24)	—
		<u>(69,555)</u>	<u>224,894</u>	<u>(13,772)</u>	<u>480,320</u>
Net earnings (loss) per share		\$ (0.50)	\$ 1.51	\$ (0.10)	\$ 3.22
Net earnings (loss) per diluted share		\$ (0.50)	\$ 1.43	\$ (0.10)	\$ 3.06
Shares outstanding (weighted average)		139,303,963	149,385,957	139,488,737	149,379,591

See accompanying notes.

Consolidated Statements of Comprehensive Income (Loss)*for the three and six months ended June 30, 2022 and 2021**(unaudited - US\$ thousands)*

	Second quarter		First six months	
	2022	2021	2022	2021
Net earnings (loss)	<u>(69,555)</u>	<u>224,894</u>	<u>(13,772)</u>	<u>480,320</u>
Other comprehensive loss , net of income taxes				
Item that may be subsequently reclassified to net earnings				
Unrealized foreign currency translation losses, net of income taxes of nil (2021 - nil)	<u>(113,442)</u>	<u>(45,787)</u>	<u>(168,593)</u>	<u>(48,116)</u>
Other comprehensive loss , net of income taxes	<u>(113,442)</u>	<u>(45,787)</u>	<u>(168,593)</u>	<u>(48,116)</u>
Comprehensive income (loss)	<u>(182,997)</u>	<u>179,107</u>	<u>(182,365)</u>	<u>432,204</u>
Attributable to:				
Shareholders of Fairfax India	(178,081)	179,107	(174,847)	432,204
Non-controlling interests	<u>(4,916)</u>	<u>—</u>	<u>(7,518)</u>	<u>—</u>
	<u>(182,997)</u>	<u>179,107</u>	<u>(182,365)</u>	<u>432,204</u>

See accompanying notes.

Consolidated Statements of Changes in Equity
for the six months ended June 30, 2022 and 2021
(unaudited - US\$ thousands)

	Subordinate voting shares	Multiple voting shares	Share- based payments, net	Retained earnings	Accumulated other comprehensive loss	Common shareholders' equity	Non- controlling interests	Total equity
Balance as of January 1, 2022	1,174,558	300,000	(319)	1,623,676	(323,123)	2,774,792	127,642	2,902,434
Net earnings (loss) for the period	—	—	—	(13,748)	—	(13,748)	(24)	(13,772)
Other comprehensive loss:								
Unrealized foreign currency translation losses	—	—	—	—	(161,099)	(161,099)	(7,494)	(168,593)
Purchases for cancellation (note 8)	(22,099)	—	—	(4,182)	—	(26,281)	—	(26,281)
Amortization	—	—	24	—	—	24	—	24
Balance as of June 30, 2022	<u>1,152,459</u>	<u>300,000</u>	<u>(295)</u>	<u>1,605,746</u>	<u>(484,222)</u>	<u>2,573,688</u>	<u>120,124</u>	<u>2,693,812</u>
Balance as of January 1, 2021	1,261,734	300,000	(12)	1,163,493	(278,281)	2,446,934	—	2,446,934
Net earnings for the period	—	—	—	480,320	—	480,320	—	480,320
Other comprehensive loss:								
Unrealized foreign currency translation losses	—	—	—	—	(48,116)	(48,116)	—	(48,116)
Issuance of shares (note 8)	5,217	—	—	—	—	5,217	—	5,217
Purchases for cancellation (note 8)	(7,293)	—	—	(821)	—	(8,114)	—	(8,114)
Amortization	—	—	12	—	—	12	—	12
Balance as of June 30, 2021	<u>1,259,658</u>	<u>300,000</u>	<u>—</u>	<u>1,642,992</u>	<u>(326,397)</u>	<u>2,876,253</u>	<u>—</u>	<u>2,876,253</u>

See accompanying notes.

Consolidated Statements of Cash Flows

for the three and six months ended June 30, 2022 and 2021
(unaudited - US\$ thousands)

	Notes	Second quarter		First six months	
		2022	2021	2022	2021
Operating activities					
Net earnings (loss)		(69,555)	224,894	(13,772)	480,320
Items not affecting cash and cash equivalents:					
Net bond premium amortization		318	421	1,192	502
Performance fee (recovery)	11	(46,987)	43,404	(50,081)	99,527
Deferred income taxes	9	(8,363)	25,736	(7,231)	33,169
Amortization of share-based payment awards		12	—	24	12
Net realized gains on investments	6	(27,942)	(134,567)	(27,768)	(134,567)
Net change in unrealized (gains) losses on investments	6	117,576	(184,244)	47,724	(511,891)
Net foreign exchange losses	6	20,379	6,997	29,581	7,312
Decrease in restricted cash in support of borrowings		—	—	—	16,051
Decrease in restricted cash in support of investments		—	264	—	264
Sales of short term investments		—	—	6,047	—
Purchases of investments		(129,861)	(116,894)	(162,365)	(116,896)
Sales of investments		135,817	190,086	193,350	190,269
Changes in operating assets and liabilities:					
Interest and dividends receivable		(1,375)	651	(3,141)	(705)
Income taxes refundable		—	2,782	—	2,578
Accrued interest expense		6,652	6,310	524	8,729
Income taxes payable		18	—	187	—
Payable to related parties		(561)	695	(533)	1,328
Other		(1,322)	397	(1,384)	5,666
Cash provided by (used in) operating activities		<u>(5,194)</u>	<u>66,932</u>	<u>12,354</u>	<u>81,668</u>
Financing activities					
Borrowings:					
Proceeds	7	—	—	—	500,000
Issuance costs	7	—	—	—	(3,650)
Repayments	7	—	(50,000)	—	(550,000)
Subordinate voting shares:					
Purchases for cancellation	8	(2,271)	(4,008)	(26,281)	(8,114)
Cash used in financing activities		<u>(2,271)</u>	<u>(54,008)</u>	<u>(26,281)</u>	<u>(61,764)</u>
Increase (decrease) in cash and cash equivalents					
Cash and cash equivalents - beginning of period		23,941	29,093	30,376	22,057
Foreign currency translation		842	(633)	869	(577)
Cash and cash equivalents - end of period		<u>17,318</u>	<u>41,384</u>	<u>17,318</u>	<u>41,384</u>

See accompanying notes.

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Notes to Interim Consolidated Financial Statements

for the three and six months ended June 30, 2022 and 2021

(unaudited - US\$ thousands except share and per share amounts and as otherwise indicated)

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 consolidated subsidiaries based in Mauritius, FIH Mauritius Investments Ltd ("FIH Mauritius") and FIH Private Investments Ltd ("FIH Private"). In 2019 the company formed Anchorage Infrastructure Investments Holdings Limited ("Anchorage"), a consolidated subsidiary of FIH Mauritius based in India.

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 11 for details on Fairfax's voting rights and equity interest in the company.

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

2. Basis of Presentation

The company's interim consolidated financial statements for the three and six months ended June 30, 2022 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, 2021, 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 July 28, 2022.

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, 2021, 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 2022

On January 1, 2022 the company adopted the following amendments, which did not have a significant impact on the company's consolidated financial statements: *Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)* and *Annual Improvements to IFRS Standards 2018-2020*.

New accounting pronouncements issued but not yet effective

The IASB issued the following amendments in 2020 and 2021 which the company does not expect to adopt in advance of their effective date of January 1, 2023: *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)*, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)*, *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)* and *Definition of Accounting Estimates (Amendments to IAS 8)*. The company is currently evaluating the expected impact of these amendments on its consolidated financial statements.

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 determining the valuation of Private Indian Investments, the provision for income taxes and the consolidation of Anchorage in a manner consistent with those as described in the company's annual consolidated financial statements for the year ended December 31, 2021. The broad effects of the COVID-19 pandemic and the conflict in Ukraine on the company are described in note 10 and the effects on the company's development of critical estimates during the first six months of 2022 are described below.

Valuation of Private Indian Investments

While the company's valuation techniques for Private Indian Investments remained primarily unchanged during the first six months of 2022, the development of unobservable inputs considered the uncertainty related to the economic disruptions caused by the ongoing COVID-19 pandemic as well as Russia's continued invasion of Ukraine which commenced in February 2022 ("the conflict in Ukraine"). While the economic impact of the COVID-19 pandemic has eased in many regions, supply chain disruptions and rising commodity prices persist, contributing to increased inflationary pressures, worsened by supply shocks arising from the conflict in Ukraine. In response, central banks around the world have aggressively raised interest rates in an effort to ease rising inflation. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the current economic environment. Estimates of the amount and timing of future cash flows, risk premiums, growth rates and other inputs incorporated into fair value measurements of Private Indian Investments are inherently more difficult to determine due to the unpredictable duration and impacts of the COVID-19 pandemic and the conflict in Ukraine. The company has assessed assumptions related to the COVID-19 pandemic and the conflict in Ukraine which were included in the estimates of the amount and timing of future cash flows prepared by investees' management, and the uncertainty in those assumptions has been considered in the determination of risk premiums incorporated in the company's valuations of Private Indian Investments. Additional volatility in the fair values of Private Indian Investments may arise in future periods if actual results differ materially from the company's estimates. Refer to notes 5 and 6 for details on the valuation of company's Private Indian Investments at June 30, 2022.

5. Indian Investments

Throughout the company's interim consolidated financial statements for the three and six months ended June 30, 2022, the term "Indian Investments" refers to deployed capital invested in Public and Private Indian Investments as disclosed within this note.

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

A summary of changes in the fair value of the company's Public and Private Indian Investments for the second quarter of 2022 is as follows:

	Second quarter							Balance as of June 30
	Balance as of April 1	Purchases	Sales	Amortization	Net realized gains on investments	Net change in unrealized gains (losses) on investments ⁽¹⁾	Net unrealized foreign currency translation losses	
Public Indian Investments:								
Common stocks:								
IIFL Finance	317,454	—	—	—	—	43,017	(14,285)	346,186
IIFL Wealth ⁽²⁾	265,689	—	—	—	—	(29,856)	(9,227)	226,606
IIFL Securities	99,191	—	—	—	—	(21,460)	(3,296)	74,435
CSB Bank	201,496	—	—	—	—	(9,811)	(8,084)	183,601
Fairchem Organics	135,830	—	—	—	—	1,601	(5,755)	131,676
5paisa	34,404	—	—	—	—	(4,988)	(1,294)	28,122
Other	69,859	3,386	(58,344)	—	28,429	(21,512)	(1,138)	20,680
Derivatives:								
IIFL Wealth forward sale derivative ⁽²⁾	(461)	—	—	—	—	18,889	(645)	17,783
Total Public Indian Investments	1,123,462	3,386	(58,344)	—	28,429	(24,120)	(43,724)	1,029,089
Private Indian Investments:								
Common stocks:								
BIAL	1,344,377	—	—	—	—	1,747	(54,514)	1,291,610
Sanmar	461,859	—	—	—	—	(91,663)	(14,910)	355,286
Seven Islands	104,214	—	—	—	—	674	(4,240)	100,648
NCML	69,899	—	—	—	—	(2,244)	(2,732)	64,923
Saurashtra	47,653	—	—	—	—	1,917	(1,978)	47,592
Jaynix	32,334	—	—	—	—	—	(1,309)	31,025
Maxop	29,277	—	—	—	—	—	(1,185)	28,092
NSE	127,010	—	—	—	—	—	(5,143)	121,867
IH Fund	22,197	—	—	—	—	(981)	(858)	20,358
Other Indian Fixed Income	21,756	—	—	102	—	—	(884)	20,974
Total Private Indian Investments	2,260,576	—	—	102	—	(90,550)	(87,753)	2,082,375
Total Indian Investments	3,384,038	3,386	(58,344)	102	28,429	(114,670)	(131,477)	3,111,464

(1) All Private Indian Investments and certain common shares of CSB Bank (subject to selling restrictions) were classified as Level 3 in the fair value hierarchy. Net change in unrealized gains (losses) on investments classified as Level 3 in the fair value hierarchy related to unrealized gains (losses) on investments held at the end of the reporting period.

(2) On March 30, 2022 the company entered into an agreement to sell 8,722,886 equity shares of IIFL Wealth (representing 9.8% of its 13.6% equity interest) at a specified contract price, based on an initial share price adjusted for dividends received from IIFL Wealth up to the closing date. At June 30, 2022 the contract price implied total consideration of approximately \$181 million based on period end exchange rates (approximately 14.3 billion Indian rupees). The agreement resulted in the recognition of an equity forward sale derivative asset ("IIFL Wealth forward sale derivative") and an unrealized gain implied by the contract price of sale shares relative to the closing bid price. The transaction is subject to customary closing conditions and approvals and is expected to close in the third quarter of 2022.

A summary of changes in the fair value of the company's Public and Private Indian Investments for the second quarter of 2021 is as follows:

	Second quarter						Balance as of June 30
	Balance as of April 1	Purchases	Sales	Net realized gains (losses) on investments	Net change in unrealized gains (losses) on investments ⁽¹⁾	Net unrealized foreign currency translation losses	
Public Indian Investments:							
Common stocks:							
IIFL Finance	327,446	—	—	—	(33,993)	(3,761)	289,692
IIFL Wealth	202,923	—	—	—	(11,180)	(2,959)	188,784
IIFL Securities	53,947	—	—	—	32,506	(1,333)	85,120
CSB Bank	229,551	—	—	—	111,359	(5,178)	335,732
Privi Speciality ⁽²⁾	223,964	—	(164,812)	132,303	(190,957)	(450)	48
Fairchem Organics ⁽³⁾	64,711	22,917	—	—	85,282	(2,246)	170,664
5paisa ⁽⁴⁾	23,153	6,141	—	(2,587)	16,077	(678)	42,106
Other	160,095	—	(4,411)	2	14,111	(2,660)	167,137
Derivatives:							
Fairchem Organics forward purchase derivative ⁽³⁾	5,409	—	(4,800)	4,847	(5,425)	(31)	—
Privi Speciality written call option ⁽²⁾	(26,681)	—	—	—	26,762	(81)	—
Total Public Indian Investments	1,264,518	29,058	(174,023)	134,565	44,542	(19,377)	1,279,283
Private Indian Investments:							
Common stocks:							
BIAL	1,395,270	—	—	—	(28)	(22,831)	1,372,411
Sanmar	338,275	—	—	—	107,197	(6,990)	438,482
Seven Islands	107,453	—	—	—	(149)	(1,734)	105,570
NCML	79,773	—	—	—	(832)	(1,331)	77,610
Saurashtra	33,031	—	—	—	4,378	(599)	36,810
NSE	72,571	—	—	—	28,088	(1,568)	99,091
IH Fund	25,546	—	(532)	—	1,130	(422)	25,722
Other Indian Fixed Income	14,875	—	—	—	—	(244)	14,631
Total Private Indian Investments	2,066,794	—	(532)	—	139,784	(35,719)	2,170,327
Total Indian Investments	3,331,312	29,058	(174,555)	134,565	184,326	(55,096)	3,449,610

- (1) All Private Indian Investments and certain common shares of CSB Bank and 5paisa (subject to selling restrictions) were classified as Level 3 in the fair value hierarchy. Net change in unrealized gains (losses) on investments classified as Level 3 in the fair value hierarchy related to unrealized gains (losses) on investments held at the end of the reporting period.
- (2) On April 29, 2021 the company completed the sale of its 48.8% equity interest in Privi Speciality for proceeds of \$164,812 resulting in a realized gain since inception of \$132,303. Net change in unrealized gains on investments includes a reversal of prior period unrealized gains on Privi Speciality and a reversal of prior period losses on the Privi Speciality written call option.
- (3) On April 29, 2021 the company acquired additional Fairchem Organics common shares for cash consideration of \$18,117. As a result the company derecognized the Fairchem Organics forward purchase derivative asset with a carrying value of \$4,800, recorded a realized gain of \$4,847 and recorded its investment in Fairchem Organics common shares at a fair value at that date of \$22,917.
- (4) On May 19, 2021 the company acquired additional 5paisa common shares for cash consideration of \$6,141 pursuant to a preferential share rights offering. The newly issued 5paisa common shares had a fair value of \$3,554 at that date based on bid price less a discount for lack of marketability due to certain selling restrictions, and as a result the company recorded a realized loss of \$2,587.

A summary of changes in the fair value of the company's Public and Private Indian Investments for the first six months of 2022 is as follows:

	First six months							Balance as of June 30
	Balance as of January 1	Purchases	Sales	Amortization	Net realized gains on investments	Net change in unrealized gains (losses) on investments ⁽¹⁾	Net unrealized foreign currency translation losses	
Public Indian Investments:								
Common stocks:								
IIFL Finance	318,136	—	—	—	—	48,415	(20,365)	346,186
IIFL Wealth ⁽²⁾	230,111	—	—	—	—	10,367	(13,872)	226,606
IIFL Securities	103,217	—	—	—	—	(23,541)	(5,241)	74,435
CSB Bank	227,649	—	—	—	—	(31,789)	(12,259)	183,601
Fairchem Organics	155,020	—	(25)	—	20	(14,751)	(8,588)	131,676
5paisa	41,232	—	—	—	—	(11,074)	(2,036)	28,122
Privi Speciality	79	—	(83)	—	79	(74)	(1)	—
Other	69,612	3,386	(58,344)	—	28,429	(19,932)	(2,471)	20,680
Derivatives:								
IIFL Wealth forward sale derivative ⁽²⁾	—	—	—	—	—	18,425	(642)	17,783
Total Public Indian Investments	1,145,056	3,386	(58,452)	—	28,528	(23,954)	(65,475)	1,029,089
Private Indian Investments:								
Common stocks:								
BIAL	1,372,170	—	—	—	—	6	(80,566)	1,291,610
Sanmar	421,153	—	—	—	—	(42,623)	(23,244)	355,286
Seven Islands	105,926	—	—	—	—	975	(6,253)	100,648
NCML	69,578	—	—	—	—	(590)	(4,065)	64,923
Saurashtra	47,157	—	—	—	—	3,319	(2,884)	47,592
Jaynix	—	32,504	—	—	—	—	(1,479)	31,025
Maxop	29,844	—	—	—	—	—	(1,752)	28,092
NSE	111,216	—	—	—	—	18,029	(7,378)	121,867
IH Fund	23,613	—	(1,554)	—	—	(407)	(1,294)	20,358
Other Indian Fixed Income	22,083	—	—	195	—	—	(1,304)	20,974
Total Private Indian Investments	2,202,740	32,504	(1,554)	195	—	(21,291)	(130,219)	2,082,375
Total Indian Investments	3,347,796	35,890	(60,006)	195	28,528	(45,245)	(195,694)	3,111,464

(1) All Private Indian Investments and certain common shares of CSB Bank (subject to selling restrictions) were classified as Level 3 in the fair value hierarchy. Net change in unrealized gains (losses) on investments classified as Level 3 in the fair value hierarchy related to unrealized gains (losses) on investments held at the end of the reporting period.

(2) On March 30, 2022 the company entered into an agreement to sell 8,722,886 equity shares of IIFL Wealth (representing 9.8% of its 13.6% equity interest) at a specified contract price, based on an initial share price adjusted for dividends received from IIFL Wealth up to the closing date. At June 30, 2022 the contract price implied total consideration of approximately \$181 million based on period end exchange rates (approximately 14.3 billion Indian rupees). The agreement resulted in the recognition of the IIFL Wealth forward sale derivative asset and an unrealized gain implied by the contract price of sale shares relative to the closing bid price. The transaction is subject to customary closing conditions and approvals and is expected to close in the third quarter of 2022.

A summary of changes in the fair value of the company's Public and Private Indian Investments for the first six months of 2021 is as follows:

	First six months						Balance as of June 30
	Balance as of January 1	Purchases	Sales	Net realized gains (losses) on investments	Net change in unrealized gains (losses) on investments ⁽¹⁾	Net unrealized foreign currency translation losses	
Public Indian Investments:							
Common stocks:							
IIFL Finance	131,478	—	—	—	162,654	(4,440)	289,692
IIFL Wealth	166,702	—	—	—	25,256	(3,174)	188,784
IIFL Securities	55,603	—	—	—	30,880	(1,363)	85,120
CSB Bank	214,341	—	—	—	126,752	(5,361)	335,732
Privi Speciality ⁽²⁾	138,413	—	(164,812)	132,303	(105,057)	(799)	48
Fairchem Organics ⁽³⁾	54,566	22,919	—	—	95,491	(2,312)	170,664
5paisa ⁽⁴⁾	27,788	6,141	—	(2,587)	11,446	(682)	42,106
Other	147,604	—	(4,411)	2	26,734	(2,792)	167,137
Derivatives:							
Fairchem Organics forward purchase derivative ⁽³⁾	—	—	(4,800)	4,847	—	(47)	—
Total Public Indian Investments	936,495	29,060	(174,023)	134,565	374,156	(20,970)	1,279,283
Private Indian Investments:							
Common stocks:							
BIAL	1,396,117	—	—	—	8	(23,714)	1,372,411
Sanmar	338,621	—	—	—	107,065	(7,204)	438,482
Seven Islands	103,543	—	—	—	3,838	(1,811)	105,570
NCML	86,216	—	—	—	(7,240)	(1,366)	77,610
Saurashtra	32,812	—	—	—	4,618	(620)	36,810
NSE	72,617	—	—	—	28,088	(1,614)	99,091
IH Fund	25,354	—	(715)	—	1,521	(438)	25,722
Other Indian Fixed Income	14,884	—	—	—	—	(253)	14,631
Total Private Indian Investments	2,070,164	—	(715)	—	137,898	(37,020)	2,170,327
Total Indian Investments	3,006,659	29,060	(174,738)	134,565	512,054	(57,990)	3,449,610

(1) All Private Indian Investments and certain common shares of CSB Bank and 5paisa (subject to selling restrictions) were classified as Level 3 in the fair value hierarchy. Net change in unrealized gains (losses) on investments classified as Level 3 in the fair value hierarchy related to unrealized gains (losses) on investments held at the end of the reporting period.

(2) On April 29, 2021 the company completed the sale of its 48.8% equity interest in Privi Speciality for proceeds of \$164,812 resulting in a realized gain since inception of \$132,303. Net change in unrealized gains on investments includes a reversal of prior period unrealized gains on Privi Speciality.

(3) On April 29, 2021 the company acquired additional Fairchem Organics common shares for cash consideration of \$18,117. As a result the company derecognized the Fairchem Organics forward purchase derivative asset with a carrying value of \$4,800, recorded a realized gain of \$4,847 and recorded its investment in Fairchem Organics common shares at a fair value at that date of \$22,917.

(4) On May 19, 2021 the company acquired additional 5paisa common shares for cash consideration of \$6,141 pursuant to a preferential share rights offering. The newly issued 5paisa common shares had a fair value of \$3,554 at that date based on bid price less a discount for lack of marketability due to certain selling restrictions, and as a result the company recorded a realized loss of \$2,587.

Public Indian Investments

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

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 2068, 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.

The COVID-19 pandemic significantly impacted BIAL's airport business which faced reduced passenger traffic starting in February 2020. Effective March 23, 2020 and March 25, 2020 all scheduled international and domestic commercial airlines ceased operations as a result of government mandated lockdown restrictions, with the exception of cargo flights and flights catering to emergencies and essential requirements. Domestic flights resumed on May 25, 2020 and international flights resumed on March 27, 2022. Construction activities for BIAL's capital projects and real estate development were slowed down and have since resumed as lockdown restrictions were gradually lifted. Domestic and international passenger traffic is expected to gradually recover to levels witnessed before the pandemic by BIAL's fiscal year 2024.

At June 30, 2022 the company estimated the fair value of its investment in BIAL using a discounted cash flow analysis for its three business units based on multi-year free cash flow forecasts with assumed after-tax discount rates ranging from 12.3% to 16.4% and a long term growth rate of 3.5% (December 31, 2021 - 12.1% to 16.0%, and 3.5%, respectively). At June 30, 2022 free cash flow forecasts were based on EBITDA estimates derived from financial information for two of BIAL's business units prepared in the second quarter of 2022 and for one business unit, the third quarter of 2021 (December 31, 2021 - third quarter of 2021 for all business units) by BIAL's management.

Free Cash Flow Forecast Inputs

The primary drivers of free cash flow estimates are future domestic and international passenger traffic, airport tariff assumptions for future control periods and plans to monetize and develop leasehold land. In the event that forecasted passenger traffic or expected airport tariff levels are not met in future periods, or significant delays related to the monetization and development of leasehold land occur, this may result in a negative impact on the fair value of the company's investment in BIAL.

Current Model Assumptions

Free cash flow forecasts were revised by BIAL's management in the second quarter of 2022 to primarily reflect (i) slower recovery in domestic and international passenger traffic in fiscal year 2023, with recovery to pre-pandemic levels achieved by BIAL's fiscal year 2024; (ii) lower user development fee ("UDF") rates in the fourth control period commencing in BIAL's fiscal year 2027; and (iii) delays in BIAL's capital projects and real estate development plans. BIAL's free cash flow forecasts continue to reflect lower UDF rates for the third control period commencing in BIAL's fiscal year 2022.

The disruptions caused by the COVID-19 pandemic and the conflict in Ukraine have not had a significant impact on BIAL's fair value at June 30, 2022 as BIAL is an infrastructure investment that is currently in a period of capital expansion and as a result a significant amount of its fair value is driven by expected growth in passenger traffic in the later years of the forecasting period once various capital projects are complete. BIAL's aeronautical revenues are primarily driven by user development fees charged to airlines and passengers, which are set by the Airports Economic Regulatory Authority of India ("AERA") in five-year control periods and are fixed in a manner to generate a 16.0% per annum return on invested equity for the airport operator. As the tariff setting mechanism adjusts for periods of underperformance, it is expected that underachievement in aeronautical revenues due to the COVID-19 pandemic in the second control period, which ended on March 31, 2021, will be substantially recovered through, among other factors, higher UDFs in future control periods. It should be noted that UDFs set by AERA for the third control period are not sufficient to recover losses sustained in the second control period due to the lockdown restrictions.

A gradual recovery in passenger traffic to pre-pandemic levels by BIAL's fiscal year 2024 is supported by significant efforts by BIAL's management and the Indian government to support a return to normal patterns of travel and the recovery of airport operations, including the implementation of contactless passenger experiences and the resumption of domestic and international flights.

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. Long term growth rates were based on the expected long term sustainable growth rate of the economic environment and sectors in which BIAL operates.

At June 30, 2022 the company's internal valuation model indicated that the fair value of the company's investment in BIAL was \$1,291,610 (December 31, 2021 - \$1,372,170). The changes in fair value of the company's investment in BIAL for the second quarters and first six months of 2022 and 2021 are presented in the tables disclosed earlier in note 5.

Investment in Sanmar Chemicals Group

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

On August 24, 2021 Chemplast Sanmar Limited ("Chemplast"), a subsidiary of the Sanmar group completed an IPO, issuing 24,029,574 common shares to the public for proceeds of approximately \$175 million (13.0 billion Indian rupees). The IPO also included a secondary offering, whereby Sanmar sold 47,134,935 common shares of Chemplast to the public for proceeds of approximately \$344 million (25.5 billion Indian rupees). As a result of the IPO, Sanmar's ownership interest in Chemplast was diluted from 100.0% to 55.0%. The proceeds from the IPO were used to repay Chemplast's debt and Sanmar's holding company debt. Chemplast is engaged in specialty PVC manufacturing, suspension PVC manufacturing and the production of specialty chemicals for pharmaceutical, agro-chemical and fine chemical sectors, in India. Chemplast is listed on both the BSE and NSE of India.

At June 30, 2022 the company estimated the fair value of its investment in Sanmar common shares using: (i) a discounted cash flow analysis for Sanmar Egypt, based on multi-year free cash flow forecasts with an assumed after-tax discount rate of 13.9% and a long term growth rate of 3.0% (December 31, 2021 - 14.6% and 3.0%, respectively); and (ii) the unadjusted bid price of Chemplast's common shares. At June 30, 2022 free cash flow forecasts were based on EBITDA estimates derived from financial information for Sanmar Egypt prepared in the second quarter of 2022 (December 31, 2021 - fourth quarter of 2021) by Sanmar's management.

Free Cash Flow Forecast Inputs

The primary driver of free cash flow estimates is the future commodity price of petrochemical products. In the event that the commodity price of petrochemical products does not develop favourably in future periods, this may result in a negative impact on the fair value of the company's investment in Sanmar.

Current Model Assumptions

Free cash flow forecasts for Sanmar Egypt were revised by Sanmar's management in the second quarter of 2022 primarily to reflect lower forecasted margins in the near term as a result of increased input costs due to supply shortages and higher power costs.

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. Long term growth rates were based on the expected long term sustainable growth rate of the economic environment and sectors in which Sanmar operates.

At June 30, 2022 the company's internal valuation model indicated that the fair value of the company's investment in Sanmar was \$355,286 (December 31, 2021 - \$421,153) with the changes in fair value for the second quarters and first six months of 2022 and 2021 presented in the tables disclosed earlier in note 5.

Investment in Seven Islands Shipping Limited

Seven Islands Shipping Limited ("Seven Islands"), a private company located in Mumbai, India, is the second largest private sector tanker shipping company in India and transports liquid and gas cargo along the Indian coast as well as in international waters. At June 30, 2022 Seven Islands owned 22 vessels, including 2 gas carriers, with a total deadweight capacity of approximately 1.3 million metric tons. Its vessels are registered in India and operate as Indian owned and flagged vessels.

At June 30, 2022 the company estimated the fair value of its investment in Seven Islands using a discounted cash flow analysis based on multi-year free cash flow forecasts with an assumed after-tax discount rate of 11.4% and a long term growth rate of 3.0% (December 31, 2021 - 11.0% and 3.0%, respectively). At June 30, 2022 free cash flow forecasts were based on EBITDA estimates

derived from financial information for Seven Islands prepared in the second quarter of 2022 (December 31, 2021 - fourth quarter of 2021) by Seven Islands' management.

Free Cash Flow Forecast Inputs

The primary driver of free cash flow estimates is the vessel profile composition, including planned vessel acquisitions and charter rates.

Current Model Assumptions

Free cash flows were revised by Seven Islands' management in the second quarter of 2022, with no changes to revenue and EBITDA forecasts or vessel acquisition plans. The forecast continued to reflect Seven Islands' vessels remaining on time charters in the near term and a normalization of rising charter rates in the short term. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which Seven Islands operates. Long term growth rates were based on the expected long term sustainable growth rate of the economic environment and sectors in which Seven Islands operates.

At June 30, 2022 the company's internal valuation model indicated that the fair value of the company's investment in Seven Islands was \$100,648 (December 31, 2021 - \$105,926) with the changes in fair value for the second quarters and first six months of 2022 and 2021 presented in the tables disclosed earlier in note 5.

Investment in National Commodities Management Services Limited

National Commodities Management Services Limited ("NCML"), a private company located in Gurugram, India, offers end-to-end solutions in grain procurement, storage and preservation, testing and certification, collateral management, and commodity and weather intelligence. NCML's wholly-owned subsidiary, NCML Finance Private Ltd, is a non-banking financial company ("NBFC") with a focus on rural and agri-business finance.

NCML Common Shares

At June 30, 2022 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 forecasts with assumed after-tax discount rates ranging from 11.7% to 12.1% and long term growth rates ranging from 2.4% to 6.0% for two business units, and an adjusted net book value approach for its NBFC business unit (December 31, 2021 - 11.0% to 11.7%, 2.4% to 6.0%, respectively and an adjusted net book value approach for its NBFC business unit). At June 30, 2022 free cash flow forecasts were based on EBITDA estimates derived from financial information for two business units prepared in the first quarter of 2022 (December 31, 2021 - third quarter of 2021) by NCML's management.

Free Cash Flow Forecast Inputs

The primary drivers of free cash flow estimates are warehouse capacity and future EBITDA growth of NCML's commodity management solutions business.

Current Model Assumptions

Free cash flow forecasts were revised by NCML's management in the first quarter of 2022 to reflect changes in the timing of forecasted capital expenditures and to adjust EBITDA growth in the near term based on expected business volumes. 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. Long term growth rates were based on the expected long term sustainable growth rate of the economic environment and sectors in which NCML operates.

At June 30, 2022 the company's internal valuation model indicated that the fair value of the company's equity investment in NCML was \$64,923 (December 31, 2021 - \$69,578) with the changes in fair value for the second quarters and first six months of 2022 and 2021 presented in the tables disclosed earlier in note 5.

NCML Compulsorily Convertible Debentures

The company invested \$13,970 (approximately 1.0 billion Indian rupees) in 12.5% unsecured compulsorily convertible debentures ("NCML CCD"), due September 30, 2029. The company has the option to convert the NCML CCD 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.

At June 30, 2022 the company's interest and dividends receivable included \$3,332 (December 31, 2021 - \$2,830) related to interest accrued on the NCML CCD since April 1, 2020. Due to tightened liquidity as a result of COVID-19 the company allowed NCML to defer interest payments on the NCML CCD due April 30, 2021 and 2022 to April 30, 2023.

At June 30, 2022 the fair value of the company's investment in NCML CCD was \$13,771 (December 31, 2021 - \$14,630) with the changes in fair value for the second quarters and first six months of 2022 and 2021 presented within Other Indian Fixed Income in the tables disclosed earlier in note 5.

Investment in Saurashtra Freight Private Limited

Saurashtra Freight Private Limited ("Saurashtra"), a private company located in Mumbai, India, operates one of the largest container freight stations ("CFS") at Mundra port (Gujarat). Services provided by Saurashtra's CFS include 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 services for container shipping, offering integrated logistics solutions to its customers by providing containers, which are leased by Saurashtra, to importers and exporters to transport cargo.

At June 30, 2022 the company estimated the fair value of its investment in Saurashtra using a discounted cash flow analysis based on multi-year free cash flow forecasts with assumed after-tax discount rates ranging from 17.8% to 19.9% and long term growth rates ranging from 4.0% to 5.0% (December 31, 2021 - 17.2% to 19.8%, and 4.0% to 5.0%, respectively). At June 30, 2022 free cash flow forecasts were based on EBITDA estimates derived from financial information for Saurashtra's two business units prepared in the first quarter of 2022 (December 31, 2021 - fourth quarter of 2021) by Saurashtra's management.

Free Cash Flow Forecast Inputs

The primary drivers of free cash flow estimates are the import and export handling capacity and utilization.

Current Model Assumptions

Free cash flows were revised by Saurashtra's management in the first quarter of 2022 primarily to reflect delays in the timing of forecasted capital expenditures and a downward revision to total revenue in fiscal years 2023 and 2024 due to lower income from Fairfreight Lines. 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. Long term growth rates were based on the expected long term sustainable growth rate of the economic environment and sectors in which Saurashtra operates.

At June 30, 2022 the company's internal valuation model indicated that the fair value of the company's investment in Saurashtra was \$47,592 (December 31, 2021 - \$47,157) with the changes in fair value for the second quarters and first six months of 2022 and 2021 presented in the tables disclosed earlier in note 5.

Investment in Jaynix Engineering Private Limited

Jaynix Engineering Private Limited ("Jaynix"), a private company located in Gujarat, India, is a manufacturer of non-ferrous electrical connectors and electrical assemblies, and is a critical Tier 1 supplier to major electrical original equipment manufacturers in North America and Europe.

On February 11, 2022 the company invested cash consideration of \$32,504 (approximately 2.5 billion Indian rupees) for a 70.0% equity interest in Jaynix.

It was determined the initial transaction price for the company's investment in Jaynix approximated fair value at June 30, 2022 as there have been no significant changes to Jaynix's business, capital structure or operating environment, and the key assumptions in the company's acquisition valuation model continued to be valid. At June 30, 2022 the fair value of the company's investment in Jaynix was \$31,025 with the changes in fair value for the second quarter and first six months of 2022 related to unrealized foreign currency translation losses presented in the tables disclosed earlier in note 5.

Investment in Maxop Engineering Company Private Limited

Maxop Engineering Company Private Limited ("Maxop"), a private company located in New Delhi, India, is a precision aluminum die casting and machining solution provider for customers in the automotive and industrial sectors.

On September 16, 2021 Fairfax India entered into an agreement to acquire, in aggregate, a 67.0% equity interest in Maxop in two transactions. On November 30, 2021 the company invested cash consideration of \$29,520 (approximately 2.2 billion Indian rupees) for a 51.0% equity interest in Maxop under the initial transaction.

In the second transaction, the company shall invest an amount between approximately \$9 million and \$34 million based on period end exchange rates (700 million Indian rupees and approximately 2.7 billion Indian rupees, respectively) and acquire an additional 16.0% equity interest. The final purchase price will be determined based on the achievement of certain financial-based performance targets by Maxop. The second transaction is expected to close in the second half of 2022, subject to customary closing conditions.

It was determined that the initial transaction price for the company's investment in Maxop approximated fair value at June 30, 2022 as there have been no significant changes to Maxop's business, capital structure or operating environment, and the key assumptions in the company's acquisition valuation model continued to be valid. Based on the latest available information pertaining to the financial-based performance targets at June 30, 2022, the company determined the fair value of the forward commitment for the purchase of the remaining 16.0% equity interest in Maxop continued to be insignificant. At June 30, 2022 the fair value of the company's investment in Maxop was \$28,092 (December 31, 2021 - \$29,844) with the changes in fair value for the second quarter and first six months of 2022 related to unrealized foreign currency translation losses 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.

At June 30, 2022 the company estimated the fair value of its investment in NSE of \$121,867 (December 31, 2021 - \$111,216) based on recent third party transactions completed in the first quarter of 2022 (December 31, 2021 - fourth quarter of 2021). The changes in fair value of the company's investment in NSE for the second quarters and first six months of 2022 and 2021 are presented in the tables disclosed earlier in note 5.

Investment in India Housing Fund

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 Securities and Exchange Board of India's AIF Regulations. IH Fund is a fund incorporated to focus on investing in India's real estate sector by investing in equity, debt and equity-linked instruments of real estate and construction companies involved in projects or ventures with expected growth potential.

At June 30, 2022 the company estimated the fair value of its investment in IH Fund of \$20,358 (December 31, 2021 - \$23,613) 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 second quarters and first six months of 2022 and 2021 are presented in the tables disclosed earlier in note 5.

6. Cash and Investments

Fair Value Disclosures

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

	June 30, 2022					December 31, 2021				
	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	17,318	—	—	17,318	1,368	30,376	—	—	30,376	2,258
Short term investments:										
Government of India ⁽¹⁾	—	—	—	—	—	—	6,151	—	6,151	457
Bonds:										
Government of India ⁽¹⁾	—	171,189	—	171,189	13,519	—	192,385	—	192,385	14,301
Other Indian Fixed Income	—	—	20,974	20,974	1,657	—	—	22,083	22,083	1,642
	—	171,189	20,974	192,163	15,176	—	192,385	22,083	214,468	15,943
Common stocks:										
IIFL Finance	346,186	—	—	346,186	27,339	318,136	—	—	318,136	23,649
IIFL Wealth	226,606	—	—	226,606	17,896	230,111	—	—	230,111	17,105
IIFL Securities	74,435	—	—	74,435	5,878	103,217	—	—	103,217	7,673
CSB Bank ⁽²⁾	41,087	—	142,514	183,601	14,499	53,282	—	174,367	227,649	16,922
Fairchem Organics	131,676	—	—	131,676	10,399	155,020	—	—	155,020	11,524
5paisa	28,122	—	—	28,122	2,221	36,824	—	4,408	41,232	3,065
Privi Speciality	—	—	—	—	—	79	—	—	79	6
Other	20,680	—	—	20,680	1,633	69,612	—	—	69,612	5,175
BIAL	—	—	1,291,610	1,291,610	102,002	—	—	1,372,170	1,372,170	102,001
Sanmar	—	—	355,286	355,286	28,058	—	—	421,153	421,153	31,307
Seven Islands	—	—	100,648	100,648	7,948	—	—	105,926	105,926	7,874
NCML	—	—	64,923	64,923	5,127	—	—	69,578	69,578	5,172
Saurashtra	—	—	47,592	47,592	3,758	—	—	47,157	47,157	3,506
Jaynix	—	—	31,025	31,025	2,450	—	—	—	—	—
Maxop	—	—	28,092	28,092	2,218	—	—	29,844	29,844	2,218
NSE	—	—	121,867	121,867	9,624	—	—	111,216	111,216	8,267
IH Fund	—	—	20,358	20,358	1,608	—	—	23,613	23,613	1,755
	868,792	—	2,203,915	3,072,707	242,658	966,281	—	2,359,432	3,325,713	247,219
Derivatives:										
IIFL Wealth forward sale derivative	—	17,783	—	17,783	1,404	—	—	—	—	—
Total cash and investments	886,110	188,972	2,224,889	3,299,971	260,606	996,657	198,536	2,381,515	3,576,708	265,877
	26.9 %	5.7 %	67.4 %	100.0 %	100.0 %	27.9 %	5.6 %	66.5 %	100.0 %	100.0 %

(1) Priced based on information provided by independent pricing service providers at June 30, 2022 and December 31, 2021. Short term investments relate to Government of India bonds maturing between three and twelve months from the date of purchase.

(2) The company is restricted from selling certain of its common shares of CSB Bank for a specified period up to August 7, 2024 and has applied a discount for lack of marketability (a significant unobservable valuation input) to the quoted price for the remaining restricted common shares of CSB Bank held by the company at June 30, 2022 and December 31, 2021.

Transfers between fair value hierarchy levels are considered effective from the beginning of the reporting period in which the transfer is identified. During the first six months of 2022 and 2021 there were no transfers of financial instruments between Level 1 and Level 2.

During the first six months of 2022 the company's investment in 898,816 restricted common shares of 5paisa was transferred from Level 3 to Level 1 in the fair value hierarchy as a result of the release of selling restrictions. During the first six months of 2021, as a result of an increase in common shares outstanding of CSB Bank arising from shares issued to an employee stock option trust, additional common shares of CSB Bank held by the company were subject to selling restrictions and were transferred from Level 1 to Level 3 in the fair value hierarchy.

A summary of changes in the fair value of the company's Indian Investments classified as Level 3 in the fair value hierarchy, denominated in the company's functional currency of the Indian rupee for the first six months of 2022 and 2021 was as follows:

Indian rupees (in millions)	First six months													
	2022							2021						
	Balance as of January 1	Purchases	Sales	Transfers	Amortization	Net change in unrealized gains (losses) on investments	Balance as of June 30	Balance as of January 1	Purchases	Sales	Transfers	Net realized losses on investments	Net change in unrealized gains (losses) on investments	Balance as of June 30
Common stocks:														
BIAL	102,001	—	—	—	—	1	102,002	102,011	—	—	—	—	—	102,011
Sanmar	31,307	—	—	—	—	(3,249)	28,058	24,742	—	—	—	—	7,850	32,592
CSB Bank	12,962	—	—	—	—	(1,707)	11,255	11,978	—	—	2	—	7,117	19,097
Seven Islands	7,874	—	—	—	—	74	7,948	7,566	—	—	—	—	281	7,847
NCML	5,172	—	—	—	—	(45)	5,127	6,300	—	—	—	—	(531)	5,769
Saurashtra	3,506	—	—	—	—	252	3,758	2,398	—	—	—	—	338	2,736
Jaynix	—	2,450	—	—	—	—	2,450	—	—	—	—	—	—	—
Maxop	2,218	—	—	—	—	—	2,218	—	—	—	—	—	—	—
NSE	8,267	—	—	—	—	1,357	9,624	5,306	—	—	—	—	2,059	7,365
IH Fund	1,755	—	(117)	—	—	(30)	1,608	1,853	—	(52)	—	—	111	1,912
Spaisa	328	—	—	(328)	—	—	—	—	449	—	—	(189)	43	303
Other Indian Fixed Income	1,642	—	—	—	15	—	1,657	1,088	—	—	—	—	—	1,088
Total	177,032	2,450	(117)	(328)	15	(3,347)	175,705	163,242	449	(52)	2	(189)	17,268	180,720

The changes in fair value of the company's Indian Investments classified as Level 3 in the fair value hierarchy in the company's presentation currency of U.S. dollars are disclosed in note 5. For all 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 Indian Investments classified as Level 3 in the fair value hierarchy at June 30, 2022. The analysis assumes quarterly variations within a reasonably possible range determined by the company based on an analysis of the return on various equity indices, 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 NSE, Jaynix, Maxop, IH Fund and Other Indian Fixed Income, as the company determined that there were no significant unobservable inputs suited for a sensitivity analysis.

Investments	Fair value of Level 3 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⁾
Common stocks:						
BIAL	1,291,610	Discounted cash flow	After-tax discount rate	12.3% to 16.4%	(319,686) / 415,046	(277,328) / 360,052
			Long term growth rate	3.5%	22,896 / (21,642)	19,863 / (18,775)
Sanmar ⁽³⁾	355,286	Discounted cash flow	After-tax discount rate	13.9%	(40,210) / 48,229	(34,882) / 41,839
			Long term growth rate	3.0%	7,020 / (6,705)	6,090 / (5,817)
CSB Bank ⁽⁴⁾	142,514	Bid price, net of discount	Discount for lack of marketability	15.7%	(2,124) / 2,129	(1,843) / 1,847
Seven Islands	100,648	Discounted cash flow	After-tax discount rate	11.4%	(18,458) / 23,469	(16,012) / 20,360
			Long term growth rate	3.0%	4,397 / (4,143)	3,815 / (3,594)
NCML ⁽⁵⁾	64,923	Discounted cash flow	After-tax discount rate	11.7% to 12.1%	(16,850) / 22,584	(14,618) / 19,592
			Long term growth rate	2.4% to 6.0%	2,735 / (2,523)	2,373 / (2,189)
Saurashtra	47,592	Discounted cash flow	After-tax discount rate	17.8% to 19.9%	(2,560) / 2,950	(2,221) / 2,559
			Long term growth rate	4.0% to 5.0%	466 / (450)	404 / (390)

- (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 (100 basis points), long term growth rates (25 basis points) and discount for lack of marketability (changes of 250 basis points to underlying historical share price volatility), 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 and discount for lack of marketability would result in a higher (lower) fair value of the company's Indian Investments classified as Level 3 in the fair value hierarchy. After-tax discount rates are subject to a mitigating factor: increases (decreases) in after-tax discount rates tend to be accompanied by increases (decreases) in free cash flows, and the resulting changes in the fair value of an investment may offset each other.
- (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.
- (3) Significant unobservable inputs relate only to the Sanmar Egypt business unit as Chemplast became publicly traded on the BSE and NSE of India during the third quarter of 2021. The hypothetical \$ change effect from a 10% increase or decrease in Chemplast's traded share price would be an increase or decrease in fair value of Sanmar of \$22,153, and an increase or decrease in net earnings of \$19,218.
- (4) A discount for lack of marketability is applied to the quoted price of certain common shares that the company is restricted from selling for a specified period, and is determined using an industry accepted option pricing model that incorporates unobservable long-dated historical share price volatility. A higher (lower) historical share price volatility generally results in a higher (lower) option value and a lower (higher) fair value of the common shares.
- (5) The company determined that there were no significant unobservable inputs suited for a sensitivity analysis for NCML's NBFC business unit where an adjusted net book value approach was applied.

Fixed Income Maturity Profile

Bonds are summarized by their earliest contractual maturity date in the table that follows. Actual maturities may differ from maturities shown below due to the existence of call and put features. At June 30, 2022 and December 31, 2021 there were no bonds containing call or put features.

	June 30, 2022		December 31, 2021	
	Amortized cost	Fair value	Amortized cost	Fair value
Due in 1 year or less	52,118	51,222	53,147	52,944
Due after 1 year through 5 years	129,661	127,170	147,742	146,894
Due after 5 years through 10 years	12,697	13,771	13,489	14,630
	194,476	192,163	214,378	214,468

Investment Income

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

Interest and dividends

	Second quarter		First six months	
	2022	2021	2022	2021
Interest:				
Cash and cash equivalents	8	122	10	127
Short term investments	—	—	24	—
Bonds	2,703	1,117	4,999	1,748
	2,711	1,239	5,033	1,875
Dividends: Common stocks	3,418	250	13,699	12,383

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

Second quarter

	2022			2021		
	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:						
Bonds	(487)	(2,906)	(3,393)	2	(82)	(80)
Common stocks	28,429 ⁽¹⁾	(133,559) ⁽¹⁾	(105,130)	129,718 ⁽¹⁾	162,989 ⁽¹⁾	292,707
Derivatives	—	18,889 ⁽¹⁾	18,889	4,847 ⁽¹⁾	21,337 ⁽¹⁾	26,184
	<u>27,942</u>	<u>(117,576)</u>	<u>(89,634)</u>	<u>134,567</u>	<u>184,244</u>	<u>318,811</u>
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	855	—	855	(28)	—	(28)
Borrowings	—	(20,769) ⁽²⁾	(20,769)	(2,952) ⁽²⁾	(5,411) ⁽²⁾	(8,363)
Other	(465)	—	(465)	1,394	—	1,394
	<u>390</u>	<u>(20,769)</u>	<u>(20,379)</u>	<u>(1,586)</u>	<u>(5,411)</u>	<u>(6,997)</u>

- (1) Refer to note 5 for a summary of changes in the fair value of the company's Public and Private Indian Investments during the second quarters of 2022 and 2021.
- (2) In the second quarter of 2022 net change in unrealized foreign exchange loss of \$20,769 related to the Unsecured Senior Notes. In the second quarter of 2021 net realized foreign exchange loss of \$2,952 related to the repayment of the remaining \$50,000 secured term loan. The net change in unrealized loss of \$5,411 was primarily comprised of unrealized foreign exchange losses of \$8,196 related to the Unsecured Senior Notes, partially offset by the reversal of unrealized foreign exchange losses in prior periods of \$2,785 upon repayment of the remaining \$50,000 secured term loan.

First six months

	2022			2021		
	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	(4)	5	1	—	—	—
Bonds	(756)	(2,484)	(3,240)	2	(163)	(161)
Common stocks	28,528 ⁽¹⁾	(63,670) ⁽¹⁾	(35,142)	129,718 ⁽¹⁾	512,054 ⁽¹⁾	641,772
Derivatives	—	18,425 ⁽¹⁾	18,425	4,847 ⁽¹⁾	—	4,847
	<u>27,768</u>	<u>(47,724)</u>	<u>(19,956)</u>	<u>134,567</u>	<u>511,891</u>	<u>646,458</u>
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	1,277	—	1,277	571	—	571
Borrowings	—	(30,270) ⁽²⁾	(30,270)	(36,032) ⁽²⁾	26,813 ⁽²⁾	(9,219)
Other	(588)	—	(588)	1,336	—	1,336
	<u>689</u>	<u>(30,270)</u>	<u>(29,581)</u>	<u>(34,125)</u>	<u>26,813</u>	<u>(7,312)</u>

- (1) Refer to note 5 for a summary of changes in the fair value of the company's Public and Private Indian Investments during the first six months of 2022 and 2021.
- (2) In the first six months of 2022 net change in unrealized foreign exchange loss of \$30,270 related to the Unsecured Senior Notes. In the first six months of 2021 net realized foreign exchange loss of \$36,032 related to the repayment of the \$550,000 secured term loan. The net change in unrealized gain of \$26,813 was primarily comprised of the reversal of unrealized foreign exchange losses in prior years of \$32,546 upon repayment of the \$550,000 secured term loan, partially offset by unrealized foreign exchange losses of \$5,733 primarily related to the Unsecured Senior Notes.

7. Borrowings

	June 30, 2022			December 31, 2021		
	Principal	Carrying value ⁽¹⁾	Fair value ⁽²⁾	Principal	Carrying value ⁽¹⁾	Fair value ⁽²⁾
<i>Unsecured Senior Notes:</i>						
5.0% Unsecured Senior Notes due February 26, 2028	500,000	497,045	483,950	500,000	496,785	498,450

- (1) Principal net of unamortized issue costs.
- (2) Fair value of the Unsecured Senior Notes at June 30, 2022 and December 31, 2021 was based principally on information provided by independent pricing service providers (Level 2 in the fair value hierarchy).

Unsecured Senior Notes

On February 26, 2021 the company completed an offering of \$500,000 principal amount of 5.0% unsecured senior notes due February 26, 2028 ("Unsecured Senior Notes") at par. Net proceeds after commissions and expenses of \$3,650 were \$496,350, and were primarily used during the first six months of 2021 towards the repayment of the company's \$550,000 secured term loan due June 28, 2021. Fairfax, through its subsidiaries, holds \$58,400 of the \$500,000 principal amount under the same terms as the other participants. Refer to note 11 for further details of amounts due to related parties.

At June 30, 2022 the Unsecured Senior Notes were recognized net of unamortized issuance costs of \$2,955 (issuance costs of \$3,650 less amortization of \$695) (December 31, 2021 - unamortized issuance costs of \$3,215). and recorded in borrowings within the consolidated balance sheets. The issuance costs are amortized over the remaining life of the Unsecured Senior Notes and recorded in interest expense in the consolidated statements of earnings (loss).

Revolving Credit Facility

On December 17, 2021 the company entered into a \$175,000 unsecured revolving credit facility ("Revolving Credit Facility") with a syndicate led by a Canadian bank. The Revolving Credit Facility has a three-year term with an option to extend for an additional year. At June 30, 2022 and December 31, 2021 the Revolving Credit Facility was undrawn and remained available.

Interest Expense

In the second quarter and first six months of 2022 interest expense of \$6,381 and \$12,761 (2021 - \$6,740 and \$15,754) was comprised of interest expense related to stated interest of \$6,250 and \$12,500 (2021 - \$6,483 and \$12,808) and the amortization of issuance costs of \$131 and \$261 (2021 - \$188 and \$1,197), and in the second quarter and first six months of 2021, also included the release of unamortized issuance costs of \$69 and \$1,749 upon repayments on the \$550,000 secured term loan. During the second quarter and first six months of 2022 the company paid interest of nil and \$12,500 (2021 - \$284 and \$2,170) on its borrowings.

At June 30, 2022 the company recognized accrued interest expense of \$8,611 (December 31, 2021 - \$8,611) within the consolidated balance sheets.

8. Total Equity

Common shareholders' equity

Common Stock

The number of shares outstanding was as follows:

	First six months	
	2022	2021
Subordinate voting shares - January 1	111,235,352	119,470,571
Issuances of shares	—	546,263
Purchases for cancellation	(2,100,443)	(693,078)
Subordinate voting shares - June 30	109,134,909	119,323,756
Multiple voting shares - beginning and end of period	30,000,000	30,000,000
Common shares effectively outstanding - June 30	139,134,909	149,323,756

Issuance of Shares

On March 5, 2021 the company issued 546,263 subordinate voting shares to Fairfax to settle the performance fee payable of \$5,217 for the second calculation period (three-year period ending on December 31, 2020). Under the terms of the Investment Advisory Agreement (defined in note 11), settlement of the performance fee was through the issuance of subordinate voting shares, calculated based on the performance fee payable at December 31, 2020 of \$5,217 divided by the volume-weighted average trading price of the company's subordinate voting shares for the 10 trading days prior to and including the last day of the calculation period ("VWAP") of \$9.55.

Purchase of Shares

The company has the ability to purchase for cancellation subordinate voting shares at prevailing market prices under the terms of its normal course issuer bid and in accordance with the rules and policies of the TSX. During the first six months of 2022, under the terms of its normal course issuer bid, the company purchased for cancellation 2,100,443 subordinate voting shares (2021 - 693,078) for a net cost of \$26,281 (2021 - \$8,114), of which \$4,182 was charged to retained earnings (2021 - \$821).

In connection with the normal course issuer bid, the company also entered into an automatic share purchase plan with its designated broker to allow for the purchase of subordinate voting shares during times when the company normally would not be active in the market. Such purchases are determined by the broker in its sole discretion based on the parameters established by the company prior to commencement of the applicable trading black-out period.

Subsequent to June 30, 2022

Subsequent to June 30, 2022, in accordance with an automatic share purchase plan under the terms of the normal course issuer bid, 300,000 subordinate voting shares were purchased for cancellation on behalf of the company for a net cost of \$3,238.

Non-controlling interests

In 2019 the company formed Anchorage as a wholly-owned subsidiary of FIH Mauritius, intended to provide investment related services to support the company in investing in companies, businesses and opportunities in the airport and infrastructure sectors in India. On September 16, 2021 the company transferred 43.6% out of its 54.0% equity interest in BIAL such that it is held through Anchorage and subsequently sold 11.5% (on a fully-diluted basis) of its interest in Anchorage to OMERS for gross proceeds of \$129,221 (9.5 billion Indian rupees). Upon closing of the transaction, the company's effective ownership interest in BIAL decreased to approximately 49.0% on a fully-diluted basis, while its actual ownership remained unchanged.

The company shall use commercially reasonable efforts to list Anchorage by way of an IPO in India, subject to regulatory approvals and market conditions on or before September 2025. If the valuation of Anchorage upon closing of the IPO is below approximately \$1.2 billion (91.6 billion Indian rupees), then OMERS' ownership in Anchorage will increase to a maximum of 15.0% and the company's ownership in Anchorage will decrease to a minimum of 85.0% (effective ownership interest in BIAL will decrease to a minimum of 47.5%). If Anchorage does not list by way of an IPO in India by September 2025, then OMERS' ownership in Anchorage will be 11.5%.

9. Income Taxes

The company's provision for income taxes for the three and six months ended June 30 were comprised as follows:

	Second quarter		First six months	
	2022	2021	2022	2021
Current income tax:				
Current year expense	3,639	1,036	4,575	1,974
Adjustment to prior years' income taxes	(67)	—	(67)	(89)
	<u>3,572</u>	<u>1,036</u>	<u>4,508</u>	<u>1,885</u>
Deferred income tax:				
Origination and reversal of temporary differences	(8,363)	25,736	(7,231)	33,169
Provision for (recovery of) income taxes	<u>(4,791)</u>	<u>26,772</u>	<u>(2,723)</u>	<u>35,054</u>

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 for the three and six months ended June 30 are presented in the following table:

	Second quarter		First six months	
	2022	2021	2022	2021
Canadian statutory income tax rate	26.5 %	26.5 %	26.5 %	26.5 %
Provision for (recovery of) income taxes at the Canadian statutory income tax rate	(19,702)	66,691	(4,371)	136,574
Tax rate differential on (income earned) losses incurred outside of Canada	15,145	(43,581)	(127)	(121,846)
Recovery relating to prior years	(67)	—	(67)	(89)
Change in unrecorded tax benefit of losses and temporary differences	(2,733)	2,826	(949)	20,060
Foreign exchange effect	2,567	834	2,792	351
Other including permanent differences	(1)	2	(1)	4
Provision for (recovery of) income taxes	<u>(4,791)</u>	<u>26,772</u>	<u>(2,723)</u>	<u>35,054</u>

The tax rate differential on losses incurred outside of Canada of \$15,145 and income earned outside of Canada of \$127 in the second quarter and first six months of 2022 (2021 - tax rate differential on income earned outside of Canada of \$43,581 and \$121,846) principally reflected the impact of net investment income and losses taxed in India and Mauritius at lower rates.

The change in unrecorded tax benefit of losses and temporary differences of \$2,733 in the second quarter of 2022 principally reflected changes in unrecorded deferred tax assets related to temporary timing differences on performance and professional fees of \$12,240, partially offset by foreign accrual property losses of \$2,731 with respect to the company's wholly-owned subsidiaries, temporary timing differences on debt and equity issuance costs of \$1,908, net operating losses in Canada of \$1,411, the impact of foreign exchange of \$730, and the potential impact of the application of capital loss benefit in India on future dispositions of investments in equity shares of \$2,727 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 \$949 in the first six months of 2022 principally reflected changes in unrecorded deferred tax assets related to the temporary timing differences on the performance fee and professional fees of \$13,742, partially offset by net operating losses in Canada of \$4,326, the impact of foreign exchange of \$3,702, foreign accrual property losses of \$1,594 with respect to the company's wholly-owned subsidiaries, temporary timing differences on debt and equity issuance costs of \$954 and the potential impact of the application of capital loss benefit in India on future dispositions of investments in equity shares of \$2,217 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 \$2,826 in the second quarter of 2021 principally reflected changes in unrecorded deferred tax assets related to the temporary timing differences on the performance fee and professional fees of \$10,690 and the impact of foreign exchange of \$2,583, partially offset by the utilization of foreign accrual property losses of \$2,784 with respect to the company's wholly-owned subsidiaries, temporary timing differences on debt and equity issuance costs of \$941, the utilization of net operating losses in Canada of \$587, and the potential impact of the application of capital loss benefit in India on future dispositions of investments in equity shares of \$6,135 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 \$20,060 in the first six months of 2021 principally reflected changes in unrecorded deferred tax assets related to the temporary timing differences on the performance fee and professional fees of \$25,279, the impact of foreign exchange of \$3,778, temporary timing differences on debt and equity issuance costs of \$1,861, foreign accrual property losses of \$3 with respect to the company's wholly-owned subsidiaries, partially offset by the utilization of net operating losses in Canada of \$3,970, and the potential impact of the application of capital loss benefit in India on future dispositions of investments in equity shares of \$6,891 that were not recorded by the company as the related pre-tax losses did not meet the recognition criteria under IFRS.

At June 30, 2022 deferred tax assets of \$88,999 in Canada and \$4,511 in India (December 31, 2021 - \$97,945 in Canada and \$2,519 in India) were not recorded as it was considered not probable that those losses could be utilized by the company.

10. Financial Risk Management

Overview

There were no significant changes to the types of the company's risk exposures or the processes used by the company for managing those risk exposures at June 30, 2022 compared to those identified and disclosed in the company's annual consolidated financial statements for the year ended December 31, 2021, except as described below.

Conflict in Ukraine

The company evaluated the effects, or possible effects, on the company and its Indian Investments arising from the conflict in Ukraine and concluded that while they do not have direct exposure to either Russia or Ukraine, the company and its Indian investments are exposed to greater uncertainty and volatility in global financial markets as a result of supply shocks and increased inflationary pressures caused by economic sanctions imposed by certain countries against Russia.

COVID-19

In March 2022 the Indian government announced the end of containment measures related to COVID-19, however, global economic recovery has been hindered by the onset of new COVID-19 variants and the continued conflict in Ukraine as discussed above.

As a result of the ongoing COVID-19 pandemic and the conflict in Ukraine, central banks across advanced and emerging markets have tightened monetary policy and aggressively raised interest rates in an effort to ease inflationary pressures. This has led to an increase in borrowing rates and the depreciation of the Indian rupee against the U.S. dollar in the first six months of 2022.

Further developments related to COVID-19 or the conflict in Ukraine could have a material adverse effect on the company's business, financial condition, results of operations and cash flows.

Market Risk

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

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument or another asset or liability will fluctuate due to changes in foreign exchange rates and produce an adverse effect on net earnings and equity when measured in Indian rupees, the company's functional currency. The company's net earnings and equity may also be significantly affected by foreign currency translation movements as the majority of its net assets and net earnings are denominated in a currency other than the company's U.S. dollar presentation currency. The company has not hedged its foreign currency risk. There were no significant changes to the company's framework used to monitor, evaluate and manage foreign currency risk at June 30, 2022 compared to December 31, 2021.

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 equity and net earnings. The Portfolio Advisor and Fairfax actively monitor interest rates in India and the potential impact changes in interest rates may have on the company's investment portfolio. There were no significant changes to the company's framework used to monitor, evaluate and manage interest rate risk at June 30, 2022 compared to December 31, 2021.

The company's exposure to interest rate risk decreased in the first six months of 2022, primarily reflecting the sale of Government of India bonds to fund the company's investment in Jaynix and interest payment on Unsecured Senior Notes, partially offset by the partial reinvestment of net proceeds from sales of Other Public Indian Investments into Government of India 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 which the company believes to be reasonably possible in the current economic environment. This analysis was performed on each individual security, with the hypothetical effect on net earnings (loss).

	June 30, 2022			December 31, 2021		
	Fair value of fixed income portfolio	Hypothetical \$ change effect on net earnings ⁽¹⁾	Hypothetical % change in fair value	Fair value of fixed income portfolio	Hypothetical \$ change effect on net earnings ⁽¹⁾	Hypothetical % change in fair value
Change in interest rates						
200 basis point increase	184,653	(5,520)	(3.9)%	209,670	(3,526)	(2.2)%
100 basis point increase	188,350	(2,803)	(2.0)%	212,051	(1,776)	(1.1)%
No change	192,163	—	—	214,468	—	—
100 basis point decrease	196,098	2,892	2.0 %	216,946	1,822	1.2 %
200 basis point decrease	200,158	5,876	4.2 %	219,462	3,671	2.3 %

(1) 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 because of changes in market prices (other than those arising from interest rate risk or foreign currency risk), whether those changes are caused by factors specific to the individual investment or its issuer, or other factors affecting all similar investments in the market. The company's exposure to equity price risk through its equity investments at June 30, 2022 compared to December 31, 2021 are described below.

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

The company's exposure to market price risk decreased to \$3,090,490 at June 30, 2022 from \$3,325,713 at December 31, 2021 primarily as a result of unrealized losses on the Private Indian Investments (principally Sanmar), unrealized losses on Public Indian Investments (principally CSB Bank, IIFL Securities and Fairchem Organics) and the sale of investments within Other Public Indian Investments, partially offset by a new private investment in Jaynix and unrealized gains on Public Indian Investments (principally IIFL Finance and IIFL Wealth, inclusive of the IIFL Wealth forward sale derivative). 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.

The company estimates the potential impact on net earnings (loss) from a 20% increase or decrease in the fair value of its Public Indian Investments at June 30, 2022 to be a hypothetical increase or decrease in net earnings (loss) of \$146,550 (December 31, 2021 - increase or decrease in net earnings (loss) of \$196,820). 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.

Credit Risk

Credit risk is the risk of loss resulting from the failure of a counterparty to honour its financial obligations to the company, and arises predominantly from cash and cash equivalents, short term investments and investments in debt instruments. There were no significant changes to the company's exposure to credit risk (except as set out in the discussion which follows) or the framework used to monitor, evaluate and manage credit risk at June 30, 2022 compared to December 31, 2021.

Cash and Cash Equivalents

At June 30, 2022 the company's cash and cash equivalents of \$17,318 (December 31, 2021 - \$30,376) were primarily held in major 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. Management considers high quality debt instruments to be those with a S&P or Moody's issuer credit rating of BBB/Baa or higher. While the company reviews third party credit ratings, it also carries out its own analysis and does not delegate the credit decision to rating agencies. The company endeavours to limit credit exposure by monitoring fixed income portfolio limits on individual corporate issuers and limits based on credit quality.

At June 30, 2022 the company's debt instruments were all considered to be subject to credit risk with a fair value of \$192,163 (December 31, 2021 - \$214,468), representing 5.8% (December 31, 2021 - 6.0%) of the total cash and investments portfolio.

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

	June 30, 2022		December 31, 2021	
	Fair value	Rating	Fair value	Rating
Government of India bonds ⁽¹⁾	171,189	Baa3/BBB-	192,385	Baa3/BBB-
Other Indian Fixed Income	20,974	Not rated	22,083	Not rated
Total bonds	<u>192,163</u>		<u>214,468</u>	

(1) Rated Baa3 by Moody's and BBB- by S&P at June 30, 2022 and December 31, 2021.

The company's exposure to credit risk from its investments in fixed income securities decreased at June 30, 2022 compared to December 31, 2021, primarily reflecting the sale of Government of India bonds to fund the company's investment in Jaynix and interest payment on Unsecured Senior Notes, partially offset by the partial reinvestment of net proceeds from sales of Other Public Indian Investments into Government of India bonds. Except as described above, there were no other significant changes to the composition of the company's fixed income portfolio classified according to each security's respective issuer credit rating at June 30, 2022 compared to December 31, 2021.

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, accrued interest due in semi-annual installments, and income taxes payable, if any, must be remitted to the respective tax jurisdictions as they are due. There were no significant changes to the company's exposure to liquidity risk (except as set out in the discussion below) or the framework used to monitor, evaluate and manage liquidity risk at June 30, 2022 compared to December 31, 2021.

The undeployed cash and investments at June 30, 2022 provide adequate liquidity to meet the company's known significant commitments over the next twelve months, which are principally comprised of an additional investment in Maxop, interest expense, investment and advisory fees, a commitment under the automatic share purchase plan and administration expenses.

At June 30, 2022 the company's payment obligations which are due beyond one year primarily relate to the recurring nature of expenses described above and a principal repayment on the Unsecured Senior Notes due in February 2028, which bear interest at a fixed rate of 5.0% per annum, payable in semi-annual installments. In addition, under the Investment Advisory Agreement (defined in note 11), if a performance fee is payable for the period ending on December 31, 2023, the performance fee will be payable in cash, or at Fairfax's option, in subordinate voting shares.

The company has the ability to sell a portion of its Indian Investments to supplement its liquidity requirements, by way of private placements or in public markets for its Public Indian Investments, or through private sales or IPOs for its Private Indian Investments. At June 30, 2022 the company held common shares of Public Indian Investments which carry no selling restrictions with a fair value of \$642,186 and Government of India bonds with a fair value of \$171,189. In addition, the company entered into an agreement to sell approximately 9.8% of its 13.6% equity interest in IIFL Wealth for total consideration of approximately \$181 million based on period end exchange rates (14.3 billion Indian rupees).

The company expects to continue to receive investment income on its holdings of fixed income securities and dividends from its equity investments to supplement its cash and cash equivalents. To further augment its liquidity, the company can draw upon its Revolving Credit Facility. Accordingly, the company has adequate working capital to support its operations.

Concentration Risk

The company's cash and investments are primarily concentrated in India and in Indian businesses or businesses with customers, suppliers or business primarily conducted in, or dependent on, India. The market value of the company's investments, the income generated by the company and the company's performance will be particularly sensitive to changes in the economic condition, interest rates, and regulatory environment in India. Adverse changes to the economic condition, interest rates or regulatory environment in India may have a material adverse effect on the company's business, cash flows, financial condition and net earnings. At June 30, 2022 and December 31, 2021 the company's total cash and investments composition by the issuer's country of domicile was primarily India, and at June 30, 2022 represented 99.5% (December 31, 2021 - 99.3%) of the total cash and investments portfolio.

The company's holdings of Public and Private Indian Investments (see note 5) at June 30, 2022 and December 31, 2021 are summarized by the issuer's primary industry sector in the table below:

	June 30, 2022	December 31, 2021
Infrastructure	1,291,610	1,372,170
Financial services	1,028,521	1,062,627
Commercial and industrial	624,773	690,304
Ports and shipping	148,240	153,083
Utilities	18,320	69,612
	<u>3,111,464</u>	<u>3,347,796</u>

During the first six months of 2022 the company's concentration risk in the infrastructure sector decreased primarily due to unrealized foreign currency translation losses on the company's investment in BIAL. The company's concentration risk in the financial services

sector decreased primarily due to unrealized losses on the company's investments in CSB Bank, IIFL Securities and Spaisa, and foreign currency translation losses, partially offset by unrealized gains on the company's investments in IIFL Finance, IIFL Wealth (inclusive of the IIFL Wealth forward sale derivative) and NSE. The company's concentration risk in the commercial and industrial sector decreased primarily due to unrealized losses on the company's investments in Sanmar and Fairchem Organics, in addition to foreign currency translation losses, partially offset by a new investment in Jaynix. The company's concentration risk in the ports and shipping sector decreased primarily due to unrealized foreign currency translation losses, partially offset by unrealized gains on the company's investment in Saurashtra. The company's concentration risk in the utilities sector decreased primarily due to the sales of common stocks of utility companies within Other Public Indian Investments.

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 decreased at June 30, 2022 from December 31, 2021 principally as a result of net unrealized losses on investments, unrealized foreign currency translation losses, purchases of subordinate voting shares for cancellation, interest payments, and investment and advisory fees, partially offset by interest income and dividend income. Indian Investments may be financed through equity or debt offerings as part of the company's objective to reduce its cost of capital and provide returns to common shareholders. At June 30, 2022 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, common shareholders' equity and non-controlling interests) decreased to \$3,190,857 at June 30, 2022 from \$3,399,219 at December 31, 2021, principally reflecting a decrease in common shareholders' equity and non-controlling interests as described below.

Common shareholders' equity decreased to \$2,573,688 at June 30, 2022 from \$2,774,792 at December 31, 2021 primarily reflecting unrealized foreign currency translation losses attributable to shareholders of \$161,099, purchases of subordinate voting shares for cancellation of \$26,281 and a net loss attributable to shareholders of \$13,748 during the first six months of 2022.

Non-controlling interests decreased to \$120,124 at June 30, 2022 from \$127,642 at December 31, 2021 primarily reflecting unrealized foreign currency translation losses attributable to non-controlling interests of \$7,494 during the first six months of 2022.

11. Related Party Transactions

Payable to Related Parties

The company's payable to related parties (excluding amounts related to Unsecured Senior Notes discussed below) was comprised as follows:

	June 30, 2022	December 31, 2021
Performance fee	31,405	84,716
Investment and advisory fee	9,167	9,942
Other	—	344
	<u>40,572</u>	<u>95,002</u>

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

The performance fee is accrued quarterly and is calculated, on a cumulative basis, as 20% of any increase (including distributions) in book value per share (before factoring in the impact of the performance fee for the current calculation period) above a 5% per annum increase less any performance fees settled in prior calculation periods. On any date, book value per share is calculated as common

shareholders' equity at the end of the reporting period, divided by the total number of common shares of the company effectively outstanding on that date. The amount of book value per share at any time which must be achieved before any performance fee would be payable is also referred to as the "hurdle per share".

Third Calculation Period

The period from January 1, 2021 to December 31, 2023 (the "third calculation period") will be the next consecutive three-year period after December 31, 2020 for which a performance fee, if applicable, will be accrued. Under the Investment Advisory Agreement, if a performance fee is payable for the period ending on December 31, 2023, the performance fee will be payable in cash, or at Fairfax's option, in subordinate voting shares. If Fairfax elects to have the performance fee paid in subordinate voting shares, such election must be made no later than December 15, 2023. The number of subordinate voting shares to be issued will be calculated based on the VWAP.

At June 30, 2022 the company determined that there was a performance fee accrual of \$31,405 related to the third calculation period (December 31, 2021 - \$84,716). A performance fee recovery of \$46,987 and \$50,081 was recorded in the consolidated statements of earnings (loss) in the second quarter and first six months of 2022, representing the partial reversal of the performance fee accrual at December 31, 2021 (2021 - a performance fee of \$43,404 and \$99,527).

At June 30, 2022 there were an estimated 2,843,537 contingently issuable subordinate voting shares to Fairfax relating to the performance fee accrual for the third calculation period (June 30, 2021 - 7,573,698).

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. The investment and advisory fees recorded in the consolidated statements of earnings (loss) for the second quarter and first six months of 2022 was \$9,707 and \$19,787 (2021 - \$10,568 and \$20,351).

Unsecured Senior Notes

Fairfax, through its subsidiaries, holds \$58,400 of the Unsecured Senior Notes under the same terms as the other participants. Amounts due to related parties related to the Unsecured Senior Notes were comprised as follows:

	June 30, 2022	December 31, 2021
Principal portion, presented within borrowings on the consolidated balance sheet	58,400	58,400
Interest portion, presented within accrued interest expense on the consolidated balance sheet	1,006	1,006
	<u>59,406</u>	<u>59,406</u>

Interest expense recorded in the consolidated statements of earnings (loss) for the second quarter and first six months of 2022 included \$730 and \$1,460 related to amounts due to related parties (2021 - \$730 and \$1,006). Refer to note 7 for further details on the Unsecured Senior Notes.

Fairfax's Voting Rights and Equity Interest

On February 15, 2022 Fairfax acquired an aggregate of 5,416,000 subordinate voting shares from existing shareholders. At June 30, 2022 Fairfax, through its subsidiaries, owned 30,000,000 multiple voting shares (December 31, 2021 - 30,000,000) and owned and/or exercised control or direction over 28,446,285 subordinate voting shares (December 31, 2021 - 23,030,285) of Fairfax India. At June 30, 2022 Fairfax's aggregate ownership, control and/or direction of the subordinate voting shares and multiple voting shares represented a 95.0% voting interest and a 42.0% equity interest (December 31, 2021 - 94.5% and 37.5%) in Fairfax India.

12. General and Administration Expenses

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

	Second quarter		First six months	
	2022	2021	2022	2021
Audit, legal and tax professional fees	480	387	1,288	1,125
Salaries and employee benefit expenses	219	197	714	654
Administrative expenses	415	229	899	439
Other	247	112	322	180
	<u>1,361</u>	<u>925</u>	<u>3,223</u>	<u>2,398</u>

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Management's Discussion and Analysis of Financial Condition and Results of Operations (as of July 28, 2022)

(Figures and amounts are in US\$ and \$ thousands except share and per share amounts and as otherwise indicated. Figures may not add due to rounding.)

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

- (1) Readers of the Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should review the notes to the interim consolidated financial statements for the three and six months ended June 30, 2022 and the company's 2021 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) Management analyzes and assesses the financial position of the consolidated company in various ways. Certain of the measures included in this interim report, which have been used consistently and disclosed regularly in the company's Annual Reports and interim financial reporting, do not have a prescribed meaning under IFRS as issued by the IASB and may not be comparable to similar measures presented by other companies. Please refer to the Glossary of Non-GAAP and Other Financial Measures located at the end of this MD&A for details of the company's measures.

Business Developments

Overview

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. Fairfax India's subordinate voting shares trade on the Toronto Stock Exchange ("TSX") under the symbol FIH.U. The multiple voting shares of the company are not publicly traded.

The book value per share at June 30, 2022 was \$18.50 compared to \$19.65 at December 31, 2021 representing a decrease in the first six months of 2022 of 5.9%, primarily reflecting unrealized foreign currency translation losses attributable to shareholders of Fairfax India of \$161,099 and a net loss attributable to shareholders of Fairfax India of \$13,748 (primarily related to net change in unrealized losses on investments, net foreign exchange losses and investment and advisory fees, partially offset by a performance fee recovery and net realized gains on investments). In addition, the company purchased for cancellation 2,100,443 subordinate voting shares during the first six months of 2022 for a net cost of \$26,281 (\$12.51 per subordinate voting share) through its normal course issuer bid which partially offset the decrease in book value per share.

The following narrative sets out the company's key business developments in the first six months of 2022.

Capital Transactions

During the first six months of 2022, under the terms of its normal course issuer bid, the company purchased for cancellation 2,100,443 subordinate voting shares (2021 - 693,078) for a net cost of \$26,281 (2021 - \$8,114), of which \$4,182 was charged to retained earnings (2021 - \$821).

Indian Investments

Throughout this MD&A, the term "Indian Investments" refers to deployed capital invested in Public and Private Indian Investments as disclosed in note 5 (Indian Investments) to the interim consolidated financial statements for the three and six months ended June 30, 2022. Full descriptions of the Indian Investments committed to, acquired and sold in the first six months of 2022 are provided in the Indian Investments section of this MD&A.

Operating Environment

COVID-19 Pandemic

In March 2022 the Indian government announced the end of containment measures related to COVID-19. However, global economic recovery has been hindered by the onset of new COVID-19 variants and consequently, the reintroduction of lockdown measures by certain countries and prolonged disruptions to global supply chains (further impacted by developments relating to the conflict in Ukraine, discussed below).

Conflict in Ukraine

On February 24, 2022 Russia invaded Ukraine, causing a major humanitarian crisis. In response, countries around the world, largely led by western nations, have imposed economic sanctions against Russia ("the conflict in Ukraine"), including bans on the import of Russian oil and natural gas by certain countries including Canada and the United States. The decline in supply of Russia and Ukraine's key exports of oil, gas, metals, wheat and corn resulted in increased food and fuel prices, adding to the supply chain disruptions and inflationary pressures already created by the COVID-19 pandemic.

According to the World Economic Outlook (July 2022) published by the International Monetary Fund ("IMF"), global GDP growth was estimated at 3.2% and 2.9% in 2022 and 2023, respectively (revised downward from growth of 3.6% for both years in the IMF's April 2022 forecast). The revision primarily reflected the economic impacts of extended lockdowns from renewed COVID-19 outbreaks in certain countries, tightening global financial conditions associated with expectations of steeper interest rate hikes by major central banks to ease inflationary pressure, and spillover effects from the conflict in Ukraine.

Indian Economy

According to the latest estimate from the Indian government, the country's GDP grew 8.7% in its fiscal year 2021-22, compared to a contraction of 6.6% in fiscal year 2020-21. In its July 2022 report, the IMF estimated India's GDP to expand by 7.4% for fiscal 2022-23, a downward revision from the April 2022 estimate of 8.2%, citing less favourable external conditions and an expectation of rapid policy tightening. While most Asian economies have limited direct trade exposure to Russia and Ukraine, headwinds are expected from supply chain disruptions and increased inflationary pressures, particularly relating to oil prices given India is one of the world's largest net importers of oil.

Private consumption and gross fixed capital formation are expected to be the main drivers of growth, supported by rising incomes and further access to credit, in addition to supportive policies to accelerate investments in infrastructure. Increased capital outflows on Indian imports as a result of higher commodity prices may limit the extent of capital expenditures and weigh on sovereign debt and currency valuation.

The Reserve Bank of India ("RBI") announced multiple interest rate hikes during the second quarter of 2022, increasing the benchmark interest rate by a cumulative 90 basis points compared to the record low rate previously in effect as a result of the pandemic. The RBI also announced it would focus on withdrawing from its accommodative policies to ensure inflation remains within the target going forward, while supporting growth. The inflationary trajectory will depend critically on the evolving geopolitical situation and its impact on global commodity prices and logistics.

Indian Market Indices and Foreign Exchange Rate

Global financial markets were volatile during the second quarter of 2022 as U.S. government bond yields increased and major equity indices experienced significant draw downs. The BSE Sensex declined by 14.3% in the first six months of 2022 against the backdrop of rising inflation, elevated oil and commodity prices, and anticipated incremental interest rate hikes. The above factors also contributed to the depreciation of the Indian rupee against the U.S. dollar by 5.9% in the first six months of 2022.

Consistent with Indian equity markets, the fair values of the company's Public Indian Investments experienced increased volatility during the first six months of 2022. The company also recorded unrealized foreign currency translation losses consistent with the decline in the Indian rupee as the company's net assets and net earnings are primarily denominated in Indian rupees.

The company's Indian Investments faced varying degrees of impact as a result of the response to the COVID-19 pandemic and the conflict in Ukraine. Further discussion on the degree and severity of impact specific to each Indian Investment are discussed further in the Indian Investments section under the respective heading of each Indian Investment of this MD&A.

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 consolidated subsidiaries based in Mauritius, FIH Mauritius Investments Ltd ("FIH Mauritius") and FIH Private Investments Ltd ("FIH Private"). In 2019 the company formed Anchorage, a consolidated subsidiary of FIH Mauritius based in India.

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 decreased at June 30, 2022 from December 31, 2021 principally as a result of net unrealized losses on investments, unrealized foreign currency translation losses, purchases of subordinate voting shares for cancellation, interest payments, and investment and advisory fees, partially offset by interest income and dividend income.

The company intends to make multiple different investments as part of its prudent investment strategy. Indian Investments may be financed through equity or debt offerings as part of the company's objective to reduce its cost of capital and provide returns to common shareholders. At June 30, 2022 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 Commodities Management Services Limited, IIFL Finance 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, prepared 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 management teams 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:

	Dates Acquired	June 30, 2022				December 31, 2021			
		Ownership %	Cost	Fair value	Net change	Ownership %	Cost	Fair value	Net change
Public Indian Investments:									
Common stocks:									
IIFL Finance	December 2015 and February 2017	22.3%	—	346,186	346,186	22.3%	—	318,136	318,136
IIFL Wealth	May 2019	13.6%	191,443	226,606	35,163	13.6%	191,443	230,111	38,668
IIFL Securities	May 2019	27.8%	91,310	74,435	(16,875)	27.9%	91,310	103,217	11,907
CSB Bank	October 2018, March and June 2019	49.7%	169,447	183,601	14,154	49.7%	169,447	227,649	58,202
Fairchem Organics	August 2020, March and April 2021	52.8%	42,014	131,676	89,662	52.8%	42,021	155,020	112,999
Spaisa	October 2017, August 2019 and May 2021	26.1%	29,676	28,122	(1,554)	26.1%	29,676	41,232	11,556
Privi Speciality	February and August 2016	—	—	—	—	< 1.0%	7	79	72
Other	March to June 2020, May 2022	< 1.0%	16,424	20,680	4,256	< 1.0%	43,458	69,612	26,154
Derivatives:									
IIFL Wealth forward sale derivative	March 2022	—	—	17,783	17,783	—	—	—	—
			<u>540,314</u>	<u>1,029,089</u>	<u>488,775</u>		<u>567,362</u>	<u>1,145,056</u>	<u>577,694</u>
Private Indian Investments:									
Common stocks:									
BIAL ⁽¹⁾	March and July 2017, May 2018	54.0%	652,982	1,291,610	638,628	54.0%	652,982	1,372,170	719,188
Sanmar	April 2016 and December 2019	42.9%	199,039	355,286	156,247	42.9%	199,039	421,153	222,114
Seven Islands	March, September and October 2019	48.5%	83,846	100,648	16,802	48.5%	83,846	105,926	22,080
NCML	August 2015 and August 2017	89.5%	174,318	64,923	(109,395)	89.5%	174,318	69,578	(104,740)
Saurashtra	February 2017	51.0%	30,018	47,592	17,574	51.0%	30,018	47,157	17,139
Jaynix	February 2022	70.0%	32,504	31,025	(1,479)	—	—	—	—
Maxop	November 2021	51.0%	29,520	28,092	(1,428)	51.0%	29,520	29,844	324
NSE	July 2016	1.0%	26,783	121,867	95,084	1.0%	26,783	111,216	84,433
IH Fund	January and November 2019, December 2020	—	20,009	20,358	349	—	21,563	23,613	2,050
Other Indian Fixed Income	October 2019 and November 2021	—	21,365	20,974	(391)	—	21,365	22,083	718
			<u>1,270,384</u>	<u>2,082,375</u>	<u>811,991</u>		<u>1,239,434</u>	<u>2,202,740</u>	<u>963,306</u>
Total Indian Investments			<u>1,810,698</u>	<u>3,111,464</u>	<u>1,300,766</u>		<u>1,806,796</u>	<u>3,347,796</u>	<u>1,541,000</u>

(1) The company holds 43.6% out of its 54.0% equity interest in BIAL through Anchorage. In September 2021 the company sold an 11.5% equity interest (on a fully-diluted basis) in Anchorage to OMERS, resulting in the recognition of non-controlling interest in the consolidated balance sheets. As a result of the transaction, the company's effective equity interest in BIAL was 49.0% on a fully-diluted basis at June 30, 2022 and December 31, 2021.

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

A summary of changes in the fair value of the company's Public and Private Indian Investments for the second quarter of 2022 is as follows:

	Second quarter							Balance as of June 30
	2022							
	Balance as of April 1	Purchases	Sales	Amortization	Net realized gains on investments	Net change in unrealized gains (losses) on investments	Net unrealized foreign currency translation losses	
Public Indian Investments:								
Common stocks:								
IIFL Finance	317,454	—	—	—	—	43,017	(14,285)	346,186
IIFL Wealth ⁽¹⁾	265,689	—	—	—	—	(29,856)	(9,227)	226,606
IIFL Securities	99,191	—	—	—	—	(21,460)	(3,296)	74,435
CSB Bank	201,496	—	—	—	—	(9,811)	(8,084)	183,601
Fairchem Organics	135,830	—	—	—	—	1,601	(5,755)	131,676
5paisa	34,404	—	—	—	—	(4,988)	(1,294)	28,122
Other	69,859	3,386	(58,344)	—	28,429	(21,512)	(1,138)	20,680
Derivatives:								
IIFL Wealth forward sale derivative ⁽¹⁾	(461)	—	—	—	—	18,889	(645)	17,783
Total Public Indian Investments	1,123,462	3,386	(58,344)	—	28,429	(24,120)	(43,724)	1,029,089
Private Indian Investments:								
Common stocks:								
BIAL	1,344,377	—	—	—	—	1,747	(54,514)	1,291,610
Sanmar	461,859	—	—	—	—	(91,663)	(14,910)	355,286
Seven Islands	104,214	—	—	—	—	674	(4,240)	100,648
NCML	69,899	—	—	—	—	(2,244)	(2,732)	64,923
Saurashtra	47,653	—	—	—	—	1,917	(1,978)	47,592
Jaynix	32,334	—	—	—	—	—	(1,309)	31,025
Maxop	29,277	—	—	—	—	—	(1,185)	28,092
NSE	127,010	—	—	—	—	—	(5,143)	121,867
IH Fund	22,197	—	—	—	—	(981)	(858)	20,358
Other Indian Fixed Income	21,756	—	—	102	—	—	(884)	20,974
Total Private Indian Investments	2,260,576	—	—	102	—	(90,550)	(87,753)	2,082,375
Total Indian Investments	3,384,038	3,386	(58,344)	102	28,429	(114,670)	(131,477)	3,111,464

(1) On March 30, 2022 the company entered into an agreement to sell 8,722,886 equity shares of IIFL Wealth (representing 9.8% of its 13.6% equity interest) at a specified contract price, based on an initial share price adjusted for dividends received from IIFL Wealth up to the closing date. At June 30, 2022 the contract price implied total consideration of approximately \$181 million based on period end exchange rates (approximately 14.3 billion Indian rupees). The agreement resulted in the recognition of an equity forward sale derivative asset ("IIFL Wealth forward sale derivative") and an unrealized gain implied by the contract price of sale shares relative to the closing bid price. The transaction is subject to customary closing conditions and approvals and is expected to close in the third quarter of 2022.

A summary of changes in the fair value of the company's Public and Private Indian Investments for the second quarter of 2021 is as follows:

	Second quarter						Balance as of June 30
	Balance as of April 1	Purchases	Sales	Net realized gains (losses) on investments	Net change in unrealized gains (losses) on investments	Net unrealized foreign currency translation losses	
Public Indian Investments:							
Common stocks:							
IIFL Finance	327,446	—	—	—	(33,993)	(3,761)	289,692
IIFL Wealth	202,923	—	—	—	(11,180)	(2,959)	188,784
IIFL Securities	53,947	—	—	—	32,506	(1,333)	85,120
CSB Bank	229,551	—	—	—	111,359	(5,178)	335,732
Privi Speciality ⁽¹⁾	223,964	—	(164,812)	132,303	(190,957)	(450)	48
Fairchem Organics ⁽²⁾	64,711	22,917	—	—	85,282	(2,246)	170,664
5paisa ⁽³⁾	23,153	6,141	—	(2,587)	16,077	(678)	42,106
Other	160,095	—	(4,411)	2	14,111	(2,660)	167,137
Derivatives:							
Fairchem Organics forward purchase derivative ⁽²⁾	5,409	—	(4,800)	4,847	(5,425)	(31)	—
Privi Speciality written call option ⁽¹⁾	(26,681)	—	—	—	26,762	(81)	—
Total Public Indian Investments	1,264,518	29,058	(174,023)	134,565	44,542	(19,377)	1,279,283
Private Indian Investments:							
Common stocks:							
BIAL	1,395,270	—	—	—	(28)	(22,831)	1,372,411
Sanmar	338,275	—	—	—	107,197	(6,990)	438,482
Seven Islands	107,453	—	—	—	(149)	(1,734)	105,570
NCML	79,773	—	—	—	(832)	(1,331)	77,610
Saurashtra	33,031	—	—	—	4,378	(599)	36,810
NSE	72,571	—	—	—	28,088	(1,568)	99,091
IH Fund	25,546	—	(532)	—	1,130	(422)	25,722
Other Indian Fixed Income	14,875	—	—	—	—	(244)	14,631
Total Private Indian Investments	2,066,794	—	(532)	—	139,784	(35,719)	2,170,327
Total Indian Investments	3,331,312	29,058	(174,555)	134,565	184,326	(55,096)	3,449,610

(1) On April 29, 2021 the company completed the sale of its 48.8% equity interest in Privi Speciality for proceeds of \$164,812 resulting in a realized gain since inception of \$132,303. Net change in unrealized gains on investments includes a reversal of prior period unrealized gains on Privi Speciality and a reversal of prior period losses on the Privi Speciality written call option.

(2) On April 29, 2021 the company acquired additional Fairchem Organics common shares for cash consideration of \$18,117. As a result the company derecognized the Fairchem Organics forward purchase derivative asset with a carrying value of \$4,800, recorded a realized gain of \$4,847 and recorded its investment in Fairchem Organics common shares at a fair value at that date of \$22,917.

(3) On May 19, 2021 the company acquired additional 5paisa common shares for cash consideration of \$6,141 pursuant to a preferential share rights offering. The newly issued 5paisa common shares had a fair value of \$3,554 at that date based on bid price less a discount for lack of marketability due to certain selling restrictions, and as a result the company recorded a realized loss of \$2,587.

A summary of changes in the fair value of the company's Public and Private Indian Investments for the first six months of 2022 is as follows:

	First six months							Balance as of June 30
	2022							
	Balance as of January 1	Purchases	Sales	Amortization	Net realized gains on investments	Net change in unrealized gains (losses) on investments	Net unrealized foreign currency translation losses	
Public Indian Investments:								
Common stocks:								
IIFL Finance	318,136	—	—	—	—	48,415	(20,365)	346,186
IIFL Wealth ⁽¹⁾	230,111	—	—	—	—	10,367	(13,872)	226,606
IIFL Securities	103,217	—	—	—	—	(23,541)	(5,241)	74,435
CSB Bank	227,649	—	—	—	—	(31,789)	(12,259)	183,601
Fairchem Organics	155,020	—	(25)	—	20	(14,751)	(8,588)	131,676
5paisa	41,232	—	—	—	—	(11,074)	(2,036)	28,122
Privi Speciality	79	—	(83)	—	79	(74)	(1)	—
Other	69,612	3,386	(58,344)	—	28,429	(19,932)	(2,471)	20,680
Derivatives:								
IIFL Wealth forward sale derivative ⁽¹⁾	—	—	—	—	—	18,425	(642)	17,783
Total Public Indian Investments	1,145,056	3,386	(58,452)	—	28,528	(23,954)	(65,475)	1,029,089
Private Indian Investments:								
Common stocks:								
BIAL	1,372,170	—	—	—	—	6	(80,566)	1,291,610
Sanmar	421,153	—	—	—	—	(42,623)	(23,244)	355,286
Seven Islands	105,926	—	—	—	—	975	(6,253)	100,648
NCML	69,578	—	—	—	—	(590)	(4,065)	64,923
Saurashtra	47,157	—	—	—	—	3,319	(2,884)	47,592
Jaynix	—	32,504	—	—	—	—	(1,479)	31,025
Maxop	29,844	—	—	—	—	—	(1,752)	28,092
NSE	111,216	—	—	—	—	18,029	(7,378)	121,867
IH Fund	23,613	—	(1,554)	—	—	(407)	(1,294)	20,358
Other Indian Fixed Income	22,083	—	—	195	—	—	(1,304)	20,974
Total Private Indian Investments	2,202,740	32,504	(1,554)	195	—	(21,291)	(130,219)	2,082,375
Total Indian Investments	3,347,796	35,890	(60,006)	195	28,528	(45,245)	(195,694)	3,111,464

(1) On March 30, 2022 the company entered into an agreement to sell 8,722,886 equity shares of IIFL Wealth (representing 9.8% of its 13.6% equity interest) at a specified contract price, based on an initial share price adjusted for dividends received from IIFL Wealth up to the closing date. At June 30, 2022 the contract price implied total consideration of approximately \$181 million based on period end exchange rates (approximately 14.3 billion Indian rupees). The agreement resulted in the recognition of the IIFL Wealth forward sale derivative asset and an unrealized gain implied by the contract price of sale shares relative to the closing bid price. The transaction is subject to customary closing conditions and approvals and is expected to close in the third quarter of 2022.

A summary of changes in the fair value of the company's Public and Private Indian Investments for the first six months of 2021 is as follows:

	First six months						Balance as of June 30
	Balance as of January 1	Purchases	Sales	Net realized gains (losses) on investments	Net change in unrealized gains (losses) on investments	Net unrealized foreign currency translation losses	
Public Indian Investments:							
Common stocks:							
IIFL Finance	131,478	—	—	—	162,654	(4,440)	289,692
IIFL Wealth	166,702	—	—	—	25,256	(3,174)	188,784
IIFL Securities	55,603	—	—	—	30,880	(1,363)	85,120
CSB Bank	214,341	—	—	—	126,752	(5,361)	335,732
Privi Speciality ⁽¹⁾	138,413	—	(164,812)	132,303	(105,057)	(799)	48
Fairchem Organics ⁽²⁾	54,566	22,919	—	—	95,491	(2,312)	170,664
5paisa ⁽³⁾	27,788	6,141	—	(2,587)	11,446	(682)	42,106
Other	147,604	—	(4,411)	2	26,734	(2,792)	167,137
Derivatives:							
Fairchem Organics forward purchase derivative ⁽²⁾	—	—	(4,800)	4,847	—	(47)	—
Total Public Indian Investments	936,495	29,060	(174,023)	134,565	374,156	(20,970)	1,279,283
Private Indian Investments:							
Common stocks:							
BIAL	1,396,117	—	—	—	8	(23,714)	1,372,411
Sanmar	338,621	—	—	—	107,065	(7,204)	438,482
Seven Islands	103,543	—	—	—	3,838	(1,811)	105,570
NCML	86,216	—	—	—	(7,240)	(1,366)	77,610
Saurashtra	32,812	—	—	—	4,618	(620)	36,810
NSE	72,617	—	—	—	28,088	(1,614)	99,091
IH Fund	25,354	—	(715)	—	1,521	(438)	25,722
Other Indian Fixed Income	14,884	—	—	—	—	(253)	14,631
Total Private Indian Investments	2,070,164	—	(715)	—	137,898	(37,020)	2,170,327
Total Indian Investments	3,006,659	29,060	(174,738)	134,565	512,054	(57,990)	3,449,610

(1) On April 29, 2021 the company completed the sale of a 48.8% equity interest in Privi Speciality for proceeds of \$164,812 resulting in a realized gain since inception of \$132,303. Net change in unrealized gains on investments includes a reversal of prior period unrealized gains on Privi Speciality.

(2) On April 29, 2021 the company acquired additional Fairchem Organics common shares for cash consideration of \$18,117. As a result the company derecognized the Fairchem Organics forward purchase derivative asset with a carrying value of \$4,800, recorded a realized gain of \$4,847 and recorded its investment in Fairchem Organics common shares at a fair value at that date of \$22,917.

(3) On May 19, 2021 the company acquired additional 5paisa common shares for cash consideration of \$6,141 pursuant to a preferential share rights offering. The newly issued 5paisa common shares had a fair value of \$3,554 at that date based on bid price less a discount for lack of marketability due to certain selling restrictions, and as a result the company recorded a realized loss of \$2,587.

Public Indian Investments

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

Investment in IIFL Finance Limited

Business Overview

IIFL Finance Limited ("IIFL Finance") is a publicly traded retail-focused diversified financing company located in Mumbai, India that 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.

At June 30, 2022 the company held 84,641,445 common shares of IIFL Finance representing a 22.3% equity interest (December 31, 2021 - 22.3%).

Key Business Drivers, Events and Risks

IIFL Finance's key business drivers include its access to well-diversified sources of funds, a diversified asset portfolio with a strategic focus on households, and its vast physical network to deliver credit to underserved segments and under penetrated geographical areas in India. At June 30, 2022 IIFL Finance had over 3,290 branches across India, making it one of the largest retail focused NBFCs.

IIFL Finance is a pioneer in the adoption of end-to-end digitization across processes with demonstrated 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, gold loans, business loans and microfinance. As part of its capital optimization strategy, IIFL Finance focuses on originating assets that meet bank credit underwriting standards and are Priority Sector Lending-compliant, enabling growth of its assigned and securitized loan book while managing liquidity and credit risk. In addition, IIFL Finance has entered into various bank partnerships for the co-lending, sourcing and servicing of loans. These partnerships provide the banks with access to IIFL Finance's vast branch network and segment experience to originate and service loans, while allowing IIFL Finance to scale its customer base and leverage capital more efficiently.

At March 31, 2022 IIFL Finance managed assets worth approximately \$7 billion (approximately 512 billion Indian rupees) comprised of home loans (35%), gold loans (32%), business loans (14%), microfinance (12%), construction and real estate finance (6%), and capital market finance (1%). The well-diversified asset portfolio is predominantly retail in nature with small loan ticket sizes, mitigating the risk of asset concentration and exposure to cyclical movements.

Valuation and Interim Consolidated Financial Statement Impact

At June 30, 2022 the fair value of the company's investment in IIFL Finance was \$346,186 (December 31, 2021 - \$318,136) with the changes in fair value for the second quarters and first six months of 2022 and 2021 presented in the tables at the outset of the Indian Investments section of this MD&A. IIFL Finance's share price increased by 15.6% from 279.40 Indian rupees per share at December 31, 2021 to 323.00 Indian rupees per share at June 30, 2022.

In the second quarter and first six months of 2022 the consolidated statements of earnings (loss) included dividend income earned from the company's investment in IIFL Finance of nil and \$3,936 (2021 - nil and \$3,484).

IIFL Finance's Summarized Financial Information

IIFL Finance's fiscal year ends on March 31. Summarized below are IIFL Finance's balance sheets at March 31, 2022 and 2021.

Balance Sheets

(unaudited - US\$ thousands)

	March 31, 2022⁽¹⁾	March 31, 2021⁽¹⁾
Financial assets	5,838,212	5,345,415
Non-financial assets	220,538	216,729
Financial liabilities	5,176,271	4,778,921
Non-financial liabilities	28,672	45,547
Total equity	853,807	737,676

(1) The net assets of IIFL Finance were translated at March 31, 2022 at \$1 U.S. dollar = 75.77 Indian rupees and at March 31, 2021 at \$1 U.S. dollar = 73.11 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

Financial assets increased primarily reflecting an increase in cash and bank balances arising from proceeds received from borrowings. Non-financial assets increased primarily due to additions to property, plant and equipment and right of use assets, partially offset by decreased tax assets. Financial liabilities increased primarily attributable to increased borrowings and payables related to the assignment and securitization portfolio, partially offset by net repayments of debt securities. Non-financial liabilities decreased primarily due to decreased advances from customers and current tax liabilities.

Summarized below are IIFL Finance's statements of earnings for the years ended March 31, 2022 and 2021.

Statements of Earnings

(unaudited - US\$ thousands)

	Year ended March 31, 2022⁽¹⁾	Year ended March 31, 2021⁽¹⁾⁽²⁾
Revenue	940,469	806,945
Earnings before income taxes	206,179	135,367
Net earnings	159,502	102,498

(1) Amounts for the years ended March 31, 2022 and 2021 were translated into US\$ using the average exchange rates of \$1 U.S. dollar = 74.50 Indian rupees and \$1 U.S. dollar = 74.23 Indian rupees prevailing during those periods.

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

IIFL Finance's revenue increased primarily reflecting an increase in interest and other income arising from a higher balance of assets under management, particularly across higher yielding segments such as gold loans and microfinance. Earnings before income taxes and net earnings increased primarily due to the increased interest income and higher yields as noted above in addition to decreased loan loss provisioning compared to the year ended March 31, 2021 as loan loss provisions were significantly affected by the initial impacts of the COVID-19 pandemic in the prior period. The increase in earnings was partially offset by increased interest expense due to increased borrowings, and increased employee benefit and other administrative expenses attributed to the expansion of IIFL Finance's digital and physical footprint.

Investment in IIFL Wealth Management Limited

Business Overview

IIFL Wealth Management Limited ("IIFL Wealth") is a publicly traded wealth management firm with principal lines of business in wealth and asset management, located in Mumbai, India. The wealth management business serves the 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 March 30, 2022 the company entered into an agreement to sell 8,722,886 equity shares of IIFL Wealth (representing 9.8% of its 13.6% equity interest) at a specified contract price, based on an initial share price adjusted for dividends received from IIFL Wealth up to the closing date. At June 30, 2022 the contract price implied total consideration of approximately \$181 million based on period end exchange rates (approximately 14.3 billion Indian rupees). The agreement resulted in the recognition of the IIFL Wealth forward sale derivative asset and an unrealized gain implied by the contract price of sale shares relative to the closing bid price. The transaction is subject to customary closing conditions and approvals and is expected to close in the third quarter of 2022.

At June 30, 2022 the company held 12,091,635 common shares of IIFL Wealth representing a 13.6% equity interest (December 31, 2021 - 13.6%).

Key Business Drivers, Events and Risks

IIFL Wealth provides its clients with investment management services with the aim to preserve capital while generating steady inflation-adjusted returns from a diversified portfolio with low volatility, along with additional services such as trust and estate planning and credit solutions. IIFL Wealth has a presence in 27 locations across 5 countries and continues to be one of India's leading fund managers of alternative investment funds.

India's wealthy are expected to increase their net assets through organic growth of existing assets or from the sale of businesses (unlocking potential value through secondary sales), with rising new wealth creators fueled by innovative startups, family businesses with strong professional management and the demographic advantage of a very large and young affluent segment. In 2022 it was estimated that there were over 300,000 ultra high and high net worth households, with significant growth expected of both the number of wealthy Indians and their affluence.

IIFL Wealth's wealth management business includes IIFL One, a service offering that institutionalizes the complete 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 and open disclosures. IIFL Wealth will endeavour, over the course of the next few years, to grow this model to be the primary engagement model with clients over the historical broker/dealer distribution model where commissions were earned on a transaction-by-transaction basis. IIFL Wealth aims to evolve into a predictable, revenue-led, asset under management-driven organization, different from an industry dominated by product promotion and distribution.

At March 31, 2022 the wealth management business had assets under management ("AUM") of approximately \$27 billion (2,062 billion Indian rupees) and the asset management business had AUM of approximately \$7 billion (556 billion Indian rupees). The total AUM included assets with annual recurring revenue of approximately \$19 billion (1,444 billion Indian rupees), making up over 50% of total AUM. This is in line with IIFL Wealth's initiative since its 2020 fiscal year, to shift from its original upfront income model to an annuity basis model, resulting in more stable annual recurring revenue.

Valuation and Interim Consolidated Financial Statement Impact

IIFL Wealth Common Shares

At June 30, 2022 the fair value of the company's investment in IIFL Wealth was \$226,606 (December 31, 2021 - \$230,111) with the changes in fair value for the second quarters and first six months of 2022 and 2021 presented in the tables at the outset of the Indian Investments section of this MD&A. IIFL Wealth's share price increased by 4.6% from 1,414.65 Indian rupees per share at December 31, 2021 to 1,480.00 Indian rupees per share at June 30, 2022.

IIFL Wealth Forward Sale Derivative

At June 30, 2022 the company's estimated fair value of the IIFL Wealth forward sale derivative of \$17,783 was based on the sale contract price compared to IIFL Wealth's closing bid price for the 8,722,886 sale shares, and is presented within derivatives in the consolidated balance sheet. The changes in fair value of the company's investment in the IIFL Wealth forward sale derivative for the second quarter and first six months of 2022 are presented in the tables at the outset of the Indian Investments section of this MD&A.

In the second quarter and first six months of 2022 the consolidated statements of earnings (loss) included dividend income earned from the company's investment in IIFL Wealth of \$3,173 both periods (2021 - nil and \$4,976).

Subsequent to June 30, 2022

On July 25, 2022 IIFL Wealth declared a dividend of 15 Indian rupees per share to be paid in the third quarter of 2022. Fairfax India expects to receive approximately \$2.3 million (181.4 million Indian rupees).

Investment in IIFL Securities Limited

Business Overview

IIFL Securities Limited ("IIFL Securities") is a publicly traded independent full-service retail and institutional brokerage, along with being a leading investment advisory firm providing diversified financial services and products such as financial planning, equity, commodities and currency broking (both cash and derivatives), depository participant services, investment banking, portfolio management as well as distribution of mutual funds, bonds and other products. IIFL Securities is located in Mumbai, India.

At June 30, 2022 the company held 84,641,445 common shares of IIFL Securities representing a 27.8% equity interest (December 31, 2021 - 27.9%).

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, as a key player in both retail and institutional segments. IIFL Securities' strategy continues to be built on improving and fortifying its research content, and investing in technology for trading platforms as well as human resources.

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' trading interfaces include mobile applications such as IIFL Markets which is widely used and highly rated, as well as the Advisor Anytime Anywhere mobile office platform for the growing sub-broker segment. IIFL Securities has also entered into partnerships with various banks and investment platforms to deliver innovative investment products and increase access, providing a one-stop shop for financial products to its customers.

IIFL Securities' institutional broking franchise business services over 780 domestic and foreign clients, and provides comprehensive research coverage in over 260 stocks in more than 20 sectors, which accounts for over 75% of India's market capitalization. The investment banking business continues to maintain a robust pipeline of activity.

At March 31, 2022 IIFL Securities had assets under management of approximately \$17 billion (1,305 billion Indian rupees).

Valuation and Interim Consolidated Financial Statement Impact

At June 30, 2022 the fair value of the company's investment in IIFL Securities was \$74,435 (December 31, 2021 - \$103,217) with the changes in fair value for the second quarters and first six months of 2022 and 2021 presented in the tables at the outset of the Indian Investments section of this MD&A. IIFL Securities' share price decreased by 23.4% from 90.65 Indian rupees per share at December 31, 2021 to 69.45 Indian rupees per share at June 30, 2022.

In the second quarter and first six months of 2022 the consolidated statements of earnings (loss) included dividend income earned from the company's investment in IIFL Securities of nil and \$3,374 (2021 - nil and \$1,161).

Investment in CSB Bank Limited

Business Overview

CSB Bank Limited ("CSB Bank") is a publicly traded company located in Thrissur, India, 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 604 branches and 495 automated teller machines across India.

At June 30, 2022 the company held 86,262,976 common shares representing a 49.7% equity interest (December 31, 2021 - 49.7%). The company is restricted from selling a certain percentage of its common shares of CSB Bank for a specified period to August 7, 2024 due to restrictions imposed by the RBI and the Securities and Exchange Board of India ("SEBI"). At June 30, 2022 the company held 69,394,331 common shares of CSB Bank that continue to be restricted until August 7, 2024.

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.

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 credit monitoring and risk management practices. In addition, CSB Bank continues to strive for increased productivity and invests 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 subject to change 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 was required to purchase a minimum of 40.0% of the voting equity shares in CSB Bank within 5 years, which was completed; and (ii) the company's shareholding in CSB Bank must be diluted to 30.0% of the voting equity shares within 10 years and diluted further to 15.0% of the voting equity shares within 15 years. In addition, the RBI mandated that CSB Bank list its shares on the BSE and NSE of India through an IPO. On December 4, 2019 CSB Bank closed its IPO at a price of 195.00 Indian rupees per share.

In the BT-KPMG Best Banks Survey 2020-21, CSB Bank emerged as the best bank under the small banks category.

CSB Bank expects to focus on bolstering its core deposit franchise in the current interest rate environment. Based on data published by the RBI, credit growth in India has vastly improved from the slowdown witnessed during the pandemic, and is expected to remain buoyant throughout 2022. Gold loans continue to be a major driver of growth for CSB Bank, and rising demand from SMEs and corporate lending sectors will further contribute to growth in the upcoming fiscal year.

Valuation and Interim Consolidated Financial Statement Impact

At June 30, 2022 the fair value of the company's investment in CSB Bank was \$183,601 (December 31, 2021 - \$227,649) with the changes in fair value for the second quarters and first six months of 2022 and 2021 presented in the tables at the outset of the Indian Investments section of this MD&A. CSB Bank's share price decreased by 18.1% from 234.80 Indian rupees per share at December 31, 2021 to 192.35 Indian rupees per share at June 30, 2022.

CSB Bank's Summarized Financial Information

CSB Bank's fiscal year ends on March 31. Summarized below are CSB Bank's balance sheets at March 31, 2022 and 2021.

Balance Sheets

(unaudited - US\$ thousands)

	March 31, 2022⁽¹⁾	March 31, 2021⁽¹⁾
Financial assets	3,238,368	3,054,738
Non-financial assets	152,279	144,852
Financial liabilities	2,939,867	2,829,138
Non-financial liabilities	89,375	69,944
Shareholders' equity	361,405	300,508

(1) The net assets of CSB Bank were translated at March 31, 2022 at \$1 U.S. dollar = 75.77 Indian rupees and at March 31, 2021 at \$1 U.S. dollar = 73.11 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

Financial assets increased primarily as a result of increased loans and advances to customers, partially offset by decreased cash and cash equivalents for the acquisition of property, plant and equipment. Non-financial assets increased primarily as a result of increased security and other deposits, and increased property, plant and equipment. Financial liabilities increased primarily due to increased deposits from customers and increased borrowings. Non-financial liabilities increased primarily as a result of increased deferred tax liabilities and other liabilities.

Summarized below are CSB Bank's statements of earnings for the years ended March 31, 2022 and 2021.

Statements of Earnings

(unaudited - US\$ thousands)

	Year ended March 31, 2022⁽¹⁾	Year ended March 31, 2021⁽¹⁾⁽²⁾
Revenue	195,606	173,670
Earnings before income taxes	103,895	80,470
Net earnings	77,635	60,206

(1) Amounts for the years ended March 31, 2022 and 2021 were translated into US\$ using the average exchange rates of \$1 U.S. dollar = 74.50 Indian rupees and \$1 U.S. dollar = 74.23 Indian rupees prevailing during those periods.

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

Revenue increased primarily as a result of an increase in net interest income due to increased spread and volume on investments and advances. Earnings before income taxes and net earnings increased primarily reflecting increased revenue as noted above, and loss

recoveries recorded on financial assets compared to loss provisions recorded in the prior year, partially offset by increased employee expenses consistent with a higher headcount and number of branches compared to the prior year.

Investment in Fairchem Organics Limited

Business Overview

Fairchem Organics Limited ("Fairchem Organics") is a publicly traded specialty chemical manufacturer located in Ahmedabad, India. Fairchem Organics 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 and corn oils into valuable nutraceutical and fatty acids.

On February 17, 2022 the company sold 1,083 common shares of Fairchem Organics for proceeds of \$25 (approximately 1.8 million Indian rupees) and recorded a realized gain of \$20. At June 30, 2022 the company held 6,878,656 common shares representing a 52.8% equity interest in Fairchem Organics (December 31, 2021 - 6,879,739 common shares representing a 52.8% equity interest).

Key Business Drivers, Events and Risks

Fairchem Organics' 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 have increased, the demand for sustainable and biodegradable oleochemicals used in lubricants, paper printing, paints and coatings, and animals feed industries has been experiencing strong growth in recent years.

India is one of the largest consumers of soft oils which provides Fairchem Organics 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 Organics with certain competitive advantages in comparison to its international peers. Fairchem Organics 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.

Inflationary pressures during the first six months of 2022 resulted in volatile raw material input costs and elevated power and fuel prices. However, Fairchem Organics continues to achieve growth through capacity expansion and has maintained its competitive advantages compared to global peers.

Valuation and Interim Consolidated Financial Statement Impact

At June 30, 2022 the fair value of the company's investment in Fairchem Organics was \$131,676 (December 31, 2021 - \$155,020) with the changes in fair value for the second quarters and first six months of 2022 and 2021 presented in the tables at the outset of the Indian Investments section of this MD&A. Fairchem Organics' share price decreased by 9.7% from 1,675.00 Indian rupees per share at December 31, 2021 to 1,511.75 Indian rupees per share at June 30, 2022.

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 located in Mumbai, India.

At June 30, 2022 the company held 7,670,130 common shares of 5paisa representing a 26.1% equity interest (December 31, 2021 - 26.1%).

Key Business Drivers, Events and Risks

5paisa's key business driver relates to its ability to provide digital investment and lending solutions, 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 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. 5paisa remains focused on innovation based on understanding customer behaviour, and constantly

strives to achieve technological superiority through the developments of its robust trading platform, advanced mobile app, its Artificial-Intelligence powered Robo-Advisory platform, and the paperless account opening process.

5paisa, through its wholly-owned subsidiary, 5paisa P2P Limited, also offers a digital peer-to-peer lending platform registered with the RBI which connects verified creditworthy lenders and individual borrowers in India.

In 2021 5paisa completed an equity raise and the proceeds have allowed 5paisa to accelerate its investment in customer-centric technology, customer acquisition and sustaining its pace of growth.

At June 30, 2022 the 5paisa mobile application had reached over 13.0 million downloads and its total customer base exceeded 2.9 million. Although retail participation was subdued during the second quarter of 2022 in response to the macroeconomic environment, 5paisa has been able to maintain its market share and focused on improving the quality of acquisition and optimizing costs. During this quarter, over 80% of customer acquisitions were attributed to customers onboarded to the digital platform without intervention or assistance.

Valuation and Interim Consolidated Financial Statement Impact

At June 30, 2022 the fair value of the company's investment in 5paisa was \$28,122 (December 31, 2021 - \$41,232) with the changes in fair value for the second quarters and first six months of 2022 and 2021 presented in the tables at the outset of the Indian Investments section of this MD&A. 5paisa's share price decreased by 28.4% from 404.25 Indian rupees per share at December 31, 2021 to 289.55 Indian rupees per share at June 30, 2022.

Investment in Other Public Indian Investments

During the second quarter of 2022 the company sold investments in Other Public Indian Investments for proceeds of \$58,344 and as a result the company recorded realized gains of \$28,429. During the second quarter of 2022 the company acquired common shares of public company in India's financial service sector, listed on both the BSE and NSE of India, for aggregate consideration of \$3,386.

At June 30, 2022 the fair value of the company's investment in Other Public Indian Investments was \$20,680 (December 31, 2021 - \$69,612) and represents less than 1.0% equity interest in each of the public Indian companies. The changes in fair value of the company's investment in Other Public Indian Investments for the second quarters and first six months of 2022 and 2021 are presented in the tables at the outset of the Indian Investments section of this MD&A.

In the second quarter and first six months of 2022 the consolidated statements of earnings (loss) included dividend income earned from the company's investment in Other Public Indian Investments of nil and \$2,282 (2021 - nil and \$1,916).

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.

While the company's valuation techniques for Private Indian Investments remained primarily unchanged during the first six months of 2022, the development of unobservable inputs considered the uncertainty related to the economic disruptions caused by the ongoing COVID-19 pandemic as well as Russia's continued invasion of Ukraine which commenced in February 2022. The company has assessed assumptions related to the COVID-19 pandemic and the conflict in Ukraine which were included in the estimates of the amount and timing of future cash flows prepared by investees' management, and the uncertainty in those assumptions has been considered in the determination of risk premiums incorporated in the company's valuations of Private Indian Investments. Additional volatility in the fair values of Private Indian Investments may arise in future periods if actual results differ materially from the company's estimates.

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 2068, 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, real estate monetization and other non-airport related revenue which includes a five-star hotel operated under the Taj brand.

On September 16, 2021 the company transferred 43.6% out of its 54.0% equity interest in BIAL such that it is held through Anchorage and subsequently sold 11.5% (on a fully-diluted basis) of its interest in Anchorage to OMERS for gross proceeds of \$129,221 (9.5 billion Indian rupees), implying an equity valuation for 100% of BIAL of approximately \$2.6 billion at exchange rates on that date (approximately 189.7 billion Indian rupees). Upon closing of the transaction, the company's effective ownership interest in BIAL decreased to approximately 49.0% on a fully-diluted basis, while its actual ownership remained unchanged. Refer to note 8 (Total Equity, under the heading Non-controlling interests) to the interim consolidated financial statements for the three and six months ended June 30, 2022 for further discussion on Anchorage.

At June 30, 2022 the company held a 54.0% equity interest in BIAL (December 31, 2021 - 54.0%).

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 South Asia' during 2022 by Skytrax, a UK-based consultancy who conducts a global airport customer satisfaction survey.

The airport handled approximately 11.8 million passengers in the first six months of 2022 representing an increase in overall traffic of 77.5% compared to the first six months of 2021. The airport also processed 202,701 metric tons of cargo in the first six months of 2022, and consistently set new highs in monthly cargo volumes.

Plans to expand the capacity of the airport are underway and include the construction of an additional terminal building ("Terminal 2"), a third terminal building ("Terminal 3") and real estate development of 176 acres of land by 2026.

The COVID-19 pandemic significantly impacted BIAL's airport business which faced reduced passenger traffic starting in February 2020. Effective March 23, 2020 and March 25, 2020 all scheduled international and domestic commercial airlines ceased operations as a result of government mandated lockdown restrictions, with the exception of cargo flights and flights catering to emergencies and essential requirements. Domestic flights resumed on May 25, 2020 and international flights resumed on March 27, 2022. Construction activities for BIAL's capital projects and real estate development were slowed down and have since resumed as lockdown restrictions were gradually lifted. Domestic and international passenger traffic is expected to gradually recover to levels witnessed before the pandemic by BIAL's fiscal year 2024.

The lockdown and resulting slowdown of construction activities delayed the completion of the first phase of the Terminal 2 expansion, which is now estimated to be operational for domestic flights by the third quarter of calendar 2022. The total cost of the Terminal 2 expansion is expected to increase primarily due to incremental interest and pre-operational expenses. Construction of Terminal 3 has been delayed until BIAL's fiscal year 2034.

Valuation and Interim Consolidated Financial Statement Impact

At June 30, 2022 the company's internal valuation model indicated that the fair value of the company's investment in BIAL was \$1,291,610 (December 31, 2021 - \$1,372,170) with the changes in fair value for the second quarters and first six months of 2022 and 2021 presented in the tables at the outset of the Indian Investments section of this MD&A. For further details, refer to note 5 (Indian Investments) to the interim consolidated financial statements for the three and six months ended June 30, 2022.

BIAL's Summarized Financial Information

BIAL's fiscal year ends on March 31. Summarized below are BIAL's balance sheets at March 31, 2022 and 2021.

Balance Sheets

(unaudited - US\$ thousands)

	March 31, 2022⁽¹⁾	March 31, 2021⁽¹⁾⁽²⁾
Current assets	155,843	134,106
Non-current assets	1,450,544	1,342,579
Current liabilities	195,421	148,235
Non-current liabilities	1,124,341	973,824
Shareholders' equity	286,625	354,626

(1) *The net assets of BIAL were translated at March 31, 2022 at \$1 U.S. dollar = 75.77 Indian rupees and at March 31, 2021 at \$1 U.S. dollar = 73.11 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.*

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

Current assets increased primarily reflecting an increase in cash and cash equivalents arising from increased borrowings. Non-current assets increased principally due to ongoing capital expenditures for BIAL's expansion projects. Current liabilities increased primarily reflecting the transfer of certain borrowings from non-current to current, and increased payables for capital expenditures. Non-current liabilities increased primarily as a result of additional borrowings for BIAL's expansion projects.

Summarized below are BIAL's statements of earnings (loss) for the years ended March 31, 2022 and 2021.

Statements of Earnings (Loss)

(unaudited - US\$ thousands)

	Year ended March 31, 2022⁽¹⁾	Year ended March 31, 2021⁽¹⁾⁽²⁾
Revenue	111,654	70,352
Loss before income taxes	(52,928)	(76,347)
Net loss	(56,673)	(83,016)

(1) *Amounts for the years ended March 31, 2022 and 2021 were translated into US\$ using the average exchange rates of \$1 U.S. dollar = 74.50 Indian rupees and \$1 U.S. dollar = 74.23 Indian rupees prevailing during those periods.*

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

The increase in revenue primarily reflected the increase in passenger traffic, spend per passenger and cargo volumes, as the previous period was significantly impacted by the COVID-19 pandemic. Loss before income taxes and net loss decreased primarily as a result of the increase in revenue as noted above, partially offset by an increase in depreciation and interest expense recognized as a result of the capitalization of expansion projects and increased borrowings.

Investment in Sanmar Chemicals Group

Business Overview

Sanmar Chemicals Group ("Sanmar"), a private company located 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. 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 Sanmar Limited ("Chemplast"), comprising of the largest specialty PVC manufacturer in India, Chemplast Cuddalore Vinyls Limited ("CCVL"), the second largest suspension PVC manufacturer in India, and a leading custom manufacturer of starting materials and intermediates for pharmaceutical, agro-chemical and fine chemicals sectors ("Specialty Chemicals"); and (ii) TCI Sanmar Chemicals S.A.E. ("Sanmar Egypt"), the largest Indian investor in Egypt's chemical business and the largest caustic soda, calcium chloride and PVC manufacturer in Egypt.

At June 30, 2022 the company held a 42.9% equity interest in Sanmar (December 31, 2021 - 42.9%).

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 750,000 metric tons per annum

which is currently met by imports from the U.S. and Asia. Global PVC demand is projected to grow at a compound annual growth rate between 2.5% to 3.0% outpacing the growth of supply over the next 10 years and India is expected to become a bigger market than North America in the next few years. In addition due to environmental regulations, China has reduced production capacity of PVC thereby tightening supply and improving prices globally. In recent years, large global specialty PVC producers have shut down their production facilities in South Korea, China, U.S., United Kingdom and Germany, further tightening global supply.

Sanmar continues to draw strength from the strong brand equity of the Sanmar group, experienced management, dominant market position in the chemicals industry and demand outlook for PVC and caustic soda industries in India and across global markets. Sanmar's key business drivers relate to the execution of its plan to increase PVC manufacturing capacity in India to align with the growing demand for PVC, and to improve the overall capacity utilization at all of its PVC production facilities.

In September 2020, the Egyptian government introduced import duties for PVC at 2.0% and reduced import duties on ethylene dichloride ("EDC"), a key raw material used in the production of PVC, from 2.0% to nil. In December 2021, the Egyptian government announced a five-year anti-dumping duty of 9.0% on imports of PVC from the United States. In June 2022, the Egyptian government also reduced import duties on ethanol, another key raw material, from 10.0% to nil. As a result, Sanmar Egypt is expected to benefit through increased sales and margins.

During the second quarter of 2021, Sanmar Egypt received approval from its lenders to restructure \$785.4 million of its term loans, which eased liquidity pressures that worsened during the COVID-19 pandemic.

On August 24, 2021 Chemplast completed an IPO, issuing 24,029,574 common shares to the public for proceeds of approximately \$175 million (13.0 billion Indian rupees). The IPO also included a secondary offering, whereby Sanmar sold 47,134,935 common shares of Chemplast to the public for proceeds of approximately \$344 million (25.5 billion Indian rupees). As a result of the IPO, Sanmar's ownership interest in Chemplast was diluted from 100.0% to 55.0%. The proceeds from the IPO were used to repay Chemplast's debt and Sanmar's holding company debt. The IPO was completed at a price of 541.00 Indian rupees per share. The share price of Chemplast decreased by 15.2% from 552.50 Indian rupees per share at December 31, 2021 to 468.60 Indian rupees per share at June 30, 2022.

Valuation and Interim Consolidated Financial Statement Impact

At June 30, 2022 the company's internal valuation model indicated that the fair value of the company's investment in Sanmar was \$355,286 (December 31, 2021 - \$421,153) with the changes in fair value for the second quarters and first six months of 2022 and 2021 presented in the tables at the outset of the Indian Investments section of this MD&A. For further details, refer to note 5 (Indian Investments) to the interim consolidated financial statements for the three and six months ended June 30, 2022.

Sanmar's Summarized Financial Information

Sanmar's fiscal year ends on March 31. Summarized below are Sanmar's balance sheets at March 31, 2022 and 2021.

Balance Sheets

(unaudited - US\$ thousands)

	March 31, 2022⁽¹⁾	March 31, 2021⁽¹⁾⁽²⁾
Current assets	477,677	258,590
Non-current assets	1,794,827	1,758,409
Current liabilities	738,211	655,800
Non-current liabilities	1,050,505	1,522,681
Total equity (deficit)	483,788	(161,482)

(1) *The net assets of Sanmar were translated at March 31, 2022 at \$1 U.S. dollar = 75.77 Indian rupees and at March 31, 2021 at \$1 U.S. dollar = 73.11 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.*

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

Current assets increased primarily due to increased cash and cash equivalents, raw material and intermediate stock inventories, and other trade receivables. Non-current assets increased primarily due to an advance tax payment related to the sale of a minority interest in Chemplast. Current liabilities increased primarily due to increased tax provisions related to the sale of a minority interest in Chemplast and increased trade payables as a result of higher inventory prices. Non-current liabilities decreased primarily as a result of reduced borrowings due to repayment of term loans and the debt restructuring at Sanmar Egypt as described in the Key Business Drivers, Events and Risks section.

Summarized below are Sanmar's statements of earnings (loss) for the years ended March 31, 2022 and 2021.

Statements of Earnings (Loss)

(unaudited - US\$ thousands)

	Year ended March 31, 2022 ⁽¹⁾	Year ended March 31, 2021 ⁽¹⁾
Revenue	1,428,460	825,149
Earnings (loss) before income taxes	181,536	(43,264)
Net earnings (loss)	134,353	(72,206)

(1) Amounts for the years ended March 31, 2022 and 2021 were translated into US\$ using the average exchange rates of \$1 U.S. dollar = 74.50 Indian rupees and \$1 U.S. dollar = 74.23 Indian rupees prevailing during those periods.

Revenue increased primarily due to increased demand for PVC, caustic soda and chloromethanes leading to increased sales volume and prices. Earnings before income taxes and net earnings for the year ended March 31, 2022 compared to loss before income taxes and net loss for the year ended March 31, 2021 primarily reflecting increased revenue as noted above and lower interest costs due to reduced borrowings, partially offset by increased input and power costs due to rising prices and sales volume increases. As a result of the debt restructuring as described in the Key Business Drivers, Events and Risks section, earnings before income taxes and net earnings for the year ended March 31, 2022 included a gain on derecognition of the loan (approximately \$50 million (approximately 3.9 billion Indian rupees), net of taxes).

Investment in Seven Islands Shipping Limited

Business Overview

Seven Islands Shipping Limited ("Seven Islands"), a private company located in Mumbai, India, is the second largest private sector tanker shipping company in India and transports liquid and gas cargo along the Indian coast as well as in international waters. At June 30, 2022 Seven Islands owned 22 vessels, including 2 gas carriers, with a total deadweight capacity of approximately 1.3 million metric tons. Its vessels are registered in India and operate as Indian owned and flagged vessels.

At June 30, 2022 the company held a 48.5% equity interest in Seven Islands (December 31, 2021 - 48.5%).

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 quickly deploy those vessels through charter contracts with India's largest oil and gas 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, oil products and liquefied petroleum gas transport segments wherein India has one of the fastest growing energy consumption rates, mitigating business deployment risk for oil and gas 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 has been able to fill.

Several factors have impacted oil demand and supply in the recent period, including the impact of new COVID-19 variants on mobility restrictions in certain countries, and the conflict in Ukraine which led many western nations to place a ban on the import of oil from Russia, both of which contributed to rising prices and a slowdown of global economic activity. Tanker markets in India have been broadly impacted by these new uncertainties due to the spillover of effects from affected countries and the impact on trade patterns, particularly an increase in demand for medium-sized vessels and longer-haul routes.

Seven Islands is somewhat insulated from increased volatility in the short term arising from the ongoing COVID-19 pandemic and recent geopolitical events since the majority of its revenue contracts are on time charter for six months to over two years.

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

Valuation and Interim Consolidated Financial Statement Impact

At June 30, 2022 the company's internal valuation model indicated that the fair value of the company's investment in Seven Islands was \$100,648 (December 31, 2021 - \$105,926) with the changes in fair value for the second quarters and first six months of 2022 and 2021 presented in the tables at the outset of the Indian Investments section of this MD&A. For further details, refer to note 5 (Indian Investments) to the interim consolidated financial statements for the three and six months ended June 30, 2022.

Investment in National Commodities Management Services Limited

Business Overview

National Commodities Management Services Limited ("NCML"), a private company located in Gurugram, India, is a leading integrated agriculture value chain solutions company, and offers end-to-end solutions in grain procurement, storage and preservation, testing and certification, collateral management, and commodity and weather intelligence. 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 commodity management solutions (including adjacent services) and collateral management, non-banking finance company, and the silo projects.

At June 30, 2022 the company held an 89.5% equity interest in NCML (December 31, 2021 - 89.5%).

The company invested \$13,970 (approximately 1.0 billion Indian rupees) in 12.5% unsecured compulsorily convertible debentures ("NCML CCD"), due September 30, 2029. The company has the option to convert the NCML CCD 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 expansion of its commodity management solutions line of businesses with adjacent services, and the successful construction of the silos under the concession agreement with the Food Corporation of India ("FCI").

According to the Government of India's most recent estimates, food grain production in India is estimated to increase by approximately 1.2% during the 2021-22 crop year (July 2021 to June 2022), representing a record market of approximately 315 million metric tons of food grains. NCML's commodity management solutions business currently services approximately 1.9 million metric tons of food grain volume each year and continuously seeks opportunities to increase its utilization within the sizeable market by participating in government assignments and securing deposits from multinational corporations in both the food and non-food grain sector.

The silo projects are comprised of 11 silos that will be constructed under a design, build, finance, own and operate model and 2 silos that will be constructed under a design, build, finance, operate and transfer model, with all 13 silo projects being constructed for the exclusive use by the FCI. Two of the silo projects successfully commenced operations during 2021 and began to generate revenue. The remaining silo projects are expected to be substantially completed throughout 2022 to 2023.

NCML's commodity management solutions and NBFC businesses continued to operate at reduced capacities during the period compared to the pre-pandemic environment. The reduced capacities were primarily attributable to an overall decrease in volume of commodity deposits, combined with a conscious effort to reduce financing exposure as a result of the tightened credit environment. In addition, the recent geopolitical events have raised commodity prices and increased Indian exports, resulting in a temporary increase in commodity withdrawals and reduced storage demand.

To manage working capital and liquidity requirements, NCML has focused on risk mitigation controls and protocols and primarily serving existing clients. Additional capital may also be released through the sale of excess land parcels and the scaling down of businesses with less favourable risk-reward characteristics.

Valuation and Interim Consolidated Financial Statement Impact

NCML Common Shares

At June 30, 2022 the company's internal valuation model indicated that the fair value of the company's equity investment in NCML was \$64,923 (December 31, 2021 - \$69,578) with the changes in fair value for the second quarters and first six months of 2022 and 2021 presented in the tables at the outset of the Indian Investments section of this MD&A. For further details, refer to note 5 (Indian Investments) to the interim consolidated financial statements for the three and six months ended June 30, 2022.

NCML Compulsorily Convertible Debentures

At June 30, 2022 the company's interest and dividends receivable included \$3,332 (December 31, 2021 - \$2,830) related to interest accrued on the NCML CCD since April 1, 2020. Due to tightened liquidity as a result of COVID-19 the company allowed NCML to defer interest payments on the NCML CCD due April 30, 2021 and 2022 to April 30, 2023.

At June 30, 2022 the fair value of the company's investment in NCML CCD was \$13,771 (December 31, 2021 - \$14,630) with the changes in fair value for the second quarters and first six months of 2022 and 2021 presented within Other Indian Fixed Income 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 June 30, 2022 and March 31, 2022.

Balance Sheets

(unaudited - US\$ thousands)

	June 30, 2022⁽¹⁾	March 31, 2022⁽¹⁾
Current assets	53,764	46,284
Non-current assets	138,409	142,282
Current liabilities	42,839	33,685
Non-current liabilities	81,257	82,144
Shareholders' equity	68,077	72,737

(1) The net assets of NCML were translated at June 30, 2022 at \$1 U.S. dollar = 78.97 Indian rupees and at March 31, 2022 at \$1 U.S. dollar = 75.77 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

Current assets increased primarily due to increased prepayments and inventories, in addition to increased loan advances financed by increased borrowings. Non-current assets in U.S. dollars decreased primarily as a result of the weakening of the Indian rupee relative to the U.S. dollar during the three months ended June 30, 2022, partially offset by the continued construction of silo projects. Current liabilities increased due to additional financing from credit facilities, and increased capital expenditure payables and accrued interest. Non-current liabilities in U.S. dollars decreased primarily as a result of the weakening of the Indian rupee relative to the U.S. dollar during the three months ended June 30, 2022, partially offset by increased long term borrowings in connection with proceeds received on silo project loans upon meeting new construction milestones.

Summarized below are NCML's statements of earnings (loss) for the three months ended June 30, 2022 and 2021.

Statements of Earnings (Loss)

(unaudited - US\$ thousands)

	Three months ended June 30, 2022⁽¹⁾	Three months ended June 30, 2021⁽¹⁾
Revenue	9,677	9,249
Loss before income taxes	(1,308)	(6,347)
Net loss	(1,762)	(6,184)

(1) Amounts for the three months ended June 30, 2022 and 2021 were translated into US\$ using the average exchange rates of \$1 U.S. dollar = 77.20 Indian rupees and \$1 U.S. dollar = 73.74 Indian rupees prevailing during those periods.

Revenue increased primarily reflecting incremental revenue from operational silos and a current period adjustment to reclassify amounts previously recorded net in cost of goods sold to gross revenue, partially offset by reduced business volumes in the supply chain management business, consistent with NCML management's strategy to reduce financing exposure and focus on specific customer segments in response to the tightened credit environment. Loss before income taxes and net loss decreased as a result of accounting loss provisions recorded during the three months ended June 30, 2021 relating to insurance claim receivables and trade and loan receivables, which will be recorded as gains in future periods if received.

Investment in Saurashtra Freight Private Limited

Business Overview

Saurashtra Freight Private Limited ("Saurashtra"), a private company located in Mumbai, India, operates one of the largest container freight stations ("CFS") at Mundra port (Gujarat). Services provided by Saurashtra's CFS include 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 services for container shipping, offering integrated logistics solutions to its customers by providing containers, which are leased by Saurashtra, to importers and exporters to transport cargo.

At June 30, 2022 the company held a 51.0% equity interest in Saurashtra (December 31, 2021 - 51.0%).

Key Business Drivers, Events and Risks

Saurashtra measures the operating performance of its CFS business based on the utilization of its standard twenty-foot (shipping container) equivalent units ("TEUs") relative to total installed capacity, and total import and export container traffic in the market. In the second quarter of 2022, Saurashtra handled 32,021 TEUs compared to quarterly installed capacity of 49,300 TEUs, implying a capacity utilization of approximately 65% (second quarter of 2021 - 30,735 TEUs compared to quarterly installed capacity of 45,000, implying utilization of approximately 68%). At June 30, 2022 Saurashtra had the highest market share in imports at approximately 14%, and second highest market share in exports at approximately 14% at Mundra port in India. Saurashtra is the second largest CFS at the Mundra port in terms of total throughput achieved with a 14% market share for the quarter ended June 30, 2022.

The CFS industry is highly fragmented with 14 CFS at Mundra port. Many of these CFS are inefficient and operating below capacity, providing Saurashtra with the opportunity to benefit from industry consolidation.

During 2021 Saurashtra completed the construction of a new logistics park in Mundra, which increased the total capacity of its CFS business and is expected to improve utilization. Saurashtra has also invested in additional container units to expand Fairfreight Lines' container carrier business, where profitability has benefited from high ocean freight rates mitigating the impact of rising slot costs. Saurashtra is continuing to actively pursue additional volume and increase capacity through offering comprehensive packages to shipping lines and evaluating expansion projects in its existing businesses and the wider logistics industry.

Saurashtra has been granted the status of Authorized Economic Operator ("AEO") under the World Customs Organization. As an AEO, Saurashtra is approved by customs as compliant with supply chain security standards and is eligible for certain benefits such as being a preferred CFS for customs and that bank guarantees are no longer required for customs.

Valuation and Interim Consolidated Financial Statement Impact

At June 30, 2022 the company's internal valuation model indicated that the fair value of the company's investment in Saurashtra was \$47,592 (December 31, 2021 - \$47,157) with the changes in fair value for the second quarters and first six months of 2022 and 2021 presented in the tables at the outset of the Indian Investments section of this MD&A. For further details, refer to note 5 (Indian Investments) to the interim consolidated financial statements for the three and six months ended June 30, 2022.

In the second quarter and first six months of 2022 the consolidated statements of earnings (loss) included dividend income earned from the company's investment in Saurashtra of nil both periods (2021 - nil and \$420).

Investment in Jaynix Engineering Private Limited

Business Overview

Jaynix Engineering Private Limited ("Jaynix"), a private company located in Gujarat, India, is a manufacturer of non-ferrous electrical connectors and electrical assemblies, and is a critical Tier 1 supplier to major electrical original equipment manufacturers in North America and Europe.

On February 11, 2022 the company invested cash consideration of \$32,504 (approximately 2.5 billion Indian rupees) for a 70.0% equity interest in Jaynix.

Key Business Drivers, Events and Risks

Jaynix's key business drivers relate to its ability to grow its customer base and product offerings in North America and Europe while maintaining the high quality of its products. Jaynix leverages its low-cost manufacturing operations in three manufacturing plants in India to cater to markets in North America and Europe and has in-house capabilities to design products and to increase production capacities in the manufacturing of components.

While the electrical connector and assemblies markets in North America and Europe are dominated by only a few suppliers, the COVID-19 pandemic resulted in significant increased demand for electrical connectors and assemblies used throughout various industries, resulting in significant supply constraints. Jaynix has been in an optimal position to capitalize on this opportunity with its low production cycle time.

Valuation and Interim Consolidated Financial Statement Impact

At June 30, 2022 the fair value of the company's investment in Jaynix was \$31,025 with the changes in fair value for the second quarter and first six months of 2022 related to unrealized foreign currency translation losses presented in the tables at the outset of the Indian Investments section of this MD&A. For further details, refer to note 5 (Indian Investments) to the interim consolidated financial statements for the three and six months ended June 30, 2022.

Investment in Maxop Engineering Company Private Limited

Business Overview

Maxop Engineering Company Private Limited ("Maxop"), a private company located in New Delhi, India, is a precision aluminum die casting and machining solution provider for customers in the automotive and industrial sectors. Maxop operates from six manufacturing facilities located in India with total production capacity of approximately 20,000 metric tons, and caters to customers in Asia, North America and Europe.

On September 16, 2021 Fairfax India entered into an agreement to acquire, in aggregate, a 67.0% equity interest in Maxop in two transactions. On November 30, 2021 the company invested cash consideration of \$29,520 (approximately 2.2 billion Indian rupees) for a 51.0% equity interest in Maxop under the initial transaction.

In the second transaction, the company shall invest an amount between approximately \$9 million and \$34 million based on period end exchange rates (700 million Indian rupees and approximately 2.7 billion Indian rupees, respectively) and acquire an additional 16.0% equity interest. The final purchase price will be determined based on the achievement of certain financial-based performance targets by Maxop. The second transaction is expected to close in the second half of 2022, subject to customary closing conditions.

Key Business Drivers, Events and Risks

Maxop's key business drivers relate to the growing demand for aluminum die-cast products, particularly within the global automotive parts industry, as aluminum is lightweight and durable and provides a safe and effective alternative to reduce vehicle weight in order to meet increasingly strict fuel economy standards. The global market size for electric vehicles is also projected to reach \$1,300 billion by 2028 from \$280 billion in 2021, driving an increase in demand for aluminum. Maxop has primarily focused on the passenger vehicle segment of the automotive sector, and over half of its revenue is comprised of exports. In addition to the automotive parts die casting segment, Maxop is also a supplier of fully machined precision components, and caters to general engineering product segments in the non-automotive industry with applications in air conditioning parts and food processing machines.

Maxop mitigates its exposure to volatility in input prices through its aluminum processing plant which transforms scrap metal to aluminum ingots for its aluminum die casting and machinery supply segment.

Maxop continues to actively monitor its material sourcing and consumption amid global supply chain issues (particularly surrounding semi-conductor chips), as well as its liquidity requirements through prudent working capital management.

Valuation and Interim Consolidated Financial Statement Impact

At June 30, 2022 the fair value of the company's investment in Maxop was \$28,092 (December 31, 2021 - \$29,844) with the changes in fair value for the second quarter and first six months of 2022 related to unrealized foreign currency translation losses presented in the tables at the outset of the Indian Investments section of this MD&A. For further details, refer to note 5 (Indian Investments) to the interim consolidated financial statements for the three and six months ended June 30, 2022.

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.

Key Business Drivers, Events and Risks

India has two main stock exchanges where the majority of its trading takes place, the BSE and NSE of India. Although most significant firms in India are listed on both the BSE and NSE of India, NSE enjoys dominant market share positions including a 93% market share in the equity trading segment, a 100% market share in the equity derivatives trading segment and a 70% and 95% market share in the foreign exchange futures and options markets, respectively. In 2021 NSE of India was the world's largest exchange in derivatives trading volumes for the third straight year.

NSE will undertake to complete an IPO sometime in 2022 or 2023 depending on the outcome of the Securities Appellate Tribunal ("SAT") ruling, previously disclosed. NSE will also seek to file for an overseas listing subsequent to closing of the IPO. NSE has appointed Citibank, JM Financial, Kotak Mahindra and Morgan Stanley as lead investment banks to manage the IPO.

Valuation and Interim Consolidated Financial Statement Impact

At June 30, 2022 the company estimated the fair value of its investment in NSE was \$121,867 (December 31, 2021 - \$111,216) with the changes in fair value for the second quarters and first six months of 2022 and 2021 presented in the tables at the outset of the Indian Investments section of this MD&A. For further details, refer to note 5 (Indian Investments) to the interim consolidated financial statements for the three and six months ended June 30, 2022.

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 SEBI AIF Regulations. IH Fund is a fund incorporated to focus on investing in India's real estate sector by investing in equity, debt and equity-linked instruments of real estate and construction companies involved in projects or ventures with expected growth potential.

At June 30, 2022 IH Fund had invested approximately \$190 million at period end exchange rates (approximately 15 billion Indian rupees) in 10 real estate sector investments.

Key Business Drivers, Events and Risks

The Indian real estate sector is a key growth driver of the country's economy and is the second-highest employment generator in India. The Indian real estate sector is expected to contribute approximately 13% to the country's GDP by 2025 and reach \$1 trillion by 2030.

The Government of India developed a host of initiatives to boost the housing sector and 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.

Valuation and Interim Consolidated Financial Statement Impact

At June 30, 2022 the company estimated the fair value of its investment in IH Fund was \$20,358 (December 31, 2021 - \$23,613) with the changes in fair value for the second quarters and first six months of 2022 and 2021 presented in the tables at the outset of the Indian Investments section of this MD&A. For further details, refer to note 5 (Indian Investments) to the interim consolidated financial statements for the three and six months ended June 30, 2022.

In the second quarter and first six months of 2022 the consolidated statements of earnings (loss) included dividend income earned from the company's investment in IH Fund of \$245 and \$934 (2021 - \$250 and \$426).

Results of Operations

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

	Second quarter		First six months	
	2022	2021	2022	2021
Income				
Interest	2,711	1,239	5,033	1,875
Dividends	3,418	250	13,699	12,383
Net realized gains on investments	27,942	134,567	27,768	134,567
Net change in unrealized gains (losses) on investments	(117,576)	184,244	(47,724)	511,891
Net foreign exchange losses	(20,379)	(6,997)	(29,581)	(7,312)
	<u>(103,884)</u>	<u>313,303</u>	<u>(30,805)</u>	<u>653,404</u>
Expenses				
Investment and advisory fees	9,707	10,568	19,787	20,351
Performance fee (recovery)	(46,987)	43,404	(50,081)	99,527
General and administration expenses	1,361	925	3,223	2,398
Interest expense	6,381	6,740	12,761	15,754
	<u>(29,538)</u>	<u>61,637</u>	<u>(14,310)</u>	<u>138,030</u>
Earnings (loss) before income taxes	(74,346)	251,666	(16,495)	515,374
Provision for (recovery of) income taxes	(4,791)	26,772	(2,723)	35,054
Net earnings (loss)	<u>(69,555)</u>	<u>224,894</u>	<u>(13,772)</u>	<u>480,320</u>
Attributable to:				
Shareholders of Fairfax India	(69,710)	224,894	(13,748)	480,320
Non-controlling interests	155	—	(24)	—
	<u>(69,555)</u>	<u>224,894</u>	<u>(13,772)</u>	<u>480,320</u>
Net earnings (loss) per share	\$ (0.50)	\$ 1.51	\$ (0.10)	\$ 3.22
Net earnings (loss) per diluted share	\$ (0.50)	\$ 1.43	\$ (0.10)	\$ 3.06

Total loss from income of \$103,884 in the second quarter of 2022 compared to income of \$313,303 in the second quarter of 2021 principally due to net change in unrealized losses on investments (discussed below), decreased realized gains on investments (principally due to realized gains of \$132,303 related to the sale of the company's investment in Privi Speciality in the second quarter of 2021) and increased net foreign exchange losses. The net change in unrealized losses on investments of \$117,576 in the second quarter of 2022 was principally comprised of unrealized losses in the company's investments in Sanmar (\$91,663), IIFL Wealth (\$29,856), IIFL Securities (\$21,460), and the reversal of prior period unrealized gains upon the sale of Other Public Indian Investments (\$21,869), partially offset by unrealized gains in the company's investments in IIFL Finance (\$43,017) and the IIFL Wealth forward sale derivative (\$18,889). The net change in unrealized gains on investments of \$184,244 in the second quarter of 2021 was principally comprised of unrealized gains on the company's investments in CSB Bank (\$111,359), Sanmar (\$107,197), Fairchem Organics (\$85,282), IIFL Securities (\$32,506), NSE (\$28,088), 5paisa (\$16,077) and Other Public Indian Investments (\$14,111), and the reversal of prior period unrealized losses for the Privi Speciality written call option (\$26,762), partially offset by unrealized losses in the company's investments in IIFL Finance (\$33,993) and IIFL Wealth (\$11,180), and the reversal of prior period unrealized gains for Privi Speciality common shares upon its sale (\$190,957). Interest income of \$2,711 in the second quarter of 2022 increased from \$1,239 in the second quarter of 2021 principally as a result of increased interest from Government of India bonds. Dividend income of \$3,418 in the second quarter of 2022 related to dividends received from the company's investments in IIFL Wealth and IH Fund. Dividend income of \$250 in the second quarter of 2021 related to dividends received from the company's investment in IH Fund.

Total loss from income of \$30,805 in the first six months of 2022 compared to income of \$653,404 in the first six months of 2021 principally due to net change in unrealized losses on investments (discussed below), decreased realized gains on investments (principally due to realized gains of \$132,303 related to the sale of the company's investment in Privi Speciality in the first six months of 2021) and increased net foreign exchange losses. The net change in unrealized losses on investments of \$47,724 in the first six months of 2022 was principally comprised of unrealized losses in the company's investments in Sanmar (\$42,623), CSB Bank (\$31,789), IIFL Securities (\$23,541) and Fairchem Organics (\$14,751), in addition to the reversal of prior period unrealized gains upon the sale of Other Public Indian Investments (\$18,261), partially offset by unrealized gains in the company's investments in IIFL Finance (\$48,415), IIFL Wealth (inclusive of the IIFL Wealth forward sale derivative) (\$28,792) and NSE (\$18,029). The net change in unrealized gains on investments of \$511,891 in the first six months of 2021 was principally comprised of unrealized gains on the

company's investments in IIFL Finance (\$162,654), CSB Bank (\$126,752), Sanmar (\$107,065), Fairchem Organics (\$95,491), IIFL Securities (\$30,880), NSE (\$28,088), Other Public Indian Investments (\$26,734) and IIFL Wealth (\$25,256), partially offset by unrealized losses in the company's investments in NCML common shares (\$7,240) and the reversal of prior period unrealized gains for Privi Speciality common shares upon its sale (\$105,082). Interest income of \$5,033 in the first six months of 2022 increased from \$1,875 in the first six months of 2021 principally as a result of increased interest from Government of India bonds and Other Indian Fixed Income. Dividend income of \$13,699 in the first six months of 2022 related to dividends received from the company's investments in IIFL Finance, IIFL Securities, IIFL Wealth, Other Public Indian Investments and IH Fund. Dividend income of \$12,383 in the first six months of 2021 related to dividends received from the company's investments in IIFL Wealth, IIFL Finance, IIFL Securities, IH Fund, Saurashtra and Other Public Indian Investments.

Net gains (losses) on investments and net foreign exchange gains (losses) for the second quarters and first six months of 2022 and 2021 were comprised as follows:

	Second quarter					
	2022			2021		
	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:						
Bonds	(487)	(2,906)	(3,393)	2	(82)	(80)
Common stocks	28,429 ⁽¹⁾	(133,559) ⁽¹⁾	(105,130)	129,718 ⁽¹⁾	162,989 ⁽¹⁾	292,707
Derivatives	—	18,889 ⁽¹⁾	18,889	4,847 ⁽¹⁾	21,337 ⁽¹⁾	26,184
	<u>27,942</u>	<u>(117,576)</u>	<u>(89,634)</u>	<u>134,567</u>	<u>184,244</u>	<u>318,811</u>
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	855	—	855	(28)	—	(28)
Borrowings	—	(20,769) ⁽²⁾	(20,769)	(2,952) ⁽²⁾	(5,411) ⁽²⁾	(8,363)
Other	(465)	—	(465)	1,394	—	1,394
	<u>390</u>	<u>(20,769)</u>	<u>(20,379)</u>	<u>(1,586)</u>	<u>(5,411)</u>	<u>(6,997)</u>

(1) Refer to Indian Investments section of this MD&A for a summary of changes in the fair value of the company's Public and Private Indian Investments during the second quarters of 2022 and 2021.

(2) In the second quarter of 2022 net change in unrealized foreign exchange loss of \$20,769 related to the Unsecured Senior Notes. In the second quarter of 2021 net realized foreign exchange loss of \$2,952 related to the repayment of the remaining \$50,000 secured term loan. The net change in unrealized loss of \$5,411 was primarily comprised of unrealized foreign exchange losses of \$8,196 related to the Unsecured Senior Notes, partially offset by the reversal of unrealized foreign exchange losses in prior periods of \$2,785 upon repayment of the remaining \$50,000 secured term loan.

	First six months					
	2022			2021		
	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	(4)	5	1	—	—	—
Bonds	(756)	(2,484)	(3,240)	2	(163)	(161)
Common stocks	28,528 ⁽¹⁾	(63,670) ⁽¹⁾	(35,142)	129,718 ⁽¹⁾	512,054 ⁽¹⁾	641,772
Derivatives	—	18,425 ⁽¹⁾	18,425	4,847 ⁽¹⁾	—	4,847
	<u>27,768</u>	<u>(47,724)</u>	<u>(19,956)</u>	<u>134,567</u>	<u>511,891</u>	<u>646,458</u>
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	1,277	—	1,277	571	—	571
Borrowings	—	(30,270) ⁽²⁾	(30,270)	(36,032) ⁽²⁾	26,813 ⁽²⁾	(9,219)
Other	(588)	—	(588)	1,336	—	1,336
	<u>689</u>	<u>(30,270)</u>	<u>(29,581)</u>	<u>(34,125)</u>	<u>26,813</u>	<u>(7,312)</u>

(1) Refer to Indian Investments section of this MD&A for a summary of changes in the fair value of the company's Public and Private Indian Investments during the first six months of 2022 and 2021.

(2) In the first six months of 2022 net change in unrealized foreign exchange loss of \$30,270 related to the Unsecured Senior Notes. In the first six months of 2021 net realized foreign exchange loss of \$36,032 related to the repayment of the \$550,000 secured term loan. The net change in unrealized gain of \$26,813 was primarily comprised of the reversal of unrealized foreign exchange losses in prior years of \$32,546 upon repayment of the \$550,000 secured term loan, partially offset by unrealized foreign exchange losses of \$5,733 primarily related to the Unsecured Senior Notes.

Total expense recovery of \$29,538 in the second quarter of 2022 compared to total expenses of \$61,637 in the second quarter of 2021 primarily as a result of a performance fee recovery in the second quarter of 2022 compared to a performance fee recorded in the second quarter of 2021, and decreased investment and advisory fees, partially offset by increased general and administration expenses. Total expense recovery of \$14,310 in the first six months of 2022 compared to total expenses of \$138,030 in the first six months of 2021 primarily as a result of a performance fee recovery in the first six months of 2022 compared to a performance fee recorded in the first six months of 2021, and decreased interest expense, partially offset by increased general and administration expenses.

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. The investment and advisory fees recorded in the consolidated statements of earnings (loss) for the second quarter and first six months of 2022 were \$9,707 and \$19,787 (2021 - \$10,568 and \$20,351).

The recovery of income taxes of \$4,791 in the second quarter of 2022 differed from the recovery of income taxes that would be determined by applying the company's Canadian statutory income tax rate of 26.5% to the company's loss before income taxes primarily as a result of the tax rate differential on losses incurred outside of Canada and foreign exchange fluctuations, partially offset by the change in unrecorded tax benefit of losses and temporary differences. The recovery of income taxes of \$2,723 in the first six months of 2022 differed from the recovery of income taxes that would be determined by applying the company's Canadian statutory income tax rate of 26.5% to the company's loss before income taxes primarily as a result of foreign exchange fluctuations, partially offset by the change in unrecorded tax benefit of losses and temporary differences, and the tax rate differential on losses incurred outside of Canada.

The provision for income taxes of \$26,772 and \$35,054 in the second quarter and first six months of 2021 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 company reported a net loss attributable to shareholders of \$69,710 (a net loss of \$0.50 per basic and diluted share) in the second quarter of 2022 compared to net earnings attributable to shareholders of \$224,894 (net earnings of \$1.51 per basic share and \$1.43 per diluted share) in the second quarter of 2021. The company reported a net loss attributable to shareholders of \$13,748 (a net loss of \$0.10 per basic and diluted share) in the first six months of 2022 compared to net earnings attributable to shareholders of \$480,320 (net earnings of \$3.22 per basic share and \$3.06 per diluted share) in the first six months of 2021. The quarter-over-quarter and year-over-year decrease in net earnings attributable to shareholders primarily reflected net change in unrealized losses on investments, decreased realized gains on investments and increased net foreign exchange losses, partially offset by a recovery of performance fees and deferred taxes in the second quarter and first six months of 2022.

Consolidated Balance Sheet Summary

The assets and liabilities reflected on the company's consolidated balance sheet at June 30, 2022 were primarily impacted by the net change in unrealized losses on investments, purchases and sales of investments, purchases of subordinate voting shares for cancellation and unrealized foreign currency translation losses.

Total Assets

Total assets at June 30, 2022 of \$3,310,100 (December 31, 2021 - \$3,584,346) were principally comprised as follows:

Total cash and investments decreased to \$3,299,971 at June 30, 2022 from \$3,576,708 at December 31, 2021. The company's total cash and investments composition was as follows:

Cash and cash equivalents decreased to \$17,318 at June 30, 2022 from \$30,376 at December 31, 2021 principally due to the purchase of Jaynix common shares, purchases of subordinate voting shares for cancellation, and payment of interest on the Unsecured Senior Notes, partially offset by dividend and interest income.

Bonds, Common stocks and Derivatives - The company is actively seeking investment opportunities in India and will continue to redirect capital from its cash and cash equivalents, short term investments, and Government of India bonds 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 investments holdings of \$3,299,971 at June 30, 2022 (December 31, 2021 - \$3,576,708) see note 6 (Cash and Investments) to the interim consolidated financial statements for the three and six months ended June 30, 2022.

Interest and dividends receivable increased to \$8,057 at June 30, 2022 from \$5,339 at December 31, 2021 primarily due to increased interest receivable from Government of India bonds and Other Indian Fixed Income, and dividends receivable related to IIFL Wealth, partially offset by the receipt of dividends receivable at December 31, 2021 during the first six months of 2022.

Other assets decreased to \$1,078 at June 30, 2022 from \$1,243 at December 31, 2021, primarily due to the amortization of upfront costs related to the Revolving Credit Facility.

Total Liabilities and Equity

Total liabilities at June 30, 2022 of \$616,288 (December 31, 2021 - \$681,912) were principally comprised as follows:

Accrued interest expense of \$8,611 at June 30, 2022 (December 31, 2021 - \$8,611) was principally comprised of accrued interest expense for the Unsecured Senior Notes which are due in semi-annual installments.

Payable to related parties decreased to \$40,572 at June 30, 2022 from \$95,002 at December 31, 2021 primarily as a result of a performance fee recovery in the first six months of 2022 in connection with the performance fee accrual of \$31,405 (relating to the third calculation period ending on December 31, 2023) to Fairfax.

Deferred income taxes decreased to \$68,934 at June 30, 2022 from \$80,648 at December 31, 2021 primarily as a result of a reversal of prior period deferred taxes recognized on the company's investments in CSB Bank, IIFL Securities, Fairchem Organics and 5paisa, partially offset by deferred taxes recognized attributable to unrealized gains on IIFL Wealth.

Borrowings increased to \$497,045 at June 30, 2022 from \$496,785 at December 31, 2021 as a result of the amortization of issuance costs related to the Unsecured Senior Notes.

Total equity at June 30, 2022 of \$2,693,812 (December 31, 2021 - \$2,902,434) was comprised of common shareholders' equity of \$2,573,688 (December 31, 2021 - \$2,774,792) and non-controlling interests of \$120,124 (December 31, 2021 - \$127,642). Refer to note 8 (Total Equity) and note 10 (Financial Risk Management, under the heading Capital Management) to the interim consolidated financial statements for the three and six months ended June 30, 2022 for further details.

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 process used by the company for managing those risk exposures at June 30, 2022 compared to those identified at December 31, 2021 and disclosed in the company's 2021 Annual Report, other than as outlined in note 10 (Financial Risk Management) to the interim consolidated financial statements for the three and six months ended June 30, 2022.

Capital Resources and Management

For a detailed analysis, refer to note 10 (Financial Risk Management, under the heading Capital Management) to the interim consolidated financial statements for the three and six months ended June 30, 2022.

Book Value per Share

Common shareholders' equity at June 30, 2022 was \$2,573,688 (December 31, 2021 - \$2,774,792). The book value per share at June 30, 2022 was \$18.50 compared to \$19.65 at December 31, 2021 representing a decrease in the first six months of 2022 of 5.9%, principally reflecting unrealized foreign currency translation losses attributable to shareholders of Fairfax India of \$161,099 and a net loss attributable to shareholders of Fairfax India of \$13,748 (primarily related to net change in unrealized losses on investments, net foreign exchange losses and investment and advisory fees, partially offset by a performance fee recovery and net realized gains on investments). In addition, the company purchased for cancellation 2,100,443 subordinate voting shares during the first six months of 2022 for a net cost of \$26,281 (\$12.51 per subordinate voting share) through its normal course issuer bid which partially offset the decrease in book value per share.

	June 30, 2022	December 31, 2021
Common shareholders' equity	2,573,688	2,774,792
Number of common shares effectively outstanding	139,134,909	141,235,352
Book value per share	\$18.50	\$19.65

Liquidity

The undeployed cash and investments at June 30, 2022 provide adequate liquidity to meet the company's known significant commitments over the next twelve months, which are principally comprised of an additional investment in Maxop, interest expense, investment and advisory fees, a commitment under the automatic share purchase plan and administration expenses.

At June 30, 2022 the company's payment obligations which are due beyond one year primarily relate to the recurring nature of expenses described above and a principal repayment on the Unsecured Senior Notes due in February 2028, which bear interest at a fixed rate of 5.0% per annum, payable in semi-annual installments. In addition, under the Investment Advisory Agreement (defined in note 11 (Related Party Transactions) to the interim consolidated financial statements for the three and six months ended June 30, 2022), if a performance fee is payable for the period ending on December 31, 2023, the performance fee will be payable in cash, or at Fairfax's option, in subordinate voting shares.

The company has the ability to sell a portion of its Indian Investments to supplement its liquidity requirements, by way of private placements or in public markets for its Public Indian Investments, or through private sales or IPOs for its Private Indian Investments. The fair values of cash and investments at June 30, 2022, including selling restrictions and financial risks related to the investments, are disclosed in note 6 (Cash and Investments) and note 10 (Financial Risk Management) to the interim consolidated financial statements for the three and six months ended June 30, 2022. At June 30, 2022 the company held common shares of Public Indian Investments which carry no selling restrictions with a fair value of \$642,186 and Government of India bonds with a fair value of \$171,189. In addition, the company entered into an agreement to sell approximately 9.8% of its 13.6% equity interest in IIFL Wealth for total consideration of approximately \$181 million based on period end exchange rates (14.3 billion Indian rupees).

The company expects to continue to receive investment income on its holdings of fixed income securities and dividends from its equity investments to supplement its cash and cash equivalents. To further augment its liquidity, the company can draw upon its Revolving Credit Facility. Accordingly, the company has adequate working capital to support its operations.

Highlights in the first six months of 2022 (with comparisons to the first six months of 2021) of major components of the statements of cash flows are presented in the following table:

	First six months	
	2022	2021
Operating activities		
Cash used in operating activities excluding the impact of changes in restricted cash and net sales (purchases) of investments	(24,678)	(8,020)
Decrease in restricted cash in support of borrowings	—	16,051
Decrease in restricted cash in support of investments	—	264
Sales of short term investments	6,047	—
Purchases of investments	(162,365)	(116,896)
Sales of investments	193,350	190,269
Cash provided by operating activities	<u>12,354</u>	<u>81,668</u>
Financing activities		
Borrowings:		
Proceeds	—	500,000
Issuance costs	—	(3,650)
Repayments	—	(550,000)
Purchases of subordinate voting shares for cancellation	(26,281)	(8,114)
Cash used in financing activities	<u>(26,281)</u>	<u>(61,764)</u>
Increase (decrease) in cash and cash equivalents during the period	<u>(13,927)</u>	<u>19,904</u>

"Cash used in operating activities excluding the impact of changes in restricted cash and net sales (purchases) of investments" provides a measure of cash used in the company's head office operations, primarily comprised of cash inflows (outflows) from interest and dividend income, interest expense, investment and advisory fees, current income taxes and general and administration expenses, and excludes the impact of changes in restricted cash and net sales (purchases) of investments. Cash used in operating activities excluding the impact of changes in restricted cash and net sales (purchases) of investments of \$24,678 in the first six months of 2022 increased from \$8,020 in the first six months of 2021 primarily reflecting increased cash used towards semi-annual interest payments on the Unsecured Senior Notes and increased income taxes paid.

Decrease in restricted cash in support of borrowings of \$16,051 in the first six months of 2021 principally related to the release of restricted cash during 2021 in connection with repayment of the secured term loan. Sales of short term investments of \$6,047 in the first six months of 2022 related to the sale of Government of India treasury bills. Purchases of investments of \$162,365 in the first six months of 2022 primarily related to purchases of Government of India Bonds and new investments in common stock of Jaynix and

Other Public Indian Investments. Purchases of investments of \$116,896 in the first six months of 2021 primarily related to purchases of Government of India bonds and the company's investments in common shares of Fairchem Organics and Spaisa. Sales of investments of \$193,350 in the first six months of 2022 primarily related to sales of Government of India bonds and Other Public Indian Investments, where proceeds were primarily used to fund the investment in Jaynix, share purchases for cancellation under its normal course issuer bid, and reinvested into Government of India bonds. Sales of \$190,269 in the first six months of 2021 primarily related to sales of the company's investments in common shares of Privi Speciality and Other Public Indian Investments, and sales of Government of India bonds.

Proceeds from borrowings of \$500,000 and issuance costs of \$3,650 in the first six months of 2021 related to the net proceeds received from the issuance of the Unsecured Senior Notes on February 26, 2021. Repayments of borrowings of \$550,000 in the first six months of 2021 related to the repayment of the \$550,000 secured term loan.

Purchases of subordinate voting shares for cancellation of \$26,281 in the first six months of 2022 (2021 - \$8,114) related to the company's purchases of 2,100,443 subordinate voting shares (2021 - 693,078) under the terms of the normal course issuer bid. Refer to note 8 (Total Equity) to the interim consolidated financial statements for the three and six months ended June 30, 2022 for further details.

Contractual Obligations

On February 26, 2021 the company completed an offering of \$500,000 principal amount of 5.0% unsecured senior notes due February 26, 2028 at par for net proceeds after commissions and expenses of \$496,350. The Unsecured Senior Notes bear interest at a fixed rate of 5.0% per annum, payable in semi-annual installments.

At June 30, 2022 and December 31, 2021 the Revolving Credit Facility was undrawn and remained available.

On September 16, 2021 Fairfax India entered into an agreement to acquire, in aggregate, a 67.0% equity interest in Maxop in two transactions. The first transaction was completed on November 30, 2021. In the second transaction, the company shall invest an amount between approximately \$9 million and \$34 million based on period end exchange rates (700 million Indian rupees and approximately 2.7 billion Indian rupees, respectively) and acquire an additional 16.0% equity interest. The second transaction is expected to close in the second half of 2022, subject to customary closing conditions.

On March 30, 2022 the company entered into an agreement to sell 8,722,886 equity shares of IIFL Wealth (representing 9.8% of its 13.6% equity interest) at a specified contract price. At June 30, 2022 the contract price implied total consideration of approximately \$181 million based on period end exchange rates (approximately 14.3 billion Indian rupees). The transaction is subject to customary closing conditions and approvals and is expected to close in the third quarter of 2022.

Under the terms of the Investment Advisory Agreement (defined in note 11 (Related Party Transactions) to the interim consolidated financial statements for the three and six months ended June 30, 2022), 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 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. The investment and advisory fees recorded in the consolidated statements of earnings (loss) for the second quarter and first six months of 2022 were \$9,707 and \$19,787 (2021 - \$10,568 and \$20,351).

At June 30, 2022 the company determined that there was a performance fee accrual of \$31,405 relating to the third calculation period (December 31, 2021 - \$84,716). Refer to note 11 (Related Party Transactions) to the interim consolidated financial statements for the three and six months ended June 30, 2022 for discussion on the performance fee.

Other

Quarterly Data (unaudited)

<i>US\$ thousands, except per share amounts</i>	June 30, 2022	March 31, 2022	December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020
Income (loss)	(103,884)	73,079	(145,885)	186,020	313,303	340,101	110,221	99,448
Expenses	(29,538)	15,228	(15,481)	37,460	61,637	76,393	22,552	16,643
Provision for (recovery of) income taxes	(4,791)	2,068	(12,679)	16,655	26,772	8,282	5,372	5,153
Net earnings (loss)	(69,555)	55,783	(117,725)	131,905	224,894	255,426	82,297	77,652
Net earnings (loss) attributable to shareholders	(69,710)	55,962	(117,716)	131,910	224,894	255,426	82,297	77,652
Net earnings (loss) per share	\$ (0.50)	\$ 0.40	\$ (0.83)	\$ 0.91	\$ 1.51	\$ 1.71	\$ 0.55	\$ 0.52
Net earnings (loss) per diluted share	\$ (0.50)	\$ 0.38	\$ (0.83)	\$ 0.85	\$ 1.43	\$ 1.66	\$ 0.55	\$ 0.52

<i>Indian rupees and in millions, except per share amounts ⁽¹⁾</i>	June 30, 2022	March 31, 2022	December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020
Income (loss)	(7,848)	5,500	(10,499)	13,857	23,118	24,791	8,183	7,364
Expenses	(2,237)	1,146	(1,085)	2,792	4,552	5,568	1,671	1,234
Provision for (recovery of) income taxes	(363)	156	(920)	1,235	1,967	604	398	382
Net earnings (loss)	(5,248)	4,198	(8,494)	9,830	16,599	18,619	6,114	5,748
Net earnings (loss) attributable to shareholders	(5,260)	4,212	(8,494)	9,830	16,599	18,619	6,114	5,748
Net earnings (loss) per share	(37.76)	30.16	(60.07)	67.58	111.11	124.65	40.79	38.21
Net earnings (loss) per diluted share	(37.76)	28.75	(60.07)	63.71	105.75	120.98	40.64	38.21

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

Income continues to be primarily comprised of net change in unrealized and realized gains (losses) on investments, interest and dividend income and net foreign exchange gains (losses). Income was significantly impacted in the second quarter of 2022 by the net change in unrealized losses on the company's Indian Investments (principally unrealized losses in the company's investments in Sanmar, IIFL Securities and IIFL Wealth (net of the IIFL Wealth forward sale derivative), and the reversal of prior period unrealized gains upon sale of Other Public Indian Investments, partially offset by an unrealized gain in the company's investment in IIFL Finance). Individual quarterly results have been (and may in the future be) affected by decreased expenses impacted by the change in fair value of the company's Indian Investments which would result in a lower 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: the COVID-19 pandemic; 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; MLI; economic risk; and trading price of subordinate voting shares relative to book value per share risk. Additional risks and uncertainties are described in the company's annual information form dated March 4, 2022 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.

Glossary of Non-GAAP and Other Financial Measures

Management analyzes and assesses the financial position of the consolidated company in various ways. Certain of the measures included in this interim report, which have been used consistently and disclosed regularly in the company's Annual Reports and interim financial reporting, do not have a prescribed meaning under IFRS as issued by the IASB and may not be comparable to similar measures presented by other companies.

Supplementary Financial Measures

Book value per share - The company considers book value per share a key performance measure in evaluating its objective of long term capital appreciation, while preserving capital. This measure is also closely monitored as it is used to calculate the performance fee, if any, to Fairfax. This measure is calculated by the company as common shareholders' equity divided by the number of common shares outstanding. Those amounts are presented in the consolidated balance sheet and note 8 (Total Equity under the heading *Common Stock*) respectively within the interim consolidated financial statements for the three and six months ended June 30, 2022.

Non-GAAP Financial Measures

Cash used in operating activities excluding the impact of changes in restricted cash and net sales (purchases) of investments - The company uses this measure to monitor the cash generated by (used in) the company's head office operations, primarily comprised of cash inflows (outflows) from interest and dividend income, interest expense, investment and advisory fees, current income taxes and general and administration expenses, and excludes the impact of changes to restricted cash and purchases and sales of investments. This measure is a component of cash provided by (used in) operating activities as presented in the consolidated statement of cash flows within the consolidated financial statements for the interim consolidated financial statements for the three and six months ended June 30, 2022.

Cash and marketable securities - The company uses this measure to monitor short term liquidity risk. This measure is calculated by the company as the sum of cash, cash equivalents, short term investments, Government of India bonds and Other Public Indian Investments. Those amounts are presented in note 6 (Cash and Investments) within the interim consolidated financial statements for the three and six months ended June 30, 2022.

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